

NETSUITE INC  
Form S-1/A  
December 17, 2007  
Table of Contents

Index to Financial Statements

As filed with the Securities and Exchange Commission on December 17, 2007

Registration No. 333-144257

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

—  
**AMENDMENT NO. 4**  
**TO**  
**FORM S-1**  
**REGISTRATION STATEMENT**

Under  
The Securities Act of 1933

—  
**NetSuite Inc.**

(Exact name of Registrant as specified in its charter)

—  
**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**7372**  
(Primary Standard Industrial  
Classification Code Number)  
2955 Campus Drive

**94-3310471**  
(I.R.S. Employer  
Identification Number)

Suite 100

Edgar Filing: NETSUITE INC - Form S-1/A

San Mateo, CA 94403-2511

Tel: (650) 627-1000

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

---

Zachary Nelson

President and Chief Executive Officer

NetSuite Inc.

2955 Campus Drive

Suite 100

San Mateo, CA 94403-2511

Tel: (650) 627-1000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

---

Copies to:

Jeffrey D. Saper

Douglas P. Solomon

William H. Hinman, Jr.

Richard A. Kline

NetSuite Inc.

Simpson Thacher & Bartlett LLP

Wilson Sonsini Goodrich & Rosati

2955 Campus Drive

2550 Hanover Street

Professional Corporation

Suite 100

Palo Alto, California 94304

650 Page Mill Road

San Mateo, California 94403

Palo Alto, California 94304

---

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Edgar Filing: NETSUITE INC - Form S-1/A

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

---

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

---

**Table of Contents**

**Index to Financial Statements**

The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 17, 2007

6,200,000 Shares

Common Stock

We are selling 6,200,000 shares of common stock. Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between \$13.00 and \$16.00 per share. Our common stock has been approved for listing on the New York Stock Exchange under the symbol N.

The underwriters have an option to purchase up to 565,000 additional shares of common stock from us and up to 365,000 additional shares of common stock from the selling stockholders, which include our chief executive officer, the chairman of our board of directors and chief technology officer, and certain other members of our management to cover over-allotments. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Investing in our common stock involves risks. See Risk Factors on page 8.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to NetSuite
Per share	\$	\$	\$
Total	\$	\$	\$

The price to the public and allocation of shares will be determined by an auction process. The minimum size for a bid in the auction will be 100 shares of our common stock. The method for submitting bids and a more detailed description of this auction process are included in Auction Process on page 26.

Delivery of the shares of common stock will be made on or about \_\_\_\_\_, 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse**

**WR Hambrecht + Co**

The date of this prospectus is \_\_\_\_\_, 2007.

**Table of Contents**

**Index to Financial Statements**

**Table of Contents**

**Index to Financial Statements**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	8
<u>FORWARD-LOOKING STATEMENTS</u>	25
<u>AUCTION PROCESS</u>	26
<u>USE OF PROCEEDS</u>	34
<u>DIVIDEND POLICY</u>	34
<u>CAPITALIZATION</u>	35
<u>DILUTION</u>	37
<u>SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA</u>	39
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	41
<u>BUSINESS</u>	62
<u>MANAGEMENT</u>	76
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	106
	<b>Page</b>
<u>PRINCIPAL AND SELLING STOCKHOLDERS</u>	113
<u>DESCRIPTION OF CAPITAL STOCK</u>	115
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	119
<u>CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS</u>	121
<u>UNDERWRITING</u>	125
<u>NOTICE TO CANADIAN RESIDENTS</u>	129
<u>INDUSTRY AND MARKET DATA</u>	131
<u>LEGAL MATTERS</u>	131
<u>EXPERTS</u>	131
<u>CHANGE IN PRINCIPAL ACCOUNTANTS</u>	131
<u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u>	132
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-1

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

**Dealer Prospectus Delivery Obligation**

Until \_\_\_\_\_, 2008 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter with respect to unsold allotments or subscriptions.

---

**Table of Contents**

**Index to Financial Statements**

**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including our consolidated financial statements and the related notes, elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in Risk Factors. Unless otherwise indicated, the terms NetSuite, the Company, we, us and our refer to NetSuite Inc. and its subsidiaries.*

**Our Company**

NetSuite is a leading vendor of on-demand, integrated business management application suites for small and medium-sized businesses. We provide a comprehensive suite of enterprise resource planning, or ERP, customer relationship management, or CRM, and e-commerce capabilities that enables customers to manage their critical back-office, front-office and web operations in a single application. Our suite serves as a single system for running business operations and is targeted at small and medium-sized businesses, or SMBs, as well as divisions of large companies. Our suite is designed to be affordable and easy to use, while delivering functionality and levels of reliability, scalability and security that have typically only been available to large enterprises with substantial information technology resources. We deliver our suite over the Internet as a subscription service using the software-as-a-service or on-demand model. Our revenue has grown from \$17.7 million in 2004 to \$67.2 million in 2006. For the nine months ended September 30, 2007, we had revenue of \$76.8 million. As of September 30, 2007, we had over 5,400 active customers.

**Industry Background**

Over the past decade, many large enterprises have transitioned from custom integrations of multiple point software applications to comprehensive, integrated business management suites, such as those offered by Oracle Corporation, or Oracle, and SAP AG, or SAP, as their core business management platforms. SMBs have application software requirements that are similar, in many respects, to large enterprises because their core business processes are substantially the same. According to a 2006 forecast for the CRM market and 2007 forecasts for the ERP and supply chain management, or SCM, markets from Gartner, Inc., companies in North America spent approximately \$13.7 billion on ERP, CRM and SCM software applications in 2006, of which SMBs accounted for \$4.4 billion, or 32.0%. Gartner projects that SMB spending on these applications will grow 8.7% annually from 2006 to 2010, compared to 5.7% for large businesses.

SMBs, which we define as businesses with up to 1,000 employees, are generally less capable than large enterprises of performing the costly, complex and time-consuming integration of multiple point products from one or more vendors. As a result, SMBs can frequently derive greater benefits from a comprehensive business suite. Suites designed for, and broadly adopted by, large enterprises to provide a comprehensive, integrated platform for managing their core business processes, however, generally are not well suited to SMBs due to the cost and complexity of such applications.

Recently, SMBs have begun to benefit from the development of the on-demand software-as-a-service, or SaaS, model. SaaS uses the Internet to deliver software applications from a centrally hosted computing facility to end users through a web browser. SaaS eliminates the costs associated with installing and maintaining applications within the customer's information technology infrastructure. As a result, on-demand applications require substantially less initial and ongoing investment in software, hardware and implementation services and lower ongoing support and maintenance, making them more affordable for SMBs.

To date, the SaaS model has been applied to a variety of types of business software applications, including CRM, security, accounting, human resources management, messaging and others, and it has been broadly

## Table of Contents

### Index to Financial Statements

adopted by a wide variety of businesses. IDC estimates worldwide on-demand enterprise software vendor revenues were approximately \$3.7 billion in 2006 and that they will grow 32% annually through 2011 to \$14.8 billion. While SaaS applications have enabled SMBs to benefit from enterprise-class capabilities, most are still point products that require extensive, costly and time-consuming integration to work with other applications. Until NetSuite, SMBs generally have been unable to purchase a comprehensive business management application suite at an affordable cost that enables them to run their businesses using a single system of record, provides real-time views of their operations and can be readily customized and rapidly implemented.

