NETSUITE INC
Form 10-K
February 28, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .
Commission file number 001-33870

NetSuite Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-3310471 (I.R.S. Employer Identification No.)
2955 Campus Drive, Suite 100 San Mateo, California (Address of principal executive offices)	94403-2511 (Zip Code)

(650) 627-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value (Title of class)	New York Stock Exchange, Inc. (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.
Yes ¨ No x
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer (Do not check if a smaller reporting company) ¨
Smaller reporting company ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
The aggregate market value of the Common Stock held by non-affiliates, based upon the closing sale price of the Common Stock on June 30, 2012, as reported by the New York Stock Exchange, was approximately $1,600.8 million. Shares of Common Stock held by each officer, director, and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that persons are affiliates for any other purposes.
On February 26, 2013, 73,253,126 shares of the registrant's Common Stock, $0.01 par value, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its fiscal 2013 Annual Meeting of Stockholders to be filed within 120 days of the Registrant's fiscal year ended December 31, 2012 are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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PART I

Item 1. Business

Overview

NetSuite Inc. ("NetSuite" or the "Company" is the industry's leading provider of cloud-based financials / Enterprise Resource Planning (“ERP”) software suites. In addition to financials/ERP software suites, we offer a broad suite of applications, including accounting, Customer Relationship Management (“CRM”), Professional Services Automation (“PSA”) and Ecommerce that enable companies to manage most of their core business operations in our single integrated suite. Our "real-time dashboard" technology provides an easy-to-use view into up-to-date, role-specific business information. We also offer customer support and professional services related to implementing and supporting our suite of applications. We deliver our suite over the Internet as a subscription service using the software-as-a-service ("SaaS") model.

Our revenue has grown from $17.7 million during the year ended December 31, 2004 to $308.8 million during the year ended December 31, 2012. For the years ended December 31, 2012, 2011 and 2010 the percentage of our revenue generated outside of United States was 26%, 27% and 26%, respectively.

Industry Background

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

Medium-sized businesses and divisions of large enterprises have application software requirements that are similar, in many respects, to large enterprises because their core business processes are substantially similar to those of large enterprises. These requirements include the integration of back-office activities, such as managing payroll and tracking inventory; front-office activities, including order management and customer support; and, increasingly, sophisticated Ecommerce capabilities.

Medium-sized businesses 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, medium-sized businesses can frequently derive greater benefits from a comprehensive business suite. Suites designed for, and broadly adopted by, large enterprises to provide a comprehensive, integrated platform for managing these core business processes, however, generally are not well suited to medium-sized businesses due to the complexity and cost of such applications.

Medium-sized businesses and divisions of large enterprises have begun to benefit from the development of the cloud computing delivery model. Cloud computing uses the Internet to deliver software applications from a centrally hosted computing facility to end users through a web browser. Cloud computing eliminates the costs associated with installing and maintaining applications within the customer's information technology infrastructure. Cloud applications are generally licensed for a monthly, quarterly or annual subscription fee, as opposed to on-premise enterprise applications that typically require the payment of a much larger, upfront license fee. As a result, cloud applications require substantially less initial and ongoing investment in software, hardware and implementation services and lower ongoing support and maintenance, making them substantially more cost effective to run for medium-sized businesses.

To date, the cloud computing software model has been applied to a variety of types of business software applications, including CRM, security, accounting, human resources management, messaging and others, and it has been adopted by a wide variety of businesses.

While cloud applications have enabled medium-sized businesses to benefit from enterprise-class capabilities, most are still point products that require extensive, costly and time-consuming integration to work with other applications. Medium-sized businesses 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. We believe NetSuite was the first company to provide a cloud-based integrated suite of business management applications that addresses the needs of medium-sized businesses in the comprehensive manner that Oracle and SAP address the similar needs of large enterprises.

Our Solution

Our comprehensive business management application suite provides an integrated solution for running the core functions of 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. Businesses can deploy our solution as a business management suite, or deploy specific applications such as financials/ERP, CRM, PSA or Ecommerce that can be integrated with existing application investments. In addition, our financials/ERP, CRM, PSA and Ecommerce capabilities provide users with real-time visibility and appropriate application functionality through dashboards tailored to their particular job function and access rights.

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Because our offering is delivered as a cloud-based solution via the Internet, it is available wherever a user has Internet access, whether on a personal computer or a mobile device. The key advantages of our application suite for our customers are:

One Integrated Solution for Running a Business. Our integrated business application suite provides the functionality required to automate the core operations of medium-sized businesses, as well as divisions of large companies. This unified approach to managing a business enables companies to create cross-functional business processes; extend access to appropriate customers, partners, suppliers or other relevant constituencies; and efficiently share and disseminate information in real time. Our suite is designed to be easy to use, while also providing in-depth functionality to meet the needs of our most sophisticated customers. Our customers can use our application suite to manage mission-critical business processes, including complex financials/ERP (finance, accounting, inventory and payroll), CRM (sales, order management, marketing and customer support), PSA (projects, resources, time, expense and billing) and Ecommerce (hosting, online stores and website analytics) functions. We also have tailored our offering to meet the specific needs of customers in the wholesale/distribution, manufacturing, retail, professional services and software industries, to better serve those customers' distinct business requirements and accelerate the implementation of our offerings for customers in those industries.

Role-Based Application Functionality and Real-Time Business Intelligence. Users access our suite through a role-based user interface, or dashboard, which delivers specific application functionality and information appropriate for each user's job responsibilities in a format familiar to them. For example, the dashboard for a salesperson would deliver functionality for managing contacts, leads and forecasts, while the dashboard for a warehouse manager would deliver capabilities appropriate for managing shipping, receiving and returns. These dashboards also incorporate sophisticated business intelligence tools that enable users to track key performance indicators, analyze operational data to identify trends, issues and opportunities and make decisions that can improve the performance of their business, all in real time.

Cloud Delivery Model. We deliver our suite over the Internet as a subscription service via the cloud, 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. Our architecture enables us to maintain very high levels of availability, scale easily as our customers grow and provide a safe and secure environment for their business-critical data and applications.

Flexible Deployment. As larger organizations increasingly choose cloud computing software to take advantage of the resulting cost savings and business efficiencies, our solution can also be rapidly deployed as a standalone financials/ERP solution rather than as a business management suite. This flexible deployment allows businesses to use our cloud-based financials/ERP capabilities within line of business and integrate it with their existing CRM, PSA and Ecommerce investments, or grow into the suite over time. Additionally, global enterprises with entrenched enterprise-class financials/ERP investments at their corporate headquarters can deploy NetSuite OneWorld using a “two-tier” approach. In this case, NetSuite OneWorld is deployed across subsidiaries, divisions or countries allowing the organization to standardize its previously heterogeneous on-premise financials/ERP investments on a cloud-based solution with all the cost savings and rapid deployment options the cloud enables.

Low Total Cost of Ownership. Our suite incorporates the functionality of multiple applications, thereby eliminating the costs associated with attempting to integrate disparate applications, whether managed on-premise or delivered on-demand. Our on-demand delivery model and our application's ease of use and configurability significantly reduce implementation costs for hardware, software and services and the need for dedicated information technology personnel. Customers typically subscribe to our application suite for a quarterly or annual fee based on the number of users and the solutions they elect to deploy. Our subscription fees are generally significantly less than typical upfront costs to purchase perpetual licenses, and our on-demand delivery system eliminates ongoing maintenance and upgrade charges.

Rapid Implementation. Because we offer a relatively comprehensive application suite that incorporates the functionality of multiple applications, we generally significantly reduce the time and risk associated with

implementing and integrating multiple point products. Our cloud delivery model enables remote implementations and eliminates many of the steps associated with on-premise installations, such as purchasing and setting up hardware. In addition to our industry-specific offerings, our professional services organization is organized along customers' industries; therefore, knowledge gained through an implementation with one customer may be applied to other customers within that industry, thereby speeding implementations. Customers can implement our offerings themselves, engage our professional services organization or utilize the services of our partners.
Ease of Customization and Configuration. We enable users to customize our application suite to the particular needs of their businesses. Our application suite can be configured by end users without software programming expertise. In contrast to traditional on-premise applications, as new versions of our application suite become available, each customer's customizations and configurations are maintained with little or no additional effort or expense required.
Our Business Strategy
Our goal is to enhance our position as a leading provider of cloud-based financials/ERP software suites for medium-sized businesses. The key elements of our strategy include:
Expanding Our Leadership in Cloud-Based, Integrated Business Suites. We believe we were the first software vendor to integrate front-office, back-office and Ecommerce management capabilities into a single cloud-based software suite. We intend to improve our position in the cloud-based applications market by continuing to provide high-quality offerings that encompass the enterprise-class functionality and ease-of-use our customers require. We also intend to leverage our position as our customers' primary business management platform to add new and enhanced functionality that will help them run their businesses more efficiently and expand our presence within their organizations.
Further Penetrate Global Enterprises. We believe there is a substantial opportunity to increase the presence of cloud-based financials/ERP solutions within global enterprises through a “two-tier” deployment model. Under a “two-tier” approach, a global business retains its existing investment in enterprise-class on-premise financials/ERP applications at headquarters, but selects a different solution that is more cost effective to deploy and manage throughout its subsidiaries. We believe NetSuite OneWorld ("OneWorld") provides an ideal

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solution for this approach to global financials/ERP deployment, given that it provides multi-subsidiary, multi-currency and multi-tax intelligence in real-time with local control for in-country operations, while being deployed as a cloud application for fast and cost-effective delivery.

