

NETSUITE INC
Form S-1/A
October 30, 2007
Table of Contents

As filed with the Securities and Exchange Commission on October 30, 2007

Registration No. 333-144257

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT

Under
The Securities Act of 1933

NetSuite Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

Suite 100
San Mateo, CA 94403-2511

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

Tel: (650) 627-1000

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

Zachary Nelson

President and Chief Executive Officer

NetSuite Inc.

2955 Campus Drive

Suite 100

San Mateo, CA 94403-2511

Tel: (650) 627-1000

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

Copies to:

Jeffrey D. Saper

Douglas P. Solomon

William H. Hinman, Jr.

Richard A. Kline

NetSuite Inc.

Simpson Thacher & Bartlett LLP

Wilson Sonsini Goodrich & Rosati

2955 Campus Drive

2550 Hanover Street

Professional Corporation

Suite 100

Palo Alto, California 94304

650 Page Mill Road

San Mateo, California 94403

Palo Alto, California 94304

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

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

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

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

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

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

Table of Contents

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 OCTOBER 30, 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 8.

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

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

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

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

Credit Suisse

WR Hambrecht + Co

The date of this prospectus is _____, 2007.

Table of Contents

Table of Contents

TABLE OF CONTENTS

	Page
<u>PROSPECTUS SUMMARY</u>	1
<u>RISK FACTORS</u>	8
<u>FORWARD-LOOKING STATEMENTS</u>	25
<u>AUCTION PROCESS</u>	26
<u>USE OF PROCEEDS</u>	34
<u>DIVIDEND POLICY</u>	34
<u>CAPITALIZATION</u>	35
<u>DILUTION</u>	37
<u>SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA</u>	39
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	41
<u>BUSINESS</u>	61
<u>MANAGEMENT</u>	75
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	103
	Page
<u>PRINCIPAL STOCKHOLDERS</u>	109
<u>DESCRIPTION OF CAPITAL STOCK</u>	111
<u>SHARES ELIGIBLE FOR FUTURE SALE</u>	115
<u>CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS</u>	117
<u>UNDERWRITING</u>	121
<u>NOTICE TO CANADIAN RESIDENTS</u>	125
<u>INDUSTRY AND MARKET DATA</u>	127
<u>LEGAL MATTERS</u>	127
<u>EXPERTS</u>	127
<u>CHANGE IN PRINCIPAL ACCOUNTANTS</u>	127
<u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u>	128
<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

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 six months ended June 30, 2007, we had revenue of \$48.7 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 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 31.3%. 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

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 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.

Auction Process

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

Mr. Ellison has informed us of his intention to transfer 639,298,039 shares of our common stock (representing all of the shares formerly held directly by Tako Ventures) to a "lockbox" limited liability company which will be formed for the limited purpose of holding the NetSuite shares and funding charitable gifts as and when directed by Mr. Ellison. As of September 30, 2007, those shares represented approximately 60% of NetSuite's outstanding stock. As part of these arrangements, it is anticipated that the agreement governing the LLC will contain provisions designed to neutralize, in certain situations, the voting power of the NetSuite shares held by the LLC, and that those provisions will not lapse or be subject to change while Mr. Ellison is either an officer or director of Oracle Corporation. For a more detailed description of the voting restrictions anticipated to apply as part of this arrangement, see the section titled, "Certain Relationships and Related Party Transactions - Intended Share Transfer by Lawrence J. Ellison." 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 NASDAQ Global Market and 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.

Table of Contents

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 \$18.8 million for the six months ended June 30, 2007. As of June 30, 2007, our accumulated deficit was \$239.8 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

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 "N" 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.

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

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**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 six months ended June 30, 2006 and 2007 and balance sheet data as of June 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.

	Six Months Ended				
	Year Ended December 31,			June 30,	
	2004	2005 (Restated) ⁽³⁾	2006 (Restated) ⁽³⁾	2006	2007
(In thousands, except per share data)					
Condensed Consolidated Statements of Operations Data:					
Revenue	\$ 17,684	\$ 36,356	\$ 67,202	\$ 29,063	\$ 48,742
Cost of revenue ⁽¹⁾	8,191	15,607	22,993	10,279	15,743
Gross profit	9,493	20,749	44,209	18,784	32,999
Operating expenses:					
Product development ⁽¹⁾	8,016	24,780	20,690	9,570	15,030
Sales and marketing ⁽¹⁾	26,963	39,179	43,892	20,876	27,823
General and administrative ⁽¹⁾	3,068	13,685	14,619	6,166	8,675
Total operating expenses	38,047	77,644	79,201	36,612	51,528
Operating loss	(28,554)	(56,895)	(34,992)	(17,828)	(18,529)
Other income (expense), net, including the effect of minority interest and income taxes	(1)	(769)	(730)	(558)	(300)
Net loss	\$ (28,555)	\$ (57,664)	\$ (35,722)	\$ (18,386)	\$ (18,829)
Net loss per common share, basic and diluted	\$ (2.06)	\$ (1.40)	\$ (0.32)	\$ (0.17)	\$ (0.12)
Weighted average number of shares used in computing basic and diluted net loss per common share	13,847	41,204	111,339	106,258	153,150
Pro forma net loss per common share, basic and diluted ⁽²⁾			\$ (0.04)		\$ (0.02)
Weighted average number of shares used in computing pro forma basic and diluted net loss per common share ⁽²⁾			1,004,872		1,046,683

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

	Six Months Ended				
	Year Ended December 31,			June 30,	
	2004	2005 (Restated) ⁽³⁾	2006 (Restated) ⁽³⁾	2006	2007
(In thousands)					
Cost of revenue	\$	\$	\$ 19	\$ 3	\$ 1,395

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

Product development	14,146	8,885	3,711	8,641
Sales and marketing		75	26	2,269
General and administrative	8,323	6,329	2,542	2,837
Total stock-based compensation expense	\$	\$ 22,469	\$	15,308