### **Our Solution**

Our comprehensive business management application suite is designed to serve as a single system for running a business. All elements of our application suite share the same customer and transaction data, enabling seamless, cross-departmental business process automation and real-time monitoring of core business metrics. In addition, our integrated ERP, CRM and e-commerce capabilities provide users with real-time visibility and appropriate application functionality through dashboards tailored to their particular job function and access rights. Because our offering is delivered over the Internet, it is available wherever a user has Internet access.

The key advantages of our application suite to our customers are:

***One Integrated System for Running a Business.*** Our integrated business application suite provides the capabilities required to automate the core operations of SMBs and divisions of large companies, enabling companies to create cross-functional business processes; extend access to appropriate customers, partners, suppliers or other relevant constituencies; and efficiently share and disseminate information in real time.

***Role-Based Application Functionality and Real-Time Business Intelligence.*** Users access our suite through a role-based user interface, or dashboard, that delivers specific application functionality and information appropriate for each user's job responsibilities in a format familiar to them.

***On-Demand Delivery Model.*** We deliver our suite over the Internet, eliminating the need for customers to buy and maintain on-premise hardware and software. Our suite is designed to achieve levels of reliability, scalability and security for our customers that have typically only been available to large enterprises with substantial information technology resources.

***Low Total Cost of Ownership.*** Our comprehensive on-demand suite eliminates the costs associated with attempting to integrate disparate applications, significantly reduces software purchase and implementation costs and eliminates ongoing maintenance and upgrade charges.

***Rapid Implementation.*** Our comprehensive suite significantly reduces the time and risk associated with implementation as compared to attempting to integrate multiple point products. In addition, we have tailored our offering to the specific needs of selected industries to enable those customers to more rapidly meet their distinct business requirements.

***Ease of Customization and Configuration.*** We provide tools that enable configuration by users without software programming expertise as well as customization by more sophisticated users. As new versions of our suite become available, each customer's existing customizations and configurations are maintained with little or no additional effort or expense.





---

**Table of Contents**

**Index to Financial Statements**

**Our Strategy**

Our goal is to enhance our position as a leading vendor of on-demand, integrated business management application suites for SMBs. The key elements of our strategy include:

expanding our leadership in on-demand, integrated business suites;

tailoring our offering to customers' specific industries;

growing our customer base and expanding use of our service within existing customers;

fostering the continued development of the NetSuite partner network; and

addressing the multinational business requirements of SMBs.

**Auction Process**

We are conducting this offering using an auction process. We believe allowing open participation in this offering through a technology-enabled auction process aligns with our corporate culture and business mission. In the same way that our software application suite allows companies of all sizes to benefit from capabilities previously only available to large organizations, we are conducting this offering through an auction process to open participation in our initial public offering to all investors, both individual and institutional. The auction process differs from methods that have been traditionally used in most other underwritten initial public offerings in the United States. In particular, we and our underwriters will conduct an auction open to prospective purchasers to determine the initial public offering price and the allocation of shares in the offering. To participate in the auction, investors will submit bids to purchase shares of our common stock through one of our underwriters. An investor may submit bids that specify the number of shares the investor is interested in purchasing and the price the investor is willing to pay. We intend to use the auction to determine a clearing price for the offering, which is the highest price at which all of the shares offered (including shares subject to the underwriters' over-allotment option) may be sold to potential investors. We may set the initial public offering price at the clearing price, though we and our underwriters have discretion to set the initial public offering price below the clearing price. All valid bids to purchase shares at or above the initial public offering price will receive an allocation of shares at the initial public offering price. If the number of shares represented by successful bids exceeds the number of shares we and the selling stockholders are offering, then we will allocate the shares among successful bids on a pro rata basis. Please see the section titled "Auction Process" for a description of how this process will work.

**Controlled Company Status**

Lawrence J. Ellison has transferred 31,964,898 shares of our common stock (representing all of the shares formerly held directly by Tako Ventures, an investment entity controlled by Mr. Ellison) to NetSuite Restricted Holdings LLC, or the LLC, a limited liability company formed for the limited purpose of holding the NetSuite shares and funding charitable gifts as and when directed by Mr. Ellison. As of September 30, 2007, those shares represented approximately 60% of our outstanding stock. Mr. Ellison is the Chief Executive Officer, a director and a principal stockholder of Oracle. We have been told that Mr. Ellison made the transfer in view of his position and duties at Oracle, to effectively eliminate his voting control over the election of our directors and certain other matters, to limit the circumstances under which his voting control could be exercised or restored, and to avoid and mitigate potential future conflicts of interest that might otherwise arise. As part of these arrangements, the LLC Operating Agreement contains provisions designed to neutralize, in certain situations, the voting power of the NetSuite shares held by the LLC, which provisions will not lapse or be subject to change while Mr. Ellison is either an officer or director of Oracle, except with the approval of an independent committee of Oracle's board of directors. For a more detailed description of the voting restrictions that apply as part of this arrangement, see the section titled, "Certain Relationships and Related Party Transactions - Share Transfer by Lawrence J. Ellison." We have filed the LLC Operating Agreement as an exhibit to the registration statement of



**Table of Contents**

**Index to Financial Statements**

which this prospectus forms a part. Because a majority of our outstanding common stock will be held by a single stockholder upon the closing of this offering, we qualify for the controlled company exception to the New York Stock Exchange board independence listing standards. We do not expect to utilize this exception, though it is possible that we may choose to do so in the future.

**Risks Affecting Us**

Our business is subject to numerous risks, which are highlighted in the section titled Risk Factors immediately following this prospectus summary. These risks represent challenges to the successful implementation of our strategy and to the growth and future profitability of our business. Some of these risks are:

we have a history of losses, and we may not achieve profitability in the near future. We experienced a net loss of \$35.7 million for 2006 and \$20.6 million for the nine months ended September 30, 2007. As of September 30, 2007, our accumulated deficit was \$241.6 million;

because we provide a suite of on-demand applications that many of our SMB customers use to manage their critical business processes, the market for our service may develop more slowly than we expect;

our customers are small and medium-sized businesses, which can be challenging to cost-effectively reach, acquire and retain;

our quarterly operating results may fluctuate, and we have a limited operating history;

we identified a material weakness in our internal controls relating to the need for additional finance and accounting personnel with skill sets necessary to operate as a public company;

we use a single data center to deliver our services. Any disruption of service at this facility could harm our business; and

we may become liable to our customers and lose customers if we have defects or disruptions in our service or if we provide poor service.

**Company Information**

We were incorporated in the State of California in 1998 and we were reincorporated in the State of Delaware in 2007. Our principal executive offices are located at 2955 Campus Drive, Suite 100, San Mateo, California 94403-2511, and our telephone number is (650) 627-1000. Our website address is [www.netsuite.com](http://www.netsuite.com). Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website as part of this prospectus or in deciding whether to purchase shares of our common stock.

NetSuite®, NetSuite CRM+, NetSuite Customer Center, NetSuite Small Business, NetSuite University, the stylistic in the NetSuite logo, System, No Limits, SuiteBuilder, SuiteBundler, SuiteFlex, SuiteScript and SuiteTalk are registered or common law trademarks or service marks of NetSuite appearing in this prospectus. This prospectus also contains additional trade names, trademarks and service marks of ours and of other companies. We do not intend our use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.



