

NETSUITE INC  
Form S-1/A  
October 30, 2007  
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As filed with the Securities and Exchange Commission on October 30, 2007

Registration No. 333-144257

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

Washington, D.C. 20549

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

Under  
The Securities Act of 1933

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**NetSuite Inc.**

(Exact name of Registrant as specified in its charter)

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**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**

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Tel: (650) 627-1000

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

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**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)

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**Palo Alto, California 94304**

**650 Page Mill Road**

**San Mateo, California 94403**

**Palo Alto, California 94304**

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**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. "

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**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.**

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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.

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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.

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**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



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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.

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### **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.

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### **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](http://www.netsuite.com). Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website as part of this prospectus or in deciding whether to purchase shares of our common stock.

NetSuite®, NetSuite CRM+, NetSuite Customer Center, NetSuite Small Business, NetSuite University, the stylistic "N" in the NetSuite logo, Cloud 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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**The Offering**

Common stock offered to the public	shares
Common stock to be outstanding after this offering	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 June 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. 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	We intend to apply to list our common stock on either the NASDAQ Global Market or the New York Stock Exchange.
Proposed symbol	The number of shares of common stock that will be outstanding after this offering is based on 1,063,959,877 shares, the number of shares outstanding at June 30, 2007, and excludes:

141,086,976 shares of common stock issuable upon the exercise of options outstanding at June 30, 2007 at a weighted average exercise price of \$0.20 per share;

190,450 shares of common stock issuable upon the exercise of warrants outstanding at June 30, 2007, at a weighted average exercise price of \$2.30 per share; and

70,731,903 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 23,231,903 shares of common stock reserved for issuance under our 1999 Stock Plan and 47,500,000 shares of common stock reserved for issuance under our 2007 Equity Incentive Plan.

Unless otherwise indicated, all information in this prospectus assumes:

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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.

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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) <sup>(3)</sup>	2006 (Restated) <sup>(3)</sup>	2006	2007
(In thousands, except per share data)					
<b>Condensed Consolidated Statements of Operations Data:</b>					
Revenue	\$ 17,684	\$ 36,356	\$ 67,202	\$ 29,063	\$ 48,742
Cost of revenue <sup>(1)</sup>	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 <sup>(1)</sup>	8,016	24,780	20,690	9,570	15,030
Sales and marketing <sup>(1)</sup>	26,963	39,179	43,892	20,876	27,823
General and administrative <sup>(1)</sup>	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 <sup>(2)</sup>			\$ (0.04)		\$ (0.02)
Weighted average number of shares used in computing pro forma basic and diluted net loss per common share <sup>(2)</sup>			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) <sup>(3)</sup>	2006 (Restated) <sup>(3)</sup>	2006	2007
(In thousands)					
Cost of revenue	\$	\$	\$ 19	\$ 3	\$ 1,395

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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	
<b>Total stock-based compensation expense</b>	<b>\$</b>	<b>\$ 22,469</b>	<b>\$ 15,308</b>	<b>\$ 6,282</b>	<b>\$ 15,142</b>

- (2) The pro forma weighted average common shares outstanding reflects the conversion of our convertible preferred stock (using the if-converted method) into common stock as though the conversion had occurred on the original dates of issuance.
- (3) See Note 1-C of Notes to the Consolidated Financial Statements, Restatement of Consolidated Financial Statements.

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	As of June 30, 2007		
	Actual	Pro Forma (In thousands)	Pro Forma As Adjusted
<b>Condensed Consolidated Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 12,974	\$ 12,974	\$
Working capital, excluding deferred revenue	16,315	16,315	
Total assets	55,001	55,001	
Current and long-term debt from related party	8,014	8,014	
Convertible preferred stock	125,654		
Total stockholders' deficit	(175,690)	(50,036)	

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, which was \$8.0 million as of June 30, 2007.

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

A \$1.00 increase or decrease in the assumed initial public offering price of \$ \_\_\_\_\_ 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.



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**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 \$18.8 million for the six months ended June 30, 2007. As of June 30, 2007, our accumulated deficit was \$239.8 million. We expect to make significant future expenditures related to the development and expansion of our business. In addition, as a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. As a result of these increased expenditures, we will have to generate and sustain increased revenue to achieve and maintain future profitability. While our revenue has grown in recent periods, this growth may not be sustainable and we may not achieve sufficient revenue to achieve or maintain profitability. We may incur significant losses in the future for a number of reasons, including due to the other risks described in this prospectus, and we may encounter unforeseen expenses, difficulties, complications and delays and other unknown factors. Accordingly, we may not be able to achieve or maintain profitability and we may continue to incur significant losses for the foreseeable future.