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

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

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

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

Enabling our Clients to Deliver an Omni-Channel Customer Experience. Customers today demand a seamless experience regardless of how they interact with a business - whether online, in-store, via phone or in-person. We believe there is a significant opportunity to provide our clients with tools that allow them to redefine the experience for any touch point and any business model: business-to-consumer, business-to-business or business-to-employee. We will continue to enhance and extend our SuiteCommerce offering and NetSuite Retail Anywhere point-of-sale offering to allow our clients to transform their businesses and deliver this omni-channel experience to their customers.

Our Offerings

Our main offering is NetSuite, which is designed to provide the core business management capabilities that most of our customers require. NetSuite, OneWorld and NetSuite CRM+ are designed for use by most types of businesses. NetSuite OpenAir ("OpenAir") is designed for use specifically by professional services businesses. In addition, we offer industry-specific configurations for use by wholesale/distribution, manufacturing and software companies. We also sell additional cloud-based application modules that customers can purchase to obtain additional functionality required for their specific business needs.

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

NetSuite OneWorld. OneWorld is targeted at global businesses and divisions of large companies operating in multinational and multi-subsidiary environments. OneWorld allows users to utilize our single platform for financials/ERP, CRM, PSA and Ecommerce capabilities in multi-currency environments across multiple subsidiaries and legal entities. OneWorld provides the ability to manage multiple companies or legal entities, with potentially different currencies, taxation rules, and reporting requirements, within a single NetSuite account. OneWorld has global CRM capabilities that allow for management of multi-currency quotas, forecasts, commission payments, sales tax calculations and real-time reporting for everyone in a global sales organization from the local sales representative, to the regional vice president to the head of worldwide sales. Additionally, growing companies typically employ multiple sales channels for their global sales operations so OneWorld allows for automation of common sales channels employed internationally including direct sales, distribution partner networks and Ecommerce. Marketing and customer support operations can also be managed globally using OneWorld so processes such as lead routing and trouble ticket assignment can easily be handled across regions or in-country, with global customer visibility and real-time measurement of marketing and service operational performance.

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

NetSuite OpenAir PSA. OpenAir is a Professional Services Automation ("PSA") solution that is used by professional services organizations and is targeted at some of the world’s largest companies with thousands of employees. OpenAir provides a clear view into the services organization’s performance and profitability with dashboards and reports. With OpenAir’s project accounting functionality,

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professional services organizations can efficiently monitor and manage projects' revenues, expenses and profitability over the lifetime of the project. This solution provides resource management functionality to improve resource utilization, and delivers web-based project management that improves on-time project delivery and drives project success rates. OpenAir provides online and mobile time and expense management and enables services professionals to improve their productivity by entering their expenses while on the road. OpenAir can be deployed either as a stand-alone PSA software solution, integrated with NetSuite, or integrated with an existing enterprise CRM or financials/ERP system.

SuiteCommerce. The SuiteCommerce solution is built with the idea that Ecommerce is no longer a standalone channel but a core capability for retail and B2B businesses. SuiteCommerce enables businesses to move from standalone transactional channels such as online, in-store or telephone to an integrated commerce solution that puts the customer at the center of every experience. SuiteCommerce captures preferences and transactions into rich customer profiles to support personalized marketing, merchandising and promotions across all channels.

NetSuite Retail Anywhere. Retail Anywhere is a point-of-sale (POS) solution that is used by retail businesses to deliver a superior customer experience at the point of sale and turn today's shopper into tomorrow's loyal customer. Retail Anywhere POS includes extensive item search capabilities and real-time access to inventory information throughout your retail chain, to help drive sales while satisfying the customer. Built-in CRM functionality in our retail POS systems captures important customer information such as buying preference and purchase history, which enables future cross-sell and up-sell opportunities for multi-channel retailing.

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

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

SuiteCloud Platform. SuiteCloud is our technology platform that allows customers, partners and developers to tailor and extend our suite to meet specific company, vertical and industry requirements for personalization, business processes and best practices. It allows partners to rapidly develop and distribute cloud-based products of their own, including industry-specific versions of our application suite. NetSuite provides partners building on SuiteCloud with a website – SuiteApp.com – that enables them to market and distribute their value-added solutions to NetSuite. Our application development and customization environment is designed to continue to operate across version upgrades.

Sales and Marketing

Sales. We generate sales through both direct and indirect approaches, with most selling done over the phone. Our direct sales team consists of professionals in various locations across the United States, Europe and the Asia-Pacific region. Within these regions, our direct sales organization focuses on selling to medium-sized businesses and divisions of large companies. Indirect sales are generated through our relationships with channel partners in North America, Latin America, Europe and the Asia-Pacific region.

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

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

Service and Support

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

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

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

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

Operations, Technology and Development

Our customers rely on our application suite to run their businesses and, as a result, we need to ensure the availability of our service. We have developed our infrastructure with the goal of maximizing the availability of our applications, which are hosted on a highly-scalable network located in secure third-party facilities. We host the NetSuite applications and serve our customers primarily from our California-based data center facilities, which we operate in conjunction with SAVVIS Communications Corporation ("SAVVIS"). We also have a Massachusetts-based back-up data center facility, which we operate in conjunction with SAVVIS. Our OpenAir applications are hosted from a Massachusetts-based data center, which we also operate in conjunction with SAVVIS. Our QuickArrow ("QA") applications are hosted from a Texas-based data center, which we operate in conjunction with Sunguard. Our hosting operations incorporate industry-standard hardware, the Linux open-source operating system and Oracle databases and application servers into a flexible, scalable architecture. Elements of our application suite's infrastructure can be replaced or added with no interruption in service, helping to ensure that the failure of any single device is not expected to cause a broad service outage of the NetSuite Service. Our Retail Anywhere ("RA") applications are hosted using a hardware solution provided by a partner with various hosting from data centers based on the East Coast of the United States, which we also operate in conjunction with Amazon.

Our single-instance, multi-tenant architecture allows us to provide our customers with enterprise-class capabilities, high quality of service, scalability and security, all at an affordable price. Our architecture enables us to host multiple smaller customers on a single x86 server while preserving the ability to migrate any customer to its own server without interruption or alteration when the customers' growth and business needs require it. In addition to the enhanced flexibility and scalability our architecture provides, it also is designed to work on inexpensive, industry-standard hardware, thereby providing us a significant cost advantage that is reflected in the pricing we are able to offer our customers.

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

The combination of our hosting infrastructure, flexible architecture and phased release process enables us to offer a service-level commitment to our customers of 99.5% uptime per period, excluding designated periods of maintenance. Under the terms of this commitment, we offer to credit a full month's service fees for any period where we do not meet this service level.

Product development expenses were $52.7 million, $43.5 million and $35.0 million during the years ended December 31, 2012, 2011 and 2010, respectively. In developing our service offerings, we rely on customer feedback and spend significant time with our customers in formal user testing sessions as well as less formal "ride-alongs" and customer roundtables. We use the NetSuite service to track customer interest in service enhancements and actual work done on these enhancements. We develop our offerings using Java and the Oracle database on the server and Asynchronous JavaScript and XML on the client with a goal of making our service scalable, high performance, robust and easy to use. Finally, we expose many of our internal development tools to third party developers via SuiteFlex to allow extensions to the service that mirror the built-in capabilities we develop internally. Our use of the Oracle database is pursuant to various software license agreements with Oracle USA, Inc., an affiliate of Oracle. Lawrence J. Ellison, who beneficially owns a majority of our common stock, is the Chief Executive Officer, a principal stockholder and a director of Oracle. See Note 17 to our Consolidated Financial Statements for a further description of this software license agreement.

Customers

Our customers are diverse in size and type across a wide variety of industries, with a focus on medium-sized businesses and divisions of large companies. In 2012, the top 10 industries in which our customers operated, as measured by our recognized revenue, were as follows: Distribution & Wholesale; Professional, Consulting and Other Services; Computer Software; Ecommerce & Retail; Manufacturing; Computer & IT Services; Telecommunications

Services; Financial Services; Healthcare Services; and Education. We had customers in approximately 80 countries in 2012. No single customer accounted for more than 3% of our revenue in 2012, 2011 or 2010.

Competition

We compete with a broad array of financials/ERP, CRM, PSA and Ecommerce companies. Our markets are highly competitive, fragmented and subject to rapid changes in technology. Many of our potential customers are seeking their first packaged financials/ERP, CRM, PSA or Ecommerce application and, as such, evaluate a wide range of alternatives during their purchase process. Although we believe that none of our larger competitors currently offer a cloud-based comprehensive business management suite, we face significant competition within each of our markets from companies with broad product suites and greater name recognition and resources than we have, as well as smaller companies focused on specialized solutions. In addition, some of our larger competitors have announced plans to launch new products that could compete more closely with our cloud-based application suite. Internationally, we face competition from local companies as well as larger competitors, each of which has products tailored for those local markets. To a lesser extent, we compete with internally developed and maintained solutions. Our current principal competitors include Epicor Software Corporation, Intuit Inc., Microsoft Corporation, Oracle Corporation, SAP AG, The Sage Group plc and salesforce.com, inc.