---

**Table of Contents**

**Index to Financial Statements**

**The Offering**

Common stock offered by us	6,200,000 shares
Over-allotment option	We and the selling stockholders, which include our chief executive officer, the chairman of our board of directors and chief technology officer, and certain other members of our management, have granted the underwriters an option for a period of 30 days to purchase up to 930,000 additional shares of common stock. If the over-allotment option is exercised in full, the selling stockholders would sell 365,000 shares and we would sell 565,000 shares.
Common stock to be outstanding after this offering	59,510,706 shares
Use of proceeds from this offering	We plan to use the net proceeds of the offering to retire the outstanding balance (\$8.0 million as of September 30, 2007) on the secured line of credit with Tako Ventures, LLC, which is an investment entity controlled by Lawrence J. Ellison, for capital expenditures of approximately \$10 million to \$15 million and for working capital and other general purposes. We may also use a portion of the proceeds from the offering to acquire other businesses, products or technologies. We do not, however, have agreements or commitments for any specific acquisitions at this time. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders. See the section titled "Use of Proceeds."
Dividend policy	Currently, we do not anticipate paying cash dividends.
Risk factors	You should read the "Risk Factors" section of this prospectus for a discussion of factors that you should consider carefully before deciding whether to invest in shares of our common stock.
Listing	Our common stock has been approved for listing on the New York Stock Exchange.
Proposed symbol	N
The number of shares of common stock that will be outstanding after this offering is based on 53,310,706 shares, the number of shares outstanding at September 30, 2007, and excludes:	

6,908,841 shares of common stock issuable upon the exercise of options outstanding at September 30, 2007 at a weighted average exercise price of \$4.05 per share;

9,522 shares of common stock issuable upon the exercise of warrants outstanding at September 30, 2007, at a weighted average exercise price of \$7.88 per share; and

## Edgar Filing: NETSUITE INC - Form S-1/A

3,568,492 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 1,193,492 shares of common stock reserved for issuance under our 1999 Stock Plan and 2,375,000 shares of common stock reserved for issuance under our 2007 Equity Incentive Plan.

Unless otherwise indicated, all information in this prospectus assumes:

the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws prior to completion of this offering;

the conversion of all outstanding shares of our convertible preferred stock into 44,676,597 shares of common stock effective upon the completion of this offering; and

no exercise by the underwriters of their right to purchase up to 930,000 shares of common stock to cover over-allotments.

**Table of Contents****Index to Financial Statements****Summary Condensed Consolidated Financial Data**

The following tables summarize our consolidated financial data. We have derived the statements of operations data for the years ended December 31, 2004, 2005 and 2006 from our audited consolidated financial statements appearing elsewhere in this prospectus. We have derived the statements of operations data for the nine months ended September 30, 2006 and 2007 and balance sheet data as of September 30, 2007 from our unaudited consolidated financial statements appearing elsewhere in this prospectus. Our historical results are not indicative of the results that should be expected in the future. You should read this summary condensed consolidated financial data in conjunction with the sections titled Selected Condensed Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, all included elsewhere in this prospectus.

	Nine Months Ended				
	Year Ended December 31,			September 30,	
	2004	2005	2006	2006	2007
(In thousands, except per share data)					
<b>Condensed Consolidated Statements of Operations Data:</b>					
Revenue	\$ 17,684	\$ 36,356	\$ 67,202	\$ 47,013	\$ 76,807
Cost of revenue <sup>(1)</sup>	8,191	15,607	22,993	16,458	24,183
Gross profit	9,493	20,749	44,209	30,555	52,624
Operating expenses:					
Product development <sup>(1)</sup>	8,016	24,780	20,690	15,270	18,713
Sales and marketing <sup>(1)</sup>	26,963	39,179	43,892	31,685	41,906
General and administrative <sup>(1)</sup>	3,068	13,685	14,619	10,482	12,297
Total operating expenses	38,047	77,644	79,201	57,437	72,916
Operating loss	(28,554)	(56,895)	(34,992)	(26,882)	(20,292)
Other income (expense), net, including the effect of minority interest and income taxes	(1)	(769)	(730)	(723)	(332)
Net loss	\$ (28,555)	\$ (57,664)	\$ (35,722)	\$ (27,605)	\$ (20,624)
Net loss per common share, basic and diluted	\$ (41.26)	\$ (27.99)	\$ (6.42)	\$ (5.08)	\$ (2.60)
Weighted average number of shares used in computing basic and diluted net loss per common share	692	2,060	5,567	5,434	7,922
Pro forma net loss per common share, basic and diluted <sup>(2)</sup>			\$ (0.71)		\$ (0.39)
Weighted average number of shares used in computing pro forma basic and diluted net loss per common share <sup>(2)</sup>			50,244		52,599

(1) Includes stock-based compensation expense as follows:

	Nine Months Ended				
	Year Ended December 31,			September 30,	
	2004	2005	2006	2006	2007
(In thousands)					



## Edgar Filing: NETSUITE INC - Form S-1/A

Cost of revenue	\$	\$	\$ 19	\$ 9	\$ 1,520
Product development		14,146	8,885	6,466	8,898
Sales and marketing			75	48	2,315
General and administrative		8,323	6,329	4,535	3,051
<b>Total stock-based compensation expense</b>	<b>\$</b>	<b>\$ 22,469</b>	<b>\$ 15,308</b>	<b>\$ 11,058</b>	<b>\$ 15,784</b>

- (2) The pro forma weighted average common shares outstanding reflects the conversion of our convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the original dates of issuance.

**Table of Contents****Index to Financial Statements**

	As of September 30, 2007		
	Actual	Pro Forma (In thousands)	Pro Forma As Adjusted
<b>Condensed Consolidated Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 11,485	\$ 11,485	\$ 84,332
Working capital, excluding deferred revenue	15,838	15,838	88,685
Total assets	55,896	55,896	128,743
Current and long-term debt from related party	8,014	8,014	
Convertible preferred stock	125,654		
Total stockholders' equity/(deficit)	(176,152)	(50,498)	30,363

The pro forma column in the balance sheet data table above reflects the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 44,676,597 shares of common stock immediately prior to the completion of this offering.

The pro forma as adjusted column in the balance sheet data table above reflects (i) the conversion of all outstanding shares of convertible preferred stock into common stock immediately prior to the completion of the offering, (ii) our sale of 6,200,000 shares of common stock in this offering, at an assumed initial public offering price of \$14.50 per share, which is the midpoint of the price range listed on the cover page of this prospectus, after deducting the estimated underwriting discount and estimated offering expenses payable by us, (iii) the filing of our amended and restated certificate of incorporation immediately prior to the completion of this offering and (iv) the repayment of the outstanding balance on the secured line of credit with Tako Ventures, which was \$8.0 million as of September 30, 2007.

The pro forma as adjusted information set forth in the table above is illustrative only and will adjust based on the actual initial public offering price and other terms of this offering determined at pricing.

A \$1.00 increase or decrease in the assumed initial public offering price of \$14.50 per share would increase or decrease each of pro forma as adjusted cash and cash equivalents, working capital, total assets and total stockholders' deficit by approximately \$5.8 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions that we expect to pay.

---

**Table of Contents**

**Index to Financial Statements**

**RISK FACTORS**

*You should carefully consider the risks described below before making an investment decision. Our business, prospects, financial condition or operating results could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing the risks described below, you should also refer to the other information contained in this prospectus, including our consolidated financial statements and the related notes, before deciding whether to purchase any shares of our common stock.*

**Risks Related to Our Business**

***We have a history of losses and we may not achieve profitability in the future.***

We have not been profitable on a quarterly or annual basis since our formation. We experienced a net loss of \$35.7 million for 2006 and \$20.6 million for the nine months ended September 30, 2007. As of September 30, 2007, our accumulated deficit was \$241.6 million. We expect to make significant future expenditures related to the development and expansion of our business. In addition, as a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. As a result of these increased expenditures, we will have to generate and sustain increased revenue to achieve and maintain future profitability. While our revenue has grown in recent periods, this growth may not be sustainable and we may not achieve sufficient revenue to achieve or maintain profitability. We may incur significant losses in the future for a number of reasons, including due to the other risks described in this prospectus, and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown factors. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses for the foreseeable future.