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

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

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

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

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

our ability to maintain high levels of customer satisfaction;

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

the level of customization or configuration we offer;

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

the price, performance and availability of competing products and services.

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The market for these services may not develop further, or it may develop more slowly than we expect, either of which would harm our business.

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

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

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

are more price sensitive;

are more difficult to reach with broad marketing campaigns;

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

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

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

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

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

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

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

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

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

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

We host our services and serve all of our customers from a single third-party data center facility 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 currently operate and maintain an offsite facility for customers who specifically pay for accelerated disaster recovery services. For customers who do not pay for such services, although we maintain tape backups of their data, we do not operate or maintain



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a separate disaster recovery facility, which may increase delays in the restoration of our service for those customers.

Our data center facility provider has no obligation to renew its agreement with us on commercially reasonable terms, or at all. If we are unable to renew our agreement with the facility provider on commercially reasonable terms, we may experience costs or downtime in connection with the transfer to a new data center facility.

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

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

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

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

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

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

***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

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

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

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

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

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

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

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

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

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

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

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

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

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sell our services into new markets, our revenue will not grow as expected and we may not be able to achieve profitability.

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

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

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

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

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

difficulties in managing and staffing international operations;

fluctuations in currency exchange rates;

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

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

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

increased financial accounting and reporting burdens and complexities;

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

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

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

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



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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

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

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

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

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

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

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

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

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***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.

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

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

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

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

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

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

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

sales credits or refunds to our customers;

loss of existing customers and difficulty in attracting new customers;

diversion of development resources;

harm to our reputation; and

increased warranty and insurance costs.

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

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

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

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

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

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

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

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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

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tax collection obligations on us, including for past sales by us or our resellers and other channel partners. We have recorded sales tax liabilities of \$1.2 million, \$2.0 million and \$1.6 million for the years ended December 31, 2005 and 2006 and the six months ended June 30, 2007, respectively, in respect of sales and use tax liabilities in various states and local jurisdictions. In October 2007, an administrative hearing was held regarding the taxability of our services in one of the states where we have accrued for potential sales tax liabilities based on a prior assessment by this state. The outcome of the hearing indicated that our services are exempt from sales tax in this state. Therefore, we concluded that the previously accrued amounts were no longer probable of being paid and reversed accruals related to this potential sales tax liability during the second quarter of 2007. It is still reasonably possible that this outcome could be overturned, but we do not consider it probable at this time. Despite the results of this particular hearing, state tax authorities could still assert that we are obligated to collect such taxes from our customers and remit those taxes to those authorities. A successful assertion that we should be collecting additional sales or other taxes on our service could result in substantial tax liabilities for past sales, discourage customers from purchasing our application or otherwise harm our business and operating results.

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

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

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

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

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

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

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

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

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

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

issue additional equity securities that would dilute our stockholders;

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

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

incur large charges or substantial liabilities;

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

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

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

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

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

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our underwriters may require that bidders confirm their bids before the auction for our initial public offering closes. If a bidder is requested to confirm a bid and fails to do so within the permitted time period, that bid will be deemed to have been withdrawn and will not receive an allocation of shares even if the bid is at or above the initial public offering price. In addition, 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**

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

Our majority stockholder 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, trusts for their benefit, and related entities will together beneficially own an aggregate of approximately % of our common stock following this offering, or % if the underwriters over-

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allotment option is exercised in full. Mr. Ellison will be able to exercise control over approval of significant corporate transactions, including a change of control or a liquidation. In addition, if the voting restrictions that are anticipated to apply to the investment entity that will own his shares lapse (which could occur only if Mr. Ellison steps down from both his officer and director positions at Oracle), he will be able to exercise control over additional corporate matters, including elections of our directors.

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

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

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

Because a majority of our common stock will be held by a single stockholder upon the closing of this offering, we will qualify for exemptions from certain corporate governance standards. Under the rules of the 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 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.

