SERENA SOFTWARE INC
Form 10-K
May 02, 2011
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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 January 31, 2011

or

¨   **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: 000-25285

SERENA SOFTWARE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware   **94-2669809**

(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	**Identification No.)**
1900 Seaport Boulevard	

Redwood City, California 94063-5587   **(650) 481-3400**
(Address of Principal Executive Offices)   (Registrant s telephone number,

including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

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 x   No ¨

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 ¨   No x

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes ¨   No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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.   x

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer   ¨   Accelerated Filer   ¨

Non-Accelerated Filer   x (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 common stock held by non-affiliates of the registrant was zero as of January 31, 2010, the last business day of the registrant s most recently completed fiscal quarter. The registrant is a privately-held company and there is no public trading market for its common stock.

As of March 31, 2011, the number of shares of the registrant s common stock outstanding was 98,390,978.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. None.

SERENA SOFTWARE, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended January 31, 2011

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PART I

ITEM 1. BUSINESS

Our fiscal year ends on January 31 and, except as otherwise provided, references to a particular fiscal year in this Annual Report on Form 10-K mean the fiscal year ended on January 31 of such year. For example, fiscal year 2011 refers to the fiscal year ended January 31, 2011.

Our Company

We are the largest global independent software company in terms of revenue focused solely on managing change across information technology, or IT, environments. Our products and services primarily address the complexity of application lifecycle management, or ALM, and are used by our customers to manage the development of, and control change in, mission critical applications within both mainframe and distributed systems environments. In addition, we provide products and services to enable customers to rapidly address business process management, or BPM, challenges through the use of visually designed process workflows. Our products and services allow customers to orchestrate and manage their application development, IT and business processes by automating and integrating disparate ALM products and processes, improving process visibility and consistency, enhancing software integrity, mitigating application development risks, supporting auditability and regulatory compliance, and boosting productivity. Our revenue is generated by software licenses, maintenance contracts and professional services. Our software products are typically installed within customer IT environments and generally accompanied by renewable annual maintenance contracts.

Our software and services are of critical importance to our customers, who make significant investments in developing applications and automating IT processes around our software solutions. We have a diversified, global customer base with a history of more than 15,000 installations of our products at customer sites worldwide. Our customers include industry leaders in the finance, telecommunications, automotive and transportation, healthcare, energy and power, equipment and machinery and technology industries, with no single customer accounting for 10% or more of our total revenue for the fiscal year ended January 31, 2011. During the same period, we generated 67%, 28%, 4% and 1% of our total revenue in North America, Europe, the Asia Pacific region and South America, respectively.

Revenue generated from software licenses, maintenance contracts and professional services accounted for 24%, 67% and 9%, respectively, of our total revenue for the fiscal year ended January 31, 2011. Software license revenue is generated by the sale of perpetual software licenses to existing and new customers, and includes both upfront licenses as well as follow-on license purchases as customers expand capacity, add additional applications or users and require additional products to satisfy a broader set of requirements. Software licenses are generally accompanied by annual maintenance contracts, which are typically priced between 17% and 21% of the price of software license. The annual maintenance contracts provide customers the right to obtain updates, bug fixes and telephone support for our applications. We typically collect maintenance fees at the time the maintenance contract is entered into and ratably recognize these fees over the term of the contract, generally one year. Professional services revenue is generated through best practices implementations to facilitate the optimal installation and usage of our software, and technical consulting and educational services.

Serena Software, Inc. was incorporated under the laws of California in 1980 and re-incorporated under the laws of Delaware in 1998. On March 10, 2006, Spyglass Merger Corp., an affiliate of Silver Lake, a private equity firm, merged with and into us, a transaction we refer to in this annual report as the merger. As a result of the merger, our common stock ceased to be traded on the NASDAQ National Market and we became a privately-held company, with approximately 56.5% of our common stock at the time of the merger on a fully diluted basis owned by investment funds affiliated with Silver Lake.

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Our Industry

Companies increasingly depend on IT tools and applications for mission critical business processes. Many of the largest commercial businesses and government entities house essential information and applications in mainframe computers located in centralized datacenters or distributed systems networks. Organizations have also increasingly opened their IT systems to customers and suppliers through their Internet and extranet sites to enhance supplier and vendor transparency, decrease data inefficiencies and reduce time to market for their products and services.