***The market for on-demand applications may develop more slowly than we expect.***

Our success will depend, to a large extent, on the willingness of SMBs to accept on-demand services for applications that they view as critical to the success of their business. Many companies have invested substantial effort and financial resources to integrate traditional enterprise software into their businesses and may be reluctant or unwilling to switch to a different application or to migrate these applications to on-demand services. Other factors that may affect market acceptance of our application include:

the security capabilities, reliability and availability of on-demand services;

customer concerns with entrusting a third party to store and manage their data, especially confidential or sensitive data;

our ability to minimize the time and resources required to implement our suite;

our ability to maintain high levels of customer satisfaction;

our ability to implement upgrades and other changes to our software without disrupting our service;

the level of customization or configuration we offer;

our ability to provide rapid response time during periods of intense activity on customer websites; and

## Edgar Filing: NETSUITE INC - Form S-1/A

the price, performance and availability of competing products and services.  
The market for these services may not develop further, or it may develop more slowly than we expect, either of which would harm our business.

***Our customers are small and medium-sized businesses and divisions of large companies, which may increase our costs to reach, acquire and retain customers.***

We market and sell our application suite to SMBs and divisions of large companies. To grow our revenue quickly, we must add new customers, sell additional services to existing customers and encourage existing

**Table of Contents**

**Index to Financial Statements**

customers to renew their subscriptions. However, selling to and retaining SMBs can be more difficult than selling to and retaining large enterprises because SMB customers:

are more price sensitive;

are more difficult to reach with broad marketing campaigns;

have high churn rates in part because of the nature of their businesses;

often lack the staffing to benefit fully from our application suite's rich feature set; and

often require higher sales, marketing and support expenditures by vendors that sell to them per revenue dollar generated for those vendors.

If we are unable to cost-effectively market and sell our service to our target customers, our ability to grow our revenue quickly and become profitable will be harmed.

***Our quarterly operating results may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of research analysts or investors, which could cause our stock price to decline.***

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. Fluctuations in our quarterly operating results or guidance may be due to a number of factors, including the risks and uncertainties discussed elsewhere in this prospectus. Fluctuations in our quarterly operating results could cause our stock price to decline rapidly, may lead analysts to change their long-term model for valuing our common stock, could cause us to face short-term liquidity issues, may impact our ability to retain or attract key personnel or cause other unanticipated issues. If our quarterly operating results or guidance fall below the expectations of research analysts or investors, the price of our common stock could decline substantially.

We believe that our quarterly revenue and operating results may vary significantly in the future and that period-to-period comparisons of our operating results may not be meaningful. You should not rely on the results of one quarter as an indication of future performance.

***Our limited operating history makes it difficult to evaluate our current business and future prospects, and may increase the risk of your investment.***

Our company has been in existence since 1998, and much of our growth has occurred since 2004, with our revenue increasing from \$17.7 million in 2004 to \$67.2 million in 2006. Our limited operating history may make it difficult to evaluate our current business and our future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries. If we do not address these risks successfully, our business will be harmed.

***We use a single data center to deliver our services. Any disruption of service at this facility could interrupt or delay our ability to deliver our service to our customers.***

We host our services and serve all of our customers from a single third-party data center facility with Level 3 Communications located in California. We do not control the operation of this facility. This facility is vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, terrorist attacks, power losses, telecommunications failures and similar events. Our data facility is located in an area known for seismic activity, increasing our susceptibility to the risk that an earthquake could significantly harm the operations of this facility. It also could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct. The occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions

## Edgar Filing: NETSUITE INC - Form S-1/A

in our services. We currently operate and maintain an offsite facility for customers who specifically pay for accelerated disaster recovery services. For customers who do not pay for such services, although we maintain tape backups of their

---

**Table of Contents**

**Index to Financial Statements**

data, we do not operate or maintain a separate disaster recovery facility, which may increase delays in the restoration of our service for those customers.

Our data center facility provider has no obligation to renew its agreement with us on commercially reasonable terms, or at all. If we are unable to renew our agreement with the facility provider on commercially reasonable terms, we may experience costs or downtime in connection with the transfer to a new data center facility. In order to provide for future expansion, we have entered into an agreement with SAVVIS Communications Corporation, or SAVVIS, a second data center facility provider. We may transfer our single data center facility to SAVVIS. There can be no assurance that the transfer of our data services to any such alternative provider will not result in errors, defects, disruptions or other performance problems with our services.

We currently intend to add an additional data center facility in 2008, which will be used for both disaster recovery purposes and to add capacity. This additional facility may be costly and may not be operational in a timely manner.

Any errors, defects, disruptions or other performance problems with our services could harm our reputation and may damage our customers businesses. Interruptions in our services might reduce our revenue, cause us to issue credits to customers, subject us to potential liability, cause customers to terminate their subscriptions and harm our renewal rates.

***We may become liable to our customers and lose customers if we have defects or disruptions in our service or if we provide poor service.***

Because we deliver our application suite as a service, errors or defects in the software applications underlying our service, or a failure of our hosting infrastructure, may make our service unavailable to our customers. Since our customers use our suite to manage critical aspects of their business, any errors, defects, disruptions in service or other performance problems with our suite, whether in connection with the day-to-day operation of our suite, upgrades or otherwise, could damage our customers businesses. If we have any errors, defects, disruptions in service or other performance problems with our suite, customers could elect not to renew, or delay or withhold payment to us, we could lose future sales or customers may make warranty claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or costly litigation.

***Our business depends substantially on customers renewing, upgrading and expanding their subscriptions for our services. Any decline in our customer renewals, upgrades and expansions would harm our future operating results.***

We sell our application suite pursuant to service agreements that are generally one year in length. Our customers have no obligation to renew their subscriptions after their subscription period expires, and these subscriptions may not be renewed at the same or higher levels. Moreover, under specific circumstances, our customers have the right to cancel their service agreements before they expire. In addition, in the first year of a subscription, customers often purchase a higher level of professional services than they do in renewal years. As a result, our ability to grow is dependent in part on customers purchasing additional subscriptions and modules after the first year of their subscriptions. We have limited historical data with respect to rates of customer subscription renewals, upgrades and expansions so we may not accurately predict future trends in customer renewals. Our customers renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our services, the prices of our services, the prices of services offered by our competitors or reductions in our customers spending levels. If our customers do not renew their subscriptions for our services, renew on less favorable terms, or do not purchase additional functionality or subscriptions, our revenue may grow more slowly than expected or decline and our profitability and gross margins may be harmed.

---

**Table of Contents**

**Index to Financial Statements**

***If our security measures are breached and unauthorized access is obtained to a customer's data, we may incur significant liabilities, our service may be perceived as not being secure and customers may curtail or stop using our suite.***

The services we offer involve the storage of large amounts of our customers' sensitive and proprietary information. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and someone obtains unauthorized access to our customers' data, we could incur significant liability to our customers and to individuals or businesses whose information was being stored by our customers, our business may suffer and our reputation will be damaged. Because techniques used to obtain unauthorized access to, or to sabotage, systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers.