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

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

develop or enhance our application and services;

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

acquire complementary technologies, products or businesses;

expand operations, in the United States or internationally;

hire, train and retain employees; or

respond to competitive pressures or unanticipated working capital requirements.

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

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

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

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

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

marketing and advertising initiatives by us or our competitors;

the gain or loss of customers;

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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

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

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

If our existing stockholders sell or otherwise dispose of, or indicate an intention to sell or dispose of, substantial amounts of our common stock in the public market after the lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. Based on shares of common stock outstanding as of June 30, 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 disposed of upon exercise of the underwriters' over-allotment option, will be freely tradable, without restriction, in the public market. Our managing underwriter, however, may, in its sole discretion, permit our officers, directors and other current stockholders who are subject to the contractual lock-up to sell or otherwise dispose of shares before the lock-up agreements expire.

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

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

The assumed initial public offering price of our common stock is substantially higher than the net tangible book value per share of our outstanding common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of \$ \_\_\_\_\_ 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.

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*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;

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 common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Under Section 203, our majority stockholder, which is beneficially owned by Lawrence J. Ellison, and our current stockholders associated with members of Mr. Ellison's family are not subject to the prohibition from engaging in such business combinations.

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.

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**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 include forward-looking statements being made by the authors of such reports. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. Actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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.



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**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 four stages: 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."

***How to Participate in the Auction***

We seek to enable all interested investors to have the opportunity to participate in the auction for our initial public offering. In order to participate in the auction, if you are an individual you must have an account with, and submit bids to purchase our shares through, Credit Suisse Securities (USA) LLC (through its Private Banking USA business), W.R. Hambrecht + Co., LLC or E\*TRADE Securities LLC. Institutional investors must have an account with one of our underwriters listed in the table in the section titled "Underwriting." Institutional investors must submit bids electronically to Credit Suisse by using a bidder ID. Institutional investors who have an account with Credit Suisse will obtain a bidder ID from Credit Suisse. Institutional investors who do not have an account with Credit Suisse may obtain a bidder ID from any of our other underwriters with which they have an account. Sales to an institutional investor will be settled through its account with the underwriter from which it obtained a bidder ID. In order to submit bids on Credit Suisse's auction IPO website, institutional investors will also have to agree to contractual terms related to the use of such website. Individual investors will not be required to obtain a bidder ID.

Before you 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](http://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 bid in the auction, you will have to:

Have or establish an account with one of our underwriters.

If you are an institutional investor, obtain a bidder ID from Credit Suisse (if you have an account with Credit Suisse) or one of our other underwriters, and activate your bidder ID on Credit Suisse's auction IPO website.

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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.

In order to facilitate participation in our initial public offering, the underwriters may require additional information, such as your tax identification number (usually your social security number) and a valid e-mail address and other contact information.

The minimum amount required to open an account is \$1,000 for a cash account at E\*TRADE Securities LLC (or zero dollars for an individual retirement account) and \$2,000 for W.R. Hambrecht + Co., LLC. Credit Suisse Securities (USA) LLC requires investors to have had an account with them for 60 days prior to participating in an initial public offering. As a result, in light of the expected timing of our offering, investors who do not yet have an account with Credit Suisse would, as a practical matter, have to participate in the offering through an account with another underwriter. Institutional investors may also have purchases in the offering settled through accounts with JMP Securities LLC and William Blair & Company, L.L.C., who do not have such minimum amounts.

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 relevant e-mail account and check [www.netsuiteipo.com](http://www.netsuiteipo.com) for notifications related to the offering, including:

*Notice of Material Change/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 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 e-mails relating to the auction that come from Credit Suisse or your brokerage firm. These e-mails 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 e-mail, please contact your brokerage firm directly.

Potential investors may contact the underwriter or dealer through which they submitted their bid to discuss general auction trends or to consult on bidding strategy. The then current clearing price is at all times kept confidential and will not be disclosed during the auction to any bidder. However, the underwriters or participating dealers may discuss general auction trends with potential investors. General auction trends may include a general description of the bidding trends or the anticipated timing of the offering. In all cases, any oral information provided with respect to general auction trends by any underwriter or dealer is subject to change. Any general auction trend information that is provided orally by an underwriter or participating dealer is necessarily accurate only as of the time of inquiry, does not reflect any advice or prediction with respect to the



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price at which our common stock may trade once we are a public company, and may change significantly prior to the auction closing. Bidders should not assume that any particular bid will receive an allocation of shares in the auction based on any auction trend information provided to them orally by any underwriter or participating dealer.