Our customers applications, systems and IT infrastructure are constantly evolving to meet changing customer, supplier and employee requirements. In addition, government and industry regulations have increased the need for governance of these applications and monitoring changes to IT environments. Changes to IT environments are increasingly becoming complicated by the tendency towards moving internal software development offshore, requiring IT managers to oversee multiple development processes across various geographies. As a result, specific functionality allowing organizations to audit, track and monitor changes, and revert back to previous versions, has become critical to managing IT systems. Organizations have an ongoing and growing need for solutions that efficiently and effectively manage change across increasingly complex IT environments.

Our products address a number of industry segments within the broader ALM market, including software change and configuration management, or SCCM, requirements management, or RM, project and portfolio management, or PPM, business process management, or BPM, and IT service management, or ITSM, markets. *SBM (Serena Business Manager)*, our BPM product, can be used to manage application development processes as well as general business processes.

We believe that several factors will continue to drive growth in the markets we serve, including:

Accelerating Software Complexity. As organizations become more dependent on complex, cross-platform IT applications, the importance of managing IT change effectively is increasingly critical. ALM tools are necessary to understand how a change in one part of the IT environment will impact the other IT systems and processes related to such change.

Regulatory Compliance. Organizations across a range of industries are increasingly required to comply with changing and new regulations that require organizations to audit, track and manage changes to their IT systems. We believe these regulatory changes and the overall regulatory environment are forcing many companies to audit their IT practices and confront change management issues with a high degree of attention directed at the potentially severe consequences of change management failures.

Business Pressures for Productivity, Quality and Faster Time to Market. Ongoing pressures on IT departments to reduce spending and improve service will continue to focus attention on process improvement in the software development life cycle. Customers will look to vendors to provide well-integrated solutions that assure the delivery of high quality applications to the market faster.

Need for Rapid and Cost Effective Human Process Management. As organizations grow, the requirement for managing and documenting human processes across multiple departments and geographies becomes mandatory. These processes often change rapidly, frequently requiring a cost effective solution to manage vital business processes.

Outsourcing. Companies continue to outsource critical IT functions by shifting software development to new geographic locations, creating the need to coordinate and communicate changes among developers in often widely dispersed locations. The outsourcing trend increases companies reliance on change management processes to allow all relevant personnel to view, approve and control changes to software applications.

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Significant Opportunity to Replace Internally Developed Solutions. A significant number of companies and government agencies currently use manual processes and internally developed software solutions to monitor their IT environments. Due to accelerating software complexity, increasing regulatory requirements and outsourcing, a growing number of organizations have begun purchasing third-party software solutions instead of relying on manual processes and internally developed software solutions.

Our Strengths

We believe our strengths in addressing the above-mentioned industry opportunities include the following:

Global Software Vendor with Leading Market Position. We are the largest global independent software company in terms of revenue focused solely on managing change across IT environments. Our products offer solutions for both distributed systems and mainframe platforms. According to Gartner s 2010 research report on worldwide software change and configuration management vendor market shares, we were the number three ranked vendor in the software change and configuration management market. We attribute our leading position to the breadth and quality of our product offerings and to our established customer relationships.

Stable, Recurring Revenue Base with Significant Visibility. The mission critical nature of our products combined with our large installed customer base have enabled us to develop a stable, recurring revenue base comprised of license, maintenance and professional services revenues. For the fiscal year ended January 31, 2011, maintenance revenue comprised 67% of our total revenue. Our maintenance revenue is generally recurring, providing us with significant visibility into our future revenue and, to a lesser extent, profitability. For the fiscal year ended January 31, 2011, our maintenance contract renewal rate was at least 90%, which we believe is higher than the industry average. We have a resilient revenue model where customers continue to enter into and renew maintenance contracts, even during significant downturns within the software industry.