***We provide service level commitments to our customers, which could cause us to issue credits for future services if the stated service levels are not met for a given period and could significantly harm our revenue.***

Our customer agreements provide service level commitments on a monthly basis. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our service, we may be contractually obligated to provide these customers with credits for future services. Our revenue could be significantly impacted if we suffer unscheduled downtime that exceeds the allowed downtimes under our agreements with our customers. In light of our historical experience with meeting our service level commitments, we do not currently have any reserves on our balance sheet for these commitments. Our service level commitment to all customers is 99.5% uptime in each month, excluding scheduled maintenance. The failure to meet this level of service availability may require us to credit qualifying customers for the value of an entire month of their subscription fees, not just the value of the subscription fee for the period of the downtime. As a result, a failure to deliver services for a relatively short duration could cause us to issue these credits to all qualifying customers. Any extended service outages could harm our reputation, revenue and operating results.

***We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.***

We have increased our number of full-time employees from 296 at December 31, 2004 to 603 at September 30, 2007 and have increased our revenue from \$17.7 million in 2004 to \$67.2 million in 2006. Our expansion has placed, and our anticipated growth may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our overall business, customer base, headcount and operations as we prepare to be a public company. We also intend to expand our operations internationally. Creating a global organization and managing a geographically dispersed workforce will require substantial management effort and significant additional investment in our infrastructure. We will be required to continue to improve our operational, financial and management controls and our reporting procedures and we may not be able to do so effectively. As such, we may be unable to manage our expenses effectively in the future, which may negatively impact our gross margins or operating expenses in any particular quarter.

***The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results may be harmed.***

The markets for ERP, CRM and e-commerce applications are intensely competitive and rapidly changing with relatively low barriers to entry. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of our service to achieve or maintain more widespread market acceptance. Often we compete to sell our application suite against existing systems that our potential



---

**Table of Contents**

**Index to Financial Statements**

customers have already made significant expenditures to install. Competition in our market is based principally upon service breadth and functionality; service performance, security and reliability; ability to tailor and customize services for a specific company, vertical or industry; ease of use of the service; speed and ease of deployment, integration and configuration; total cost of ownership, including price and implementation and support costs; professional services implementation; and financial resources of the vendor.

We face competition from both traditional software vendors and SaaS providers. Our principal competitors include Epicor Software Corporation, Intuit Inc., Microsoft Corporation, SAP, The Sage Group plc and salesforce.com, inc. Many of our actual and potential competitors enjoy substantial competitive advantages over us, such as greater name recognition, longer operating histories, more varied products and services and larger marketing budgets, as well as substantially greater financial, technical and other resources. In addition, many of our competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers. If we are not able to compete effectively, our operating results will be harmed.

***Our brand name and our business may be harmed by aggressive marketing strategies of our competitors.***

Because of the early stage of development of our markets, we believe that building and maintaining brand recognition and customer goodwill is critical to our success. Our efforts in this area have, on occasion, been complicated by the marketing efforts of our competitors, which may include incomplete, inaccurate and false statements about our company and our services that could harm our business. Our ability to respond to our competitors' misleading marketing efforts may be limited by legal prohibitions on permissible public communications by us during our initial public offering process.

***Many of our customers are price sensitive, and if the prices we charge for our services are unacceptable to our customers, our operating results will be harmed.***

Many of our customers are price sensitive, and we have limited experience with respect to determining the appropriate prices for our services. As the market for our services matures, or as new competitors introduce new products or services that compete with ours, we may be unable to renew our agreements with existing customers or attract new customers at the same price or based on the same pricing model as previously used. As a result, it is possible that competitive dynamics in our market may require us to change our pricing model or reduce our prices, which could harm our revenue, gross margin and operating results.

***If we do not effectively expand and train our direct sales force and our services and support teams, we may be unable to add new customers and retain existing customers.***

We plan to continue to expand our direct sales force and our services and support teams both domestically and internationally to increase our customer base and revenue. We believe that there is significant competition for direct sales, service and support personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of personnel to support our growth. New hires require significant training and, in most cases, take significant time before they achieve full productivity. Our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business. If these expansion efforts are not successful or do not generate a corresponding increase in revenue, our business will be harmed.

***If we are unable to develop new services or sell our services into new markets, our revenue growth will be harmed and we may not be able to achieve profitability.***

Our ability to attract new customers and increase revenue from existing customers will depend in large part on our ability to enhance and improve our existing application suite and to introduce new services and sell into

**Table of Contents**

**Index to Financial Statements**

new markets. The success of any enhancement or new service depends on several factors, including the timely completion, introduction and market acceptance of the enhancement or service. Any new service we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve the broad market acceptance necessary to generate significant revenue. Any new markets into which we attempt to sell our application, including new vertical markets and new countries or regions, may not be receptive. If we are unable to successfully develop or acquire new services, enhance our existing services to meet customer requirements or sell our services into new markets, our revenue will not grow as expected and we may not be able to achieve profitability.

***Because we are a global organization and our long-term success depends, in part, on our ability to expand the sales of our services to customers located outside of the United States, our business is susceptible to risks associated with international sales and operations.***

We currently maintain offices outside of the United States and have sales personnel or independent consultants in several countries. We have limited experience operating in foreign jurisdictions and are rapidly building our international operations. Managing a global organization is difficult, time consuming and expensive. Our inexperience in operating our business outside of the United States increases the risk that any international expansion efforts that we may undertake will not be successful. In addition, conducting international operations subjects us to new risks that we have not generally faced in the United States. These risks include:

localization of our services, including translation into foreign languages and adaptation for local practices and regulatory requirements;

lack of familiarity with and unexpected changes in foreign regulatory requirements;

longer accounts receivable payment cycles and difficulties in collecting accounts receivable;

difficulties in managing and staffing international operations;

fluctuations in currency exchange rates;

potentially adverse tax consequences, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings;

dependence on certain third parties, including channel partners with whom we do not have extensive experience;

the burdens of complying with a wide variety of foreign laws and legal standards;

increased financial accounting and reporting burdens and complexities;

political, social and economic instability abroad, terrorist attacks and security concerns in general; and

## Edgar Filing: NETSUITE INC - Form S-1/A

reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

***We rely on third-party software, including Oracle database software, that may be difficult to replace or which could cause errors or failures of our service that could lead to lost customers or harm to our reputation.***

We rely on software licensed from third parties to offer our service, including database software from Oracle. This software may not continue to be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of this software could result in delays in the provisioning of our service until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. Any errors or defects in third-party software could result in errors or a failure of our service which could harm our business.

---

**Table of Contents**

**Index to Financial Statements**

*Assertions by a third party that we infringe its intellectual property, whether successful or not, could subject us to costly and time-consuming litigation or expensive licenses.*

The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition and become a publicly-traded company, the possibility of intellectual property rights claims against us may grow. Our technologies may not be able to withstand any third-party claims or rights against their use. Additionally, although we have licensed from other parties proprietary technology covered by patents, we cannot be certain that any such patents will not be challenged, invalidated or circumvented. Furthermore, many of our service agreements require us to indemnify our customers for certain third-party intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling related to any such claims. These types of claims could harm our relationships with our customers, may deter future customers from subscribing to our services or could expose us to litigation for these claims. Even if we are not a party to any litigation between a customer and a third party, an adverse outcome in any such litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named party.

