

NETSUITE INC
Form S-1
July 02, 2007
Table of Contents

Index to Financial Statements

As filed with the Securities and Exchange Commission on July 2, 2007

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

—————
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
San Mateo, CA 94403-2511
Tel: (650) 627-1000

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(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.

Raj S. Judge

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. "

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. "

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock \$0.01 par value per share	\$75,000,000	\$2,303

- (1) Includes offering price of shares issuable upon exercise of the underwriters' over-allotment option.
(2) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) of the Securities Act of 1933.

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. We may not 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 JULY 2, 2007

Shares

Common Stock

We are selling _____ 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 \$ _____ and \$ _____ per share. We will apply to list our common stock on either the NASDAQ Global Market or the New York Stock Exchange under the symbol _____.

The underwriters have an option to purchase a maximum of _____ additional shares from us to cover over-allotments of shares.

Investing in our common stock involves risks. See Risk Factors on page 7.

	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 25.

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

	Page
<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	7
<u>FORWARD-LOOKING STATEMENTS</u>	24
<u>AUCTION PROCESS</u>	25
<u>USE OF PROCEEDS</u>	32
<u>DIVIDEND POLICY</u>	32
<u>CAPITALIZATION</u>	33
<u>DILUTION</u>	35
<u>SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA</u>	37
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	39
<u>BUSINESS</u>	59
<u>MANAGEMENT</u>	73
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	100
	Page
<u>PRINCIPAL STOCKHOLDERS</u>	105
<u>DESCRIPTION OF CAPITAL STOCK</u>	107
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	111
<u>CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS</u>	113
<u>UNDERWRITING</u>	117
<u>NOTICE TO CANADIAN RESIDENTS</u>	121
<u>INDUSTRY AND MARKET DATA</u>	123
<u>LEGAL MATTERS</u>	123
<u>EXPERTS</u>	123
<u>CHANGE IN PRINCIPAL ACCOUNTANTS</u>	123
<u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u>	124
<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 _____, 2007 (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 the 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 three months ended March 31, 2007, we had revenue of \$23.2 million and over 5,300 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 Gartner, Inc., companies in North America spent approximately \$12.7 billion on ERP, CRM and supply chain management software applications in 2006, of which SMBs accounted for \$4.0 billion, or 31%. Gartner projects that SMB spending on these applications will grow 11.3% annually from 2005 to 2010, compared to 5.8% for large enterprises.

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 \$4.0 billion in 2006 and that they will grow 30% annually through 2011 to \$14.5 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 no additional effort or expense.

Table of Contents

Index to Financial Statements

Our Strategy

Our goal is to enhance our position as the 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.

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 \$23.4 million for 2006 and \$3.7 million for the three months ended March 31, 2007. As of March 31, 2007, our accumulated deficit was \$193.0 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 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

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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. 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, NetSuite 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.

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Unless otherwise indicated, all information in this prospectus assumes:

our reincorporation from California to Delaware and 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;

a 1-for- reverse stock split of our common stock and convertible preferred stock to be effected prior to the completion of this offering;

the conversion of all outstanding shares of our convertible preferred stock into 893,532,516 shares of common stock effective upon the completion of this offering; and

no exercise by the underwriters of their right to purchase up to 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 three months ended March 31, 2006 and 2007 and balance sheet data as of March 31, 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.

	Year Ended December 31,			Three Months Ended	
	2004	2005	2006	2006	2007
	(In thousands, except per share data)				
Condensed Consolidated Statements of Operations Data:					
Revenue	\$ 17,684	\$ 36,356	\$ 67,202	\$ 13,533	\$ 23,229
Cost of revenue ⁽¹⁾	8,191	15,607	22,993	4,829	6,901
Gross profit	9,493	20,749	44,209	8,704	16,328
Operating expenses:					
Product development ⁽¹⁾	8,016	13,119	14,426	3,301	4,243
Sales and marketing ⁽¹⁾	26,963	39,179	43,892	10,211	12,528
General and administrative ⁽¹⁾	3,068	5,901	8,580	1,647	3,250
Total operating expenses	38,047	58,199	66,898	15,159	20,021
Operating loss	(28,554)	(37,450)	(22,689)	(6,455)	(3,693)
Other income (expense), net, including the effect of minority interest and income taxes	(1)	(769)	(730)	(324)	(22)
Net loss	\$ (28,555)	\$ (38,219)	\$ (23,419)	\$ (6,779)	\$ (3,715)
Net loss per common share, basic and diluted	\$ (2.06)	\$ (0.58)	\$ (0.21)	\$ (0.07)	\$ (0.02)
Weighted average number of shares used in computing basic and diluted net loss per common share	13,847	65,476	113,875	103,644	149,906
Pro forma net loss per common share, basic and diluted ⁽²⁾			\$ (0.02)		\$
Weighted average number of shares used in computing pro forma basic and diluted net loss per common share ⁽²⁾			1,007,408		1,043,439

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

	Year Ended December 31,			Three Months Ended	
	2004	2005	2006	2006	2007
	(In thousands)				
Cost of revenue	\$	\$	\$ 19	\$	\$ 95
Product development		2,485	2,621	495	1,123
Sales and marketing			75	11	43

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General and administrative		539		290		42		139	
Total stock-based compensation expense	\$	\$	3,024	\$	3,005	\$	548	\$	1,400

- (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 March 31, 2007		Pro Forma As Adjusted
	Actual	Pro Forma (In thousands)	
Condensed Consolidated Balance Sheet Data:			
Cash and cash equivalents	\$ 10,980	\$ 10,980	\$
Working capital, excluding deferred revenue	13,969	13,969	
Total assets	50,026	50,026	
Current and long-term debt from related party	7,515	7,515	
Convertible preferred stock	125,654		
Total stockholders' deficit	(176,804)	(51,150)	

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 893,532,516 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 _____ shares of common stock in this offering, at an assumed initial public offering price of \$ _____ 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, a related party, which was \$7.5 million as of March 31, 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 \$ _____ 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 \$ _____ 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, as well as other risks not currently known to us or that we currently consider immaterial. 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 \$23.4 million for 2006 and \$3.7 million for the three months ended March 31, 2007. As of March 31, 2007, our accumulated deficit was \$193.0 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.

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 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

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.

Table of Contents

Index to Financial Statements

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

We market and sell our application suite to SMBs. To grow our revenue quickly, we must add new customers, sell additional services to existing customers and encourage existing 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. 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. Fluctuations in our quarterly operating results or guidance may be due to a number of factors, including, but not limited to, those listed below:

our ability to increase sales to existing customers and attract new customers;

the amount and timing of operating costs and capital expenditures related to the operations, maintenance and expansion of our business;

changes in sales compensation plans or organizational structure;

service outages or security breaches;

whether we meet the service level commitments in our agreements with our customers;

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changes in our pricing policies or those of our competitors;

the timing and success of new application and service introductions and upgrades by us or our competitors;

the timing of costs related to the development or acquisition of technologies, services or businesses;

seasonal variations in the demand for our services, which to date we have not experienced;

general economic, industry and market conditions and those conditions specific to Internet usage and online businesses;

the purchasing and budgeting cycles of our customers; and

geopolitical events such as war, threat of war or terrorist acts.

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.

Table of Contents

Index to Financial Statements

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 harm our business.

We host our services and serve all of our customers from a single third-party data center facility 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 in our services. We do not currently operate or maintain a backup data center for any of our services or for any of our customers' data, which increases our vulnerability to interruptions or delays in our service.

Our data facility 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 on commercially reasonable terms, we may experience costs or downtime in connection with the transfer to a new data center facility.

We currently intend to add a second data center facility in 2008, the primary purpose of which is to add capacity. This additional facility may be costly and may not be operational in a timely manner in the event our primary data center facility is not operating properly or is no longer available to us.

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

Table of Contents

Index to Financial Statements

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.

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 495 at March 31, 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

Table of Contents

Index to Financial Statements

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 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, our future operating results will suffer.

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

Table of Contents

Index to Financial Statements

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 will not grow as expected.

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 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.

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;

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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

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.

Table of Contents

Index to Financial Statements

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.

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.

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,

Table of Contents

Index to Financial Statements

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.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors' views of us.

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. We have begun recruiting additional finance and accounting personnel with certain skill sets that we will need as a public company.

Implementing any appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes 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 business and 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 \$2.3 million for the years ended December 31, 2005 and 2006 and the three months ended March 31, 2007, respectively, in respect of sales and use tax liabilities in various states and local jurisdictions. 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.

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 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.

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;

Table of Contents

Index to Financial Statements

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. 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.

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

Table of Contents

Index to Financial Statements

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.

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.

Table of Contents

Index to Financial Statements

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, we, in consultation with our underwriters, may determine, in our sole discretion, 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

Entities and individuals affiliated with Lawrence J. Ellison control our company, which may limit your ability to influence or control corporate actions. This concentration of ownership may also reduce the market price of our common stock.

Our controlling stockholder, Tako Ventures, LLC, or Tako Ventures, an entity controlled by Mr. Ellison, will beneficially own an aggregate of approximately % of our common stock following this offering, or % if the underwriters' over-allotment option is exercised in full. Further, Mr. Ellison, his family members and their affiliated entities and Tako Ventures will beneficially own an aggregate of approximately % of our common stock following this offering, or % if the underwriters' over-allotment option is exercised in full. As a result, Mr. Ellison and entities with which he is affiliated will be able to exercise control over most matters requiring approval by our stockholders, including:

the election of directors;

amending our Certificate of Incorporation;

approval of significant corporate transactions, including a change of control;

executive and director compensation plans, including equity compensation plans;

issuing additional shares of capital stock; or

commencing a liquidation.

Mr. Ellison is also the Chief Executive Officer 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 secured line of credit with Tako Ventures. As of March 31, 2007, we owed \$7.5 million to Tako Ventures under this line of credit.

Mr. Ellison's interests and investment objectives may differ from our other stockholders. Mr. Ellison's controlling 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 NASDAQ Global Market and the New York Stock Exchange and, as a result, will qualify for exemptions from certain corporate governance requirements.

As of March 31, 2007, Mr. Ellison, his family members and their affiliated entities, including Tako Ventures, together beneficially owned approximately 74% of our as-converted common stock. Because of their aggregate voting power, Mr. Ellison and Tako Ventures share the ability to elect a majority of our directors and will continue to do so immediately after this offering. As a result of the combined voting power of

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Mr. Ellison and Tako Ventures, we will qualify for exemptions from certain corporate governance standards. Under the rules of the NASDAQ Global Market and 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

Table of Contents

Index to Financial Statements

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.

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

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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;

Table of Contents

Index to Financial Statements

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 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 indicate an intention to sell, 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 March 31, 2007, upon completion of this offering, we will have outstanding a total of _____ shares of common stock. Of these shares, only the _____ shares of common stock sold in this offering by us, plus any shares sold 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 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 _____ shares of common stock will be eligible for sale in the public market, _____ 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

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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.

Table of Contents

Index to Financial Statements

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 \$ _____ in net tangible book value per share from the price you paid. In addition, following this offering, purchasers in the offering will have contributed _____ % 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.

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;

providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;

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limiting the determination of the number of directors on our board and the filling of vacancies or newly created seats on the board to our board of directors then in office; and

providing that directors may be removed by stockholders only for cause.

These provisions, alone or together, could delay hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding

Table of Contents

Index to Financial Statements

common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our amended and restated certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Table of Contents

Index to Financial Statements

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future results of operations and financial position, business strategy and plans and our objectives for future operations, are forward-looking statements. The words anticipate, believe, continue, estimate, expect, intend, may, will, and similar are intended to identify forward-looking statements. We have based the forward-looking statements in this prospectus largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled Risk Factors. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Before investing in our common stock, investors should be aware that the occurrence of the risks, uncertainties and events described in the section titled Risk Factors and elsewhere in this prospectus could have a material adverse effect on our business, results of operations and financial condition.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

This prospectus also contains statistical data and estimates, including those relating to market size and growth rates of the markets in which we participate, that we obtained from industry publications and reports generated by Yankee Group Research, Inc., Gartner, Inc. and IDC. These publications typically indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy or completeness of their information. While we believe these publications are reliable, we have not independently verified their data.

You should read this prospectus and the documents that we reference in this prospectus and have filed with the SEC as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

Table of Contents

Index to Financial Statements

AUCTION PROCESS

The following describes the auction process being used for our initial public offering. 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 to determine the initial public offering price and the allocation of shares in the offering. We plan to conduct this auction in five stages: Registration; Bidding; Auction Closing; Pricing; and Allocation. Investors that do not submit bids through the auction process will not be eligible for an allocation of shares in our offering. Please see the section titled Risk Factors – Risks Related to the Auction Process for Our Offering beginning on page 17.

The Registration Process

Our objective is to conduct an auction in which you submit informed bids. Before you can submit a bid, you will be required to register to participate in our offering. For individual investors, this will require having an account with Credit Suisse Securities (USA) LLC (through its affiliated Private Bank), W.R. Hambrecht + Co., LLC or E*TRADE Securities LLC and meeting their requirements for participation in the offering. For institutional investors, the registration process will require contacting one of our underwriters to obtain a bidder ID. Individual investors will not be required to obtain a bidder ID.

Before you attempt to register to participate in our offering, you should:

Read this prospectus, including all the risk factors. We also recommend that you view the presentation available at www.netsuiteipo.com.

Understand that our initial public offering price may be set at the auction clearing price, and, 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 decline.

Understand that we may modify the price range and the size of our offering multiple times in response to investor demand.

Understand that we, in consultation with our underwriters, will have the ability to reject bids that we believe have the potential to manipulate or disrupt the bidding process, and that if you submit such a bid, all of the bids you have submitted may be rejected, in which case you will not receive an allocation of shares in our initial public offering, even if your bid would otherwise have been successful.

In addition, to register to participate and to bid in the auction, you will have to:

Provide additional information to enable the underwriter to identify you, confirm your eligibility and suitability for participating in our initial public offering, and, if you submit a successful bid, consummate a sale of shares to you.

Consent to electronic delivery of the preliminary prospectus and other communications related to this offering.

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Acknowledge that you have received an electronic copy of the preliminary prospectus.

Accept the Privacy Policy and Terms of Use that are described at www.netsuiteipo.com.

If you do not take the steps to register to participate in our auction, you will not be able to bid or buy shares in our auction. We seek to enable all interested investors to have the opportunity to register to bid and, following registration, place bids in the auction for our initial public offering.

Table of Contents

Index to Financial Statements

We have not undertaken any efforts to register this offering in any jurisdiction outside the U.S. Except to the limited extent that this offering will be open to certain non-U.S. investors under private placement exemptions in certain countries other than the U.S., individual investors located outside the U.S. should not expect to be eligible to participate in this offering.

News About the Auction

Keep in contact with your brokerage firm, frequently monitor your email account and check www.netsuiteipo.com for notifications related to the offering, including:

Notice of Recirculation/Request for Reconfirmation. Notification that we have made material changes to the prospectus for this offering that require you to reconfirm your bid by contacting your brokerage firm.

Notice of Change in Price Range or Number of Shares Offered. Notification that we have changed the price range or size of the offering.

Notice of Intent to go Effective. Notification that we have asked the SEC to declare our registration statement effective.

Notice of Effectiveness. Notification that the SEC has declared our registration statement effective.

Notice of Auction Closing. Notification that the auction has closed.

Notice of Final Price. Notification of the initial public offering price, if the initial public offering price is between \$ and \$ per share, which is within 20% of either the high or low end of the price range set forth on the cover of this prospectus.

Notice of Acceptance. Notification as to whether any of your bids are successful and have been accepted by the underwriters. This notification will include the final initial public offering price. Only bidders whose bids have been accepted will be informed about the results of the auction.

Please be careful only to trust emails relating to the auction that come from the managing underwriter or your brokerage firm. These emails will not ask for any personal information (such as social security number or credit card numbers). If you are not sure whether to trust an email, please contact your brokerage firm directly.

The Bidding Process

Bidders who are individuals must submit bids through one of the following underwriters: Credit Suisse Securities (USA) LLC (through its affiliated Private Bank), W.R. Hambrecht + Co., LLC or E*TRADE Securities LLC. Institutional investors will submit bids via the auction website available at www.netsuiteipo.com. In connection with submitting a bid, you must provide the following information:

The number of shares you are interested in purchasing.

The price per share you are willing to pay.

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Bids may be within, above or below the estimated price range for our initial public offering on the cover of this prospectus. Bid prices may be in any dollar or cent increment. The minimum size of any bid is 100 shares. Each bidder may submit an unlimited number of bids; however, we may reject any bid that has the potential to manipulate or disrupt the bidding process, as well as any other bids from any person or institution that we believe has submitted a manipulative or disruptive bid.