We believe the principal competitive factors in our markets include:

- service breadth and functionality;
- service performance, security and reliability;

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- ability to tailor and customize services for a specific company, vertical or industry;
- ease of use;
- speed and ease of deployment, integration and configuration;
- total cost of ownership, including price and implementation and support costs;
- sales and marketing approach; and
- financial resources and reputation of the vendor.

We believe that we compete favorably with most of our competitors on the basis of each of the factors listed above, except that certain of our competitors have greater sales, marketing and financial resources, more extensive geographic presence and greater name recognition than we do. In addition, although we have extended the number of applications we have introduced for specific vertical markets, we may be at a disadvantage in certain vertical markets compared to certain of our competitors. We may face future competition in our markets from other large, established companies, as well as from emerging companies. In addition, we expect that there is likely to be continued consolidation in our industry that could lead to increased price competition and other forms of competition.

Intellectual Property

Our success depends upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including trade secrets, patents, copyrights and trademarks, as well as customary contractual protections. We view our trade secrets and know-how as a significant component of our intellectual property assets, as we have spent years designing and developing our cloud-based, integrated application suite, which we believe differentiates us from our competitors.

As of December 31, 2012, we have numerous issued US patents and pending US patent applications. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. There can be no assurances that our patents, or our pending patent applications even if granted, will provide us with protection.

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

In addition, we license third-party technologies that are incorporated into some elements of our services. Licenses of third-party technologies may not continue to be available to us at a reasonable cost, or at all. The steps we have taken to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our services. Failure to protect our proprietary rights adequately could significantly harm our competitive position and operating results.

The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition, the possibility of intellectual property rights claims against us grows. Many of our service agreements require us to indemnify our customers for certain third-party intellectual property infringement claims, which would increase our costs as a result of defending those claims and might require that we pay damages if there were an adverse ruling in any such claims. We, and certain of our customers, have in the past received correspondence from third parties alleging that certain of our services, or customers' use of our services, violate these third parties' patent rights. These types of correspondence and future claims could harm our relationships with our customers and might deter future customers from subscribing to our services.

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

Employees

As of December 31, 2012, we had 1,778 employees. We also engage a number of independent contractors and consultants. None of our employees is represented by a labor union with respect to his or her employment with us. We have not experienced any work stoppages, and we consider our relations with our employees to be good. Our future success will depend upon our ability to attract and retain qualified personnel. Competition for qualified personnel remains intense, and we may not be successful in retaining our key employees or attracting skilled personnel.

Available Information

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You can obtain copies of our Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the Securities and Exchange Commission ("SEC"), and all amendments to these filings, free of charge from our Web site at http://www.netsuite.com/investors as soon as reasonably practicable following our filing of any of these reports with the SEC. You can also obtain copies free of charge by contacting our Investor Relations department at our corporate headquarters. The information found on our website is not a part of this or any other report we file with or furnish to the SEC.

You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

Executive Officers of the Registrant

Our executive officers, and their ages and positions as of February 24, 2013, are set forth below:

Name	Age	Position(s)
Zachary Nelson	51	President, Chief Executive Officer and Director
Evan M. Goldberg	46	Chief Technology Officer and Chairman of the Board
James McGeever	46	Chief Operating Officer
Ronald Gill	46	Chief Financial Officer
James Ramsey	40	Executive Vice President, Worldwide Sales
Douglas P. Solomon	46	Senior Vice President, General Counsel and Secretary
Timothy Dilley	53	Executive Vice President, Worldwide Services and Chief Customer Officer

Zachary Nelson has served as a director since July 2002 and as our President and Chief Executive Officer since January 2003. Prior to that, Mr. Nelson served as our President and Chief Operating Officer from July 2002 to January 2003. Previously he served as senior executive at Network Associates, Inc., Oracle Corporation and Sun Microsystems, Inc. He holds B.S. and M.A. degrees from Stanford University.

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

James McGeever has served as our Chief Operating Officer since July 2010. Prior to that, Mr. McGeever served as Chief Financial Officer from June 2000 to July 2010. From January 2000 to June 2000, Mr. McGeever served as our Director of Finance. Prior to joining us, Mr. McGeever was the controller of Clontech Laboratories, Inc., a privately held biotechnology company from 1998 to 2000 and the corporate controller at Photon Dynamics, Inc., a capital equipment maker from 1994 to 1998. Mr. McGeever holds a B.Sc. from the London School of Economics. Mr. McGeever has qualified as a chartered accountant in the United Kingdom.

Ronald Gill has served as Chief Financial Officer since July 2010. Prior to that, Mr. Gill served as Senior Vice President, Finance from August 2007 to July 2010. Prior to joining our company in August 2007, Mr. Gill was Vice President, Finance at Hyperion Solutions Corporation, a provider of performance management software from August 2006 until July 2007. Hyperion Solutions Corporation was acquired by Oracle Corporation in April 2007. From 2004 until May 2006, Mr. Gill was the Chief Controller, Product and Technology Group at SAP. Mr. Gill holds a B.A. from Baylor University and a Master of International Business Studies degree from the University of South Carolina.

James Ramsey, as discussed in a Form 8-K filed with the SEC on February 1, 2013, is taking a leave of absence from NetSuite Inc. effective April 1, 2013. Mr. Ramsey will no longer be an executive officer with reporting requirements under Section 16 of the Securities Exchange Act of 1934 effective April 1, 2013. Mr. Ramsey has served as our Executive Vice President, Worldwide Sales since February 2009. Mr. Ramsey served as our Senior Vice President, Worldwide Sales from January 2008 until February 2009. From September 2003 to December 2007, Mr. Ramsey held several positions with us, including Senior Vice President of the Americas. Prior to joining NetSuite, Mr. Ramsey worked for Oracle from July 1995 to September 2003. Mr. Ramsey held various positions in the sales organization at Oracle including Director of Mid-Market Sales Canada and Central U.S., and Director of the West. Mr. Ramsey holds a B.A degree in Psychology from the University of Denver.

Douglas P. Solomon has served as our Senior Vice President, General Counsel and Secretary since July 2008. Mr. Solomon served as our Vice President, Legal & Corporate Affairs from November 2006 to July 2008 and has been our Secretary since January 2007. Prior to joining us, Mr. Solomon served in senior legal and management roles at Unwired Planet (formerly Openwave Systems Inc.), a software company, from April 2000 through March 2006, including Vice President, Legal & Corporate Affairs. He holds a B.A. from the University of Michigan and a J.D. from Harvard Law School.

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

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Item 1A. Risk Factors

A description of the risks and uncertainties associated with our business is set forth below. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.

Risks Related to Our Business

Continued adverse economic conditions or reduced investments in cloud-based applications and information technology spending may harm our business.

Our business depends on the overall demand for cloud-based applications and information technology spending and on the economic health and general willingness of our current and prospective customers to make capital commitments. If the conditions in the U.S. and global economic environment remain uncertain or continue to be volatile, or if they deteriorate further, our business, operating results, and financial condition may be materially adversely affected. Continued weak or volatile economic conditions, or a reduction in spending for cloud-based applications and information technology even if economic conditions improve, would likely harm our business and operating results in a number of ways, including longer sales cycles, extended payment terms, lower prices for our products and services, reduced sales, and lower customer retention rates.

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

We have not been profitable on a generally accepted accounting principles (“GAAP”) basis during any quarterly or annual period since our formation. We experienced a net loss of $35.2 million for the year ended December 31, 2012. As of that date, our accumulated deficit was $378.8 million. We expect to make significant future expenditures related to the development and expansion of our business. As a result of these increased expenditures, we will have to generate and sustain increased revenue to achieve and maintain future profitability. While historically our revenue has grown, 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 Annual Report, 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.

Our customers are medium sized businesses and divisions of large companies, which may result in increased costs as we attempt to reach, acquire and retain customers.

We market and sell our application suite to medium-sized businesses and divisions of large companies. To grow our revenue quickly, we must add new customers, sell additional services to existing customers and encourage existing customers to renew their subscriptions. However, selling to and retaining medium-sized businesses can be more difficult than selling to and retaining large enterprises because medium-sized business 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 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 they may not renew their subscriptions 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 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 due to the macroeconomic environment or other factors. If our customers do not renew their subscriptions for our services, renew on less favorable terms, or do not purchase additional functionality or

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subscriptions, our revenue may grow more slowly than expected or decline and our profitability and gross margin may be harmed.

Any disruption of service at our data centers could interrupt or delay our ability to deliver our service to our customers.

We host our services, serve our customers and support our operations primarily from California-based data centers, which we operate in conjunction with SAVVIS. However, we host our OpenAir applications from a Massachusetts-based data center, which we also operate in conjunction with SAVVIS. We also operate some customer and partner accounts along with Release Preview and trial accounts from a Massachusetts-based data center, which we operate in conjunction with SAVVIS. In addition, our QuickArrow applications are hosted from a Texas-based data center, which we operate in conjunction with Sunguard. We do not have sole control over the operations of these facilities. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cyber security attacks, terrorist attacks, power losses, telecommunications failures and similar events. 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. As part of our current disaster recovery arrangements, our customer data in our California-based data center production environment is replicated to a data center operated in conjunction with SAVVIS located on the East coast of the United States. In particular, our California-based data facilities are located in an area known for seismic activity, increasing our susceptibility to the risk that an earthquake could significantly harm the operations of these facilities. Likewise, facilities operated on the East coast of the United States are susceptible to hurricanes, winter storms and other regionally disruptive events. The facilities also could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct.