Any intellectual property rights claim against us or our customers, with or without merit, could be time-consuming, expensive to litigate or settle and could divert management attention and financial resources. An adverse determination also could prevent us from offering our suite to our customers and may require that we procure or develop substitute services that do not infringe.

For any intellectual property rights claim against us or our customers, we may have to pay damages or stop using technology found to be in violation of a third party's rights. We may have to seek a license for the technology, which may not be available on reasonable terms, if at all, may significantly increase our operating expenses or may require us to restrict our business activities in one or more respects. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense.

*Our success depends in large part on our ability to protect and enforce our intellectual property rights.*

We rely on a combination of patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. We cannot assure you that any patents will issue from our currently pending patent applications in a manner that gives us the protection that we seek, if at all, or that any future patents issued to us will not be challenged, invalidated or circumvented. We do not have any issued patents and currently have eight patent applications pending. Any patents that may issue in the future from pending or future patent applications may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. Also, we cannot assure you that any future service mark or trademark registrations will be issued for pending or future applications or that any registered service marks or trademarks will be enforceable or provide adequate protection of our proprietary rights.

We endeavor to enter into agreements with our employees and contractors and agreements with parties with whom we do business to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property. Enforcement of our intellectual property rights also depends on our successful legal actions against these infringers, but these actions may not be successful, even when our rights have been infringed.

Furthermore, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are available. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving.

---

**Table of Contents**

**Index to Financial Statements**

*If we fail to maintain proper and effective internal controls or are unable to remediate the material weakness in our internal controls, our ability to produce accurate and timely financial statements could be impaired and investors' views of us could be harmed.*

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. We are in the process of documenting, reviewing and improving our internal controls and procedures for compliance with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which requires annual management assessment of the effectiveness of our internal control over financial reporting and a report by our independent auditors addressing this assessment. Both we and our independent auditors will be testing our internal controls in connection with the audit of our financial statements for the year ending December 31, 2008 and, as part of that documentation and testing, identifying areas for further attention and improvement.

Subsequent to the initial filing of the registration statement, of which this prospectus forms a part, and during our review for the three and six months ended June 30, 2007, we and our independent registered public accounting firm identified a material weakness in our internal controls. The material weakness relates to the need for additional finance and accounting personnel who possess the skill sets necessary to operate and report as a public company, and specifically the skills necessary to ensure that adequate review of critical account reconciliations is performed and that supporting documentation is complete, accurate and in accordance with generally accepted accounting principles. This material weakness resulted in stock-based compensation expense being understated by \$19.4 million, \$12.3 million and \$5.6 million in the years ended December 31, 2005 and 2006 and the three months ended March 31, 2007, respectively, and led to the restatement of our financial statements for those years and the quarter ended March 31, 2007. We have recruited and are continuing to recruit additional finance and accounting personnel to address this observation. We believe we have made progress in addressing this material weakness and expect to complete the remediation in the next three to six months. If our remediation efforts are insufficient to address the material weakness or take longer than we expect, or if additional material weaknesses in our internal controls are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and the price of our common stock may decline.

Implementing any appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes and add personnel and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors' perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our service to new and existing customers.

*Because we recognize subscription revenue over the term of the applicable agreement, the lack of subscription renewals or new service agreements may not be reflected immediately in our operating results.*

The majority of our quarterly revenue is attributable to service agreements entered into during previous quarters. A decline in new or renewed service agreements in any one quarter will not be fully reflected in our revenue in that quarter but will harm our revenue in future quarters. As a result, the effect of significant downturns in sales and market acceptance of our services in a particular quarter may not be fully reflected in our operating results until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, because revenue from new customers must be recognized over the applicable subscription term.

**Table of Contents**

**Index to Financial Statements**

***Material defects or errors in the software we use to deliver our services could harm our reputation, result in significant costs to us and impair our ability to sell our services.***

The software applications underlying our services are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects in our service, and new errors in our existing service may be detected in the future. Any defects that cause interruptions to the availability of our services could result in:

a reduction in sales or delay in market acceptance of our services;

sales credits or refunds to our customers;

loss of existing customers and difficulty in attracting new customers;

diversion of development resources;

harm to our reputation; and

increased warranty and insurance costs.

After the release of our services, defects or errors may also be identified from time to time by our internal team and by our customers. The costs incurred in correcting any material defects or errors in our services may be substantial and could harm our operating results.

***Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or our failure to comply with regulations could harm our operating results.***

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. For example, we believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers' ability to use and share data, potentially reducing demand for ERP, CRM and e-commerce solutions and restricting our ability to store, process and share our customers' data. In addition, taxation of services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business and operating results.

***Privacy concerns and laws or other domestic or foreign regulations may reduce the effectiveness of our application suite and harm our business.***

Our customers can use our service to store personal or identifying information regarding their customers and contacts. Federal, state and foreign government bodies and agencies, however, have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and other individuals. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it.

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. If the gathering of personal information were to be curtailed, ERP, CRM and e-commerce solutions would be less effective, which may reduce demand for our service and harm our business.

*Our operating results may be harmed if we are required to collect sales taxes for our subscription service in jurisdictions where we have not historically done so.*

In 2007, we began to collect sales tax from our customers and remit such taxes in states where we believe we are required to do so. However, additional states or one or more countries may seek to impose sales or other

---

**Table of Contents**

**Index to Financial Statements**

tax collection obligations on us, including for past sales by us or our resellers and other channel partners. We have recorded sales tax liabilities of \$1.2 million, \$2.0 million and \$1.4 million for the years ended December 31, 2005 and 2006 and the nine months ended September 30, 2007, respectively, in respect of sales and use tax liabilities in various states and local jurisdictions. In October 2007, an administrative hearing was held regarding the taxability of our services in one of the states where we have accrued for potential sales tax liabilities based on a prior assessment by this state. The outcome of the hearing indicated that our services are exempt from sales tax in this state. Therefore, we concluded that the previously accrued amounts were no longer probable of being paid and reversed accruals related to this potential sales tax liability during the second quarter of 2007. The administrative hearing is still subject to appeal and therefore a reasonable possibility exists that a liability for sales tax in this state may still be incurred in the future. Despite the results of this particular hearing, state tax authorities could still assert that we are obligated to collect such taxes from our customers and remit those taxes to those authorities. A successful assertion that we should be collecting additional sales or other taxes on our service could result in substantial tax liabilities for past sales, discourage customers from purchasing our application or otherwise harm our business and operating results.

***Our future operating expenses may be adversely affected by changes in our stock price.***

Some of our outstanding stock options are subject to variable accounting. Under variable accounting, we are required to remeasure the value of the options, and the corresponding compensation expense, on the basis of the value of our common stock at the end of each reporting period until the options are exercised and vested, cancelled, modified or expire unexercised. As a result, the stock-based compensation expense we recognize in any given period can vary substantially due to changes in the market value of our common stock.

Changes in our stock price will result in a decrease in stock-based compensation expense when our stock price declines relative to the previous period and an increase in stock-based compensation expense when our stock price increases relative to the previous period. We are unable to predict the future market value of our common stock and, therefore, are unable to predict the compensation expense that we will record in future periods.

***Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and harm our operating results.***

A change in accounting standards or practices could harm our operating results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may harm our operating results or the way we conduct our business. For example, on December 16, 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards (revised 2004), Share-Based Payment, or SFAS No. 123(R). SFAS No. 123(R), which became effective for fiscal periods beginning after June 15, 2005, requires that employee stock-based compensation be measured based on its fair-value on the grant date and treated as an expense that is reflected in the financial statements over the related service period. As a result of SFAS No. 123(R), our operating results in 2006 reflect expenses that are not reflected in prior periods, making it more difficult for investors to evaluate our 2006 operating results relative to prior periods.