Each of your bids will be incremental to any other bids you have submitted, and you will be allocated the aggregate number of shares represented by all of your bids at or above the offering price. Therefore, do not submit bids that add up to more than the amount of money you want to invest in the offering. For example, if you

Table of Contents**Index to Financial Statements**

place three bids one for 100 shares at \$12.00 (for a total value of \$1,200), a second for an additional 200 shares at \$10.00 (for a total value of \$2,000) and a third for an additional 300 shares at \$8.00 (for a total value of \$2,400) you would be legally obligated to purchase up to 600 shares for a total value of up to \$4,800 (assuming an initial public offering price of \$8.00 per share). The following table illustrates this example assuming that the initial public offering price is set at \$10.00 and successful bids are not subject to pro rata allocation. See the section titled "The Allocation Process" for additional information on pro rata allocation.

Hypothetical Bid Information			Hypothetical Auction Results			
	Shares			Hypothetical Initial Offering Price	Shares Allocated	Aggregate Investment
Bid	Requested	Bid Price				
1	100	\$ 12.00	\$ 10.00	100	\$ 1,000.00	
2	200	10.00	10.00	200	2,000.00	

3	300	8.00	10.00	0	0.00	

Total:	600			300	\$ 3,000.00	

To participate in the auction for our initial public offering, you will be required to agree to accept electronic delivery of this prospectus, the final prospectus, any amendments to this prospectus or the final prospectus, and other communications related to this offering. If you do not consent to electronic delivery, or subsequently revoke that consent prior to the time at which our underwriters accept your bid, you will not be able to submit a bid or participate in our offering and any previously submitted bids will be rejected. If you revoke your consent after the underwriters accept your bid, a copy of the final prospectus will be delivered to you via U.S. mail. Your consent to electronic delivery of these documents does not constitute consent by you to electronic delivery of other information about us not related to this offering, such as proxy statements and quarterly and annual reports, after completion of this offering.

For individual investors, we encourage you to discuss any questions regarding your bid and the suitability determinations that will be applied to your bid with the underwriter through which you expect to submit a bid. Each of our underwriters makes its own suitability determinations. This could affect your ability to submit a bid. If an underwriter determines that a bid is not suitable for an investor, the underwriter will not submit that bid in the auction, and you might not be informed that your bid was not submitted in the auction.

Our managing underwriter will manage the master order book, to which we will have concurrent access. The master order book will aggregate all bids collected by our underwriters and will include the identity of the bidders. Our master order book will not be available for viewing by bidders. Only bidders whose bids are accepted will be informed about the result of those bids.

You should consider all the information in this prospectus in determining whether to submit a bid, the number of shares you seek to purchase and the price per share you are willing to pay. We, in consultation with our underwriters, will have the ability to disqualify any bidder that submits a bid that we believe, in our sole discretion, has the potential to manipulate or disrupt the bidding process. These bids include bids that we, in consultation with our underwriters, believe in our sole discretion do not reflect the number of shares that a bidder actually intends to purchase, or a series of bids that we, in consultation with our underwriters, consider disruptive to the auction process. The shares offered by this prospectus may not be sold, nor may offers to buy be accepted, prior to at least one hour following the time that the registration statement filed with the SEC becomes effective. A bid received by any underwriter involves no obligation or commitment of any kind by the bidder until our underwriters have notified you that your bid is successful by sending you a notice of acceptance. Therefore, you will be able to withdraw a bid at any time until it has been accepted. You may withdraw your bid by contacting the underwriter through which you submitted your bid (for individual investors) or by withdrawing your bid on www.netsuiteipo.com (for institutional investors).

Table of Contents

Index to Financial Statements

During the bidding process, we and our managing underwriter will monitor the master order book to evaluate the demand that exists for our initial public offering. Based on this information and other factors, we and our underwriters may revise the public offering price range for our initial public offering set forth on the cover of this prospectus. In addition, we may decide to change the number of shares of common stock offered through this prospectus. It is possible that the number of shares offered will increase if the price range increases. You should be aware that we have the ability to make multiple such revisions. These increases in the public offering price range or the number of shares offered through this prospectus may result in there being little or no demand for our shares of common stock at or above the initial public offering price following this offering. Therefore, the price of our shares of common stock could decline following this offering, and investors should not expect to be able to sell their shares for a profit shortly after trading begins. You should consider whether to modify or withdraw your bid as a result of developments during the auction process, including changes in the price range or number of shares offered.

Reconfirmations of Bids

We will require that bidders reconfirm the bids that they have submitted in the offering if either of the following events shall occur:

more than 15 business days have elapsed since the bidder submitted his bid in the offering; or

we determine that there is a material change in the prospectus that requires recirculation of the prospectus by us and the underwriters. If a reconfirmation of bids is required, an electronic notice will be sent to everyone who has submitted a bid that has not been withdrawn, notifying them that they must reconfirm their bids by contacting the underwriter with which their bid was submitted (for individual investors) or reconfirming their bid on www.netsuiteipo.com (for institutional investors). If bidders do not reconfirm their bids when requested, we and the underwriters will disregard their bids in the auction, and they will be deemed to have been withdrawn. We will give bidders at least until 4:00 p.m., Eastern time, on the following business day to reconfirm their bids from the time we send them notification that they must reconfirm.

We may temporarily close the auction while we are preparing a new prospectus to be recirculated. If we do so, we will reopen the auction when we recirculate the prospectus.

Changes in the Price Range Prior to Effectiveness of the Registration Statement

If, prior to the time at which the SEC declares our registration statement effective, there is a change in the price range or the number of shares to be sold in our offering, we and the underwriters will:

provide notice at www.netsuiteipo.com of the revised price range or number of shares to be sold in our offering, as the case may be;

issue a press release announcing the revised price range or number of shares to be sold in our offering, as the case may be; and

send an electronic notice to everyone who has registered to participate in the auction, notifying them of the revised price range or number of shares to be sold in our offering, as the case may be.

The Auction Closing Process

We can close the auction at any time. You will have the ability to modify any bid until the auction is closed. You will have the ability to withdraw your bid until your bid is accepted by the underwriters. Your bid will be accepted following the closing of the auction when and if you are sent a notice of acceptance. If you are

Table of Contents

Index to Financial Statements

requested to reconfirm a bid and fail to do so in a timely manner, your bid will be deemed to have been withdrawn.

When we submit our request that the SEC declare the registration statement effective, we and the underwriters will send an electronic notice to everyone who has registered to participate in the auction informing them of our request. Once the registration statement is effective, everyone who has registered to participate in the auction will be sent another electronic notice informing them that the registration statement is effective. Prior to the time a bid is accepted, which cannot be less than one hour after the notice of effectiveness is sent to bidders, bidders may still withdraw their bids.

Availability of Funds After Effectiveness of the Registration Statement

Your brokerage firm may require that you have funds or securities in your brokerage account with value sufficient to cover the aggregate dollar amount of your bid upon the effectiveness of our registration statement. If you do not provide the required funds or securities in your account by the required time, your bid may be rejected. We and our underwriters may elect to accept successful bids in as little as one hour after the SEC declares the registration statement effective regardless of whether bidders have deposited funds or securities in their brokerage accounts. In this case, as well as all other cases in which notices of acceptance have been sent, successful bidders would be obligated to purchase the shares allocated to them in the allocation process.

The Pricing Process

The initial public offering price will be determined by us and our underwriters after the auction closes. We intend to use the auction to determine a clearing price for the initial public offering, and we may set the initial public offering price at the clearing price. The 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, based on bids in the master order book that have not been rejected or withdrawn at the time we and our underwriters close the auction. However, we and our underwriters have discretion to set the initial public offering price below the auction clearing price. We may do this in an effort to achieve a broader distribution of our common stock or to potentially limit a decline in the trading price of our shares in the period shortly following our offering relative to what might be experienced if the initial public offering price were set at the auction clearing price. However, setting the initial public offering price below the auction clearing price may not achieve this result. Even if the initial public offering price is set below the auction clearing price, the trading price of our common stock could still decline significantly after the offering. In addition, although setting the initial public offering price below the clearing price may achieve a broader distribution of our shares, it may not result in allocations of shares in our offering to specific types of investors, such as professional or institutional investors.

We caution you that our initial public offering price may have little or no relationship to the price that 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 our 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.

You should understand that the trading price of our common stock could vary significantly from the initial public offering price. Therefore, we caution you not to submit a bid in the auction process for our offering unless you are willing to take the risk that our stock price could decline significantly.

Table of Contents

Index to Financial Statements

The pricing of our initial public offering will occur after we have closed the auction and after the registration statement has been declared effective. We will issue a press release to announce the initial public offering price. The price will also be included in the notice of acceptance, the confirmation of sale and the final prospectus that will be sent to the purchasers of common stock in our offering.

Acceptance of Bids

If the initial public offering price is between \$ _____ and \$ _____ per share, which is within 20% of either the high or low end of the price range on the cover of this prospectus, the underwriters can accept all bids at or above the initial public offering price, without seeking reconfirmation of bids, by sending electronic notices of acceptance to successful bidders. As a result of the varying delivery times involved in sending emails over the Internet, some bidders may receive these notices of acceptance before others.

If the initial public offering price is not between \$ _____ and \$ _____ per share, then we will:

provide notice at www.netsuiteipo.com of the offering price;

issue a press release announcing the offering price; and

send an electronic notice to everyone who registered to bid in the auction notifying them of the offering price.

Under these circumstances, the underwriters will require bidders to reconfirm their bids. We may also decide as a result of the foregoing to circulate a revised prospectus and reopen the auction. In this event, bids submitted may be accepted immediately upon their being submitted by you since more than an hour may have passed since the effectiveness of the Registration Statement.

You should be aware that the underwriters will accept successful bids by sending an electronic notice of acceptance, and bidders who submitted successful bids will be obligated to purchase the shares allocated to them regardless of (1) whether such bidders are aware that the registration statement has been declared effective or (2) whether they are aware that the electronic notice of acceptance of that bid has been sent. Once the underwriters have accepted a bid by sending out an electronic notice of acceptance, they will not cancel or reject any such bid.

The Allocation Process

Once the initial public offering price has been determined, we and our underwriters will begin the allocation process. All investors who have bid at or above the initial public offering price, and whose bids were not rejected or withdrawn, will receive an allocation of shares in our offering at the initial public offering price.

If the initial public offering price is equal to the auction clearing price, all successful bidders will be offered share allocations that are equal or nearly equal to the number of shares subject to their successful bids. Therefore, we caution you against submitting a bid that does not accurately represent the number of shares of our common stock that you are willing and prepared to purchase, as bidders who submitted successful bids will be obligated to purchase the shares allocated to them. Furthermore, neither we nor our underwriters will be obligated to inform you that we have rejected your bids.

In the event that the number of shares represented by successful bids exceeds the number of shares we are offering, the offered shares will need to be allocated across the successful bidder group. We will allocate the shares among successful bids on a pro rata basis based on the following rules:

the pro rata allocation percentage will be determined by dividing the number of shares we are offering (including shares subject to the underwriters' over-allotment option) by the number of shares subject to successful bids; and

Table of Contents**Index to Financial Statements**

each bidder who has a successful bid will be allocated a number of shares equal to the pro rata allocation percentage multiplied by the number of shares subject to the successful bid, rounded to the nearest whole number of shares, except that, to the extent possible, each allocation of 100,000 or more shares will be rounded to the nearest 100 shares.

The following hypothetical example illustrates how pro rata allocation might work in practice:

Assumptions

Shares Offered	20,000
Total Shares Subject to Successful Bids	21,200
Pro Rata Allocation Percentage	94.34%

Successful Bidder	Shares Subject to Successful Bid	Pro Rata Allocation
A	100	94
B	2,100	1,981
C	4,000	3,774
D	4,500	4,245
E	5,000	4,717
F	5,500	5,189
Totals	21,200	20,000

Following the allocation process, our underwriters will provide successful bidders with a final prospectus and confirmations that detail their purchases of shares of our common stock and the purchase price. The final prospectus will be delivered electronically, and confirmation will be delivered by regular mail, facsimile, email or other electronic means. Successful bidders can expect to receive their allocated shares in their brokerage accounts three or four business days after the final offering price is established by us and the underwriters.

Table of Contents

Index to Financial Statements

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the common stock that we are offering will be approximately \$, assuming an initial public offering price of \$ per share, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses that we expect to pay. If the underwriters' option to purchase additional shares in this offering is exercised in full, we estimate that our net proceeds will be approximately \$.

A \$1.00 increase or decrease in the assumed initial public offering price of \$ per share would increase or decrease our net proceeds from this offering by approximately \$ 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 and estimated offering expenses that we expect to pay.

We plan to use the net proceeds of the offering for working capital and other general purposes, to repay the outstanding balance on the secured line of credit with Tako Ventures, our controlling stockholder, and for capital expenditures. As of March 31, 2007, the amount outstanding on the line of credit was \$7.5 million. The interest rate on the line of credit is equal to the prime rate plus 1% per annum, or 9.25% as of March 31, 2007, and the maturity date is February 28, 2008. We may also use a portion of the net 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.

Pending use of the net proceeds from this offering, we intend to invest the remaining net proceeds in short-term, interest-bearing investment grade securities.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common or preferred equity. We currently do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

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

The following table sets forth our actual cash and cash equivalents and capitalization as of March 31, 2007:

on an actual basis;

on a pro forma basis after giving effect to (i) a 1-for reverse stock split of our common stock and convertible preferred stock to be effected prior to the closing of this offering and (ii) the conversion of all outstanding shares of our convertible preferred stock into an aggregate of 893,532,516 shares of common stock immediately prior to the completion of this offering; and

on a pro forma as adjusted basis reflecting the adjustment noted for the pro forma column above and (i) our sale of shares of common stock in this offering at an assumed initial public offering price of \$ 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, (ii) the filing of our amended and restated certificate of incorporation immediately prior to the completion of this offering, and (iii) the repayment of the outstanding balance on the secured line of credit, which was \$7.5 million as of March 31, 2007.

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

You should read this table 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 included elsewhere in this prospectus.

	As of March 31, 2007		
	Actual (In thousands, except share and per share data)	Pro Forma	Pro Forma As Adjusted
Cash and cash equivalents	\$ 10,980	\$ 10,980	\$
Total debt from related party	7,515	7,515	
Minority interest	1,821	1,821	
Series A through H convertible preferred stock \$0.01 par value, 706,343,465 shares authorized, 676,941,871 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	125,654		
Stockholders' deficit:			
Undesignated preferred stock, \$0.01 par value per share; no shares authorized, issued or outstanding, actual and pro forma; 25,000,000 shares authorized, no shares issued and outstanding, pro forma as adjusted			
Common stock, par value \$0.01; 2,000,000,000 shares authorized; 168,511,247 shares issued and outstanding, actual; 2,000,000,000 shares authorized, shares issued and outstanding, pro forma; and 500,000,000 shares authorized, shares issued and outstanding pro forma as adjusted	5,205	11,974	
Additional paid-in capital	12,948	131,833	
Notes receivable from stockholders	(2,012)	(2,012)	
Accumulated other comprehensive income	7	7	
Accumulated deficit	(192,952)	(192,952)	

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Total stockholders' deficit	(176,804)	(51,150)	
Total capitalization	\$ (41,814)	\$ (41,814)	\$

Table of Contents

Index to Financial Statements

A \$1.00 increase or decrease in the assumed initial public offering price of \$ _____ per share would increase or decrease each of pro forma as adjusted cash and cash equivalents, additional paid-in capital, total stockholders' deficit and total capitalization by approximately \$ _____ 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.

This table excludes the following shares:

116,989,316 shares of common stock issuable upon exercise of stock options outstanding as of March 31, 2007, at a weighted average exercise price of \$0.10 per share;

26,992,750 shares of common stock issuable upon exercise of options granted after March 31, 2007 at a weighted average exercise price of \$0.62 per share;

190,450 shares of common stock issuable upon the exercise of warrants outstanding as of March 31, 2007, at a weighted average exercise price of \$2.30 per share; and

96,745,677 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 49,245,677 shares of common stock reserved for issuance under our 1999 Stock Plan, 47,500,000 of which were added on June 27, 2007, and 47,500,000 shares of common stock reserved for issuance under our 2007 Equity Incentive Plan.

See the section titled "Management Employee Benefit Plans" for a description of our equity plans.

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

As of March 31, 2007, we had a net tangible book deficit of \$49.3 million. Net tangible book deficit represents the amount by which our total liabilities exceed our total tangible assets. As of March 31, 2007, our pro forma net tangible book value per share was approximately negative \$ _____ per share, which is based on 1,062,043,763 shares of common stock outstanding on a pro forma basis after giving effect to (i) a 1-for-_____ reverse stock split of our common stock and convertible preferred stock into _____ shares of common stock to be effected prior to the closing of this offering and (ii) the conversion of all outstanding shares of our convertible preferred stock into 893,532,516 shares of common stock effective upon the completion of this offering. After giving effect to these transactions, our net tangible assets will exceed our total liabilities on a pro forma basis.