Our data center facilities providers have no obligations to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements with the facilities providers on commercially reasonable terms or if in the future we add additional data center facility providers, we may experience costs or downtime in connection with the transfer to, or the addition of, new data center facilities.

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.

The market for cloud-based applications may develop more slowly than we expect.

Our success will depend, to a large extent, on the willingness of medium-sized businesses to accept cloud-based 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 cloud-based services. Other factors that may affect market acceptance of our application include:

- the security capabilities, reliability and availability of cloud-based services;
- customer concerns with entrusting a third party to store and manage their data, especially confidential or sensitive data;
- our ability to minimize the time and resources required to implement our suite;
- our ability to maintain high levels of customer satisfaction;

- our ability to implement upgrades and other changes to our software without disrupting our service;
- the level of customization or configuration we offer;
- our ability to provide rapid response time during periods of intense activity on customer websites; and
- the price, performance and availability of competing products and services.

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

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

The services we offer involve the storage of large amounts of our customers' sensitive and proprietary information. If our security measures are breached as a result of third party action, employee error, malfeasance or otherwise, and someone disrupts the confidentiality, integrity, or availability 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

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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. Such an actual or perceived breach could also cause a significant and rapid decline in our stock price.

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. 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 liabilities on our balance sheet for these commitments. Our service-level commitment to customers is 99.5% uptime per period, 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.

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 and an increasing amount of litigation based on allegations of infringement or other violations of intellectual property rights. As we continue to grow, the possibility of intellectual property rights claims against us may increase. 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, license fees and/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. Such license may not be available on reasonable terms, if at all, and may significantly increase our operating expenses or may require us to restrict our business activities and limit our ability to deliver certain products and services. As a result, we may also be required to develop alternative non infringing technology, which could require significant effort and expense and/or cause us to alter our product and service offerings which could negatively affect our business.

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.

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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.

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 annual revenue from $17.7 million during the year ended December 31, 2004 to $308.8 million during the year ended December 31, 2012. We have increased our number of full time employees from 296 as of December 31, 2004 to 1,778 as of December 31, 2012.
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. We also intend to continue expanding 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 margin or operating expenses in any particular quarter.
Our quarterly and annual 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 and annual operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. A decline in general macroeconomic conditions could adversely affect our customers' ability or willingness to purchase our application suite, which could adversely affect our operating results or financial outlook. Fluctuations in our quarterly operating annual results or financial outlook may also be due to a number of additional factors, including the risks and uncertainties discussed elsewhere in this report.
Fluctuations in our operating results could cause our stock price to decline rapidly, may lead analysts to change their long term model for valuing our common stock, may impact our ability to retain or attract key personnel, or may cause other unanticipated issues. If our operating results or financial outlook fall below the expectations of research analysts or investors, the price of our common stock could decline substantially.
We believe that our 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 during the year ended December 31, 2004 to $308.8 million during the year ended December 31, 2012. 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 may be harmed.
The markets in which we compete are intensely competitive, and if we do not compete effectively, our operating results may be harmed.
The markets for financials/ERP, CRM, PSA and Ecommerce 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 margin or the failure of our service to achieve or maintain more widespread market acceptance. Often we compete to sell our application suite against existing systems that our potential customers have already made significant expenditures to install. Competition in our market is based principally upon service breadth

and functionality; service performance, security and reliability; ability to tailor and customize services for a specific company, vertical or industry; ease of use of the service; speed and ease of deployment, integration and configuration; total cost of ownership, including price and implementation and support costs; professional services implementation; and financial resources of the vendor.

We face competition from both traditional software vendors and SaaS providers. Our principal competitors include Epicor Software Corporation, Intuit Inc., Microsoft Corporation, Oracle 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

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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 under certain circumstances by legal prohibitions on permissible public communications by us as a public company.

If the prices we charge for our services are unacceptable to our customers, our operating results will be harmed.

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 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 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 our sales of our and operations 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. Approximately one quarter of our employees are located in an office in the Philippines. 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, which may be difficult to replace or could cause errors or failures of our service that could lead to lost customers or harm to our reputation.

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

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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 and investors' views of us could be harmed.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time consuming effort that needs to be re evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Although we have completed the process of documenting, reviewing and improving our internal controls and procedures for compliance with Section 404 of the Sarbanes Oxley Act of 2002, for the fiscal year ended December 31, 2012, there can be no assurances that control deficiencies will not be identified in the future.

Implementing any additional required 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. Any failure to maintain that adequacy, or as 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.

Our business is subject to changing regulations regarding corporate governance and public disclosure that will increase both our costs and the risk of noncompliance.

As a public company, we incur significant legal, accounting and other expenses associated with compliance with applicable laws, rules, regulations and listing requirements. In addition, the Sarbanes-Oxley Act, the Dodd-Frank Act, and rules subsequently implemented by the SEC and The New York Stock Exchange, have imposed a variety of compliance requirements on public companies, including requiring changes in corporate governance practices. In addition, the SEC and the U.S. Congress may continue to increase the scope of applicable disclosure and corporate governance-related rules. Our management and other personnel may need to devote a substantial amount of time to the compliance requirements associated with being a public company. Moreover, these laws, rules and regulations have increased and may continue to increase the scope, complexity and cost of our corporate governance, reporting and disclosure practices.

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.

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.

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Government regulation of the Internet and Ecommerce 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 financials/ERP, CRM, PSA and Ecommerce 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 exchanged over the Internet could result in a decline in the use of the Internet and the viability of Internet based services, harming 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, financials/ERP, CRM, PSA and Ecommerce solutions would be less effective, likely reducing demand for our service and harming our business.

If benefits currently available under the Czech Republic government subsidy program are reduced or disallowed, our product development costs could increase.

At our product development facility in the Czech Republic, we participate in a government subsidy program for employing local residents. Under the program, the Czech Republic government will reimburse us for certain operating expenses we incur. The reimbursements are based upon qualifying product development expenditures which are primarily salaries for persons conducting product development activities. During the year ended December 31, 2012, we recorded $2.0 million in expected expense reimbursements through this program for expenses incurred during the period from November 2010 to December 31, 2012. The expense reimbursement subsidy is treated as a reduction in the qualifying expenses. During the year ended December 31, 2012, we received $1.2 million in subsidy reimbursement payments. The Czech Republic government will determine if we met the program requirements and that our expenses are reimbursable. If the Czech Republic government determines that our expense are ineligible for reimbursement, our financial condition and operating results may be harmed.

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.

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 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 be unable to integrate acquired businesses and technologies successfully or to achieve the expected benefits of such acquisitions. We may acquire or invest in additional 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.

We have undertaken acquisitions during the year ended December 31, 2012 and in the past and may continue to evaluate and consider potential strategic transactions, including acquisitions and dispositions of businesses, technologies, services, products and other assets in the future. 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.

We may in the future seek to acquire or invest in additional businesses, products, technologies or other assets. 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. 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. We do not maintain key man insurance on any members of our management team. Meeting our growth plan and our future success depends on our ability to attract, retain and motivate highly skilled technical, managerial, sales, marketing and service and support personnel, including members of our management team. Competition for sales, marketing and technology development personnel is particularly intense in the software and technology industries. As a result, we may be unable to successfully attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could harm our business.

Risks Related to Ownership of our Common Stock

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

Entities beneficially owned by Lawrence J. Ellison held an aggregate of approximately 44.0% of our common stock as of December 31, 2012. Further, Mr. Ellison, his family members, trusts for their benefit, and related entities together beneficially owned an aggregate of approximately 50.3% of our common stock as of that date. Mr. Ellison is able to exercise control over approval of significant corporate transactions, including a change of control or liquidation. In addition, if the voting restrictions that apply to NetSuite Restricted Holdings LLC, the investment entity to which Mr. Ellison has transferred his shares, lapse or are amended, Mr. Ellison will be able to exercise control over additional corporate matters, including elections of our directors. So long as Mr. Ellison continues to be either an officer or director of Oracle, these voting restrictions cannot be changed without the approval of an independent committee of Oracle's board of directors. Mr. Ellison's interests and investment objectives may differ from our other stockholders. Mr. Ellison is also the Chief Executive Officer, a principal stockholder and a director of Oracle. Oracle supplies us with database software on which we rely to provide our service and is also a potential competitor of ours.

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Our Board of Directors adopted resolutions which renounce and provide for a waiver of the corporate opportunity doctrine as it relates to Mr. Ellison. As a result, Mr. Ellison will have no fiduciary duty to present corporate opportunities to us. In addition, Mr. Ellison's indirect majority interest in us could discourage potential acquirers 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.

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, the trading price of our common stock could decline. As of December 31, 2012, we had a total of 72,675,265 shares of our common stock outstanding. Although shares that are held by NetSuite Restricted Holdings LLC are subject to certain restrictions on disposition and a portion of the remaining shares are subject to our Insider Trading Compliance Policy during certain periods of each quarter, substantially all of the shares held by parties other than NetSuite Restricted Holdings LLC, representing 56.0% of our outstanding shares as of December 31, 2012, are freely tradable, subject to our quarterly black-out periods that apply to shares held by our directors, officers, employees and consultants. If a significant number of these shares 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.