Margins and Strong Cash Flow Generation. Due primarily to our broad portfolio of products, large installed customer base and leading market presence, our current business model generates positive working capital and requires minimal capital expenditure, providing us with significant free cash flow. For the fiscal year ended January 31, 2011, we had cash flows from operating activities of $46.0 million, an Adjusted EBITDA margin of 40.5% and $2.8 million in capital expenditures. A description of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to comparable GAAP financial measures is included under Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Covenant Compliance.*

30 Year History with Diversified, Global Customer Base. We have a diversified, global customer base with a history of more than 15,000 installations of our products at customer sites worldwide. We have minimal customer concentration, with no one customer accounting for 10% or more of our total revenue for the fiscal year ended January 31, 2011. We are also continuing to expand our revenue base internationally. For the fiscal year ended January 31, 2011, we derived 33% of our total revenue from international customers.

High Switching Costs. Our software products help our customers define complex and ever-changing software environments. As such, our solutions generally become a key part of our customers application development infrastructure and are embedded deep within multiple parts of a customer s mission-critical IT environment. In addition, it typically takes our customers six to twelve months to implement our products into their systems and requires a significant investment in effort and cost. This makes it difficult for other vendors to sell competing solutions to our customer base, as there are high switching costs in terms of time, effort and expense, and the process of switching products carries the potential for significant business disruption.

Significant Equity Investments from our Founder and Silver Lake. In connection with the merger, a trust and a foundation affiliated with Douglas D. Troxel, our founder and one of our directors, exchanged equity interests

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in Serena, valued for purposes of the exchange at approximately $154.1 million, for equity interests in the surviving corporation. This significant equity investment by our founder, together with the investment of $335.5 million by investment funds affiliated with or designated by Silver Lake, represented over 46% of our capitalization as of January 31, 2011.

Our Strategy

We are focused on continuing to be the leading provider of solutions that enable organizations to manage change throughout their IT environments. To pursue our objectives we have implemented the following strategies:

Develop Orchestrated ALM Solutions. We have a strategic vision to automate end-to-end application development processes from application demand through deployment. Our Orchestrated ALM strategy is to offer a suite of products that provides a unified and integrated framework for connecting people, tools and processes throughout the application lifecycle, delivering automated change processes, managing workflows and enforcing business rules within IT environments. Serena SCCM products, together with *SBM,* allow customers to quickly prioritize and deliver more of the features and applications required by their businesses, communicate changes to demand across their organizations and provide greater visibility and responsiveness by IT organizations. Serena Orchestrated ALM provides integrated capabilities for demand management, requirements management, portfolio analysis, project management, agile software development, software prototyping, and software change and configuration management. Serena Orchestrated ALM helps distributed development teams manage and track changes to requirements, software configurations and timelines.

Continued Focus on Release Management. The objective of application release management is to deploy application changes into production without disrupting the business. This process is often performed manually and is inefficiently connected to the rest of the application lifecycle, leaving a critical gap between application development and operations. Serena Release Management helps IT organizations automate the release process across platforms, environments, and application tiers. IT organizations can increase release frequency and reduce risks with *Serena Release Control*, *Serena Release Vault* and *Serena Release Automation*.

Expand into Information Technology Service Management (ITSM). We recently developed *Serena Service Manager,* a process-based IT service management solution. *Serena Service Manager* leverages the flexibility of *SBM* to automate the service delivery process, provide a simple yet powerful role-based experience to service desk users, deliver visibility into the status of issues across the service lifecycle and assist with Information Technology Infrastructure Library (ITIL) compliance. We expect to continue to develop *Serena Service Manager* and develop additional complementary solutions, such as IT service cataloguing, IT provisioning, change management and request management.

Cross-Sell and Increase Penetration into Our Large, Global Installed Customer Base. We have a large, global installed base that primarily uses our SCCM products for specific platforms. We have a significant opportunity to sell these existing customers SCCM products on additional platforms, expand their use of our products outside of SCCM (for example, RM, BPM, PPM and ITSM) and enable them to purchase and utilize our broader solution set for managing the entire application lifecycle. Moreover, we have the opportunity to sell additional licenses as customers expand capacity, add additional applications and users and develop a need for additional products to satisfy a broader set of requirements.

Maintain and Strengthen Technological Leadership of Our Products. We have assembled a global team of research and development personnel with strong industry and technical expertise in ALM, BPM and ITSM. We continue to focus on improving and upgrading our existing product portfolio and developing innovative technologies to enhance our software products. We believe such products will increase the value that we are able to deliver to our customers, enabling us to increase our revenue.