Net tangible book value dilution per share to new investors represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma net tangible book value per share of common stock immediately after completion of this offering. After giving effect to our sale of _____ shares of common stock in this offering at an assumed initial public offering price of approximately \$ _____ per share and after deducting the estimated underwriting discounts and commissions and estimated offering expenses that we expect to pay, our pro forma net tangible book value as of March 31, 2007 would have been \$ _____, or \$ _____ per share. This represents an immediate increase in net tangible book value of \$ _____ per share to existing stockholders and an immediate dilution in net tangible book value of \$ _____ per share to purchasers of common stock in this offering, as illustrated in the following table:

Assumed initial public offering price per share	\$
Pro forma net tangible book value per share as of March 31, 2007	\$
Increase in pro forma net tangible book value per share attributable to investors purchasing shares in this offering	

Pro forma net tangible book value per share after this offering

Dilution in pro forma net tangible book value per share to investors in this offering	\$
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A \$1.00 increase or decrease in the assumed initial public offering price of \$ _____ per share would increase or decrease our pro forma net tangible book value per share after this offering by \$ _____ per share and dilution in pro forma net tangible book value to new investors by \$ _____ per share, 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.

If the underwriters exercise their option to purchase additional shares of our common stock in full in this offering, the pro forma net tangible book value per share after this offering would be \$ _____ per share, the increase in pro forma net tangible book value per share to existing stockholders would be \$ _____ per share and the dilution to new investors purchasing shares in this offering would be \$ _____ per share.

The following table presents, on the same pro forma basis described above as of March 31, 2007, the differences between the existing stockholders and the purchasers of shares in this offering with respect to the number of shares purchased from us, the total consideration paid and the average price paid per share, based on an assumed initial public offering price of \$ _____ per share:

	Shares Purchased		Total		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%	\$	%	\$
New stockholders					
Totals		100%	\$	100%	

Table of Contents

Index to Financial Statements

If the underwriters exercise their over-allotment option in full, our existing stockholders would own % and our new investors would own % of the total number of shares of our common stock outstanding upon completion of this offering.

As of March 31, 2007, there were options outstanding to purchase a total of 116,989,316 shares of common stock at a weighted average exercise price of \$0.10 per share. In addition, as of March 31, 2007, there were warrants outstanding to purchase 190,450 shares of common stock at a weighted average exercise price of \$2.30 per share. The above discussion and table assumes no exercise of stock options or warrants outstanding as of March 31, 2007. If all of these options and warrants were exercised:

pro forma net tangible book value per share after this offering would increase from \$ to \$, resulting in dilution to new investors of \$ per share;

our existing stockholders, including the holders of these options and warrants, would own % and our new investors would own % of the total number of shares of our common stock outstanding upon completion of this offering; and

our existing stockholders, including the holders of these options and warrants, would have paid % of total consideration, at an average price per share of \$, and our new investors would have paid % of total consideration.

See the section titled Management Employee Benefit Plans for a description of our equity plans.

Table of Contents**Index to Financial Statements****SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA**

You should read the following selected condensed consolidated historical financial data below in conjunction with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, related notes and other financial information included in this prospectus. The selected condensed consolidated financial data in this section is not intended to replace the consolidated financial statements and is qualified in its entirety by the consolidated financial statements and related notes included in this prospectus.

We derived the statements of operations data for the years ended December 31, 2004, 2005 and 2006 and the balance sheet data as of December 31, 2005 and 2006 from our audited consolidated financial statements and related notes, which are included elsewhere in this prospectus. We derived the balance sheet data as of December 31, 2004 from our audited consolidated financial statements and related notes which are not included in this prospectus. We derived the statements of operations data for the years ended December 31, 2002 and 2003 and the balance sheet data as of December 31, 2002 and 2003 from our unaudited statements of operations and balance sheets that are not included in this prospectus. We derived the statements of operations data for the three months ended March 31, 2006 and 2007 and the balance sheet data as of March 31, 2007 from our unaudited consolidated financial statements and related notes, which are included elsewhere in this prospectus. Historical results for any prior period are not necessarily indicative of future results for any period.

The pro forma basic and diluted net loss per common share data for the fiscal year ended December 31, 2006 and the three months ended March 31, 2006 and 2007 reflect 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. See Note 7 of "Notes to Consolidated Financial Statements" for an explanation of the method used to determine the number of shares used in computing pro forma basic and diluted net loss per common share.

	Year Ended December 31,				Three Months Ended		
	2002	2003	2004	2005	2006	March 31,	
						2007	
	(In thousands, except per share data)						
Condensed Consolidated Statements of Operations Data:							
Revenue	\$ 3,136	\$ 8,345	\$ 17,684	\$ 36,356	\$ 67,202	\$ 13,533	\$ 23,229
Cost of revenue ⁽¹⁾	5,280	5,871	8,191	15,607	22,993	4,829	6,901
Gross profit (loss)	(2,144)	2,474	9,493	20,749	44,209	8,704	16,328
Operating expenses:							
Product development ⁽¹⁾	6,424	7,507	8,016	13,119	14,426	3,301	4,243
Sales and marketing ⁽¹⁾	9,864	15,415	26,963	39,179	43,892	10,211	12,528
General and administrative ⁽¹⁾	3,485	2,181	3,068	5,901	8,580	1,647	3,250
Total operating expenses	19,773	25,103	38,047	58,199	66,898	15,159	20,021
Operating loss	(21,917)	(22,629)	(28,554)	(37,450)	(22,689)	(6,455)	(3,693)
Other income (expense), net, including the effect of minority interest and income taxes	(169)	(117)	(1)	(769)	(730)	(324)	(22)
Net loss	\$ (22,086)	\$ (22,746)	\$ (28,555)	\$ (38,219)	\$ (23,419)	\$ (6,779)	\$ (3,715)
Net loss per common share, basic and diluted	\$ (2.12)	\$ (2.15)	\$ (2.06)	\$ (0.58)	\$ (0.21)	\$ (0.07)	\$ (0.02)
Weighted average number of shares used in computing basic and diluted net loss per	10,401	10,570	13,847	65,476	113,875	103,644	149,906

common share

Pro forma net loss per common share, basic and diluted	\$ (0.02)	\$
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Weighted average number of shares used in computing pro forma basic and diluted net loss per common share	1,007,408	1,043,439
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Table of Contents**Index to Financial Statements**

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

	Year Ended December 31,					Three Months Ended March 31,	
	2002	2003	2004	2005	2006	2006	2007
	(In thousands)						
Cost of revenue	\$	\$	\$	\$	\$ 19	\$	\$ 95
Product development				2,485	2,621	495	1,123
Sales and marketing					75	11	43
General and administrative				539	290	42	139
Total stock-based compensation expense	\$	\$	\$	\$ 3,024	\$ 3,005	\$ 548	\$ 1,400

	As of December 31,					As of
	2002	2003	2004	2005	2006	March 31,
	(In thousands)					
Balance Sheet Data:						
Cash and cash equivalents	\$ 2,439	\$ 99	\$ 3,532	\$ 1,657	\$ 9,910	\$ 10,980
Working capital, excluding deferred revenue	1,639	1,455	9,789	13,616	20,504	13,969
Total assets	6,695	8,166	21,970	35,178	48,053	50,026
Current and long-term debt from related party				7,250	7,013	7,515
Convertible preferred stock	75,889	90,785	110,694	125,654	125,654	125,654
Total stockholders deficit	(75,916)	(98,643)	(127,030)	(162,642)	(177,267)	(176,804)

Table of Contents

Index to Financial Statements

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of financial condition and results of operations should be read together with Selected Condensed Consolidated Financial Data, and our financial statements and accompanying notes appearing elsewhere in this prospectus. This discussion contains forward-looking statements, based on current expectations and related to future events and our future financial performance, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth under Risk Factors, Forward-Looking Statements and elsewhere in this prospectus. All forward-looking statements in this document are based on information available to us as of the date hereof and we assume no obligation to update any such forward-looking statements.

Overview

We provide an on-demand suite of integrated business management software services to SMBs and divisions of large companies. Our offerings consist of a single application suite that provides ERP, CRM and e-commerce functionality. We also offer technical support and professional services related to our suite. We deliver our suite over the Internet as a subscription service using the SaaS model. We were incorporated in California in September 1998 and reincorporated in Delaware in 2007. In 1999, we released our first application, NetLedger, which focused on accounting applications. We then released e-Commerce functionality in 2000 and CRM and sales force automation functionality in 2001. In 2002, we released our next generation suite under the name NetSuite to which we have regularly added features and functionality.

Our revenue has increased from \$17.7 million in 2004 to \$67.2 million in 2006. For the three months ended March 31, 2007, our revenue was \$23.2 million. For the year ended December 31, 2006 and the three months ended March 31, 2007, we had net losses of \$23.4 million and \$3.7 million, respectively. As of March 31, 2007, our accumulated deficit was \$193.0 million.

We generate sales directly through our sales team and, to a lesser extent, indirectly through channel partners. As of March 31, 2007, we had over 5,300 active customers, which we define as companies that have used our service within the past quarter. We sell our service to customers across a broad spectrum of industries, and have tailored our service for wholesalers/distributors, services companies and software companies. The primary target customers for our service are SMBs, which we define as companies with up to 1,000 employees. An increasing percentage of our customers and our revenue has been derived from larger businesses within this market. For the year ended December 31, 2006 and the three months ended March 31, 2007, we did not have any single customer that accounted for greater than 3% of our revenue.

We sell our suite pursuant to subscription agreements. The duration of these agreements has evolved over time. Prior to 2006, the majority of our revenue was derived from customers who had entered into multi-year agreements. Beginning in 2006, we decided to transition most of our customer agreements to one-year agreements. We rely on a large percentage of our customers to renew their agreements to drive our revenue growth. Our customers have no obligation to renew their subscriptions after the expiration of their subscription period. As of March 31, 2007, we had deferred revenue of \$71.6 million, which represents amounts that have been invoiced to customers and not yet recognized as revenue, not the entire value of the contract.

We expect our product development costs to continue to increase in absolute dollars as we intend to expand and enhance our application suite. Although we expect our cost of revenue and operating expenses to remain relatively stable as a percentage of revenue, we expect that they may vary period-to-period.

Our subscription agreements provide service level commitments of 99.5% uptime on a monthly basis, excluding scheduled maintenance. The failure to meet this level of service availability may require us to credit

Table of Contents

Index to Financial Statements

qualifying customers up to the value of an entire month of their subscription and support fees. 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.

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 local jurisdictions may seek to impose sales or other tax collection obligations on us, including for past sales by us or our resellers and other channel partners. We have accrued amounts for those states and local jurisdictions where our obligation to pay sales tax on past sales was deemed probable and estimable.

For the years ended December 31, 2004, 2005 and 2006 and the three months ended March 31, 2007, the percentage of our revenue generated outside of North America was 4%, 11%, 14% and 17%, respectively. As part of our overall growth, we expect the percentage of our revenue generated outside of North America to continue to increase as we invest in and enter new markets.

In March 2006, we formed a subsidiary, NetSuite Kabushiki Kaisha, or NetSuite KK, to exclusively market and sell our on-demand application suite in Japan. On March 8, 2006, we and NetSuite KK entered into a reseller agreement, a development fund agreement and an investment agreement with Transcosmos, Inc., or TCI. Under the terms of these agreements, TCI paid us \$16.5 million, including refundable prepaid royalties of \$1.5 million, to acquire distribution rights in Japan for three years, a 20% stake in NetSuite KK, and to fund non-recoverable expenses related to localization of our on-demand application service in Japan. On October 20, 2006, we and NetSuite KK entered into similar agreements with Miroku Jyoho Service Ltd., or MJS. Under the terms of these agreements, MJS paid us \$4.1 million, including refundable prepaid royalties of \$394,000, to acquire distribution rights in Japan for five years, a 5% equity stake in NetSuite KK, and to fund non-recoverable expenses related to localization of our on-demand application service in Japan. Assuming localization of the Japanese on-demand application suite is completed in the three months ended September 30, 2007, we expect to recognize \$0.5 million in revenue related to these agreements in the three months ending September 30, 2007. In the three months ended December 31, 2007 and for each of the quarters in 2008, we expect to recognize \$1.5 million in revenue related to these agreements. See Note 2 to our Consolidated Financial Statements for a further description of NetSuite KK.

For the three months ended June 30, 2007, we expect to incur non-cash expenses of approximately \$4.6 million in connection with the acceleration of vesting of certain options held by two of our named executive officers that were subject to variable accounting. Based upon this acceleration of vesting with respect to these options we will no longer incur stock-based compensation expense related to these options, which was \$1.2 million for the three months ended March 31, 2007. We will, however, continue to have stock-based compensation expense for all grants issued subsequent to January 1, 2006 under SFAS No. 123(R). During the remainder of 2007 and in 2008, we expect to incur additional expenses in connection with our international expansion, the localization of our service in new locations and the opening of a second data center facility.

Key Business Metrics

We use our own service to run our business and make extensive use of dashboards and key performance indicators to monitor our operations. Along with the traditional financial and operational metrics companies use to monitor their business, we also track the following:

New Customer Metrics. Our goal is to attract new customers and ensure they become active users of our application suite. We closely monitor the key metrics related to new customer acquisitions, including the number of new customers, average annual contract value of each new customer, average size by employee and business type. Recently, our new customers have been larger on average, both in terms of employee size and contract value, than our historical installed base.

Existing Customer Metrics. Our goal is to minimize our revenue churn and to sell additional subscriptions and services to our existing customers. We track the amount of revenue associated with non-renewing customers,

Table of Contents

Index to Financial Statements

which we refer to as revenue churn. In addition, we track the number of customers that did not renew. Historically, our smallest customers, those with less than 10 employees, have a lower renewal rate than the rest of our customer base, although these customers represent a small percentage of our revenue. Our existing customers typically purchase additional user subscriptions and modules, or upgrades from our entry-level versions of our suite. Customers who renew their subscriptions for our service do not typically purchase the same amount of professional services in subsequent subscription periods as in their initial subscription period. Revenue from renewing customers, however, has typically increased as they purchase additional subscriptions or modules. On an annual basis, these increases have more than offset the decrease in revenue resulting from these customers no longer having to purchase implementation services, as well as the revenue we lose due to other customers not renewing subscriptions.

NetSuite Platform Utilization: Our suite enables our active customers to extend their NetSuite account to their customers, vendors and partners in a variety of ways often at no additional charge. For example, via the NetSuite Customer Center, our customers can allow their customers to log into NetSuite to place orders. The NetSuite Partner Center allows our customers to extend NetSuite to their selling partners. With our website and webstore capabilities, companies that use NetSuite for e-commerce can offer their products and services to anyone who finds their website. Because of these capabilities, many more individuals log into NetSuite customer accounts than we charge to use the product, and we track this utilization to measure the use of NetSuite by our customers' value chain and the scalability of our system.

Other Metrics. Two of the key operational metrics that we monitor are service uptime and customer satisfaction. Service uptime is a measure of the percentage of time that our service is available to our customers, excluding scheduled maintenance periods. The principal measure of customer satisfaction we use is our customers' willingness to recommend our service to other companies based on ongoing customer surveys we conduct.

Key Components of Our Results of Operations

Revenue

We generate revenue from the sale of subscriptions and our services. In most instances, revenue is generated under sales agreements with multiple elements which are comprised of subscription fees from customers accessing our on-demand application service and professional services and customer support.

We have determined that we do not have objective and reliable evidence of fair value for each element of our sales agreements that contain a subscription to our on-demand application suite and customer support and professional services or both. As a result, the elements within our multiple-element sales agreements do not qualify for treatment as separate units of accounting. Accordingly, we account for fees received under multiple element arrangements as a single unit of accounting and recognize the entire arrangement ratably over the term of the related agreement, commencing upon the later of the agreement start date or when all revenue recognition criteria have been met.

We generally invoice our customers in advance in annual or quarterly installments, and typical payment terms provide that our clients pay us within 30 to 60 days of invoice. Amounts that have been invoiced where the customer has a legal obligation to pay are recorded in accounts receivable and deferred revenue. Prior to 2006, the majority of our revenue was derived from customers who had entered multi-year agreements. Beginning in 2006, we no longer provided incentives to our sales force to sign customers to multi-year agreements.

Table of Contents

Index to Financial Statements

Cost of Revenue

Cost of revenue primarily consists of costs related to hosting our on-demand application suite, providing customer support, data communications expenses, salaries and benefits of operations and support personnel, software license fees, costs associated with website development activities, allocated overhead, amortization expense associated with capitalized internal use software and related plant and equipment depreciation and amortization expenses. We allocate overhead such as rent, information technology costs and employee benefit costs to all departments based on headcount. As such, general overhead expenses are reflected in each cost of revenue and operating expense category. The cost associated with providing professional services is significantly higher as a percentage of revenue than the cost associated with delivering our on-demand subscription service due to the labor costs associated with providing professional services.

We expect cost of revenue to remain relatively stable as a percentage of revenue; however, it could fluctuate period-to-period depending on the growth of our professional services business and any associated increased costs relating to the delivery of professional services and the timing of significant expenditures. We expect to add a second data center in 2008, which will increase our cost of revenue. We may also incur additional expenses associated with the acquisition of additional database software licenses in 2008.