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.

Our failure to raise additional capital or generate the cash flows necessary to expand our operations and invest in our application services 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

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• respond to competitive pressures or unanticipated working capital requirements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in San Mateo, California and comprises approximately 80,000 square feet of space leased. We also have facilities in Denver, Boston, Austin, New York, Chicago, Pennsylvania, Paso Robles, Las Vegas, Canada, Australia, the Czech Republic, Hong Kong, Japan, the Philippines, Singapore, the United Kingdom and Uruguay.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has been quoted on the New York Stock Exchange under the symbol "N". The following table sets forth for the indicated periods the high and low sales prices of our common stock as reported by the New York Stock Exchange.

For the quarters ended	High	Low
2012:		
December 31, 2012	$67.30	$56.91
September 30, 2012	63.80	48.75
June 30, 2012	54.77	41.86
March 31, 2012	$51.17	$38.51
2011:		
December 31, 2011	$47.73	$26.00
September 30, 2011	42.64	27.01
June 30, 2011	39.40	27.95
March 31, 2011	$31.16	$25.34

We have never paid any cash dividends on our common stock. Our Board of Directors currently intends to retain any future earnings to support operations and to finance the growth and development of our business and does not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our board.

As of December 31, 2012, there were 102 registered stockholders of record of our common stock.

The graph set forth below compares the cumulative total stockholder return on our common stock between December 20, 2007 (the date of our initial public offering) and December 31, 2012, with the cumulative total return of (i) the Nasdaq Composite Index and (ii) the Nasdaq Computer Index, over the same period. This graph assumes the investment of

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$100 on December 20, 2007 in our common stock, the Nasdaq Composite Index and the Nasdaq Computer Index, and assumes the reinvestment of dividends, if any. The graph assumes the initial value of our common stock on December 20, 2007 was the IPO price of $26.00 per share.

	December 20, 2007	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012
NetSuite	$100	$151	$32	$61	$96	$156	$259
Nasdaq Composite Index	$100	$100	$60	$86	$100	$99	$114
Nasdaq Computer Index	$100	$101	$54	$92	$108	$108	$122

The comparisons shown in the graph are based upon historical data. We caution that the stock price performance shown in the graph above is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

Item 6. Selected Financial Data

The following selected condensed consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report. The consolidated statement of operations data for the years ended December 31, 2012, 2011 and 2010 and the selected condensed consolidated balance sheet data as of December 31, 2012 and 2011 are derived from, and are qualified by reference to, the audited consolidated financial statements included in this Annual Report. The condensed consolidated statement of operations data for the fiscal years ended December 31, 2009 and 2008 and the consolidated balance sheet data as of December 31, 2010, 2009 and 2008 are derived from audited consolidated financial statements which are not included in this Annual Report.

Condensed Consolidated Statements of Operations Data
(Dollars and shares in thousands, except per share amounts)

	Year ended December 31,				
	2012	2011	2010	2009	2008
Revenue:					
Subscription and support	$252,903	$199,579	$163,964	$139,121	$119,903
Professional services and other	55,922	36,747	29,185	27,419	32,573
Total revenue	308,825	236,326	193,149	166,540	152,476
Cost of revenue:					
Subscription and support	41,857	33,083	26,908	24,570	20,334
Professional services and other	53,706	37,777	34,741	31,535	28,248
Total cost of revenue (1)	95,563	70,860	61,649	56,105	48,582
Gross profit	213,262	165,466	131,500	110,435	103,894
Operating expenses:					
Product development (1)	52,739	43,531	35,019	28,577	21,516
Sales and marketing (1)	154,294	120,172	92,814	76,165	76,943
General and administrative (1)	38,469	31,951	29,232	29,215	23,804
Total operating expenses	245,502	195,654	157,065	133,957	122,263
Operating loss	(32,240)	(30,188)	(25,565)	(23,522)	(18,369)
Other income / (expenses), net, net loss attributable to noncontrolling interest and income taxes	(2,989)	(1,819)	(1,901)	218	2,505
Net loss attributable to NetSuite Inc. common stockholders	$(35,229)	$(32,007)	$(27,466)	$(23,304)	$(15,864)
Net loss per NetSuite Inc. common share	$(0.50)	$(0.48)	$(0.43)	$(0.38)	$(0.26)
Weighted average number of shares used in computing net loss per common share	70,713	66,919	63,772	61,941	60,385

(1) Includes stock-based compensation expense, amortization of acquisition-related intangibles, transaction costs for business combinations and costs associated with the settlement of a patent dispute as follows:

	Year ended December 31,				
	2012	2011	2010	2009	2008
Cost of revenue:					
Subscription and support	$4,691	$3,568	$3,598	$2,792	$1,480
Professional services and other	5,978	4,138	3,802	2,497	1,508
Operating expenses:					
Product development	15,301	12,015	9,723	6,641	3,629
Sales and marketing	16,588	13,437	10,249	7,078	3,375
General and administrative	11,803	9,662	8,565	7,677	3,386
Total stock-based compensation expense, amortization of intangible assets and transaction costs for business combinations	$54,361	$42,820	$35,937	$26,685	$13,378

In January 2009, we adopted Statement of Financial Accounting Standards ("FASB") 141(R), "Business Combinations" (FASB ASC Topic 805), which requires transaction costs for business combinations to be recorded as current period expenses. In prior years, such costs were included as part of consideration paid for the acquisition.
In April 2010, we adopted FASB ASC 2009-13, "Accounting standards for multiple-element revenue arrangements" (FASB ASC Topic 605). Under ASC 2009-13, we recognize professional services revenue based on a percentage-of-completion method for both single and multiple-element arrangements. In prior years, we recognized

professional services in multiple-element arrangements over the contract period.

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Condensed Consolidated Balance Sheet Data
(Dollars in thousands)

	Year ended December 31,				
	2012	2011	2010	2009	2008
Cash and cash equivalents	$185,859	$141,448	$104,298	$96,355	$123,638
Working capital, excluding deferred revenue	242,524	176,447	129,844	116,200	140,184
Total assets	369,775	281,180	217,293	202,224	210,334
Deferred revenue	161,416	111,698	81,139	72,721	73,871
Long-term debt (includes current portion)	1,985	4,130	4,652	1,142	2,586
Equity	$158,769	$128,010	$106,284	$104,707	$109,387

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Annual Report on Form 10-K contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include any expectation of earnings, revenues or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements concerning new products or services; statements related to future capital expenditures; statements related to future economic conditions or performance; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," or "will," and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed in the section titled "Risk Factors" included in Item 1A of Part I of this Annual Report on Form 10-K, and the risks discussed in our other SEC filings.

We urge you to consider these factors carefully in evaluating the forward-looking statements contained in this Annual Report on Form 10-K. These statements are based on the beliefs and assumptions of our management based on information currently available to management. The forward-looking statements included in this Annual Report are made only as of the date of this Annual Report on Form 10-K. All subsequent written or oral forward-looking statements attributable to our company or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

Overview

We are the industry's leading provider of cloud-based financials/ERP software suites. In addition to financials/ERP software suites, we offer a broad suite of applications, including accounting, CRM, PSA and Ecommerce, which enable companies to manage most of their core business operations in our single integrated suite. Our "real-time dashboard" technology provides an easy-to-use view into up-to-date, role-specific business information. We also offer customer support and professional services related to implementing and supporting our suite of applications. We deliver our suite over the Internet as a SaaS model.

In 1999, we released our first application, NetLedger, which focused on accounting applications. We then released Ecommerce 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. In December 2007, we went public. In 2008, we acquired OpenAir, and in 2009 we acquired QuickArrow Inc. ("QA"), both of which offer professional services automation and project portfolio management products.

Our headquarters are located in San Mateo, California. We were incorporated in California in September 1998 and reincorporated in Delaware in November 2007. We conduct our business worldwide, with international locations in

Canada, Europe, Asia, Australia and Uruguay.

During 2012, we acquired the following two companies to further develop our Ecommerce vertical. In connection with these acquisitions, we incurred transaction costs totaling $1.2 million.

In November 2012, we purchased certain assets from Retail Anywhere ("RA"), an on-line retail solution service provider. We purchased RA to expand our retail software solutions in our Ecommerce vertical. RA software allows us to expand our Ecommerce services to brick and mortar store point of sale terminals. The RA assets and operating results are reflected in our consolidated financial statements from the date of acquisition. On the closing date, we paid $5.0 million in cash. Additional consideration of $1.3 million in cash is being withheld for up to the next 15 months following the close of the transaction as protection against certain losses that we may incur in the event of certain breaches of representations and warranties covered in the purchase agreement.

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During the second quarter of 2012, we completed the purchase of all of the outstanding equity of two small South American companies ("SAC") that specialize in Ecommerce technology and services. We also purchased certain assets from two entities related to the SAC. The SAC workforce will augment our existing professional services and product development teams. On the closing dates, we paid $4.0 million in cash. Additional consideration of $2.2 million in cash is being withheld for various periods up to the next 10 years following the close of the transaction as protection against certain losses we may incur in the event of certain breaches of representations and warranties covered in the purchase agreement. During the second quarter of 2012, we recorded $736,000 in operating expenses related to transaction costs associated with this business combination.