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Continue to Capitalize on Regulatory Compliance Spending. Organizations across a range of industries are increasingly required to comply with regulations, from industry-specific legislation such as the Health Insurance Portability and Accountability Act, or HIPAA, and the Gramm-Leach-Bliley Act, or the GLBA, to broader legislation such as the Sarbanes-Oxley Act. We believe that the need to comply with these regulatory standards will drive additional license sales of our products, as some customers may prefer not to depend on manual or internally developed systems to satisfy these regulatory requirements. Our products support regulatory compliance by, for example, providing automatic audit trails with an audit and feedback loop that is essential for compliance with requirements imposed by the Sarbanes-Oxley Act. Our products enable easier demonstration of regulatory compliance, and also allow businesses to achieve benefits such as more reliable IT service, faster time to market and demonstrable return on investment for development initiatives.

Use Our Consulting and Services Offerings to Increase Sales of Our Software Products. We plan to use our consulting and services offerings to help drive growth in our software licenses. We provide professional services on a global basis to our customers to deploy best practices implementations to facilitate the optimal installation and usage of our software. In addition to technical consulting, education and customer support, our professional services also include process reengineering and the development of interfaces with customers databases, third party proprietary software repositories and programming languages. As customers recognize the costs and time required to meet increasing regulatory requirements, we believe our professional services organization will benefit. In addition, we believe that our consulting and service offerings will lead to greater customer satisfaction with our products, and in turn will promote increased license and maintenance revenue.

Pursue Strategic Acquisition Opportunities. We have completed a number of strategic transactions in our history, which have enabled us to broaden our product portfolio and expand into new geographies. To supplement our internal development efforts and capitalize on growth opportunities, we intend to continue to employ a disciplined and focused acquisition strategy. We seek to opportunistically acquire businesses, products and technologies in our existing or complementary vertical markets at attractive valuations.

Our Products

We develop, market and support an integrated suite of software products for managing and controlling change across distributed systems and mainframe platforms. A distributed system platform allows applications to share resources over a distributed network using operating systems such as UNIX, Linux and Windows. A mainframe platform uses a centralized system with high processing power to support high-volume applications. Our solutions improve process consistency and enhance the integrity of software that our customers create or modify. This helps protect our customers valuable application assets and improve software developer productivity, operational efficiency, application availability and return on IT investments, all of which ultimately reduce the costs of managing their IT environment. Our products serve a variety of market and customer needs and are grouped as follows:

Software Change and Configuration Management:

Dimensions® : End-to-end cross-platform, highly scalable solution for distributed development. Our *Dimensions* product family integrates application development across global sites, stakeholders, and platforms. Using *Dimensions* allows organizations to model and automatically enforce software development processes. *Dimensions* features tight integration between requirements management and change/configuration management through a common process model and a unified data store that enables IT organizations to trace, validate and implement change requests without disruption during development. The *Dimensions* product line includes *Dimensions CM* for managing the application development, change and configuration process. Customers can also purchase *Dimensions RM* for gathering, tracking and managing application requirements throughout a project s lifecycle. *Prototype Composer*, which allows customers to graphically define and model application software requirements, is fully integrated with *Dimensions*. Models, prototypes and requirements definitions created in *Prototype Composer* can be deployed to *Dimensions RM*.

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PVCS®: PVCS Professional: Integrated suite of issue, version and build management tools for team-based environments. *PVCS Professional* includes *SBM* and *PVCS Version Manager*, a version control product.

ChangeMan® : Software configuration management solution for mainframe systems, in particular z/OS environments. Our *ChangeMan* product family addresses the complexity of developing, deploying and maintaining mainframe software applications by providing software infrastructure to manage changes to mainframe applications in parallel, regardless of development methodology, geographic location or computing platform. The *ChangeMan* product family enables users to automate, control and synchronize those changes throughout their IT environments from a single point of control.

StarTool® and Comparex®: Application testing, data comparison, implementation and problem analysis for mainframe systems. These solutions improve mainframe application availability through file and data management, data comparison, fault analysis, application performance management, input/output optimization and application test debugging.