Operating Expenses

We classify our operating expenses as follows:

Product Development. Product development expenses primarily consist of personnel and related costs for our product development employees and executives, including salaries, employee benefits and allocated overhead. Our product development efforts have been devoted primarily to increasing the functionality and enhancing the ease-of-use of our on-demand application suite. A key component of our strategy is to expand our business internationally. This will require us to conform our application to comply with local regulations and languages, which will cause us to incur additional expenses related to translation and localization of our application for use in other countries. We expect product development expenses to increase in absolute terms as we extend our service offerings in other countries and develop new technologies, but such expenses may vary due to the timing of these offerings and technologies.

Sales and Marketing. Sales and marketing expenses primarily consist of personnel and related costs for our sales and marketing employees and executives, including wages, benefits, bonuses and commissions, commissions paid to our channel partners, the cost of marketing programs such as on-line lead generation, promotional events and webinars, and allocated overhead. We market and sell our suite worldwide through our direct sales organization and indirect distribution channels such as strategic resellers. We capitalize and amortize our direct and channel sales commissions over the period the related revenue is recognized. The commission expense for customer renewals is at lower rates than for sales to new customers. As such, we expect our commission expense to decline as a percentage of revenue going forward as a larger percentage of our recognized revenue is expected to result from customer renewals. We intend to continue to invest in sales and marketing to pursue new customers and expand relationships with existing customers. Our sales and marketing expenses have increased in absolute dollars although they have decreased as a percentage of total revenue over the past three years. We expect our sales and marketing expenses to continue to increase in absolute dollars for the foreseeable future.

General and Administrative. General and administrative expenses primarily consist of personnel and related costs for executive, finance, human resources and administrative personnel, professional fees and other corporate expenses and allocated overhead. We expect our general and administrative expenses to increase in absolute dollars as we expand our business and incur additional costs associated with being a public company, including higher legal, insurance and financial reporting expenses, and the additional costs to achieve and maintain compliance with Section 404 of the Sarbanes-Oxley Act. We will be required to comply with Section 404 for the year ended December 31, 2008.

Table of Contents

Index to Financial Statements

Income Taxes

Since inception, we have incurred annual operating losses and, accordingly, have not recorded a provision for income taxes for any of the periods presented other than provisions for minimum and foreign income taxes. As of December 31, 2006, we had net operating loss carryforwards for federal and state income tax purposes of approximately \$149.1 million and \$109.1 million, respectively. We also had federal and state research and development tax credit carryforwards of approximately \$3.6 million and \$2.6 million, respectively. Realization of deferred tax assets depends upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, we have offset all of our net deferred tax assets by a valuation allowance. If not utilized, our federal net operating loss and tax credit carryforwards will begin to expire in 2018, and our state net operating losses will begin to expire in 2008. Our state tax credit carryforwards will carry forward indefinitely if not utilized. While not currently subject to an annual limitation, the utilization of these carryforwards may become subject to an annual limitation because of provisions in the Internal Revenue Code of 1986, as amended, that are applicable if we experience an ownership change, which may occur, for example, as a result of this offering or other issuances of stock.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period-to-period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application, while in other cases, management's judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates. Our management has reviewed these critical accounting policies, our use of estimates and the related disclosures with our audit committee.

Revenue Recognition

We generate revenue from the sale of subscriptions and our services. In most instances, revenue is generated under sales agreements with multiple elements, which are comprised of subscription fees from customers accessing our on-demand application suite, professional services associated with consultation services and customer support. Our sales agreements have contract terms ranging from one to three years in length. Our services do not provide our customers the right to take possession of the software supporting the on-demand application service at any time.

We provide our software as a service, and follow the provisions of the SEC Staff Accounting Bulletin No. 104, Revenue Recognition, or SAB No. 104, and FASB Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, or EITF No. 00-21. We commence revenue recognition when all of the following conditions are met:

there is persuasive evidence of an arrangement;

the service is being provided to the customer;

Table of Contents

Index to Financial Statements

the collection of the fees is probable; and

the amount of fees to be paid by the customer is fixed or determinable.

In applying the provisions of EITF No. 00-21, we have determined that we do not have objective and reliable evidence of fair value for each element of our sales agreements that contain a subscription to our on-demand application suite and customer support, professional services or both. As a result, the elements within our multiple-element sales agreements do not qualify for treatment as separate units of accounting. Therefore, we account for fees received under our agreements that contain multiple elements as a single unit of accounting and recognize the entire arrangement ratably over the term of the related agreement, commencing upon the later of the agreement start date or when all revenue recognition criteria have been met. Amounts that have been invoiced are initially recorded in accounts receivable and deferred revenue.

Deferred revenue consists of billings or payments received in advance of revenue recognition and is recognized as the revenue recognition criteria are met. Amounts are recorded as deferred revenue and accounts receivable when we have a legal right to enforce the contract. We generally invoice our customers annually or in quarterly installments. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as non-current deferred revenue.

Internal Use Software and Website Development Costs

In accordance with EITF No. 00-2, Accounting for Web Site Development Costs, and EITF No. 00-3, Application of AICPA Statement of Position, or SOP, No. 97-2 to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware, we apply AICPA SOP No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Training costs are expensed as incurred. Internal use software is amortized on a straight-line basis over its estimated useful life, generally three years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments to internal use software during the years ended December 31, 2004, 2005 or 2006 or the three months ended March 31, 2007.

Deferred Commissions

We capitalize commission costs that are incremental and directly related to the acquisition of customer contracts. Commission costs are accrued upon receipt of payment by the customer on a contract and payments to sales personnel are made shortly after the receipt of the related customer payment. Deferred commissions are amortized over the term of the related non-cancelable customer contract and are recoverable through the related future revenue streams. We believe this is the preferable method of accounting as the commission costs are so closely related to the revenue from the customer contracts that they should be charged to expense over the same period that the related revenue is recognized.

Accounting for Stock-Based Compensation

Prior to January 1, 2006, we accounted for stock-based compensation for equity grants made to our officers, directors and employees under the provisions of Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, or APB No. 25, and elected to follow the disclosure-only alternative prescribed by SFAS No. 123,

Table of Contents

Index to Financial Statements

Accounting for Stock-Based Compensation, or SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Under APB No. 25, stock-based employee and director compensation arrangements were accounted for using the intrinsic-value method based on the difference, if any, between the estimated fair value of our common stock and the exercise price on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment, or SFAS No. 123R, using the prospective transition method, which requires us to apply the provisions of SFAS No. 123R only to new awards granted, and to awards modified, repurchased or cancelled, after the adoption date. Under this transition method, stock-based compensation expense recognized beginning January 1, 2006 is based on the grant date fair value of stock option awards granted or modified after January 1, 2006. Estimates are used in determining the fair value of such awards. Changes in these estimates could result in changes to our stock-based compensation expense. As a result of adopting SFAS No. 123R on January 1, 2006, our net loss for 2006 was \$120,000 higher than if we had continued to account for stock-based compensation under APB No. 25.

For all periods, we granted employees options to purchase shares of common stock at exercise prices equal to the fair value of the underlying common stock at the time of grant, as determined by our board of directors. To determine the fair value of our common stock, our board of directors considered many factors, including:

our current and historical operating performance;

our expected future operating performance;

our financial condition at the grant date;

the liquidation rights and other preferences of our preferred stock;

any recent privately negotiated sales of our securities to independent third parties;

our then-current book value per share;

input from management;

the lack of marketability of our common stock;

the potential future marketability of our common stock; and

the business risks inherent in our business and in high technology companies generally.

Between February and May 2007, there were third-party sales of our common stock at \$0.59 and \$0.62 per share. Shares were purchased by Meritech Capital Partners, a venture capital firm, and Craig Ramsey, investors with significant experience investing in late stage ventures or on-demand software companies. See the section titled Certain Relationships and Related Party Transactions Transactions with Executive Officers and Directors for a description of these third party sales.

Table of Contents**Index to Financial Statements**

In accordance with the AICPA Practice Aid Valuation of Privately Held Company Equity Securities Issued as Compensation, a third-party transaction between a willing buyer and a willing seller is the best indication of the fair value of an enterprise. As such, we have utilized these most recent third-party transactions in determining the fair value of options granted in periods subsequent to these sales. In addition, we reassessed for accounting purposes the fair value of option grants in 2006 and 2007 in light of these sales. As a result of this reassessment, we determined that the fair value for accounting purposes for these grants should be revised as follows:

Grant Date	Options Granted	Exercise Price Per Share and Original Fair Value	Reassessed Fair Value
April 28, 2006	757,768	\$ 0.30	\$ 0.32
July 26, 2006	1,009,000	0.35	0.39
November 21, 2006	3,238,857	0.35	0.45
January 2, 2007	4,929,237	0.35	0.55
April 11, 2007	1,177,000	0.62	0.62
June 27, 2007	25,815,750	0.62	0.62

Revised stock-based compensation expenses were calculated using the same assumptions for term, volatility, annual rate of dividends and discount rate as when originally calculated and these amounts have been recorded in our financial statements. As of March 31, 2007, we had \$2.6 million of unrecognized compensation costs, excluding estimated forfeitures, related to non-vested stock option awards granted after January 1, 2006, which are expected to be recognized over a weighted-average period of 2.3 years.

On June 20, 2007, our compensation committee accelerated the vesting of options to purchase 1,317,232 shares and 6,668,693 shares held by Messrs. Nelson and Goldberg, respectively. These shares represented all of the unvested shares remaining under the options granted to Messrs. Nelson and Goldberg on May 17, 2005. As a result of the acceleration of vesting of these options, there will be a one-time stock-based compensation charge of \$4.6 million in the three months ended June 30, 2007 and these options will no longer be subject to variable accounting or cause us to incur stock-based compensation expenses for these grants in future periods.

On June 27, 2007, we granted an aggregate of 25,815,750 options to our employees, of which 18,878,250 were fully vested upon grant. These option grants were the first option grants received by the majority of our employees since 2005. In connection with these grants, we expect to incur a stock-based compensation expense of \$6.7 million for the three months ended June 30, 2007.

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

The following tables set forth our results of operations for the specified periods and as a percentage of our revenue for those periods. The period-to-period comparison of financial results is not necessarily indicative of future results.

Condensed Consolidated Statements of Operations

	Year Ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
	(In thousands)				
Revenue	\$ 17,684	\$ 36,356	\$ 67,202	\$ 13,533	\$ 23,229
Cost of revenue ⁽¹⁾	8,191	15,607	22,993	4,829	6,901
Gross profit	9,493	20,749	44,209	8,704	16,328
Operating expenses:					
Product development ⁽¹⁾	8,016	13,119	14,426	3,301	4,243
Sales and marketing ⁽¹⁾	26,963	39,179	43,892	10,211	12,528
General and administrative ⁽¹⁾	3,068	5,901	8,580	1,647	3,250
Total operating expenses	38,047	58,199	66,898	15,159	20,021
Operating loss	(28,554)	(37,450)	(22,689)	(6,455)	(3,693)
Other income (expense), net, including the effect of minority interest and provision for income taxes	(1)	(769)	(730)	(324)	(22)
Net loss	\$ (28,555)	\$ (38,219)	\$ (23,419)	\$ (6,779)	\$ (3,715)

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

	Year Ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
	(In thousands)				
Cost of revenue	\$	\$	\$ 19	\$	\$ 95
Product development		2,485	2,621	495	1,123
Sales and marketing			75	11	43
General and administrative		539	290	42	139
Total stock-based compensation expense	\$	\$ 3,024	\$ 3,005	\$ 548	\$ 1,400

	Year Ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
Revenue ⁽¹⁾	100%	100%	100%	100%	100%
Cost of revenue	46	43	34	36	30
Gross profit	54	57	66	64	70

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Operating expenses:					
Product development	45	36	21	24	18
Sales and marketing	152	108	65	75	54
General and administrative	17	16	13	12	14
Total operating expenses	215	160	100	112	86
Operating loss	(161)	(103)	(34)	(48)	(16)
Other income (expense), net, including the effect of minority interest and provision for income taxes					
		(2)	(1)	(2)	
Net loss	(161)%	(105)%	(35)%	(50)%	(16)%

(1) Due to rounding to the nearest percent, totals may not equal the sum of the line items in the table above.

Table of Contents**Index to Financial Statements***Three Months Ended March 31, 2006 and 2007**Revenue*

	Three Months Ended March 31,	
	2006	2007
	(In thousands)	
Revenue	\$ 13,533	\$ 23,229

Revenue was \$23.2 million for the three months ended March 31, 2007, compared to \$13.5 million for the same period a year ago, an increase of \$9.7 million or 72%. The increase in revenue was the result of adding new customers, an increase in average transaction size, and additional sales, or upselling, to existing customers, offset by non-renewal of existing customers.

Cost of revenue and gross profit

	Three Months Ended March 31,	
	2006	2007
	(\$ in thousands)	
Revenue	\$ 13,533	\$ 23,229
Cost of revenue	4,829	6,901
Gross profit	8,704	16,328

Gross margin	64%	70%
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Cost of revenue was \$6.9 million, or 30% of revenue, for the three months ended March 31, 2007, compared to \$4.8 million, or 36% of revenue, for the same period a year ago, an increase of \$2.1 million or 43%. The increase in cost of revenue was due primarily to a \$1.0 million increase in personnel costs associated with increasing our professional services and customer support capacity, a \$480,000 increase in external costs associated with delivering professional services, and a \$279,000 increase in data center expenses resulting from adding capacity.

Our gross margin was 70% for the three months ended March 31, 2007 and was impacted by revenue increasing faster than cost of revenue, offset by approximately 1% for the expenses associated with the build-out of our new support facility in Manila, the Philippines.

Product development

	Three Months Ended March 31,	
	2006	2007
	(\$ in thousands)	
Product development	\$ 3,301	\$ 4,243
% of Revenue	24%	18%

Product development expenses were \$4.2 million for the three months ended March 31, 2007, compared to \$3.3 million for the same period a year ago, an increase of \$0.9 million or 29%. The increase was due to a \$0.6 million increase in personnel costs, a \$108,000 increase in outside consulting expenses relating to the localization and translation of our application for international markets, particularly in Japan, and a \$42,000 increase in expenses relating to our outsourced quality assurance organization. The increase in personnel related costs was primarily a result of an increase in stock-based compensation expense of \$0.6 million.

Table of Contents**Index to Financial Statements***Sales and marketing*

	Three Months Ended March 31,	
	2006	2007
	(\$ in thousands)	
Sales and marketing	\$ 10,211	\$ 12,528
% of Revenue	75%	54%

Sales and marketing expense was \$12.5 million for the three months ended March 31, 2007, compared to \$10.2 million for the same period a year ago, an increase of \$2.3 million or 23%. The increase was due primarily to a \$2.3 million increase in personnel costs and a \$92,000 increase in marketing program spending, offset by a \$179,000 decrease in outside services. Of the \$2.3 million increase in personnel costs, \$2.1 million relates to an increase in the amortization of deferred commissions expense.

General and administrative

	Three Months Ended March 31,	
	2006	2007
	(\$ in thousands)	
General and administrative	\$ 1,647	\$ 3,250
% of Revenue	12%	14%

General and administrative expenses were \$3.3 million for the three months ended March 31, 2007, compared to \$1.6 million for the same period a year ago, an increase of \$1.6 million or 97%. The increase was due primarily to a \$0.7 million increase in outside services, including \$0.5 million in expenses relating to the transition to a different accounting firm, and to a \$0.7 million increase in personnel costs. The increases in general and administrative expenses were primarily due to the incremental expense of preparing to operate as a publicly-traded company.

Operating loss

	Three Months Ended March 31,	
	2006	2007
	(\$ in thousands)	
Operating loss	\$ (6,455)	\$ (3,693)
% of Revenue	(48)%	(16)%

Our operating loss was \$3.7 million for the three months ended March 31, 2007 compared to \$6.5 million for the same period a year ago, a decrease of \$2.8 million or 43%.

Table of Contents**Index to Financial Statements**

Other income (expense), net, including the effect of minority interest and income taxes

	Three Months Ended March 31,	
	2006	2007
	(\$ in thousands)	
Interest income	\$ 46	\$ 75
Interest expense	(256)	(181)
Minority interest		125
Income taxes	(136)	(149)
Other income (expense), net	22	108
Other income (expense), net, including the effect of minority interest and income taxes	(324)	(22)

% of Revenue	(2)%	%
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Other income (expense), net, including the effect of minority interest and income taxes was an expense of \$22,000 for the three months ended March 31, 2007 compared to an expense of \$324,000 for the same period a year ago. The net expense decreased as a result of income from a minority interest in NetSuite KK of \$125,000, other income of \$61,000 from a payment resulting from the termination of a sublease.

Years Ended December 31, 2004, 2005 and 2006***Revenue***

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
Revenue	\$ 17,684	\$ 36,356	\$ 67,202

2005 compared to 2006. Revenue for the year ended December 31, 2006 was \$67.2 million compared to \$36.4 million for the year ended December 31, 2005, an increase of \$30.8 million or 85%. The increase was primarily the result of an increase in the number of companies subscribing to our service, and increased average revenue from both new and existing customers. The average revenue per existing customer increased due to price increases and our efforts to upsell additional user subscriptions and applications to our existing customers. New sales to existing customers more than offset the lost revenue from customer churn and the loss of professional services revenue.