***Unanticipated changes in our effective tax rate could harm our future operating results.***

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our tax rate is affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses arising from the new requirement to expense stock options and the valuation of deferred tax assets and liabilities, including our ability to utilize our net operating losses. Increases in our effective tax rate could harm our operating results.



---

**Table of Contents**

**Index to Financial Statements**

*We may expand by acquiring or investing in other companies, which may divert our management's attention, result in additional dilution to our stockholders and consume resources that are necessary to sustain our business.*

Although we have no ongoing negotiations or current agreements or commitments for any acquisitions, our business strategy may include acquiring complementary services, technologies or businesses. We also may enter into relationships with other businesses to expand our service offerings or our ability to provide service in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close.

An acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, the company's software is not easily adapted to work with ours or we have difficulty retaining the customers of any acquired business due to changes in management or otherwise. Acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our business. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown liabilities. For one or more of those transactions, we may:

issue additional equity securities that would dilute our stockholders;

use cash that we may need in the future to operate our business;

incur debt on terms unfavorable to us or that we are unable to repay;

incur large charges or substantial liabilities;

encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and

become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

Any of these risks could harm our business and operating results.

*We rely on our management team and need additional personnel to grow our business, and the loss of one or more key employees or our inability to attract and retain qualified personnel could harm our business.*

Our success and future growth depends to a significant degree on the skills and continued services of our management team, especially Zachary Nelson, our President and Chief Executive Officer, and Evan M. Goldberg, our Chief Technology Officer and Chairman of the Board. We do not maintain key man insurance on any members of our management team, including Messrs. Nelson and Goldberg. We have recently entered into revised offer letter agreements and severance and change of control agreements with the members of our management team, including Messrs. Nelson and Goldberg. For a description of these agreements, see the sections titled, "Management Offers Letters" and

"Management Potential Payment Upon Termination or Change of Control." Our future success also depends on our ability to attract, retain and motivate highly skilled technical, managerial, sales, marketing and service and support personnel, including members of our management team. Competition for sales, marketing and technology development personnel is particularly intense in the software and technology industries. As a result, we may be unable to successfully attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could harm our business.



**Table of Contents**

**Index to Financial Statements**

**Risks Related to the Auction Process for Our Offering**

*Our stock price could decline rapidly and significantly following our initial public offering.*

Our initial public offering price will be determined by an auction process conducted by us and our underwriters. We believe this auction process will provide information about the market demand for our common stock at the time of our initial public offering. However, this information may have no relation to market demand for our common stock once trading begins. We expect that the bidding process will reveal a clearing price for shares of our common stock offered in the auction. The auction clearing price is the highest price at which all of the shares offered, including shares subject to the underwriters' over-allotment option, may be sold to potential investors. Although we and our underwriters may elect to set the initial public offering price below the auction clearing price, we may also set an initial public offering price that is equal to the clearing price. If there is little or no demand for our shares at or above the initial public offering price once trading begins, the price of our shares would likely decline following our initial public offering. In addition, the auction process may lead to more stock price volatility or a stock price decline after the initial sales of our stock in the offering, which could lead to class action or securities litigation that would be expensive, time-consuming and distracting to our management team. If your objective is to make a short-term profit by selling the shares you purchase in the offering shortly after trading begins, you should not submit a bid in the auction.

*The auction process for our public offering may result in a phenomenon known as the winner's curse, and, as a result, investors may experience significant losses.*

The auction process for our initial public offering may result in a phenomenon known as the winner's curse. At the conclusion of the auction, bidders that receive allocations of shares in this offering (successful bidders) may infer that there is little incremental demand for our shares above or equal to the initial public offering price. As a result, successful bidders may conclude that they paid too much for our shares and could seek to immediately sell their shares to limit their losses should our stock price decline. In this situation, other investors that did not submit successful bids may wait for this selling to be completed, resulting in reduced demand for our common stock in the public market and a significant decline in our stock price. Therefore, we caution investors that submitting successful bids and receiving allocations may be followed by a significant decline in the value of their investment in our common stock shortly after our offering.

*The auction process for our initial public offering may result in a situation in which less price sensitive investors play a larger role in the determination of our offering price and constitute a larger portion of the investors in our offering, and, therefore, the offering price may not be sustainable once trading of our common stock begins.*

In a typical initial public offering, a majority of the shares sold to the public are purchased by professional investors that have significant experience in determining valuations for companies in connection with initial public offerings. These professional investors typically have access to, or conduct their own independent research and analysis regarding investments in initial public offerings. Other investors typically have less access to this level of research and analysis, and as a result, may be less sensitive to price when participating in our auction process. Because of our auction process, these less price sensitive investors may have a greater influence in setting our initial public offering price and may have a higher level of participation in our offering than is normal for initial public offerings. This, in turn, could cause our auction process to result in an initial public offering price that is higher than the price professional investors are willing to pay for our shares. As a result, our stock price may decrease once trading of our common stock begins. Also, because professional investors may have a substantial degree of influence on the trading price of our shares over time, the price of our common stock may decline and not recover after our offering. Furthermore, if our initial public offering price is above the level that investors determine is reasonable for our shares, some investors may attempt to short sell the stock after trading begins, which would create additional downward pressure on the trading price of our common stock.

---

**Table of Contents**

**Index to Financial Statements**

*Successful bidders may receive the full number of shares subject to their bids, so potential investors should not make bids for more shares than they are prepared to purchase.*

We may set the initial public offering price near or equal to the auction clearing price. If we do this, the number of shares represented by successful bids will likely approximate the number of shares offered by this prospectus, and successful bidders may be allocated all or almost all of the shares that they bid for in the auction. Therefore, we caution investors against submitting a bid that does not accurately represent the number of shares of our common stock that they are willing and prepared to purchase.

*Our initial public offering price may have little or no relationship to the price that would be established using traditional valuation methods, and therefore, the initial public offering price may not be sustainable once trading begins.*

We may set the initial public offering price near or equal to the auction clearing price. The offering price of our shares may have little or no relationship to, and may be significantly higher than, the price that otherwise would be established using traditional indicators of value, such as our future prospects and those of our industry in general; our sales, earnings and other financial and operating information; multiples of revenue, earnings, cash flows and other operating metrics; market prices of securities and other financial and operating information of companies engaged in activities similar to ours; and the views of research analysts. As a result, our initial public offering price may not be sustainable once trading begins, and the price of our common stock may decline.

*If research analysts publish or establish target prices for our common stock that are below the initial public offering price or the then current trading market price of our shares, the price of our shares of common stock may fall.*

Although the initial public offering price of our shares may have little or no relationship to the price determined using traditional valuation methods, we believe that research analysts will rely upon these methods to establish target prices for our common stock. If research analysts, including research analysts affiliated with our underwriters, publish target prices for our common stock that are below our initial public offering price or the then current trading market price of our shares, our stock price could decline significantly.

*Submitting a bid does not guarantee an allocation of shares of our common stock, even if a bidder submits a bid at or above the initial public offering price.*

Our underwriters may require that bidders confirm their bids before the auction for our initial public offering closes. If a bidder is requested to confirm a bid and fails to do so within the permitted time period, that bid will be deemed to have been withdrawn and will not receive an allocation of shares even if the bid is at or above the initial public offering price. In addition, the underwriters, in consultation with us, may determine that some bids that are at or above the initial public offering price are manipulative or disruptive to the bidding process, in which case such bids may be rejected.