Application Release Management:

Serena Release Control (ARM): Manages the software release management process from requirements to deployment. Serena Release Control is a composite application that operates using *Serena Business Manager (SBM)*.

Serena Release Vault (Dimensions Deploy): Manages application development, change and configuration process. *Serena Release Control* is based on *Dimensions CM*.

Serena Release Automation: Allows customers to automate and centrally manage application releases. *Serena Release Automation* consists of products that we resell and distribute on behalf of Nolio, Inc.

Application Development and Business Process Management:

Serena Business Manager, or SBM (formerly known as Serena Business Mashups and *TeamTrack)*: Enterprise process management solution to map, track, and enforce any business process, such as IT requests. Our *SBM* product line allows customers to build and deploy integrated business processes that extend to all participants in a project, including departmental users, customers, suppliers and business partners. This Web-based, secure and highly configurable process and issue management solution creates repeatable, enforceable, auditable and predictable processes, giving our customers control, insight and predictability in their management of the application lifecycle and their business processes. The *SBM* product line includes *SBM Composer* for graphically designing composite applications that include human workflow processes, orchestrated connections to other enterprise systems, and interactive web forms. Process-based applications created in *SBM Composer* are then   published   within *SBM* and, once deployed, are available to users from any Web browser or internet-connected device to obtain status updates, enter information and approve and route work to other participants.

IT Service Management:

Serena Service Manager: Flexible process-based IT service management. *Serena Service Manager* leverages *Serena Business Manager (SBM)* to automate the service delivery process, provide a simple yet powerful role-based experience to service desk users, deliver visibility into the status of issues across the service lifecycle and assist with Information Technology Infrastructure Library (ITIL) compliance.

Project and Portfolio Management:

Serena PPM: Portfolio, project, resource, demand and financial management for complete project and portfolio management. *Serena PPM s* project management capabilities allow for a flexible approach

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for project initiation, planning and tracking. With *Serena PPM* s portfolio management capabilities, IT can examine investment tradeoffs and track performance, and use *Serena PPM* s resource management features to analyze resource capacity and assess the impact of project changes. With *Serena PPM* s demand management tools, IT can capture all sources of demand, channeling requests through appropriate approvals. Financial management functions provide assessment of key financial indicators and management of lifecycle costs and benefits.

The following are our principal products:

Product Name	Brief Description
Dimensions® :	
Dimensions CM	Process-driven change management for heterogeneous systems.
Dimensions RM	Tracks and manages requirements through the application development lifecycle.
Prototype Composer	Graphically define and model customer application software requirements.
Serena Business Manager:	
Serena Business Manager	Create and deploy process-centric applications that may include orchestrated connections to other enterprise systems. Maps, tracks and enforces business processes. Formerly known as *Serena Business Mashups* and *TeamTrack*.
SBM Composer	Visual modeling tool for creating workflows, orchestrating connections to other enterprise systems, and design user interfaces.
PVCS® :	
PVCS Professional	An integrated suite of issue and version management tools for team-based environments.
PVCS Version Manager	Version control across all platforms and standard IDEs.
Serena PPM:	
Serena PPM	Tracks and manages portfolio, project, resource, demand and financial management. Formerly known as *Mariner PPM*.
Serena Release Management:	
Serena Release Control (ARM)	Provides an automated, process-centric approach for software release management from requirements to deployment.
Serena Release Vault (Dimensions Deploy)	Based on Dimensions CM, with use restricted to version management, build management, deployment, request management and administrative features.
Serena Release Automation:Powered by Nolio	Automates and centrally manages application releases.
ChangeMan® :	
ChangeMan ZMF	Application change management and development for mainframe systems.
StarTool® and Comparex®:	
StarTool FDM	Facilitates complex mainframe file and data management tasks.
StarTool DA	Automates mainframe dump and abend analysis and speeds application problem solving activities.
Comparex	Performs data comparison for mainframe application testing and software quality.

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Products Under Development

In the coming year, we will continue to execute on our mission to give enterprises control, predictability and insight over change from business planning to operations by enhancing existing products and releasing new solutions based on market needs and requirements. While each development project will be defined and scoped based on market analysis, taking into consideration the needs of our existing and prospective customers, trends in the market, competitive moves and technological advancements, there are a number of overarching corporate goals that will be considered as well.