2004 compared to 2005. Revenue for the year ended December 31, 2005 was \$36.4 million compared to \$17.7 million for the year ended December 31, 2004, an increase of \$18.7 million or 106%. The increase was primarily the result of an increase in the number of companies subscribing to our service, and increased average revenue from both new and existing customers. The average revenue per existing customer increased due to price increases and our efforts to upsell additional user subscriptions and applications to our existing customers. New sales to existing customers more than offset the lost revenue from customer churn and the loss of professional services revenue.

Table of Contents**Index to Financial Statements***Cost of revenue and gross profit*

	Year Ended December 31,		
	2004	2005	2006
	(\$ in thousands)		
Revenue	\$ 17,684	\$ 36,356	\$ 67,202
Cost of revenue	8,191	15,607	22,993
Gross profit	9,493	20,749	44,209
Gross margin	54%	57%	66%

2005 compared to 2006. Cost of revenue for the year ended December 31, 2006 was \$23.0 million compared to \$15.6 million for the year ended December 31, 2005, an increase of \$7.4 million, or 47%. The increase in cost of revenue was primarily the result of a \$3.2 million increase in personnel costs, a \$2.3 million increase in externally sourced professional services, a \$0.5 million increase in capacity at our outsourced customer support center and a \$0.9 million increase in our infrastructure costs relating to data center expansion. The increase in both internal and external professional services resources was a result of growing capacity to meet the growth of new customers and by an increase in the number of customers with more complex implementation requirements.

2004 compared to 2005. Cost of revenue for the year ended December 31, 2005 was \$15.6 million compared to \$8.2 million for the year ended December 31, 2004, an increase of \$7.4 million, or 91%. The increase was primarily the result of a \$0.8 million increase in data center capacity, a \$4.4 million increase in personnel expenses and a \$0.9 million increase in externally sourced professional services resources. The increase in personnel expenses was primarily due to an increase in professional service capacity to better serve the needs of our growing customer base.

Product development

	Year Ended December 31,		
	2004	2005	2006
	(\$ in thousands)		
Product development	\$ 8,016	\$ 13,119	\$ 14,426
% of Revenue	45%	36%	21%

2005 compared to 2006. Product development expenses for the year ended December 31, 2006 were \$14.4 million compared to \$13.1 million for the year ended December 31, 2005, an increase of \$1.3 million, or 10%. The increase in product development expenses was primarily the result of a \$1.2 million increase in personnel expenses and a \$285,000 increase in outsourced quality assurance costs, offset by a \$264,000 increase in the capitalization of software development costs. The overall increase in expenses was a result of the development of enhanced application functionality and features, as well as offering our application in additional international locations. Of the \$1.2 million increase in personnel expenses, \$1.0 million related to additional payroll and related costs and \$136,000 related to the increase in stock-based compensation expense.

2004 compared to 2005. Product development expenses for the year ended December 31, 2005 were \$13.1 million compared to \$8.0 million for the year ended December 31, 2004, an increase of \$5.1 million, or 64%. The increase in product development expenses was primarily the result of a \$4.5 million increase in personnel expenses, of which \$2.5 million was stock-based compensation expense and a \$157,000 increase in outside services.

Table of Contents**Index to Financial Statements***Sales and marketing*

	Year Ended December 31,		
	2004	2005	2006
	(\$ in thousands)		
Sales and marketing	\$ 26,963	\$ 39,179	\$ 43,892
% of Revenue	152%	108%	65%

2005 compared to 2006. Sales and marketing expenses for the year ended December 31, 2006 were \$43.9 million compared to \$39.2 million for the year ended December 31, 2005, an increase of \$4.7 million, or 12%. The increase in sales and marketing expenses was primarily the result of an increase of \$4.3 million in commission expense, and a \$451,000 increase in marketing expense. The increase in commission expense is related to the increase in sales by our direct sales force.

2004 compared to 2005. Sales and marketing expenses for the year ended December 31, 2005 were \$39.2 million compared to \$27.0 million for the year ended December 31, 2004, an increase of \$12.2 million, or 45%. The increase in sales and marketing expenses was primarily the result of a \$4.0 million increase in commission expense, a \$2.1 million increase in allocated and departmental overhead due to increased hiring of sales personnel in 2005 and a \$6.3 million increase in personnel expenses due to increased hiring and the expansion of international sales offices.

General and administrative

	Year Ended December 31,		
	2004	2005	2006
	(\$ in thousands)		
General and administrative	\$ 3,068	\$ 5,901	\$ 8,580
% of Revenue	17%	16%	13%

2005 compared to 2006. General and administrative expenses for the year ended December 31, 2006 were \$8.6 million compared to \$5.9 million for the year ended December 31, 2005, an increase of \$2.7 million, or 45%. The increase in general and administrative expenses was the result of a \$0.7 million increase in legal fees, a \$332,000 increase in sales tax and a \$1.1 million increase related to increased headcount and outside professional services expense in general and administrative areas. The increases in general and administrative expenses are primarily due to the incremental costs of preparing to be a publicly-traded company.

2004 compared to 2005. General and administrative expenses for the year ended December 31, 2005 were \$5.9 million compared to \$3.1 million for the year ended December 31, 2004, an increase of \$2.8 million, or 92%. The increase in general and administrative expenses was due primarily to a \$1.8 million increase in personnel costs, a \$301,000 increase for sales tax and a \$0.6 million increase for outside professional services expense in the general and administrative areas.

Operating loss

	Year Ended December 31,		
	2004	2005	2006
	(\$ in thousands)		
Operating loss	\$ (28,554)	\$ (37,450)	\$ (22,689)
% of Revenue	(161)%	(103)%	(34)%

2005 compared to 2006. Operating losses for the year ended December 31, 2006 were \$22.7 million compared to \$37.5 million for the year ended December 31, 2005.

Table of Contents**Index to Financial Statements**

2004 compared to 2005. Operating losses for the year ended December 31, 2005 were \$37.5 million compared to \$28.6 million for the year ended December 31, 2004.

Other income (expense), net, including the effect of minority interest and income taxes

	Year Ended December 31,		
	2004	2005	2006
	(\$ in thousands)		
Interest income	\$ 42	\$ 123	\$ 203
Interest expense	(23)	(194)	(657)
Minority interest			240
Income taxes	(84)	(399)	(643)
Other income (expense), net	64	(299)	127
Other income (expense), net, including the effect of minority interest and income taxes	(1)	(769)	(730)
% of Revenue	%	(2)%	(1)%

2005 compared to 2006. Other income (expense), net, including the effect of minority interest and income taxes for the year ended December 31, 2006 was an expense of \$0.7 million compared to an expense of \$0.8 million for the year ended December 31, 2005. The change in expense was primarily the result of increased interest expense of \$463,000 due to an increase in borrowing against the related party line of credit and an increase in foreign income tax of \$244,000, offset by a foreign exchange loss of \$430,000 and income from a minority interest in NetSuite KK of \$240,000.

2004 compared to 2005. Other income (expense), net, including the effect of minority interest and income taxes for the year ended December 31, 2005 was an expense of \$0.8 million compared to an expense of \$1,000 for the year ended December 31, 2004. The increase in expense was primarily the result of increased foreign income taxes of \$315,000, increased interest expense of \$172,000 related to a higher average balance on our line of credit, and increased exchange rate expense of \$343,000.

Table of Contents**Index to Financial Statements****Quarterly Results of Operations**

The following tables set forth our unaudited quarterly condensed consolidated statements of operations data for each of the five quarters ended March 31, 2007 in the aggregate and as a percentage of revenue. The data has been prepared on the same basis as the audited consolidated financial statements and related notes included in this prospectus and you should read the following tables in conjunction with such financial statements. The table includes all necessary adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of this data. The results of historical periods are not necessarily indicative of future results.

	Three Months Ended				
	March 31, 2006	June 30, 2006	September 30, 2006 (In thousands)	December 31, 2006	March 31, 2007
Condensed Consolidated Statements of Operations Data:					
Revenue	\$ 13,533	\$ 15,530	\$ 17,950	\$ 20,189	\$ 23,229
Cost of revenue	4,829	5,450	6,180	6,535	6,901
Gross profit	8,704	10,080	11,770	13,654	16,328
Operating expenses:					
Product development	3,301	3,647	3,681	3,798	4,243
Sales and marketing	10,211	10,665	10,809	12,207	12,528
General and administrative	1,647	2,084	2,391	2,457	3,250
Total operating expenses	15,159	16,396	16,881	18,462	20,021
Operating loss	(6,455)	(6,316)	(5,111)	(4,808)	(3,693)
Other income (expense), net, including the effect of minority interest and provision for income taxes					
	(324)	(234)	(165)	(7)	(22)
Net loss	\$ (6,779)	\$ (6,550)	\$ (5,276)	\$ (4,815)	\$ (3,715)

	Three Months Ended				
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
Revenue ⁽¹⁾	100%	100%	100%	100%	100%
Cost of revenue	36	35	34	32	30
Gross profit	64	65	66	68	70
Operating expenses:					
Product development	24	23	21	19	18
Sales and marketing	75	69	60	60	54
General and administrative	12	13	13	12	14
Total operating expenses	112	106	94	91	86

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Operating loss	(48)	(41)	(28)	(24)	(16)
Other income (expense), net, including the effect of minority interest and income taxes	(2)	(2)	(1)		
Net loss	(50)%	(42)%	(29)%	(24)%	(16)%

(1) Due to rounding to the nearest percent, totals may not equal the sum of the line items in the table above. Our revenue increased in each of the quarters presented above as a result of adding new customers, as well as an increase in overall transaction size and upselling to existing customers. To date, we have not experienced any significant impact on our results of operations due to seasonality.

Table of Contents**Index to Financial Statements**

Cost of revenue increased in absolute dollars over the five quarters presented to support the increase in revenue. While cost of revenue increased in absolute dollars, gross margin also increased during the same period as we realized improved economies of scale in our professional services, operations and customer support organizations. Excluding the impact of stock-based compensation charges, we expect our gross margin to remain relatively consistent with our results for the three months ended March 31, 2007 for the foreseeable future.

Total operating expenses increased in absolute dollars over the five quarters presented but decreased as a percentage of revenue principally reflecting improved productivity in our sales organization. General and administrative expenses increased in absolute dollars and as a percentage of revenue during the three months ended March 31, 2007 due principally to increased costs incurred in transitioning to a publicly-traded company.

Liquidity and Capital Resources

To date, we have financed our operations primarily through private placements of preferred equity securities and common stock as described below and a line of credit from our controlling stockholder. As of December 31, 2006 and March 31, 2007, we had \$9.9 million and \$11.0 million of cash and cash equivalents, respectively, and \$20.5 million and \$14.0 million of working capital, excluding deferred revenue, respectively. Restricted cash consisting of letters of credit for our facility lease agreements is included in long-term other assets, and was \$263,000 at December 31, 2006 and March 31, 2007. As of March 31, 2007, we had an accumulated deficit of \$193.0 million. We have funded this deficit primarily through \$125.7 million in net proceeds raised from the sale of our capital stock and from debt financing activities.

In February 2007, we renewed a \$20.0 million secured line of credit with Tako Ventures, an entity controlled by Lawrence J. Ellison, our majority stockholder. Borrowings accrue interest at a rate per annum equal to the prime rate plus 1%, and interest is payable on a monthly basis. The line of credit is collateralized by substantially all of our assets. All amounts outstanding are due and payable on February 28, 2008. The outstanding borrowings as of March 31, 2007 were \$7.5 million. The weighted-average cost of borrowing for 2006 was 8.7%. We expect to be able to renew the terms of the note upon its maturity on February 28, 2008.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
	(In thousands)				
Net cash provided by (used in) operating activities	\$ (14,346)	\$ (21,100)	\$ 2,768	\$ (2,147)	\$ (501)
Net cash used in investing activities	(2,202)	(3,201)	(2,350)	(509)	(1,404)
Net cash provided by financing activities	19,981	22,426	7,888	5,142	2,905
<i>Net cash provided by (used in) operating activities</i>					

Net cash provided by (used in) operating activities was \$(14.3) million, \$(21.1) million, \$2.8 million, \$(2.1) million and \$(0.5) million for the years ended December 31, 2004, 2005 and 2006 and the three months ended March 31, 2006 and 2007, respectively. Cash provided by, or used in, operating activities is driven by sales of our service. The timing of our billings and collections relating to the sales of our on-demand application suite is a significant component of our cash flows from operations, as is the level of the deferred revenue on these sales. Cash flows provided by operations in 2006 were positively impacted by the non-recurring receipt of \$10.7 million related to the proceeds received for distribution rights, recorded in deferred revenue, by NetSuite KK.

Net cash used in investing activities

Net cash used in investing activities was \$(2.2) million, \$(3.2) million, \$(2.4) million, \$(0.5) million and \$(1.4) million for the years ended December 31, 2004, 2005 and 2006 and the three months ended March 31, 2006, and 2007, respectively.

Table of Contents**Index to Financial Statements**

Cash used in investing activities is primarily related to capital expenditures consisting of the purchase of software licenses, computer equipment, leasehold improvements and furniture and fixtures as we have expanded our infrastructure and work force.

Net cash provided by financing activities

Net cash provided by financing activities was \$20.0 million, \$22.4 million, \$7.9 million, \$5.1 million and \$2.9 million for the years ended December 31, 2004, 2005 and 2006 and the three months ended March 31, 2006 and 2007, respectively. The net cash provided by financing activities in the three months ended March 31, 2007 was primarily related to repayment of notes held by us for loans to certain employees. The net cash provided by financing activities in 2006 was primarily related to \$6.7 million of proceeds related to the sale of stock in NetSuite KK, \$1.9 million of refundable prepaid royalties related to NetSuite KK and proceeds from the issuance of common stock to employees. The net cash provided by financing activities in 2005 was primarily related to our receipt of \$15.0 million in net proceeds from the issuance of preferred stock, our utilization of \$7.3 million from our line of credit, and proceeds from the issuance of common stock to employees. The net cash provided by financing activities in 2004 was primarily related to our receipt of \$19.9 million in net proceeds from the issuance of preferred stock.

Capital Resources

Our estimated capital expenditures for the 12 months following March 31, 2007 are approximately \$4.4 million. We believe that our existing sources of liquidity will be sufficient to fund our operations for at least the next 12 months. However, given our history of losses, we may be required to raise additional equity or debt financing if we are not able to achieve and sustain positive cash flow from operations. Additionally, our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing and extent of spending to support product development efforts and expansion into new territories, the timing of introductions of new features and enhancements to existing features, and the continuing market acceptance of our service. To the extent that existing cash and cash equivalents, availability under the credit facility and cash from operations are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Although we are currently not a party to any agreement or letter of intent regarding potential investments in, or acquisitions of, complementary businesses, applications or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

During the remainder of 2007 and in 2008, we expect to incur additional expenses in connection with our international expansion, the localization of our service in new locations and the opening of a second data center facility.

Contractual Obligations and Commitments

We generally do not enter into long-term minimum purchase commitments. Our principal commitments, in addition to those related to our line of credit discussed above, consist of obligations under capital leases for equipment and furniture, operating leases for computer equipment and office space and to a lesser extent for third-party facilities that host our on-demand software. The following table summarizes our commitments to settle contractual obligations in cash under capital and operating leases and other purchase obligations, as of December 31, 2006, for the next five years and thereafter:

	Total	Less than 1 year	1-3 years (In thousands)	3-5 years	More than 5 years
Line of credit from a related party	\$ 7,013	\$ 7,013	\$	\$	\$
Capital lease obligations	294	156	138		
Operating lease obligations	12,913	3,119	5,485	3,204	1,105

Table of Contents

Index to Financial Statements

Warranties and Indemnifications

Our application suite is typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and materially in accordance with our online help documentation under normal use and circumstances.

Our customer agreements provide service level commitments to our customers on a monthly basis that warrant certain levels of uptime and performance. If we are unable to meet these stated service level commitments, we will be contractually obligated to credit these customers for the value of future services. To date, we have not incurred any significant costs as a result of such commitments and we have, therefore, not accrued any liabilities related to such commitments in our consolidated financial statements.

We have also agreed to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by us, arising out of that person's services as our director or officer or that person's services provided to any other company or enterprise at our request. We maintain director and officer insurance coverage that may enable us to recover a portion of any future amounts paid.

Off-Balance Sheet Arrangements

During the years ended December 31, 2004, 2005 and 2006 and the three months ended March 31, 2007, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes, or FIN No. 48, which clarifies the accounting for uncertainty in income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting for interim periods and disclosures for uncertain tax positions. FIN No. 48 is effective for fiscal years beginning after December 5, 2006. We adopted FIN No. 48 on January 1, 2007. The impact of FIN No. 48, did not have a material effect on the our consolidated financial position, results of operations, or cash flows.