**The Bidding Process**

Bidders who are individuals must submit bids through one of the following underwriters: Credit Suisse Securities (USA) LLC (through its Private Banking USA business), W.R. Hambrecht + Co., LLC or E\*TRADE Securities LLC. Sales to an individual will be settled through his or her account with the underwriter through which his or her bid was submitted. Institutional investors will submit bids via Credit Suisse's auction website, to which a hyperlink is available at [www.netsuiteipo.com](http://www.netsuiteipo.com). Sales to an institutional investor will be settled through its account with the underwriter from which it obtained a bidder ID.

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.

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 may be allocated up to 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 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			
Bid	Shares		Bid Price	Hypothetical Initial Offering Price	Shares Allocated	Aggregate Investment
	Requested					
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



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other information about us not related to this offering, such as proxy statements and quarterly and annual reports, after completion of this offering, except to the extent that you have provided this consent in the context of a consent to electronic delivery given to your brokerage firm that is broader in scope than 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 pursuant to rules and regulations of the Financial Industry Regulatory Authority to which the underwriters are subject. 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. 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 (except during any period in which the auction is temporarily closed pending the preparation of revised disclosure) until it has been accepted. You may withdraw your bid by contacting the underwriter through which you submitted your bid.

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 that we or the underwriters convey the material change and file an amended registration statement.

If a reconfirmation of bids is required, an electronic notice will be sent to everyone who has an activated bidder ID or who has submitted a bid that has not been withdrawn, notifying them that they must reconfirm their

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bids by contacting the underwriter with which their bid was submitted (for individual investors) or on the auction website administered by Credit Suisse (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 the earlier of (1) one hour following the effectiveness of the registration statement and (2) 4:00 p.m., Eastern time, on the following business day from the time we send them notification that they must reconfirm, to reconfirm their bids.

We may temporarily close the auction while we are preparing new disclosure or a new prospectus to be recirculated, during which time you may not be able to add, modify or withdraw a bid. If we do so, we will reopen the auction when we recirculate new disclosure or 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](http://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 an activated bidder ID or who has submitted a bid that has not been withdrawn, 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, which would occur after the closing of the auction. If the underwriters accept your bid, they will do so following the closing of the auction by sending you a notice of acceptance. If you are 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 an activated bidder ID or who has submitted a bid that has not been withdrawn, informing them of our request. Once the registration statement is effective, everyone who has an activated bidder ID or who has submitted a bid that has not been withdrawn 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.

Sales to an individual will be settled through his or her account with the underwriter through which his or her bid was submitted. Sales to an institutional investor will be settled through its account with the underwriter from which it obtained a bidder ID.



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***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 (which would be expected to occur because at a lower offering price there would be a greater number of successful bids) 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. That is because there can be no assurance that investors of one type would submit bids at different prices than investors of other types, and so broadening the number of successful bids would not necessarily change the proportion of successful bids attributable to one type of investor or another.

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.

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 and the underwriters will:

provide notice at [www.netsuiteipo.com](http://www.netsuiteipo.com) of the offering price;

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issue a press release announcing the offering price; and

send an electronic notice to everyone who has an activated bidder ID or who has submitted a bid that has not been withdrawn, 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 issuer and the underwriters will rely on your bid in setting the public offering price and in sending notices of acceptance to successful bidders. As a result, you will be responsible for paying for all of the securities that are finally allocated to you, at the public offering price.

### ***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

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.

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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%

<b>Successful Bidder</b>	<b>Shares Subject to Successful Bid</b>	<b>Pro Rata Allocation</b>
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
<b>Totals</b>	<b>21,200</b>	<b>20,000</b>

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.