As part of our strategy focused on Serena Release Management, we plan to continue to enhance the integrations between various products within our product portfolio, such as *Serena Release Control (ARM)*, *Serena Release Vault* (*Dimensions Deploy)* and *Serena Release Automation*, and with third-party vendor solutions, and management reporting tools (i.e., dashboards) within our products, to ensure that our customers have the ability to track, manage and control change in a closed loop, heterogeneous environment ensuring the effective management, traceability and auditability of application release management.

Our Orchestrated ALM strategy will use *SBM* to integrate all parts of the application lifecycle across the enterprise. The objective is to create an integrated suite of not only Serena products, but other third party and open source lifecycle management products. Newly developed dashboards will provide visibility and control across the entire application lifecycle. As part of our strategy focused on the BPM market*,* we plan to continue to develop and enhance the capabilities of the core *SBM* platform, including enhancing the rules based workflow engine and expanding the capability to rapidly change and modify existing process maps and workflows. In addition, we plan to develop process-centric solutions consisting of composite applications that will utilize *SBM* to address governance and process-related needs of our customers within horizontal and certain vertical markets.

As part of our strategy focused on the ITSM market, we plan to develop solutions based on *SBM* in addition to *Serena Service Manager*, including IT service catalogue, IT provisioning, change management and request management.

Our large and diverse customer base provides us with feedback on ways we can evolve our products to meet the needs of markets outside of the core SCCM market. Examples of markets in which our products already address identified customer problems include BPM (*SBM*), PPM (*Serena PPM*), RM (*Dimensions RM*), application release management (*Serena Release Control*, or *ARM*), and ITSM (*Serena Service Manager*). We will continue to develop our solutions to meet the needs of the markets and customers that we currently serve and those in which we can achieve a leadership position.

Professional Services and Customer Support

In connection with the licensing of our software products, we typically enter into annual maintenance contracts that provide customers the right to obtain available updates, bug fixes and telephone support for our applications. In addition, we provide professional services on a global basis to our customers to help them deploy best practices implementations and to facilitate the optimal installation and usage of our software. Our professional services offerings also include technical consulting and educational services.

Consulting. We provide a comprehensive range of consulting services to our customers. Our consultants review customers   existing IT systems and applications and make recommendations for changing those systems and applications and implementing our ALM products so that customers can fully realize their benefits. In addition to helping customers install and deploy our software products, our consulting services may also include process reengineering and developing interfaces with customers   databases, third party proprietary software repositories or programming languages.

We also offer customers more specialized consulting services. These specialized consulting services include our best practices consulting services, which provide customers with expertise and assistance in defining and

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developing a best practice change and configuration management architecture and in identifying corresponding products, methods and procedures. Our consulting services are typically billed on a time and materials basis.

Education. We offer hands-on training courses for the implementation and administration of our products. Product training is provided on a periodic basis at our headquarters in Redwood City, California, and also at customer sites throughout the United States, Europe, and Asia. We also offer course development for certain of our products. We bill our educational services on a per class basis.

Customer Support and Product Maintenance. We have a global staff of customer support personnel who provide technical support to customers. Our support centers are located in North America, the United Kingdom and Australia. We offer technical support services 24 hours a day, seven days a week via our Internet site, toll free telephone lines and electronic mail. Customers are notified about the availability of regular maintenance and enhancement releases via the Internet site or electronic mail. Customers can gain access to online services by registering on our SOS Internet web site. Customers are entitled to receive software updates, maintenance releases and technical support for an annual maintenance fee, which is typically priced between 17% and 21% of the license price.

Technology

Some of the key technological components of our products are summarized below:

Robust and flexible technology for managing processes across multiple sites. Our products contain workflow technology that facilitates the management and monitoring of software development activity and improves the efficiency of the development process. A project to create a new software application may involve hundreds of developers working around the world on tens of thousands of software components, or pieces of code. Several developers may need to develop one component at the same time, or one developer may need to make a change to a single component that also requires changes to many other components. In these situations it is critical to coordinate and control all changes made by developers to the software applications.