As of January 1, 2007, we had \$1.7 million of federal and state unrecognized tax benefits, which were fully offset by our valuation allowance for deferred tax assets. Upon adoption of FIN No. 48, we adopted an accounting policy to classify interest and penalties on unrecognized tax benefits as income tax expense. For the years prior to adoption of FIN No. 48, we did not have material interest or penalties on unrecognized tax benefits and therefore, had no established accounting policy. As of January 1, 2007, we had no material interest or penalties accrued on unrecognized tax benefits. We file income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. We are subject to U.S. federal and state income tax examinations by tax authorities for all periods since inception due to net operating losses. As of March 31, 2007, we did not have any material changes to unrecognized tax benefits nor do we expect any material changes related to unrecognized tax benefits within the next 12 months.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effect, if any, the adoption of SFAS No. 157 will have on our consolidated financial statements.

Table of Contents**Index to Financial Statements**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an Amendment of FASB Statement No. 115, which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to measure at fair value will be recognized in earnings. SFAS No. 159 also establishes additional disclosure requirements. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts SFAS No. 157. We are currently evaluating the effect, if any, the adoption of SFAS No. 159 will have on our consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risk*Interest Rate Sensitivity*

We had cash and cash equivalents of \$1.7 million at December 31, 2005, \$9.9 million at December 31, 2006 and \$11.0 million at March 31, 2007. These amounts were held primarily in cash or money market funds. Cash and cash equivalents are held for working capital purposes, and restricted cash amounts are held as security against various lease obligations. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates fell by 10% in 2006, our interest income would not have been materially affected.

At December 31, 2005, December 31, 2006 and March 31, 2007, we had \$7.3 million, \$7.0 million and \$7.5 million, respectively, of debt outstanding. The interest rate on our line of credit is variable and adjusts periodically based on the prime rate. If overall interest rates increased by 10% in 2006, our interest expense would have increased approximately \$54,000.

Foreign Currency Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British Pound Sterling, Canadian dollar, Japanese yen, Singapore dollar, Philippine peso and Australian dollar. Our revenue is generally denominated in the local currency of the contracting party. The majority of our revenue is denominated in U.S. dollars. Our expenses are generally denominated in the currencies in which our operations are located. Our expenses are incurred primarily in the United States, Canada and the UK, with a small portion of expenses incurred where our other international sales and operations offices are located. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. We do not currently enter into forward exchange contracts to hedge exposure denominated in foreign currencies or any derivative financial instruments for trading or speculative purposes. Fluctuations in currency exchange rates could harm our business in the future. The effect of an immediate 10% adverse change in exchange rates on foreign denominated receivables as of December 31, 2006 would result in a loss of approximately \$321,000. To date, we have not entered into any hedging contracts although we may do so in the future.

Fair Value of Financial Instruments

We do not have material exposure to market risk with respect to investments, as our investments consist primarily of highly liquid investments purchased with a remaining maturity of three months or less. We do not use derivative financial instruments for speculative or trading purposes, however, this does not preclude our adoption of specific hedging strategies in the future.

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

NetSuite is the 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 three months ended March 31, 2007, we had revenue of \$23.2 million and over 5,300 active customers.

Industry Background

The 1990s saw the widespread adoption among large enterprises of packaged business management applications that automated a variety of departmental functions, such as accounting, finance, order and inventory management, human resources, sales and customer support. These sophisticated applications required significant cash outlays for the initial purchase and for ongoing maintenance and support. In addition, these applications were internally managed and maintained by enterprise customers, requiring increasingly large staffs to support complex information technology infrastructures. Most importantly, the applications generally were provided by multiple vendors, with each application providing only a departmental view of the enterprise. To gain an enterprise-wide view, organizations attempted to tie together their various incompatible packaged applications through long, complex and costly integration efforts. Many of these attempts failed, in whole or in part, often after significant delay and expense. As a consequence, many large enterprises have transitioned from multiple point products to comprehensive, integrated business management suites, such as those offered by Oracle and SAP, as their core business management platforms.

SMBs, which we define as businesses with up to 1,000 employees, have application software requirements that are similar, in many respects, to large enterprises because their core business processes are substantially the same. These requirements include the integration of back-office activities, such as managing payroll and tracking inventory; front-office activities, including order management and customer support; and, increasingly, sophisticated e-commerce capabilities. According to Gartner, Inc., companies in North America spent approximately \$12.7 billion on ERP, CRM and supply chain management software applications in 2006, of which SMBs accounted for \$4.0 billion, or 31%. Gartner projects that SMB spending on these applications will grow 11.3% annually from 2005 to 2010, compared to 5.8% for large enterprises.

SMBs 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 these core business processes, however, generally are not well suited to SMBs due to the complexity and cost 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. On-demand applications are generally licensed for a monthly, quarterly or annual subscription fee, as opposed to on-premise enterprise applications that typically require the payment of a much larger, upfront license fee. As a result, on-demand applications require

Table of Contents

Index to Financial Statements

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 on-demand software 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 adopted by a wide variety of businesses. IDC estimates worldwide on-demand enterprise software vendor revenues were approximately \$4.0 billion in 2006 and that they will grow 30% annually through 2011 to \$14.5 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. 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. Until NetSuite, we believe there was no provider of an on-demand, integrated suite of business management applications that addresses the needs of SMBs in the comprehensive manner that Oracle and SAP address the similar needs of large enterprises.

The NetSuite 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 via the Internet, it is available wherever a user has Internet access, whether on a personal computer or a mobile device. 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 functionality required to automate the core operations of an SMB, as well as divisions of large companies. This unified approach to managing a business enables 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. Our suite is designed to be easy to use, while also providing in-depth functionality to meet the needs of our most sophisticated customers. Our customers can use our application suite to manage mission-critical business processes, including complex ERP (finance, accounting, inventory and payroll), CRM (sales, order management, marketing and customer support) and e-commerce (hosting, online stores and website analytics) functions. We also have tailored our offering to the specific needs of customers in the wholesale/distribution, services and software industries, to better serve those customers' distinct business requirements and accelerate the implementation of our offerings for customers in those industries.

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. For example, the dashboard for a salesperson would deliver functionality for managing contacts, leads and forecasts, while the dashboard for a warehouse manager would deliver capabilities appropriate for managing shipping, receiving and returns. These dashboards also incorporate sophisticated business intelligence tools that enable users to track key performance indicators, analyze operational data to identify trends, issues and opportunities and make decisions that can improve the performance of their business, all in real time.

On-Demand Delivery Model. We deliver our suite over the Internet as a subscription service using the SaaS model, 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

Table of Contents

Index to Financial Statements

available to large enterprises with substantial information technology resources. Our architecture enables us to maintain very high levels of availability, scale easily as our customers grow and provide a safe and secure environment for their business-critical data and applications.

Low Total Cost of Ownership. Our suite incorporates the functionality of multiple applications, thereby eliminating the costs associated with attempting to integrate disparate applications, whether managed on-premise or delivered on-demand. Our on-demand delivery model and our application's ease of use and configurability significantly reduce implementation costs for hardware, software and services and the need for dedicated information technology personnel. A 2005 Yankee Group study found that the cost of implementation, customization and integration of NetSuite and the required investment in host servers was over 50% lower than for a comparable on-premise solution. Customers subscribe to our application suite for a quarterly or annual fee based on the number of users and the solutions they elect to deploy. Our subscription fees are significantly less than typical upfront costs to purchase perpetual licenses and our on-demand delivery system eliminates ongoing maintenance and upgrade charges.

Rapid Implementation. Because we offer a comprehensive application suite that incorporates the functionality of multiple applications, we significantly reduce the time and risk associated with implementing and integrating multiple point products. Our on-demand delivery model enables remote implementations and eliminates many of the steps associated with on-premise installations, such as purchasing and setting up hardware. In addition to our industry-specific offerings, our professional services organization is organized along customers' industries; therefore, knowledge gained through an implementation with one customer may be applied to other customers within that industry, speeding implementations. Customers can implement our offerings themselves, engage our professional services organization or utilize the services of our partners.

Ease of Customization and Configuration. We enable users to customize our application suite to the particular needs of their businesses. Our application suite can be configured by end users without software programming expertise. In contrast to traditional on-premise applications, as new versions of our application suite become available, each customer's customizations and configurations are maintained with no additional effort or expense required.

Our Business Strategy

Our goal is to enhance our position as the 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. We believe we were the first software vendor to integrate front-office, back-office and e-commerce management capabilities into a single on-demand software suite. We intend to build on our leadership position in the on-demand applications market by continuing to provide high quality offerings that encompass the enterprise-class functionality and ease-of-use our customers require. We also intend to leverage our position as our customers' primary business management platform to add new and enhanced functionality that will help them run their businesses more efficiently and expand our presence within their organizations.

Tailoring Our Offering to Customers' Specific Industries. While we provide a general purpose suite applicable to all businesses, we believe that tailoring our application to customers' specific industries has been and will continue to be important to our growth. We currently offer industry-specific editions of our service for wholesale/distribution, services and software companies. We will continue to enhance the capabilities of our application by further tailoring the functionality for these and other industries.

Table of Contents

Index to Financial Statements

Growing Our Customer Base and Expanding Use of Our Service Within Existing Accounts. We intend to broaden our offerings and expand our direct and indirect sales efforts to grow our customer base. In addition, we seek to increase ongoing subscription revenue from our existing customers by broadening their use of our suite, thereby increasing the number of users and modules deployed.

Fostering the Continued Development of the NetSuite Partner Network. We provide tools and programs to foster the development of a network of value-added resellers, or VARs, systems integrators and independent software vendors. In addition to programs that enable our partners to resell our suite, our SuiteFlex application development environment allows these partners to extend our platform by developing products of their own, including industry-specific versions of our application suite. We intend to continue to enhance the SuiteFlex platform and establish distribution models to bring these new solutions to market.

Addressing the Multinational Business Requirements of SMBs. SMBs are increasingly seeking global business opportunities, in large part by leveraging the Internet. We believe that there is significant opportunity to address the needs of SMBs with multinational business operations, and we currently offer a localized version of our suite in a number of countries and languages. We will continue to extend our application offerings to support the requirements of multinational SMBs.

NetSuite s Offerings

Our main offering is NetSuite, which is designed to provide the core business management capabilities that most of our customers require. NetSuite, NetSuite CRM+ and NetSuite Small Business are designed for use by most types of businesses. In addition, we offer industry-specific configurations for use by wholesale/distribution, services and software companies. Finally, we sell additional on-demand application modules that customers can purchase to obtain additional functionality required for their specific business needs.

The following diagram provides an overview of our application suite s core functionality:

Table of Contents

Index to Financial Statements

NetSuite. NetSuite is targeted at SMBs and divisions of large companies, and provides a single platform for ERP, CRM and e-commerce capabilities. It contains a broad array of features that enable users to do their individual jobs more effectively. In addition, because all users are transacting business on the same database system, NetSuite easily automates processes across departments. For example, when a sales representative enters an order, upon approval it automatically appears on the warehouse manager's dashboard as an item to be shipped and, once the item has been shipped, it automatically appears on the finance manager's dashboard as an item to be billed. Each customer can automate their key business functions across all departments, including sales, marketing, service, finance, inventory, order fulfillment, purchasing and employee management. As with all of our offerings, users access the application and data through a role-based user interface, or dashboard, tailored to deliver specific functionality and information appropriate for their position.

NetSuite CRM+. NetSuite CRM+ is targeted at a wide range of companies, including companies larger than our traditional SMB customers. SMB customers may use NetSuite CRM+ as an entry point into the entire suite, while larger enterprises often implement it as an alternative to more limited CRM offerings. This application provides traditional sales force automation, marketing automation, customer support and service management functionality. NetSuite CRM+ contrasts with competitive CRM products by also incorporating, without requiring additional integration, order management and many other ERP and e-commerce capabilities. This provides users with a more comprehensive, real-time view of customer interactions than can be provided by traditional, stand-alone CRM products, whether on-premise or on-demand. NetSuite CRM+ also offers incentive management, project tracking, website hosting and analytics and partner relationship management.

NetSuite Small Business. NetSuite Small Business is targeted primarily at small businesses that require fewer features than our NetSuite application. It includes basic ERP, CRM and e-commerce functionality, as well as customizable, real-time dashboards.

Add-On Modules. We also offer advanced capabilities that are part of our integrated suite, but are typically sold separately. These modules allow our customers to specifically augment aspects of our suite to enhance its relevance to their businesses.

Table of Contents

Index to Financial Statements

Summary of NetSuite Application Functionality

ERP	CRM	E-commerce
Financial Management	Sales Force Automation	Web Store
General Ledger	Opportunity Management	B2C and B2B E-commerce
Accounts Payable and Receivable	Forecasting and Quota Management	Database-driven Pages
Invoicing	Estimates and Quotes	Credit Cards, PayPal and Invoices
Sales Tax	Lead Routing	Integrated Inventory and Order Management
Budgeting	Contact Management	Automated Upsell/Cross-sell
	Territory Management	FedEx and UPS Shipping
	Automated Upsell/Cross-sell	
Order Management and Fulfillment	Team Selling	Website
Order Capture, Processing	Offline Sales Client	Site Building
Advanced Pricing		Database-Driven Personalized Websites
Multi-currency Pricing		Website Developer s Kit
Returns Management	Marketing Automation	
FedEx and UPS Shipping	Campaign Execution	
	Campaign Tracking	Search Engine Optimization
	Lead Management	
Inventory Management	Keyword Campaign Management	Site Search
Multi-location Inventory	Search Engine Management	
Kits, Assemblies, Bill of Materials	E-mail Campaign Management	Web Analytics
Quantity On-hand, Reorder Points	Online Lead Forms	
LIFO and FIFO Costing		International
Average Costing	Customer Support and Service	Multi-currency
	Case Capture and Assignment	Multi-language
Purchasing and Vendor Management	Auto-escalation of Cases	
Purchase Requests		

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Purchase Orders	E-mail Capture and Intelligent Routing	Multi-site / Multi-store
Approval Workflow	Knowledge Base	Customer and Vendor Center
Receiving	Billable Time Tracking by Case	Self-service Centers
Vendor Self-service		

Partner Relationship Management

Online Support

Employee Management

Employee Records	Order Placement and Tracking	
Expense Reports	Referral Revenue Share Tracking	
Purchase Requests	Joint Lead Management	
	Joint Sales Forecasting	
	Marketing Campaigns	
	Partner Commissions and Royalties	

Business Intelligence

Dashboards

Role-based Dashboards
Real-time Key Performance Indicators and Scorecards

Reporting

Standard and Custom Reports
Drill Down

ODBC Connectivity

Integration to Third-party Business Intelligence Packages

SuiteFlex Customization and Extension Platform

SuiteScript

Customize, Verticalize Processes

Build Entirely New Applications

SuiteTalk

Integration to Legacy and Third-party Applications

Based on SOAP Standards

SuiteBuilder

Suite Configuration and Personalization

Point and Click Setup

Add-on Modules

Advanced Financials	Advanced Billing	Advanced Inventory	Premier Payroll Service	Revenue Recognition
Advanced Project Tracking	Employee Self-service	Issue Management	Incentive Compensation	Site Builder
Site Analytics	eBay Integration	Advanced Partner Center	Electronic Software Dist.	Sandbox Environment

Table of Contents**Index to Financial Statements**

NetSuite Industry Editions. We have configured NetSuite to meet the requirements of selected industries. Our current editions serve companies in the wholesale/distribution, services and software industries. Within each edition, we offer advanced functionality to complement our core NetSuite offering, templates of best practices and dedicated sales and professional services teams with industry-specific expertise. The following are some of the additional features and services included within each industry edition:

Wholesale/Distribution Company Edition	Services Company Edition	Software Company Edition
NetSuite Core Functionality, PLUS: Bin, Lot Management	NetSuite Core Functionality, PLUS: Advanced Project Tracking	NetSuite Core Functionality, PLUS: Revenue Recognition Accommodating SOP No. 97-2 and SOP No. 98-9 relating to VSOE
Serialized Inventory, Matrix Items	Advanced Billing	Advanced Billing
Available to Promise, Order Commitment	Time and Expense	Deferred Revenue and Forecasted Reporting
Multiple Units of Measure, Landed Cost	Contract and Document Management	Channel and Partner Relationship Management
Advanced Shipping, Drop Shipment	Client Portal	Industry Best Practices Implementation
Industry Best Practices Implementation	Industry Best Practices Implementation	Dedicated Sales and Professional Services
Dedicated Sales and Professional Services	Dedicated Sales and Professional Services	Other Industry-specific Features
Other Industry-specific Features	Other Industry-specific Features	

Wholesale/Distribution Company Edition. NetSuite Wholesale/Distribution Edition allows product-based companies to manage their entire customer lifecycle, from lead through fulfillment, invoicing and payment. It includes customer-facing sales force automation, marketing and customer service processes integrated with back-office inventory management, fulfillment and accounting processes, all within a single, flexible business application. In this edition, we have extended the core NetSuite application to include industry-specific business functionality, such as demand-based inventory replenishment, to meet the unique requirements of wholesale/distribution companies. In addition, we have taken advantage of the expertise gathered from working with over 800 wholesale/distribution customers to create best practices implementation methodologies.