Key Components of Our Results of Operations

Revenue

Our revenue has grown from $17.7 million during the year ended December 31, 2004 to $308.8 million during the year ended December 31, 2012.

We generate sales directly through our sales team and, to a lesser extent, indirectly through channel partners. We sell our service to customers across a broad spectrum of industries, and we have tailored our service for wholesalers/distributors, manufacturers, e-tailers, services companies and software companies. The primary target customers for our service are medium-sized businesses and divisions of large companies. An increasing percentage of our customers and our revenue have been derived from larger businesses within this market. For the year ended December 31, 2012, we did not have any single customer that accounted for more than 3% of our revenue.

We are pursuing a number of strategies that we believe will enable us to continue to grow. The goals of those strategic objectives are to continue to move up-market, to increase the use of NetSuite as a platform, and to extend the verticalization of our product line. Although we have made progress toward our goals in recent periods, there are still many areas where we believe that we can continue to grow. To achieve these goals, we are focused on the following initiatives:

- Growth of sales of OneWorld, our platform for ERP, CRM, PSA and Ecommerce capabilities in multi-currency environments across multiple subsidiaries and legal entities, which supports the needs of large, standalone companies, and divisions of large enterprises;
- Strengthening our offerings for targeted industries such as wholesale/distribution, manufacturing, e-tail, retail, technology and professional services by adding deeper verticalized functionality; and
- Developing our SuiteCloud ecosystem to enable third parties to extend our offerings with their vertical expertise or horizontal solution.

We experience competitive pricing pressure when our products are compared with solutions that address a narrower range of customer needs or are not fully integrated (for example, when compared with Ecommerce or CRM stand-alone solutions). In addition, since we sell primarily to medium-sized businesses, we also face pricing pressure in terms of the more limited financial resources or budgetary constraints of many of our target customers. We do not currently experience significant pricing pressure from competitors that offer a similar cloud-based integrated business management suite.

We sell our application suite pursuant to subscription agreements. The duration of these agreements is generally one to three years. We rely in part on a large percentage of our customers to renew their agreements to drive our revenue growth. Our customers have no obligation to renew their subscriptions after the expiration of their subscription period. We generally invoice our customers in advance in monthly, 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. As of December 31, 2012, we had deferred revenue of $161.4 million.

Backlog was approximately $110.4 million and $95.3 million as of December 31, 2012 and 2011, respectively. Of the $110.4 million in backlog as of December 31, 2012, $73.4 million was short-term backlog and $37.0 million was long-term backlog. The $95.3 million in backlog as of December 31, 2011 included $67.6 million in short-term backlog and $27.7 million in long-term backlog. Backlog represents future billings under our subscription agreements that have not been invoiced or have not been recorded as deferred revenue. We expect that the amount of backlog may change from year-to-year for several reasons, including specific timing and duration of large customer subscription agreements, varying billing cycles of non-cancelable subscription agreements, the specific timing of customer renewals, foreign currency fluctuations, the timing of when unbilled deferred revenue is to be recognized as revenue and changes in customer financial circumstances. For multi-year subscription agreements billed annually, the associated backlog is typically high at the beginning of the contract period, zero immediately prior to expiration and increases if the agreement is renewed. Low backlog attributable to a particular subscription agreement is typically associated with an impending renewal and is not an indicator of the likelihood of renewal or future revenue of that customer. Accordingly, we expect that the amount of backlog may change from year to year depending in part

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upon the number of subscription agreements in particular stages in their renewal cycle. Such fluctuations are not reliable indicators of future revenues.

During the second quarter of 2012, we updated the terms of our standard renewal agreement form so that the legal obligation to pay by our customers occurs upon execution of the renewal agreement rather than on their renewal date. Based on our existing policy of recording amounts that have been invoiced in accounts receivable and deferred revenue where the customer has a legal obligation to pay, invoices from these renewal agreements are now recorded in accounts receivable and deferred revenue upon execution of the renewal agreement rather than at the start of the renewal period. Had we not revised the terms of these renewal agreements, we would have recorded approximately $10.0 million less in accounts receivable and deferred revenue as of December 31, 2012.

Our subscription agreements provide service level commitments of 99.5% uptime per period, 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 liabilities on our balance sheet for these commitments.

Revenue by geographic region, based on the billing address of the customer, was as follows for the periods presented:

	Year ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
United States	$227,975	$172,527	$143,607
International	80,850	63,799	49,542
Total revenue	$308,825	$236,326	$193,149
Percentage of revenue generated outside of the United States	26 %	27 %	26 %

Employees

As of December 31, 2012, our headcount was 1,778 employees including 518 employees in sales and marketing, 687 employees in operations, professional services, training and customer support, 393 employees in product development, and 180 employees in a general and administrative capacity.

Cost of Revenue

Subscription and support cost of revenue primarily consists of costs related to hosting our application suite, providing customer support, data communications expenses, personnel and related costs of operations, stock-based compensation, software license fees, outsourced subscription services, costs associated with website development activities, allocated overhead, amortization expense associated with capitalized internal use software and acquired developed technology, and related plant and equipment depreciation and amortization expenses.

Professional services and other cost of revenue primarily consists of personnel and related costs for our professional services employees and executives, external consultants, stock-based compensation and allocated overhead.

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 cost of revenue and each operating expense category.

We expect cost of revenue to remain constant as a percentage of revenue over time; 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.

Operating Expenses

Product Development

Product development expenses primarily consist of personnel and related costs for our product development employees and executives, including salaries, stock-based compensation, 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 as well as localizing our product for international use. 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, causing us to incur additional expenses related to translation and localization of our application for use in other countries.

At our product development facility in the Czech Republic, we participate in a government program that subsidizes us for employing local residents. Under the program, the Czech government will reimburse us for certain operating expenses we incur. During the year ended December 31, 2012, we reduced our product development expense for eligible operational expenses we expect the Czech government to reimburse. On a quarterly basis, we will accrue our expected subsidies for the duration of the program.

In 2013, we expect product development expenses to increase in absolute dollars as we continue to extend our service offerings in other countries, and as we expand and enhance our application suite technologies. 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, commissions and training, stock-based compensation, commissions paid to our channel partners, the cost of marketing programs such as on-line lead generation, promotional events, webinars and other meeting costs, amortization of intangible assets related to trade name and customer relationships, and allocated overhead. We market and sell our application 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.

We expect to continue to invest in sales and marketing to pursue new customers and expand relationships with existing customers. As such, we expect our sales and marketing expenses to increase in terms of absolute dollars in 2013.

General and Administrative

General and administrative expenses primarily consist of personnel and related costs for executive, finance, human resources and administrative personnel, stock-based compensation, legal and other professional fees, other corporate expenses and allocated overhead.

In 2013, we expect our general and administrative expenses to increase in terms of absolute dollars as we continue to expand our business.

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.

Critical Accounting Policies and Judgments

Our consolidated financial statements are prepared in accordance with GAAP in the United States of America. 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 position, 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, significant judgment is required in selecting among available alternative accounting standards that allow different accounting treatment for similar transactions. We consider these policies requiring significant management judgment to be critical accounting policies. These critical accounting policies are:

- Revenue recognition;
- Internal use software and website development costs;
- Deferred commissions;
- Accounting for stock-based compensation; and
- Goodwill and other intangible assets.

A description of our critical accounting policies and judgments for those areas are presented below. In addition, please refer to the Notes to Consolidated Financial Statements for further discussion of our accounting policies.

Revenue Recognition

We generate revenue from two sources: (1) subscription and support services; and (2) professional services and other. Subscription and support revenue includes subscription fees from customers accessing our cloud-based application suite and support fees from customers purchasing support. Our arrangements with customers do not provide the customer with the right to take possession of the software supporting the cloud-based application service at any time. Professional services and other

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revenue include fees from consultation services to support the business process mapping, configuration, data migration, integration and training. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

For the most part, subscription and support agreements are entered into for 12 to 36 months. In aggregate, more than 90% of the professional services component of the arrangements with customers is performed within 300 days of entering into a contract with the customer.

The subscription agreements provide service-level commitments of 99.5% uptime per period, 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 liabilities on our balance sheet for these commitments.

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 reasonably assured; and
- the amount of fees to be paid by the customer is fixed or determinable.

In most instances, revenue from a new customer acquisition is generated under sales agreements with multiple elements, comprised of subscription and support fees from customers accessing our cloud-based application suite and professional services associated with consultation services. We evaluate each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. An element constitutes a separate unit of accounting when the delivered item has standalone value and delivery of the undelivered element is probable and within our control. Subscription and support have standalone value because we routinely sell it separately. Professional services have standalone value because we have sold professional services separately and there are several third party vendors that routinely provide similar professional services to our customers on a standalone basis.

In October 2009, the FASB amended the accounting standards for multiple-element revenue arrangements (“ASU 2009-13”) to:

- provide updated guidance on whether multiple deliverables exist, how the elements in an arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using estimated selling prices (“ESP”) of each element if a vendor does not have vendor-specific objective evidence of selling price (“VSOE”) or third-party evidence of selling price (“TPE”); and
- eliminate the use of the residual method and require a vendor to allocate revenue using the relative selling price method.

We early adopted this accounting guidance on April 1, 2010, for applicable arrangements entered into or materially modified after January 1, 2010 (the beginning of our fiscal year).