**Risks Related to this Offering and Ownership of our Common Stock**

*Lawrence J. Ellison or members of his family, and related entities, beneficially own a majority of our outstanding shares of common stock, which may limit your ability to influence or control certain of our corporate actions. This concentration of ownership may also reduce the market price of our common stock and impair a takeover attempt of us.*

Entities beneficially owned by Lawrence J. Ellison will hold an aggregate of approximately 54.5% of our common stock following this offering, or 54.0% if the underwriters' over-allotment option is exercised in full. Further, Mr. Ellison, his family members, trusts for their benefit, and related entities will together beneficially own an aggregate of approximately 66.1% of our common stock following this offering, or 65.5% if the underwriters' over-allotment option is exercised in full. Mr. Ellison will be able to exercise control over approval

---

**Table of Contents**

**Index to Financial Statements**

of significant corporate transactions, including a change of control or a liquidation. In addition, if the voting restrictions that apply to NetSuite Restricted Holdings LLC, the investment entity to which Mr. Ellison has transferred his shares, lapse or are amended, Mr. Ellison will be able to exercise control over additional corporate matters, including elections of our directors. So long as Mr. Ellison continues to be either an officer or director of Oracle, these voting restrictions cannot be changed without the approval of an independent committee of Oracle's board of directors. Mr. Ellison's interests and investment objectives may differ from our other stockholders.

Mr. Ellison is also the Chief Executive Officer, a principal stockholder and a director of Oracle Corporation. Oracle supplies us with database software on which we rely to provide our service and is also a potential competitor of ours. In addition, we have an outstanding line of credit with Tako Ventures LLC, an entity controlled by Mr. Ellison, that is secured by substantially all of our assets. As of September 30, 2007, we owed \$8.0 million to Tako Ventures under this line of credit.

Our board of directors adopted resolutions, which renounce and provide for a waiver of the corporate opportunity doctrine as it relates to Mr. Ellison. As a result, Mr. Ellison will have no fiduciary duty to present corporate opportunities to us. In addition, Mr. Ellison's indirect majority interest in us could discourage potential acquirors or result in a delay or prevention of a change in control of our company or other significant corporate transactions, even if a transaction of that sort would be beneficial to our other stockholders or in our best interest.

***We are a controlled company within the meaning of the rules of the New York Stock Exchange and, as a result, will qualify for exemptions from certain corporate governance requirements.***

Because a majority of our common stock will be held by a single stockholder upon the closing of this offering, we will qualify for exemptions from certain corporate governance standards. Under the rules of the New York Stock Exchange, a company of which more than 50% of the voting power is held by a single person or a group of persons is a controlled company and may elect not to comply with certain corporate governance requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that the compensation of officers be determined, or recommended to the board of directors for determination, by a majority of the independent directors or a compensation committee comprised solely of independent directors and (3) the requirement that director nominees be selected, or recommended for the board of directors' selection, by a majority of the independent directors or a nominating committee comprised solely of independent directors with a written charter or board resolution addressing the nomination process.

***We will incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could harm our operating results.***

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and the exchange on which we list our shares of common stock issued in this offering. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We are unable to currently estimate these costs with any degree of certainty. We also expect these new rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage than used to be available. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

**Table of Contents**

**Index to Financial Statements**

*Our failure to raise additional capital or generate the cash flows necessary to expand our operations and invest in our application could reduce our ability to compete successfully.*

We may need to raise additional funds, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests and the per share value of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

develop or enhance our application and services;

continue to expand our product development, sales and marketing organizations;

acquire complementary technologies, products or businesses;

expand operations, in the United States or internationally;

hire, train and retain employees; or

respond to competitive pressures or unanticipated working capital requirements.

*An active, liquid and orderly trading market for our common stock may not develop, the price of our stock may be volatile and you could lose all or part of your investment.*

Before this offering, there has been no public market for shares of our common stock. The initial public offering price of our common stock will be determined in an auction. In addition, the trading price of our common stock following this offering is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Factors affecting the trading price of our common stock will include:

variations in our operating results or in expectations regarding our operating results;

announcements of technological innovations, new services or service enhancements, strategic alliances or agreements by us or by our competitors;

announcements by competitors regarding their entry into new markets, and new product, service and pricing strategies;

marketing and advertising initiatives by us or our competitors;

the gain or loss of customers;

recruitment or departure of key personnel;

changes in the estimates of our operating results or changes in recommendations by any research analysts that elect to follow our common stock;

market conditions in our industry and the economy as a whole;

events that bear on our effective tax rate or our ability to make use of our net operating losses under applicable tax law;

volatility in our stock price, which may lead to higher stock-based compensation expense under applicable accounting standards; and

adoption or modification of regulations, policies, procedures or programs applicable to our business.

In addition, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may harm the market price of our

---

**Table of Contents**

**Index to Financial Statements**

common stock regardless of our actual operating performance. These fluctuations may be even more pronounced in the trading market for our stock shortly following this offering. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources, whether or not we are successful in such litigation.

***Future sales of shares by existing stockholders could cause our stock price to decline.***

If our existing stockholders sell or otherwise dispose of, or indicate an intention to sell or dispose of, substantial amounts of our common stock in the public market after the lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. Based on shares of common stock outstanding as of September 30, 2007, upon completion of this offering, we will have outstanding a total of 59,510,706 shares of common stock. Of these shares, only the 6,200,000 shares of common stock sold in this offering by us, plus any shares disposed of upon exercise of the underwriters' over-allotment option, will be freely tradable, without restriction, in the public market. Our managing underwriter, however, may, in its sole discretion, permit our officers, directors and other current stockholders who are subject to the contractual lock-up to sell or otherwise dispose of shares before the lock-up agreements expire.

We expect that the lock-up agreements pertaining to this offering will expire 180 days from the date of this prospectus (subject to extension upon the occurrence of specified events). After the lock-up agreements expire, up to an additional 53,310,706 shares of common stock will be eligible for sale in the public market, 52,535,365 of which shares are held by directors, executive officers and other affiliates and will be subject to volume limitations under Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, and various vesting agreements. In addition, shares of common stock that are either subject to outstanding options or reserved for future issuance under our employee benefit plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements and Rule 144 and Rule 701 under the Securities Act. If these additional shares of common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

***Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.***

The assumed initial public offering price of our common stock is substantially higher than the net tangible book value per share of our outstanding common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of \$14.28 in net tangible book value per share from the price you paid. In addition, following this offering, purchasers in the offering will have contributed 40% of the total consideration paid by our stockholders to purchase shares of common stock. The exercise of outstanding options and warrants will result in further dilution. For a further description of the dilution that you will experience immediately after this offering, see the section titled "Dilution."

***Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.***

Our management will have broad discretion to use our net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not apply our net proceeds of this offering in ways that increase the value of your investment. We expect to use the net proceeds from this offering for the repayment of certain outstanding indebtedness, capital expenditures and general corporate purposes and working capital, which may in the future include investments in, or acquisitions of, complementary businesses, services or technologies. Our management might not be able to yield a significant return, if any, on any investment of these net proceeds. You will not have the opportunity to influence our decisions on how to use our net proceeds from this offering.



**Table of Contents**

**Index to Financial Statements**

*Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.*

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;

limiting the liability of, and providing indemnification to, our directors and officers;

limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;

requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;

controlling the procedures for the conduct and scheduling of board and stockholder meetings;