Services Company Edition. NetSuite Services Company Edition allows customers to manage their entire client service and business management processes with a flexible, powerful business application, integrating professional services automation, CRM, client service delivery, financials and many more capabilities of particular importance to services companies. This edition manages the end-to-end project lifecycle business processes in one system, from prospecting through proposal generation, contract management, project/time tracking, service delivery and billing. NetSuite Services Company Edition incorporates deeper project and resource management capabilities than the core NetSuite offering. Other important features include milestone and percentage-of-completion billing; resource scheduling, tracking and utilization; and project document management.

Software Company Edition. In addition to the comprehensive, integrated front-office, back-office and e-commerce capabilities of our NetSuite offering, NetSuite Software Company Edition adds functionality to address the complex accounting, billing and order management requirements of software companies. This edition is designed to enable our software customers to conform to the various revenue recognition and other compliance requirements relevant to software companies. This edition can be supplemented with modules designed to streamline business processes unique to software companies, such as bug tracking and electronic software distribution.

SuiteFlex. SuiteFlex is our technology platform that allows customers, partners and developers to tailor and extend our suite to meet specific company, vertical and industry requirements for personalization, business processes and best practices. SuiteFlex extensions are designed to continue to operate across version upgrades without modification. SuiteFlex includes the following tools: SuiteBuilder, SuiteScript, SuiteBundler and SuiteTalk.

Table of Contents

Index to Financial Statements

SuiteBuilder. SuiteBuilder is an integrated set of easy-to-use, point-and-click tools that enables customers to tailor NetSuite to fit their company and industry requirements. SuiteBuilder enables users to easily customize fields and forms and add database tables, without the need for additional programming. The flexibility of SuiteBuilder also allows the look, feel and content of individual users' dashboards to be easily personalized.

SuiteScript. Customers, partners and developers use SuiteScript to extend the suite with everything from simple functions to new business process flows and even entirely new applications. SuiteScript provides the benefits of a robust architecture and on-demand hosting efficiencies for interaction between our standard and custom processes. SuiteScript introduces customization and tailoring capabilities that allow complex processes with branching logic and time-based decision trees to be automated. SuiteScript gives developers access to the same software objects used to build our core application, allowing seamless extensions of the suite's core functionality.

SuiteBundler. SuiteBundler enables the reuse of customizations and applications built with SuiteFlex. Our value-added reseller, systems integration and independent software vendor partners will use SuiteBundler to package and resell industry-specific extensions and customizations of NetSuite they have developed. SuiteBundler allows our partners to embed their applications, knowledge and industry best practices into our suite, converting professional services traditionally applicable only to an individual customer into a product offering that can be sold to all customers in the same industry. In addition, our customers can use SuiteBundler to share their SuiteFlex customizations with others.

SuiteTalk. SuiteTalk is an integration tool that utilizes simple object access protocol and standards-based web service application programming interfaces to integrate our suite with other applications, such as third-party vertical applications and legacy systems. Our suite's single data repository, combined with SuiteTalk's advanced integration technologies, enables our application suite to incorporate and leverage a wide range of data generated by our customers' legacy applications. Developers can also use SuiteTalk to build add-on capabilities, such as wireless interfaces.

Sales and Marketing

Sales. We generate sales through both direct and indirect approaches, with most selling done over the phone. Our direct sales team consists of professionals in various locations across the United States, Europe and the Asia-Pacific region. Within these regions, our direct sales organization focuses on selling to SMBs and divisions of large companies.

Indirect sales are produced through our relationships with channel partners in North America, Latin America, Europe and the Asia-Pacific region. In 2006, we expanded into Japan with the formation of our Japanese subsidiary and partnerships with TCI, MJS and Inspire Corporation, each of which is a Japanese corporation. In the future, we plan to continue to invest to expand our direct sales force within North America, Europe and the Asia-Pacific region and pursue additional indirect channel partnerships.

Our sales process typically begins with the generation of a sales lead from a marketing program or customer referral. After the lead is qualified, our sales personnel conduct focused web-based demonstrations along with initial price discussions. Members of our professional services team are engaged as needed to offer insight around aspects of the implementation. Our sales cycle typically ranges from one to six months, but can vary based on the specific application, the size and complexity of the potential customer's information technology environment and other factors.

Marketing. We tailor our marketing efforts around relevant application categories, customer sizes and customer industries. As part of our marketing strategy, we have established a number of key programs and initiatives including online and search engine advertising, email campaigns and web seminars, product launch events, trade show and industry event sponsorship and participation, marketing support for channel partners, and referral programs.

Table of Contents

Index to Financial Statements

Japanese Majority-Owned Subsidiary. In March 2006, we established a majority-owned subsidiary in Japan, NetSuite Kabushiki Kaisha, or NetSuite KK. We own this subsidiary with TCI, MJS and Inspire Corporation. TCI and MJS have exclusive distribution rights to distribute our on-demand application suite in Japan. As of March 31, 2007, we owned approximately 72% of the subsidiary. Because of this majority interest, we consolidate Netsuite KK's financial results, which are reflected in each revenue, cost of revenue and expense category in our consolidated statement of operations. We then record minority interest, which reflects the minority investors' interest in Netsuite KK's results. Through March 31, 2007, the operating performance and liquidity requirements of NetSuite KK had not been material to our results of operations or financial condition. While we plan to expand our selling and marketing activities in Japan to add new customers, we believe the future liquidity requirements of NetSuite KK will not be significant.

Service and Support

Professional Services. We have developed repeatable, cost-effective consulting and implementation services to assist our customers with integrating and importing data from other systems, changing their business processes to take advantage of the enhanced capabilities enabled by our integrated suite, implementing those new business processes within their organization and configuring and customizing our application suite for their business processes and requirements.

Our consulting and implementation methodology leverages the nature of our on-demand software architecture, the industry-specific expertise of our professional services employees and the design of our platform to simplify, streamline and expedite the implementation process. We generally employ a joint staffing model for implementation projects whereby we involve the customer more actively in the implementation process than traditional software companies. We believe this better prepares our customers to support the application throughout their use of our service. In addition, because our service is on-demand, our professional services employees can remotely configure our application for most customers based on telephonic consultations. Our consulting and implementation services are generally offered on a fixed price basis. Our network of partners also provides professional services to our customers.

Client Support and Management. Our technical support organization, with personnel in the United States and Asia, offers support 24 hours a day, seven days a week. Our system allows for skills-based and time zone-based routing to address general and technical inquiries across all aspects of our services. For our direct customers, we offer tiered customer support programs depending upon the service needs of our customers' deployments. Support contracts typically have a one-year term. For customers purchasing through resellers, primary product support is provided by our resellers, with escalation support provided by us.

Training. We offer a variety of training services through our training resource, NetSuite University, to facilitate the successful adoption of our suite throughout the customer's organization.

Operations, Technology and Development

Our customers rely on our application suite to run their businesses, and, as a result, we need to ensure the availability of our service. We have developed our infrastructure with the goal of maximizing the availability of our application, which are hosted on a highly-scalable network located in a single, secure third-party facility. We currently intend to add a second data center facility in 2008, the primary purpose of which is to add capacity. Our hosting operations incorporate industry-standard hardware, the Linux open-source operating system and Oracle databases and application servers into a flexible, scalable architecture. Elements of our application suite's infrastructure can be replaced or added with no interruption in service, helping to ensure that the failure of any single device will not cause a broad service outage.

Our single-instance, multi-tenant architecture allows us to provide our customers with enterprise-class capabilities, high quality of service, scalability and security, all at an affordable price. Our architecture enables us to host multiple smaller customers on a single x86 server while preserving the ability to migrate any customer to

Table of Contents

Index to Financial Statements

its own server without interruption or alteration when the customers' growth and business needs require it. In addition to the enhanced flexibility and scalability our architecture provides, it also is designed to work on inexpensive, industry-standard hardware, thereby providing us a significant cost advantage that is reflected in the pricing we are able to offer our customers.

Unlike other SaaS companies that deploy major new releases to all customers at once, we roll out all major releases and many upgrades of our application suite to a portion of our customer base at any one time. This phased release process is designed to allow us to mitigate the impact of major changes and new releases, ensuring that any potential issues affect only a portion of our customers before they are addressed.

The combination of our hosting infrastructure, flexible architecture and phased release process enables us to offer a service level commitment to our customers of 99.5% uptime every month, excluding designated periods of maintenance. Under the terms of this commitment, we offer to credit a full month's service fees for any month that we do not meet this service level. We believe that we are the only on-demand software vendor to provide such a commitment to all customers.

In developing our service offerings, we rely on customer feedback and spend significant time with our customers in formal user testing sessions as well as less formal ride-alongs and customer roundtables. We use the NetSuite service to track customer interest in service enhancements and actual work done on these enhancements. We develop our offerings using Java and the Oracle database on the server and AJAX on the client with a goal of making our service scalable, high performance, robust and easy to use. Finally, we expose many of our internal development tools to third party developers via SuiteFlex to allow extensions to the service that mirror the built-in capabilities we develop internally.

Our product development expenses were \$8.0 million in 2004, \$13.1 million in 2005 and \$14.4 million in 2006.

Customers

As of March 31, 2007, we served over 5,300 active customers of diverse size and type across a wide variety of industries, with a focus on SMBs, which we define as businesses with up to 1,000 employees, and divisions of large companies. In 2006, the top 10 industries in which our customers operated, as measured by our recognized revenue, were as follows: Distribution & Wholesale; Professional, Consulting and Other Services; Computer Software; e-Commerce & Retail; Manufacturing; Computer & IT Services; Telecommunications Services; Financial Services; Healthcare Services; and Education. We had customers in over 60 countries in 2006. No single customer accounted for more than 3% of our revenue in 2004, 2005 or 2006.

Customers of all types use our application suite to achieve a wide variety of business objectives. Selected examples include:

Saffron Rouge. Saffron Rouge, an online retailer of organic and biodynamic cosmetics, beauty, skin care and aromatherapy products, uses the full suite of NetSuite ERP, CRM and e-commerce functionality to operate virtually all aspects of its business, including a web store, integrated order processing and accounting, inventory management and customer support and marketing. Saffron Rouge chose NetSuite before launching its operations in 2002 and has relied on NetSuite's integrated ERP, CRM and e-commerce capabilities during a period of rapid growth and expansion into several new distribution channels. NetSuite has enabled Saffron Rouge to efficiently manage operations in both Canada and the United States.

Learning.com. Learning.com, a software company that provides web-enhanced K-12 instruction to more than 1.7 million students in 38 states and several countries, uses the NetSuite Software Company Edition to manage its accounting and CRM functions. Before adopting NetSuite, Learning.com managed separate, unintegrated CRM and accounting packages, relied on spreadsheets to handle

Table of Contents**Index to Financial Statements**

revenue recognition and employed labor-intensive processes for many core financial functions. With NetSuite, Learning.com has a single system for managing CRM and accounting that automatically incorporates relevant revenue recognition rules and also streamlines other complex financial processes. Since implementing NetSuite, Learning.com has nearly doubled revenues without adding any accounting staff, while decreasing the time between closing a deal and booking revenue.

Olympus NDT. Olympus NDT, a subsidiary of the Olympus Corporation which manufactures innovative nondestructive testing instruments used in industrial and research applications, uses the full suite of NetSuite's ERP, CRM and e-commerce capabilities to manage forecasts by product, process sales orders, manage multi-location inventory, sell online, generate financial statements for the division and administer after-sales services. Olympus NDT had over 200 NetSuite users as of May 1, 2007. As Olympus NDT has grown, it has continued to extend its use of NetSuite by adding additional modules and managing more of its business processes with NetSuite.

Cartridge World. Cartridge World, a provider of ink and toner printer cartridges with \$300 million in annual revenues, uses the full suite of NetSuite capabilities for its international franchise operations, including ERP, CRM and e-commerce. The business-to-business e-commerce capabilities of NetSuite enable thousands of potential users within the company's network of more than 1,500 franchise stores worldwide to quickly purchase products from Cartridge World via a NetSuite Web store. Before NetSuite, manual processes in fulfillment were subject to costly data entry errors. The company integrated NetSuite into its worldwide operations to oversee the hundreds of franchise locations and provide real-time information and key metrics for the global organization. NetSuite has supported Cartridge World's 200% collective increase in sales to over 500 franchise stores in the U.S. and more than 1,500 worldwide.

Spring Mountain Capital, LP. Spring Mountain Capital, an SEC registered investment advisory firm specializing in alternative investments primarily hedge funds and private equity funds with approximately \$3 billion of assets under management or advisement as of May 1, 2007, uses NetSuite Small Business to handle key back-office business operations, including accounting, accounts payable, expense allocation, expense reporting, and expense approval routing. NetSuite Small Business allows the company's management to remain focused on its primary business function of investment management and minimizes distractions from this function. It also allows management to access the company's financial information remotely, so that they may conduct and monitor operations while away from the office in both domestic and international locations.

Linden Lab. Linden Lab, the creator of Second Life, a three-dimensional online world with a rapidly growing population from 100 countries around the globe, uses NetSuite to manage back-end operational processes, including when Second Life Residents convert between Linden Dollars and U.S. dollars. Due to its fast growth, Linden Lab quickly outgrew its original business applications, needing business software that could be installed quickly and scale with its rapid growth. Linden Lab chose NetSuite for its proven speed-to-implementation, its ability to replace separate ERP and CRM applications with a single, integrated business management application, and its track record in scaling with growing companies. With the help of a NetSuite partner, Linden Labs rebuilt its chart of accounts; migrated accounting operations; integrated NetSuite with its back-end systems; and implemented a paperless accounts payable process, all within 60 days.

ViewSonic. ViewSonic Corporation, a leading global provider of visual display products that develops, markets and supports a broad range of innovative products including LCD monitors, LCD TVs, projectors, digital signage displays and other display products, uses NetSuite CRM+ for partner relationship management, forecasting, opportunities, commissions, email marketing, reporting/advanced analytics and e-commerce (via the NetSuite Customer Center). The company's products are sold through a variety of channels including distributors, solution providers, value added resellers and retailers to consumers and businesses of all sizes. ViewSonic's previous partner management solution limited the size of the company's reseller roster and lacked integration between its partner and customer management solutions, causing company inflexibility.

Table of Contents

Index to Financial Statements

Competition

We compete with a broad array of ERP, CRM and e-commerce companies. Our markets are highly competitive, fragmented and subject to rapid changes in technology. Many of our potential customers are seeking their first packaged ERP, CRM or e-commerce application and, as such, evaluate a wide range of alternatives during their purchase process. Although we believe that none of our larger competitors currently offer an on-demand comprehensive business management suite, we face significant competition within each of our markets from companies with broad product suites and greater name recognition and resources than we have, as well as smaller companies focused on specialized solutions. To a lesser extent, we compete with internally developed and maintained solutions. Our current principal competitors include Epicor Software Corporation, Intuit Inc., Microsoft Corporation, SAP, The Sage Group plc and salesforce.com, inc.

We believe the principal competitive factors in our markets include:

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;

speed and ease of deployment, integration and configuration;

total cost of ownership, including price and implementation and support costs;

sales and marketing approach; and

financial resources and reputation of the vendor.

We believe that we compete favorably with most of our competitors on the basis of each of the factors listed above, except that certain of our competitors have greater financial resources and greater name recognition than we do. We may face future competition in our markets from other large, established companies, as well as from emerging companies. In addition, we expect that there is likely to be continued consolidation in our industry that could lead to increased price competition and other forms of competition.

Intellectual Property

Our success depends upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including trade secrets, patents, copyrights and trademarks, as well as customary contractual protections.

As of March 31, 2007, we have eight U.S. and no foreign pending patent applications. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims.

We have a number of registered and unregistered trademarks. We maintain a policy requiring our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and to control access to software, documentation and other proprietary

information.

In addition, we license third-party technologies that are incorporated into some elements of our services. Licenses of third-party technologies may not continue to be available to us at a reasonable cost, or at all. The steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our services. In addition, because of the global nature of the Internet, our websites can be viewed worldwide, but we do not have intellectual property

Table of Contents

Index to Financial Statements

protection in every jurisdiction. Furthermore, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are available over the Internet. 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. Failure to protect our proprietary rights adequately could significantly harm our competitive position and operating results.

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, the possibility of intellectual property rights claims against us grows. 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. Many of our service agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase our costs as a result of defending those claims and might require that we pay damages if there were an adverse ruling in any such claims. We, and certain of our customers, have in the past received correspondence from third parties alleging that certain of our services, or customers' use of our services, violate these third parties' patent rights. These types of correspondence and future claims could harm our relationships with our customers and might deter future customers from subscribing to our services.

With respect to 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, significantly increase our operating expenses or require us to restrict our business activities in one or more respects. The technology also may not be available for license to us at all. As a result, we may be required to develop alternative non-infringing technology, which could require significant effort and expense.