Prior to our adoption of ASU 2009-13, we were not able to establish VSOE or TPE for all of the undelivered elements. As a result, we typically recognized subscription and support, and professional services revenue ratably over the contract period, and allocated subscription and support revenue and professional services revenue based on the contract price.

As a result of the adoption of ASU 2009-13, we allocate revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE, if available, TPE, if VSOE is not available, or ESP, if neither VSOE nor TPE is available. We have been unable to establish VSOE or TPE for the elements of our sales arrangements. Therefore, we establish the ESP for each element primarily by considering the weighted average of actual sales prices of professional services when sold on a standalone basis and subscription and support including various add-on modules when sold together without professional services, and other factors such as gross margin objectives, pricing practices and growth strategy. The consideration allocated to subscription and support is recognized as revenue ratably over the contract period. We have established processes to determine ESP, allocate revenue in multiple arrangements using ESP, and make reasonably dependable estimates of the percentage-of-completion method for professional services.

The consideration allocated to professional services and other is recognized as revenue on a percentage-of-completion method. The total arrangement fee for a multiple element arrangement is allocated based on the relative ESP of each element unless the fee allocated to the subscription and support under this method is less than the fee subject to refund if the performance conditions are not met. In most multiple element arrangements, the relative ESP of the subscription and support is less than the contractual amounts subject to the performance conditions. In these instances, pursuant to ASU 2009-13, since the professional services are generally completed prior to completion of the subscription and support, the allocation of the fee for subscription and support is at least equal to the contractual amounts subject to the performance conditions.

Prior to adoption of ASU 2009-13, in multiple element arrangements where we determined that a subset of professional services was essential to the customers use of the subscription services ("Essential Professional Services Arrangements"), we deferred the commencement of revenue recognition for the entire arrangement until we have delivered the essential professional services component or made a determination that the remaining professional services were no longer essential to the customer. With the adoption of ASU 2009-13, we recognize revenue for subscription and support services in such arrangement over the contract period commencing when the subscription service is made available to the customer and for professional services on a percentage-of-completion method.

For single element sales agreements, subscription and support revenue is recognized ratably over the contract term beginning on the provisioning date of the contract. Prior to April 1, 2010, professional services revenue generated under single element sales agreements, was immaterial and therefore was recognized when fully delivered. As of April 1, 2010, the date of adoption of ASU 2009-13, we recognized professional services revenue based on a percentage-of-completion method for both single and multiple element arrangements since we now separate the professional services revenue from subscription and support revenue. Cost related to professional services is recognized as incurred.

Internal Use Software and Website Development Costs

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, 2012, 2011 or 2010. We capitalized $4.1 million, $1.3 million and $96,000 in internal use software during the years ended December 31, 2012, 2011 and 2010, respectively.

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 commission costs are so closely related to the revenue from the customer contracts that they should be expensed over the same period that the related revenue is recognized. We capitalized commission costs of $50.5 million, $44.4 million and $27.6 million during the years ended December 31, 2012, 2011 and 2010, respectively.

Accounting for Stock-Based Compensation

We recognize the fair value of stock-based compensation in financial statements over the requisite service period of the individual grants, which generally equals a four year vesting period. We recognize compensation expense for stock option awards, restricted stock awards and restricted stock unit awards on a straight-line basis over the requisite service period. We recognize compensation expense related to performance share awards based on the accelerated method which recognizes a larger portion of the expense during the beginning of the vesting period than in the end of the vesting period. Estimates are used in determining the fair value of stock option awards using a Black-Scholes model. The fair value of restricted stock, restricted stock units performance share and performance share units is generally determined based on the intrinsic value of the award on the grant date. Our 2011 performance share unit grants included a market condition performance criteria so we used a Monte Carlo simulation model to determine their fair value. Changes in the estimates used to determine the fair value of share-based equity compensation instruments could result in changes to our compensation charges. Additionally, our 2011 performance share unit grants vest 1/12 per quarter with the initial vesting event on February 15, 2012. In 2012, performance metrics for certain performance shares awarded for 2013 and 2014 had not been set by our Board of Directors. As such, there is no accounting for these awards until the performances metrics are set.

In recent years, we have awarded more restricted stock, restricted stock units and performance share units than granted stock options. Consequently, our restricted stock, restricted stock units and performance share units stock-based compensation expense represents a larger portion of total stock-based compensation expense recorded in our financial statements than stock options.

As a result of our stock-based compensation activity, we recorded \$48.4 million, \$38.3 million and \$31.3 million of stock-based compensation during the years ended December 31, 2012, 2011 and 2010, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. We allocated a portion of the purchase price of the acquisition of our acquired businesses to intangible assets, including customer relationships, developed technology and trade names that are being amortized over their estimated useful lives of one to seven years. We also allocated a portion of the purchase price to tangible assets and assessed the liabilities to be recorded as part of the purchase price. The estimates we made in allocating the purchase price to tangible and intangible assets, and in assessing liabilities recorded as part of the purchase, involved the application of judgment and the use of estimates and these could significantly affect our operating results and financial position.

We review the carrying value of goodwill for impairment annually and whenever events or changes in circumstances indicate that the carrying value of goodwill may exceed its fair value. We evaluate impairment by comparing the estimated fair value of the reporting unit to its carrying value. We estimate fair value based on our market capitalization and the market

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multiples of revenue and gross profit for publicly traded peer companies. Actual results may differ materially from these estimates. The estimates we make in determining the fair value of the reporting unit involve the application of judgment potentially affecting the timing and size of any future impairment charges. Impairment of our goodwill could significantly affect our operating results and financial position. Based on our most recent assessment, there was no goodwill impairment.

We continually evaluate whether events or circumstances have occurred that indicate that the estimated remaining useful life of our long-lived assets, including intangible assets, may warrant revision or that the carrying value of these assets may be impaired. Any write-downs are treated as permanent reductions in the carrying amount of the assets. We must use judgment in evaluating whether events or circumstances indicate that useful lives should change or that the carrying value of assets has been impaired. Any resulting revision in the useful life or the amount of impairment also requires judgment. Any of these judgments could affect the timing or size of any future impairment charges. Revision of useful lives or impairment charges could significantly affect our operating results and financial position.

In 2009, we acquired QuickArrow ("QA") for approximately $19.4 million and assigned $3.3 million to the developed technology intangible asset. The QA developed technology was being amortized over a four year period to cost of revenue. QA computing solutions for professional services businesses has advanced our cloud computing application suite for services-based companies.

In the second quarter of 2012, certain QA customers transitioned from the QA service offering to a NetSuite service offering or terminated their service completely resulting in the carrying value of the QA developed technology assets exceeding the revised undiscounted expected future cash flows for the service. As a result, we recorded a $401,000 impairment charge based on the excess of the carrying amount of the QA developed technology over the fair value of such asset as of June 30, 2012. We amortized the remaining $481,000 net carrying value of the asset over the second half of 2012 which was the period the intangible asset generated revenue.

There were no impairment of goodwill during the years ended December 31, 2012, 2011 or 2010.

Results of Operations

Revenue and Cost of Revenue

Our revenue, cost of revenue, gross profit and gross margin was as follows for the periods presented:

	Year ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
Revenue:			
Subscription and support	$252,903	$199,579	$163,964
Professional services and other	55,922	36,747	29,185
Total revenue	308,825	236,326	193,149
Cost of revenue (1):			
Subscription and support	41,857	33,083	26,908
Professional services and other	53,706	37,777	34,741
Total cost of revenue	95,563	70,860	61,649
Gross profit	$213,262	$165,466	$131,500
Gross margin	69%	70%	68%

(1) Includes stock-based compensation expense and amortization of intangible assets of:

Cost of revenue:			
Subscription and support	$4,691	$3,568	$3,598
Professional services and other	5,978	4,138	3,802
	$10,669	$7,706	$7,400

2012 compared to 2011

Revenue for the year ended December 31, 2012 increased $72.5 million, or 31%, compared to the same period in 2011.

Subscription and support revenue: Subscription and support revenue for the year ended December 31, 2012 increased $53.3 million, or 27%, compared to the same period in 2011. The increase was primarily the result of a $47.6 million increase in revenue resulting from the acquisition of new customers including the continued adoption of OneWorld, and a $5.7 million

increase in revenue from existing customers. Additionally, subscriptions and support revenue increased during the year due to an increase in customer usage and an increase in the average selling price on deals for new customers.
Professional services and other revenue: Professional services and other revenue for the year ended December 31, 2012 increased $19.2 million, or 52%, compared to the same period in 2011. The increase was primarily the result of a $36.6 million increase in revenue resulting from the acquisition of new customers. The increase in professional services and other revenue was partially offset by a $17.4 million decrease in revenue from existing customers related to services purchased in connection with the initial implementation of our product in 2011 that did not recur for those customers in 2012. Additionally, demand for our professional services, particularly from our enterprise customers, has increased during 2012. Our consulting rates for professional services also increased in 2012.
Revenue generated outside of the United States was $80.9 million, or 26%, of our revenue during the year ended December 31, 2012, as compared to $63.8 million, or 27%, during the same period in 2011. Revenue generated outside the United States increased primarily due to our increased international sales efforts particularly in Australia.
Cost of revenue for the year ended December 31, 2012 increased $24.7 million, or 35%, compared to the same period in 2011.
Subscription and support cost of revenue: Subscription and support cost of revenue for the year ended December 31, 2012 increased $8.8 million, or 27%, compared to the same period in 2011. The increase was primarily the result of a $4.3 million increase in personnel costs which resulted from an increase in headcount and wages, a $1.7 million increase in data center expenses resulting from enhancements to our product delivery infrastructure, a $1.2 million increase in depreciation expense associated with new equipment and a $1.6 million increase in overhead and other operational expenses due to an increase in amortization expense associated with intangible assets. The increase in personnel costs includes a $630,000 increase in stock-based compensation resulting from the issuance of equity awards to both existing and new employees.
Professional services and other cost of revenue: Professional services and other cost of revenue for the year ended December 31, 2012 increased $15.9 million, or 42%, compared to the same period in 2011. The increase was primarily the result of a $10.3 million increase in personnel costs which resulted from an increase in headcount, salary increases and other personnel costs, a $2.6 million increase in external consultants costs which resulted from an increase in customer demand for our professional services and $2.7 million increase in allocated overhead and other operational expenses due to an increase in allocations associated with an increase in headcount. The increase in personnel costs includes a $1.8 million increase in stock-based compensation resulting from the issuance of equity awards to both existing and new employees.
Our gross margin was 69% during the year ended December 31, 2012 and 70% for the same period in 2011. The decrease in our gross margin resulted primarily from an increase in demand for our professional services which represented a larger percentage of total revenue in 2012 compared to 2011.
2011 compared to 2010