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**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 to retire the outstanding balance on the secured line of credit with Tako Ventures, for capital expenditures of approximately \$10 million to \$15 million, including the purchase of property, plant and equipment and the addition of a second data center facility, and for working capital and other general purposes, including the expansion of our business internationally. As of June 30, 2007, the amount outstanding on the Tako Ventures line of credit was \$8.0 million. The interest rate on the line of credit is equal to the prime rate plus 1% per annum, or 9.25% as of June 30, 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****CAPITALIZATION**

The following table sets forth our capitalization as of June 30, 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 \$8.0 million as of June 30, 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 June 30, 2007		Pro Forma As Adjusted
	Actual	Pro Forma (In thousands, except share and per share data)	
Total debt from related party	\$ 8,014	\$ 8,014	\$
Minority interest	1,711	1,711	
Series A through H convertible preferred stock \$0.01 par value per share, 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, \$0.01 par value per share; 2,000,000,000 shares authorized; 167,167,844 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	5,956	10,607	
Additional paid-in capital	58,438	179,441	
Accumulated other comprehensive income	(270)	(270)	
Accumulated deficit	(239,814)	(239,814)	
Total stockholders' deficit	(175,690)	(50,036)	

Total capitalization	\$ (40,311)	\$ (40,311)	\$
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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:

141,086,976 shares of common stock issuable upon exercise of stock options outstanding as of June 30, 2007, at a weighted average exercise price of \$0.20 per share;

190,450 shares of common stock issuable upon the exercise of warrants outstanding as of June 30, 2007, at a weighted average exercise price of \$2.30 per share; and

70,731,903 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 23,231,903 shares of common stock reserved for issuance under our 1999 Stock Plan 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****DILUTION**

As of June 30, 2007, we had a net tangible book deficit of \$191.9 million. Net tangible book deficit represents the amount by which our total liabilities (including \$125.7 million of convertible preferred stock) exceed our total tangible assets. As of June 30, 2007, our pro forma net tangible book value per share was approximately negative \$ [redacted] per share, which is based on 1,063,959,877 shares of common stock outstanding on a pro forma basis after giving effect to (i) a 1-for-[redacted] reverse stock split of our common stock and convertible preferred stock into [redacted] 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 [redacted] shares of common stock in this offering at an assumed initial public offering price of approximately \$ [redacted] 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 June 30, 2007 would have been \$ [redacted], or \$ [redacted] per share. This represents an immediate increase in net tangible book value of \$ [redacted] per share to existing stockholders and an immediate dilution in net tangible book value of \$ [redacted] 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 June 30, 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 \$ [redacted] per share would increase or decrease our pro forma net tangible book value per share after this offering by \$ [redacted] per share and dilution in pro forma net tangible book value to new investors by \$ [redacted] 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 \$ [redacted] per share, the increase in pro forma net tangible book value per share to existing stockholders would be \$ [redacted] per share and the dilution to new investors purchasing shares in this offering would be \$ [redacted] per share.

The following table presents, on the same pro forma basis described above as of June 30, 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 \$ [redacted] per share:

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

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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 June 30, 2007, there were options outstanding to purchase a total of 141,086,976 shares of common stock at a weighted average exercise price of \$0.20 per share. In addition, as of June 30, 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 June 30, 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****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 six months ended June 30, 2006 and 2007 and the balance sheet data as of June 30, 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 six months ended June 30, 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,					Six Months Ended June 30,	
	2002	2003	2004	2005 (Restated) <sup>(2)</sup>	2006 (Restated) <sup>(2)</sup>	2006	2007
	(In thousands, except per share data)						
<b>Condensed Consolidated Statements of Operations Data:</b>							
Revenue	\$ 3,136	\$ 8,345	\$ 17,684	\$ 36,356	\$ 67,202	\$ 29,063	\$ 48,742
Cost of revenue <sup>(1)</sup>	5,280	5,871	8,191	15,607	22,993	10,279	15,743
Gross profit (loss)	(2,144)	2,474	9,493	20,749	44,209	18,784	32,999
<b>Operating expenses:</b>							
Product development <sup>(1)</sup>	6,424	7,507	8,016	24,780	20,690	9,570	15,030
Sales and marketing <sup>(1)</sup>	9,864	15,415	26,963	39,179	43,892	20,876	27,823
General and administrative <sup>(1)</sup>	3,485	2,181	3,068	13,685	14,619	6,166	8,675
Total operating expenses	19,773	25,103	38,047	77,644	79,201	36,612	51,528
Operating loss	(21,917)	(22,629)	(28,554)	(56,895)	(34,992)	(17,828)	(18,529)
Other income (expense), net, including the effect of minority interest and income taxes	(169)	(117)	(1)	(769)	(730)	(558)	(300)
Net loss	\$ (22,086)	\$ (22,746)	\$ (28,555)	\$ (57,664)	\$ (35,722)	\$ (18,386)	\$ (18,829)
Net loss per common share, basic and diluted	\$ (2.12)	\$ (2.15)	\$ (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	10,401	10,570	13,847	41,204	111,339	106,258	153,150