Employees

As of March 31, 2007, we employed approximately 495 people, including approximately 205 in sales and marketing, approximately 166 in operations, professional services, training and customer support, approximately 70 in product development, and approximately 54 in a general and administrative capacity. As of such date, we had approximately 232 employees in the United States and approximately 263 employees internationally, including approximately 157 in Toronto, Canada. We also engage a number of temporary employees and consultants. None of our employees is represented by a labor union with respect to his or her employment with us. We have not experienced any work stoppages and we consider our relations with our employees to be good. Our future success will depend upon our ability to attract and retain qualified personnel. Competition for qualified personnel remains intense and we may not be successful in retaining our key employees or attracting skilled personnel.

Facilities

Our corporate headquarters are located in San Mateo, California and comprise approximately 59,000 square feet of space leased through 2012. Our largest international office is in Toronto, Canada and comprises 63,000 square feet of space. In addition, we maintain offices in Arizona, Georgia, Australia, Japan, the Philippines, Singapore and the United Kingdom.

We believe that our existing properties are in good condition and are sufficient and suitable for the conduct of our business. As our existing leases expire and as we continue to expand our operations, we believe that suitable space will be available to us on commercially reasonable terms.

Table of Contents

Index to Financial Statements

Legal Proceedings

From time to time, we are involved in various legal proceedings arising from the normal course of business activities. We are not presently a party to any litigation the outcome of which, we believe, if determined adversely to us, would individually or in the aggregate have a material adverse effect on our business, operating results or financial condition.

Table of Contents**Index to Financial Statements****MANAGEMENT****Executive Officers, Key Employees and Directors**

Our executive officers and directors, and their ages and positions as of March 31, 2007 are set forth below:

Name	Age	Position(s)
Zachary Nelson	45	President, Chief Executive Officer and Director
Evan M. Goldberg	40	Chief Technology Officer and Chairman of the Board
James McGeever	40	Chief Financial Officer
Timothy Dilley	48	Executive Vice President, Services
Dean Mansfield	44	President, Worldwide Sales and Distribution
Douglas P. Solomon	40	Vice President, Legal and Corporate Affairs and Secretary
William L. Beane III	45	Director
Deborah A. Farrington ⁽¹⁾	56	Director
Keith D. Grinstein ⁽¹⁾	46	Director
Philip B. Simon	54	Director
Kevin Thompson ⁽¹⁾	41	Director

(1) Member of the audit committee, compensation committee and nominating and governance committee.

Zachary Nelson has served as a director since July 2002 and as our President and Chief Executive Officer since January 2003. Prior to that, Mr. Nelson served as our President and Chief Operating Officer from July 2002 to January 2003. From March 1996 to October 2001, Mr. Nelson was employed by Network Associates, Inc. (now McAfee, Inc.), an enterprise security software company. While at Network Associates, Mr. Nelson held positions including Chief Strategy Officer of Network Associates and President and CEO of MyCIO.com, a subsidiary that provided on-demand software security services. From 1992 to 1996, he held various positions, including Vice President of Worldwide Marketing at Oracle Corporation, an enterprise software company. He holds B.S. and M.A. degrees from Stanford University.

Evan M. Goldberg co-founded our company in 1998 and has served as Chairman of our board of directors and as our Chief Technology Officer since January 2003. From October 1998 through January 2003, Mr. Goldberg held various positions with us, including President and Chief Executive Officer and Chief Technology Officer. Prior to joining us, Mr. Goldberg founded mBed Software, Inc., a software company focused on multimedia tools for website developers, where he served as Chief Executive Officer from November 1995 to September 1998. From August 1987 to November 1995, Mr. Goldberg held various positions in product development at Oracle Corporation, including Vice President of Development in the New Media Division. Mr. Goldberg holds a B.A. from Harvard College.

James McGeever has served as our Chief Financial Officer since June 2000. Mr. McGeever served as our Director of Finance from January 2000 to June 2000. Mr. McGeever holds a B.Sc. from the London School of Economics. Mr. McGeever has qualified as a chartered accountant in the United Kingdom.

Timothy Dilley has served as our Executive Vice President, Services since December 2006. Prior to joining us, Mr. Dilley served as Senior Vice President of Global Customer Services at Informatica Corporation, an enterprise software company, from December 1998 until December 2006. He holds a B.S. from California State University at Fresno.

Dean Mansfield has served as our President, Worldwide Sales and Distribution since January 2007. Mr. Mansfield served as our Senior Vice President, Worldwide Sales from May 2005 until January 2007 and served as our Vice President of Europe, Middle East and Africa Sales from January 2004 until May 2005. Prior to joining us, Mr. Mansfield held a senior management position with Brocade Communications, a data storage company, from January 2002 until December 2002. He holds a LL.B. from the University of London, TVU.

Table of Contents

Index to Financial Statements

Douglas P. Solomon has served as our Vice President, Legal & Corporate Affairs since November 2006 and has been our Secretary since January 2007. Prior to joining us, Mr. Solomon served in senior legal and management roles at Openwave Systems Inc., a software company, from April 2000 through March 2006, including Vice President, Legal & Corporate Affairs. He holds a B.A. from the University of Michigan and a J.D. from Harvard Law School.

William L. Beane III has been a member of our board of directors since January 2007. Since October 1997, Mr. Beane has served as Vice President and General Manager of the Oakland Athletics, a Major League Baseball team. Mr. Beane serves on the board of directors of Easton-Bell Sports, Inc., a sporting goods manufacturer. He attended the University of California, San Diego.

Deborah A. Farrington has been a member of our board of directors since May 2000. Since May 1998, Ms. Farrington has served as a Partner of StarVest Partners, L.P., a venture capital firm, and, since April 2006, has served as President of StarVest Management, Inc., a management company. Ms. Farrington serves on the board of directors of Collectors Universe, Inc., a company that grades and authenticates collectible assets. She holds an A.B. from Smith College and a M.B.A. from Harvard Business School.

Keith D. Grinstein has been a member of our board of directors since September 2006. Since January 2000, Mr. Grinstein has served as a partner at Second Avenue Partners, an investment group. Starting in 1996, Mr. Grinstein held various senior positions at Nextel and Nextel International, wireless communications companies, including President and CEO of Nextel International and Senior Vice President for Nextel Communications, Inc. Mr. Grinstein retired as Vice Chairman of Nextel International in 2002. Mr. Grinstein is the non-employee chairperson of the board of directors of Coinstar Inc., a business equipment company, and also serves as a director of Labor Ready, Inc., a provider of temporary manual labor, Nextera Enterprises, Inc., a holding company of Woodridge Labs, Inc., a developer and marketer of branded consumer products and F5 Networks, Inc., an application traffic management software company. He holds a B.A. from Yale University and a J.D. from Georgetown University Law Center.

Philip B. Simon has been a member of our board of directors since November 1998. For the past 25 years, Mr. Simon has been a partner of Howson & Simon LLP. Since 1997, Mr. Simon has served as an officer of Lawrence Investments, LLC, an investment management company directly or indirectly controlled by Lawrence J. Ellison and the parent company of Tako Ventures, LLC, our controlling stockholder, and since 2000 has been President of Lawrence Investments, LLC. Mr. Simon serves as the Chairman of the Board of Quark Pharmaceuticals, Inc., a clinical-stage biopharmaceutical company, and on the boards of directors of several private companies affiliated with Lawrence Investments. Mr. Simon holds a B.A. from Yale University and a J.D. from Stanford Law School. He is a member of the California Society of Certified Public Accountants.

Kevin Thompson has been a member of our board of directors since September 2006. Since July 2006, Mr. Thompson has served as the Chief Operating Officer, Chief Financial Officer and Treasurer of SolarWinds.net, Inc., a network management and monitoring company. Mr. Thompson was Senior Vice President and Chief Financial Officer at SAS Institute, a business intelligence software company, from September 2004 until November 2005. Mr. Thompson served as Executive Vice President and Chief Financial Officer of Red Hat Inc., an enterprise software company, from October 2000 until August 2004. He holds a B.B.A. from the University of Oklahoma.

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

Board of Directors

Our board of directors currently consists of seven members. Our bylaws permit our board of directors to establish by resolution the authorized number of directors, and seven directors are currently authorized.

Table of Contents

Index to Financial Statements

Director Independence

In April 2007, our board of directors undertook a review of the independence of the directors and considered whether any director has a material relationship with us that could compromise his or her ability to exercise independent judgment in carrying out his or her responsibilities. As a result of this review, our board of directors determined that William L. Beane III, Deborah A. Farrington, Keith D. Grinstein and Kevin Thompson, representing four of our seven directors, are independent directors as defined under the rules of the NASDAQ Global Market and New York Stock Exchange, constituting a majority of independent directors of our board of directors as required by the rules of either the NASDAQ Global Market or the New York Stock Exchange.

Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee and a nominating and governance committee, each of which has the composition and responsibilities described below.

Audit Committee

Our audit committee is comprised of Deborah A. Farrington, Keith D. Grinstein and Kevin Thompson, each of whom is a non-employee member of our board of directors. Mr. Thompson is the chairperson of our audit committee. Our board of directors has determined that each member of our audit committee meets the requirements for independence and financial literacy, and that each qualifies as an audit committee financial expert, under the applicable requirements of the NASDAQ Global Market and New York Stock Exchange and SEC rules and regulations. The audit committee is responsible for, among other things:

selecting and hiring our independent auditors, and approving the audit and non-audit services to be performed by our independent auditors;

evaluating the qualifications, performance and independence of our independent auditors;

monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;

reviewing the adequacy and effectiveness of our internal control policies and procedures;

discussing the scope and results of the audit with the independent auditors and reviewing with management and the independent auditors our interim and year-end operating results; and

preparing the audit committee report that the SEC requires in our annual proxy statement.

Compensation Committee

Our compensation committee is comprised of Deborah A. Farrington, Keith D. Grinstein and Kevin Thompson, each of whom is a non-employee member of our board of directors. Ms. Farrington is the chairperson of our compensation committee. Our board of directors has determined that each member of our compensation committee meets the requirements for independence under the current requirements of the NASDAQ Global Market and New York Stock Exchange. The compensation committee is responsible for, among other things:

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reviewing and approving for our executive officers: annual base salaries, annual incentive bonuses, including the specific goals and amount, equity compensation, employment agreements, severance arrangements and change in control arrangements, and any other benefits, compensation or arrangements;

reviewing the succession planning for our executive officers;

overseeing compensation goals and bonus and stock compensation criteria for our employees;

Table of Contents

Index to Financial Statements

reviewing and recommending compensation programs for outside directors;

preparing the compensation discussion and analysis and compensation committee report that the SEC requires in our annual proxy statement; and

administering, reviewing and making recommendations with respect to our equity compensation plans.

Nominating and Governance Committee

Our nominating and governance committee is comprised of Deborah A. Farrington, Keith D. Grinstein and Kevin Thompson, each of whom is a non-employee member of our board of directors. Mr. Grinstein is the chairperson of our nominating and governance committee. Our board of directors has determined that each member of our nominating and governance committee satisfies the requirements for independence under the rules of the NASDAQ Global Market and the New York Stock Exchange. The nominating and governance committee is responsible for, among other things:

assisting our board of directors in identifying prospective director nominees and recommending nominees for each annual meeting of stockholders to the board of directors;

reviewing developments in corporate governance practices and developing and recommending governance principles applicable to our board of directors;

overseeing the evaluation of our board of directors and management;

recommending members for each board committee to our board of directors; and

reviewing and monitoring our code of ethics and actual and potential conflicts of interest of members of our board of directors and officers.

Code of Ethics

Our board of directors has adopted a code of ethics for our principal executive and senior financial officers, or code of ethics. The code applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Upon the effectiveness of the registration statement of which this prospectus forms a part, the full text of our code of ethics will be posted on our website at <http://www.netsuite.com>. We intend to disclose future amendments to certain provisions of our code of ethics, or waivers of such provisions, applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions as required by law or regulation. The inclusion of our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Director Compensation

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We have a policy of reimbursing directors for travel, lodging and other reasonable expenses incurred in connection with their attendance at board or committee meetings. Each independent member of our board of directors is entitled to receive an annual retainer of \$25,000 and will receive \$1,500 per board meeting they attend. In addition, the chairperson of our audit committee, compensation committee and nominating and governance committee will be entitled to an annual retainer of \$20,000, \$10,000 and \$7,500, respectively, and each other independent member of such committees will be entitled to an additional annual retainer of \$7,500,

Table of Contents**Index to Financial Statements**

\$4,000 and \$3,000, respectively. The retainer fees will be paid quarterly on the first day of each calendar quarter. The per meeting fees will be paid quarterly in arrears.

Certain of our directors have received options to purchase shares of our common stock under our 1999 Stock Plan. Independent directors have or will receive an initial stock option award to purchase 600,000 shares of our common stock. Each initial option will become exercisable as follows: 25% of the shares will vest on the one-year anniversary of the vesting commencement date and 1/48th of the shares each month thereafter. Each year thereafter on the date of our annual stockholders meeting, each independent director will receive an annual stock option award to purchase shares of our common stock with a Black-Scholes value equal to \$50,000 and a restricted stock award with a value equal to \$50,000 as of the date of the grant. All such options will be granted with an exercise price equal to the fair market value of our common stock on the date of the award and these annual option awards will vest quarterly over a one-year period and restricted stock awards will vest 100% on the earlier of the date of the next annual meeting following the date of grant or December 31 of the calendar year following the calendar year in which the grant occurs. In the event of a change of control, the options and restricted stock awards granted to our independent directors shall vest 100%.

For the first full year of service, the annual cash and equity compensation paid to our independent directors shall be pro rated based on the number of months served as of the first annual meeting after their service commences. For the current year, we intend to compensate each of our Independent directors, pro rated based upon months of board service provided by such director for the period between September 2006 and May 2007.

The following table sets forth the annual director compensation paid or accrued by us to individuals who were directors during any part of 2006. The table excludes Messrs. Nelson and Goldberg, who are named executive officers and who did not receive any compensation from us in their roles as directors in 2006.

Director Compensation For Year Ended December 31, 2006

Name	Option Awards ⁽¹⁾ (\$)	Options Held (#)	Grant Date Fair Value of Option Awards (\$)
Deborah A. Farrington			
Steven B. Fink ⁽²⁾			
Keith D. Grinstein	3,411	400,000	112,320
Philip B. Simon			
Kevin Thompson	3,411	400,000	112,320

(1) The value reported above in the Option Awards column is the amount we expensed during 2006 for each director's option award calculated in accordance with SFAS No. 123(R). All awards were granted under the 1999 Stock Plan, as amended.

(2) Mr. Fink resigned as a director in April 2007.

Table of Contents

Index to Financial Statements

Compensation Discussion and Analysis

The following discussion and analysis of compensation arrangements of our named executive officers for 2006 and 2007 should be read together with the compensation tables and related disclosures set forth below. This discussion contains forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion.

Overview Compensation Objectives

Our compensation and benefits programs seek to attract and retain talented, qualified senior executives to manage and lead our company and to motivate them to pursue our corporate objectives. We have created a compensation program that has a mix of short-term and long-term components, cash and equity elements and fixed and contingent payments in proportions that we believe will provide appropriate incentives to reward our senior executives and management team and help to:

support our performance-based approach to managing pay levels to foster a goal oriented, highly-motivated management team whose members have a clear understanding of business objectives and shared corporate values;

align the interests of our employees with those of our stockholders;

share risks and rewards with employees at all levels;

allocate company resources to effectively exploit our technological capabilities in the development of new applications and services;
and

reflect our values and achieve internal equity across our organization.

Compensation for each named executive officer is comprised of a cash-based salary component, short-term incentives and a long-term equity component. The cash-based salary is reviewed annually based on the individual performance of the executive, the short-term incentives are based upon achievement of corporate objectives and, in certain circumstances, individual performance, and the long-term equity component is designed to provide long-term compensation based on company performance, as reflected in an increase or decrease in the value of the shares underlying the equity compensation compared to the purchase price of those shares. With the significant equity weighting, we seek to reward our named executive officers as and when we achieve our goals and objectives and generate stockholder returns. At the same time, if our corporate goals are not achieved, a significant portion of the compensation for our executive officers is at risk, which we believe aligns their interests with the interests of our stockholders.

The goal of our compensation program is to be competitive with other companies with whom we compete for employees. Historically, our compensation program has been characterized by below-median cash compensation and above-median equity compensation, when compared with public companies in our peer group, although when compared to other private technology companies, we believe our total cash compensation and equity ownership generally have been above the median.

Historical Role of Our Board of Directors

Historically, in lieu of a formally established compensation committee, non-employee members of our board of directors reviewed and approved executive compensation and benefits policies, including our 1999 Stock Plan, subject to final board approval. In April 2006, Ms. Farrington and Messrs. Fink and Simon, in consultation with Pearl Meyer & Partners, or PM&P, an independent compensation consulting firm retained by our board of directors, conducted a review of total executive compensation and equity ownership, comparing our executive s total compensation levels to those of other executives at technology industry private companies and comparable public companies. In 2006, our board of directors

compared compensation levels at both public and private companies to develop a plan to become competitive with public companies in anticipation of a public

Table of Contents

Index to Financial Statements

offering of our securities, while remaining competitive with similarly-situated private companies, as discussed more fully below. In 2006, on the recommendation of the foregoing members of the b