Revenue for the year ended December 31, 2011 increased $43.2 million, or 22%, compared to the same period in 2010.
Subscription and support revenue: Subscription and support revenue for the year ended December 31, 2011 increased $35.6 million, or 22%, compared to the same period in 2010. The increase was primarily the result of a $32.4 million increase in revenue resulting from the acquisition of new customers including the continued adoption of OneWorld, and a $3.2 million increase in revenue from existing customers. Additionally, subscriptions and support revenue increased during the year due to an increase in customer usage and an increase in the average selling price on deals for new customers.
Professional services and other revenue: Professional services and other revenue for the year ended December 31, 2011 increased $7.6 million, or 26%, compared to the same period in 2010. The increase was primarily the result of a $25.2 million increase in revenue resulting from the acquisition of new customers. The increase in professional services and other revenue was partially offset by a $17.6 million decrease in revenue from existing customers related to services purchased in connection with the initial implementation of our product in 2010 that did not recur for those customers in 2011. Additionally, our customer demand and consulting rates for professional services also increased in

2011.

Revenue generated outside of the United States was $63.8 million, or 27%, of our revenue during the year ended December 31, 2011, as compared to $49.5 million, or 26%, during the same period in 2010. Revenue generated outside the United States increased primarily due to our increased international sales efforts particularly in Australia.

Cost of revenue for the year ended December 31, 2011 increased $9.2 million, or 15%, compared to the same period in 2010.

Subscription and support cost of revenue: Subscription and support cost of revenue for the year ended December 31, 2011 increased $6.2 million, or 23%, compared to the same period in 2010. The increase was primarily the result of a $3.0 million increase in personnel costs which resulted from an increase in headcount and wages, a $1.8 million increase in data center expenses resulting from enhancements to our product delivery infrastructure, a $1.2 million increase in depreciation expense associated with new equipment and a $664,000 increase in overhead expenses partially offset by a $567,000 decrease in amortization of intangibles. The increase in personnel costs includes a $510,000 increase in stock-based compensation resulting from the issuance of equity awards to both existing and new employees.

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Professional services and other cost of revenue: Professional services and other cost of revenue for the year ended December 31, 2011 increased $3.0 million, or 9%, compared to the same period in 2010. The increase was primarily the result of a $1.9 million increase in personnel costs which resulted from an increase in wages and other personnel costs and a $1.4 million increase in external consultants' costs which resulted from an increase in customer demand for our professional services. These cost increases were partially offset by a $300,000 net decrease in other expenses. The increase in personnel costs includes a $336,000 increase in stock-based compensation resulting from the issuance of equity awards to both existing and new employees. For the years ended December 31, 2011 and 2010, our professional services and other costs of revenue was greater than the professional services and other revenue. We view professional services as an investment in customer success to ensure that we continue to secure recurring subscription and support revenue.
Our gross margin was 70% during the year ended December 31, 2011 and 68% for the same period in 2010. The increase in our gross margin resulted primarily from an increase in demand for our professional services which were more profitable in 2011 compared to 2010 as a result of higher consulting rates.

Operating Expenses
Operating expenses were as follows for the periods presented:

	Year ended December 31,					
	2012		2011		2010	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	(dollars in thousands)					
Operating expenses (1):						
Product development	$52,739	17 %	$43,531	18 %	$35,019	18 %
Sales and marketing	154,294	50 %	120,172	51 %	92,814	48 %
General and administrative	38,469	12 %	31,951	14 %	29,232	15 %
Total operating expenses	$245,502	79 %	$195,654	83 %	$157,065	81 %

(1) Includes stock-based compensation expense, amortization of acquisition-related intangible assets, transaction costs for business combinations and costs associated with the settlement of a patent dispute as follows:

	Year ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
Product development	$15,301	$12,015	$9,723
Sales and marketing	16,588	13,437	10,249
General and administrative	11,803	9,662	8,565
Total	$43,692	$35,114	$28,537

2012 compared to 2011

Product development expenses: Product development expenses for the year ended December 31, 2012 increased $9.2 million, or 21%, as compared to the same period in 2011. The increase was primarily the result of a $10.0 million increase in personnel costs resulting from an increase in headcount, annual salary increases, payroll tax increases and an increase in stock-based compensation. The increase in personnel costs includes a $3.2 million increase in stock-based compensation resulting primarily from the issuance of annual equity awards to employees. Additionally, allocated overhead expense and other costs increased by $1.9 million due to higher overhead costs which are primarily facility costs and other operational costs associated with product development headcount. These cost increases were partially offset by expense reductions related to a $2.0 million employment development subsidy from the Czech Republic government for the period from November 2010 to December 31, 2012 and a $1.3 million increase in capitalized product development costs associated with new product functionality.

Sales and marketing expenses: Sales and marketing expenses for the year ended December 31, 2012 increased $34.1 million, or 28%, as compared to the same period in 2011. The increase was primarily the result of a $24.4 million increase in personnel costs, a $7.0 million increase in marketing and other costs and a $2.7 million increase in allocated overhead expense. The increase in personnel costs related primarily to an increase in headcount, commission expenses related to an increase in sales and a $2.8 million increase in stock-based compensation resulting from the issuance of equity awards to both existing and

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new employees. Marketing and other expenses increased primarily due to higher on-line marketing costs, an increase in costs associated with our annual user conference, higher trade show fees and other promotional events.
General and administrative expenses: General and administrative expenses for the year ended December 31, 2012 increased $6.5 million, or 20%, when compared to the same period in 2011. The increase was primarily the result of a $3.6 million increase in personnel costs and a $2.9 million increase in other operational costs. The increase in personnel costs resulted from an increase in headcount, an increase in merit pay and an increase in other payroll costs such as recruiting. Other operational costs increased primarily due to an increase in costs related to general administrative services and $797,000 in additional sales taxes, partially offset by a decrease in patent costs due to a $720,000 patent settlement expense recorded in 2011, but not incurred in 2012. Additionally, we incurred $1.2 million in transaction costs in connection with our acquisition of SAC and RA during the year ended December 31, 2012. We also experienced a $6.7 million increase in overhead expenses that are allocated to other departments due to an increase in costs such as facility costs, information technology costs and recruiting costs.
2011 compared to 2010

Product development expenses: Product development expenses for the year ended December 31, 2011 increased $8.5 million, or 24%, as compared to the same period in 2010. The increase was primarily the result of a $9.0 million increase in personnel costs and a $1.1 million increase in overhead allocations and other costs, partially offset by a $1.5 million decrease in outside professional services and an increase in the capitalization of internal software development costs during the year. The increase in personnel costs includes a $2.3 million increase in stock-based compensation resulting from the issuance of equity awards to both existing and new employees. Personnel costs also increased during 2011 due to an increase in headcount and wages.
Sales and marketing expenses: Sales and marketing expenses for the year ended December 31, 2011 increased $27.4 million, or 29%, as compared to the same period in 2010. The increase was primarily the result of a $24.5 million increase in personnel costs, a $2.2 million increase in overhead costs allocations and a $704,000 increase in marketing and other costs. The increase in personnel costs related primarily to an increase in headcount, commission expenses related to an increase in sales and a $3.5 million increase in stock-based compensation resulting from the issuance of equity awards to both existing and new employees.
General and administrative expenses: General and administrative expenses for the year ended December 31, 2011 increased $2.7 million, or 9% ,when compared to the same period in 2010. The increase resulted primarily from a $2.4 million increase in personnel costs resulting from an increase in wages and other payroll related costs and $720,000 in costs associated with the settlement of a patent dispute. (See Note 7. in Notes to our Consolidated Financial Statements) The increase in personnel costs includes a $400,000 increase in stock-based compensation resulting from the issuance of equity awards to both existing and new employees.
Non-operating items, including interest income and expense, other income / (expense), income taxes and the effect of net loss attributable to noncontrolling interest were as follows for the periods presented:

Year ended December 31,				
2012		2011		2010
Amount	% of revenue	Amount	% of revenue	