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Pro forma net loss per common share, basic and diluted	\$ (0.04)	\$ (0.02)
Weighted average number of shares used in computing pro forma basic and diluted net loss per common share	1,004,872	1,046,683

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

	Year Ended December 31,					Six Months Ended June 30,	
	2002	2003	2004	2005 (Restated) <sup>(2)</sup>	2006 (Restated) <sup>(2)</sup>	2006	2007
	(In thousands)						
Cost of revenue	\$	\$	\$	\$	\$ 19	\$ 3	\$ 1,395
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	\$ 6,282	\$ 15,142

(2) See Note 1-C of Notes to the Consolidated Financial Statements, Restatement of Consolidated Financial Statements.

	As of December 31,					As of
	2002	2003	2004	2005 (Restated) <sup>(1)</sup>	2006 (Restated) <sup>(1)</sup>	June 30, 2007
	(In thousands)					
<b>Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 2,439	\$ 99	\$ 3,532	\$ 1,657	\$ 9,910	\$ 12,974
Working capital, excluding deferred revenue	1,639	1,455	9,789	13,616	20,504	16,315
Total assets	6,695	8,166	21,970	35,178	48,053	55,001
Current and long-term debt from related party				7,250	7,013	8,014
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)	(175,690)

(1) See Note 1-C of Notes to the Consolidated Financial Statements, Restatement of Consolidated Financial Statements.

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**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.*

*Management determined, subsequent to their issuance, that our financial statements for 2005 and 2006 and for the three months ended March 31, 2007, should be restated due to an error in our financial statements that we identified while performing closing accounting activities for the three months ended June 30, 2007. The error consisted of a failure to properly calculate stock-based compensation expense and resulted in our stock-based compensation expense being understated by \$19.4 million, \$12.3 million and \$5.6 million in the years ended December 31, 2005 and 2006 and the three months ended March 31, 2007, respectively. As a result, we have restated our financial statements for those periods. The error only affected stock-based compensation expense and the restatement had no effect on our reported revenue or any other expenses. This restatement is further described in Note 1-C of Notes to Consolidated Financial Statements included elsewhere in this prospectus. The accompanying management's discussion and analysis of financial condition and results of operations gives effect to the restatement.*

**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 six months ended June 30, 2007, our revenue was \$48.7 million. For the year ended December 31, 2006 and the six months ended June 30, 2007, we had net losses of \$35.7 million and \$18.8 million, respectively. As of June 30, 2007, our accumulated deficit was \$239.8 million.

We generate sales directly through our sales team and, to a lesser extent, indirectly through channel partners. As of September 30, 2007, we had over 5,400 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 six months ended June 30, 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 because we believe one-year agreements are more customary in our industry, align more with customer preferences and provide us with a more predictable sales compensation structure. We rely on a large

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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 June 30, 2007, we had deferred revenue of \$73.0 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 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 six months ended June 30, 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, the unused portions of which are refundable upon the termination or expiration of the agreements, 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, the unused portions of which are refundable upon the termination or expiration of the agreements, 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 incurred non-cash expenses of \$1.3 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 \$1.5 million and \$0.4 million for the three months ended March 31, 2007 and June 30, 2007, respectively. We will, however, continue to have stock-based compensation expense for all grants issued subsequent to January 1, 2006 under SFAS No. 123(R) and certain grants issued prior to January 1, 2006 under APB Opinion No. 25. 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.

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### **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, 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.



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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.

### *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

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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.

*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.

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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;

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 six months ended June 30, 2007.

*Deferred Commissions*

We capitalize commission costs that are incremental and directly related to the acquisition of customer contracts. Commission costs are accrued and capitalized upon execution of the sales contract by the customer. 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

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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, 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.

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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.

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.

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As a result of this reassessment, we determined that the fair value for accounting purposes for these grants should be revised as follows:

<b>Grant Date</b>	<b>Options Granted</b>	<b>Exercise Price Per Share and Original Fair Value</b>	<b>Reassessed Fair Value</b>
April 28, 2006	757,768	\$ 0.30	\$ 0.32