NETSUITE INC
Form 424B4
December 20, 2007
Table of Contents

Filed Pursuant to Rule 424(b)(4)
Registration No. 333-144257

6,200,000 Shares

Common Stock

We are selling 6,200,000 shares of common stock. Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is $26.00 per share. Our common stock has been approved for listing on the New York Stock Exchange under the symbol N.

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

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

	Price to Public	Underwriting Discounts and Commissions	Proceeds to NetSuite
Per share	$26.00	$1.495	$24.505
Total	$161,200,000	$9,269,000	$151,931,000

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

Delivery of the shares of common stock will be made on or about December 24, 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 December 19, 2007.

Table of Contents

Table of Contents

TABLE OF CONTENTS

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 January 13, 2008 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer s obligation to deliver a prospectus when acting as an underwriter with respect to unsold allotments or subscriptions.

Table of Contents

PROSPECTUS SUMMARY

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

Our Company

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

Industry Background

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

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

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

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

Table of Contents

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

Our Solution

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

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

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

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

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

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

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

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

Table of Contents

Our Strategy

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

- expanding our leadership in on-demand, integrated business suites;
- tailoring our offering to customers specific industries;
- growing our customer base and expanding use of our service within existing customers;
- fostering the continued development of the NetSuite partner network; and
- addressing the multinational business requirements of SMBs.

Auction Process

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

Controlled Company Status

Lawrence J. Ellison has transferred 31,964,898 shares of our common stock (representing all of the shares formerly held directly by Tako Ventures, an investment entity controlled by Mr. Ellison) to NetSuite Restricted Holdings LLC, or the LLC, a limited liability company formed for the limited purpose of holding the NetSuite shares and funding charitable gifts as and when directed by Mr. Ellison. As of November 30, 2007, those shares represented approximately 61% of our outstanding stock. Mr. Ellison is the Chief Executive Officer, a director and a principal stockholder of Oracle. We have been told that Mr. Ellison made the transfer in view of his position and duties at Oracle, to effectively eliminate his voting control over the election of our directors and certain other matters, to limit the circumstances under which his voting control could be exercised or restored, and to avoid and mitigate potential future conflicts of interest that might otherwise arise. As part of these arrangements, the LLC Operating Agreement contains provisions designed to neutralize, in certain situations, the voting power of the NetSuite shares held by the LLC, which provisions will not lapse or be subject to change while Mr. Ellison is either an officer or director of Oracle, except with the approval of an independent committee of Oracle s board of directors. For a more detailed description of the voting restrictions that apply as part of this arrangement, see the section titled, Certain Relationships and Related Party Transactions Share Transfer by Lawrence J. Ellison. We have filed the LLC Operating Agreement as an exhibit to the registration statement of

3

Table of Contents

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

Risks Affecting Us

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

- we have a history of losses, and we may not achieve profitability in the near future. We experienced a net loss of $35.7 million for 2006 and $20.6 million for the nine months ended September 30, 2007. As of September 30, 2007, our accumulated deficit was $241.6 million;
- because we provide a suite of on-demand applications that many of our SMB customers use to manage their critical business processes, the market for our service may develop more slowly than we expect;
- our customers are small and medium-sized businesses, which can be challenging to cost-effectively reach, acquire and retain;
- our quarterly operating results may fluctuate, and we have a limited operating history;
- we identified a material weakness in our internal controls relating to the need for additional finance and accounting personnel with skill sets necessary to operate as a public company;
- we use a single data center to deliver our services. Any disruption of service at this facility could harm our business; and
- we may become liable to our customers and lose customers if we have defects or disruptions in our service or if we provide poor service.

Company Information

We were incorporated in the State of California in 1998 and we were reincorporated in the State of Delaware in 2007. Our principal executive offices are located at 2955 Campus Drive, Suite 100, San Mateo, California 94403-2511, and our telephone number is (650) 627-1000. Our website address is www.netsuite.com. 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, C System, No Limits, SuiteBuilder, SuiteBundler, SuiteFlex, SuiteScript and SuiteTalk are registered or common law trademarks or service r of NetSuite appearing in this prospectus. This prospectus also contains additional trade names, trademarks and service marks of ours and of other companies. We do not intend our use or display of other companies trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

Table of Contents

The Offering

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

The number of shares of common stock that will be outstanding after this offering is based on 53,310,706 shares, the number of shares outstanding at September 30, 2007, and excludes:

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

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

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

Unless otherwise indicated, all information in this prospectus assumes:

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

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

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

Table of Contents

Summary Condensed Consolidated Financial Data

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

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

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2004	2005	2006	2006	2007
	(In thousands)				
Cost of revenue	$	$	$ 19	$ 9	$ 1,520
Product development		14,146	8,885	6,466	8,898
Sales and marketing			75	48	2,315

General and administrative		8,323	6,329	4,535	3,051
Total stock-based compensation expense	$	$ 22,469	$ 15,308	$ 11,058	$ 15,784

(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

	As of September 30, 2007		
	Actual	Pro Forma	Pro Forma As Adjusted
		(In thousands)	
Condensed Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 11,485	$ 11,485	$ 151,532
Working capital, excluding deferred revenue	15,838	15,838	155,885
Total assets	55,896	55,896	195,943
Current and long-term debt from related party	8,014	8,014	
Convertible preferred stock	125,654		
Total stockholders equity/(deficit)	(176,152)	(50,498)	97,563

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

The pro forma as adjusted column in the balance sheet data table above reflects (i) the conversion of all outstanding shares of convertible preferred stock into common stock immediately prior to the completion of the offering, (ii) our sale of 6,200,000 shares of common stock in this offering, at an initial public offering price of $26.00 per share, after deducting the estimated underwriting discount and estimated offering expenses payable by us, (iii) the filing of our amended and restated certificate of incorporation immediately prior to the completion of this offering and (iv) the repayment of the outstanding balance on the secured line of credit with Tako Ventures, which was $8.0 million as of September 30, 2007.

Table of Contents

RISK FACTORS

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

Risks Related to Our Business

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

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

The market for on-demand applications may develop mo