With our workflow technology:

> workflows can be tailored to fit customers specific business processes, whereas competing products often impose a one-size-fits-all process on all customers;

> developers are authenticated before they can make changes to components, and a detailed audit trail is maintained, which is useful for regulatory compliance;

> managers can assign tasks to developers and track their progress; and

> managers and developers can communicate and coordinate with one another using our products.

Technologies for managing and manipulating software components. Our technology also streamlines the software development process by indexing and tracking software components across multiple servers. Specifically, our technology can:

> lock access to a file to prevent two developers from making competing changes to the same file;

> compare two versions of the same file and detect differences, using a comparison engine;

process changes made to a single file by different developers, using a merge engine, which enables parallel development teams to apply changes concurrently; and

allow developers to determine which changes have led to errors, using a fingerprinting technology that gives each file a unique token or fingerprint that changes if any bit is altered, which facilitates problem detection and resolution.

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Research and Development

We plan to continue making substantial investments in research and development to maintain our leadership position. We believe that our success will continue to depend on our ability to enhance our current products and to develop new products and services that meet the needs of our customers and the market. Our commitment to research and development is reflected in our investments in this area, which were $33.9 million, $32.7 million and $31.6 million for fiscal years 2009, 2010 and 2011, respectively, representing 13%, 15% and 15% of our total revenue in those years.

We are committed to delivering products and services that consistently provide value to our customers. As part of our strategy for delivering on this commitment, we use our own products internally to automate much of our research and development operations. Our research and development staff also works very closely with our product marketing and support staff to ensure that everything we develop is mapped closely to customer and market requirements.

In the United States, research and development is primarily performed at our facilities in Redwood City, California; Hillsboro, Oregon; Colorado Springs, Colorado; and Woodland Hills, California. We also perform product development internationally in the United Kingdom, India and Ukraine.

Sales and Marketing

We market our software primarily through our direct sales organization in the United States, Canada, Brazil, France, Germany, Italy, the United Kingdom, Spain, the Benelux and Nordic regions, Australia, India, Japan and Korea.

In addition to our direct sales efforts, we have established relationships with distributors, resellers and original equipment manufacturers, or OEMs, located in North America, Latin America, Belgium, Italy, Spain, Hong Kong, Israel, Japan, Korea and South Africa. These distributors, resellers and OEMs market and sell our software as well as provide technical support, educational and consulting services.

We market our products through seminars, industry conferences, trade shows, advertising, direct marketing efforts, and third-party and our own Internet sites. In addition, we have developed programs that promote an active exchange of information between our existing customers and us. These programs include customer meetings with our senior management and focus group meetings with customers to evaluate product positioning.

Because our software license revenue in any quarter depends on orders booked and shipped in the last month, weeks or days of that quarter, at the end of each quarter, we typically have either minimal or no backlog of orders for the subsequent quarter.

Competition

The market for our products and services is highly competitive and diverse. New products are frequently introduced and existing products are continually enhanced. Competitors vary in size and in the scope and breadth of the products and services that they offer. We are focused on enhancing the features of our products and developing additional product integrations to allow our products to better operate with each other as well as with products offered by other software vendors and open source software for purposes of differentiating ourselves from the competition. We are also focused on improving our sales and marketing efforts. We believe that the principal competitive factors necessary to be successful in our industry include product functionality, interoperability and reliability, the breadth of product offerings and solutions, effective sales and marketing efforts, reputation, financial stability and customer support.

Competition. We currently face competition from a number of sources, including:

customers internal IT departments;

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providers of products that compete directly with the Serena *ChangeMan ZMF* and *Comparex* products, such as CA, Inc., IBM and smaller privately-held companies;

providers of application development programmer productivity and system management products, such as Compuware, IBM and smaller privately-held companies;

providers of mainframe application availability products that compete directly with Serena *Comparex* and the Serena *StarTool* product family, such as Compuware, IBM, CA, Inc. and smaller privately-held companies;

providers of BPM solutions that compete directly with *SBM*, such as IBM, Microsoft, Pegasystems, Global360 and smaller privately-held companies; and

providers of on-premise and software-as-a-service, or SaaS, based ITSM solutions that compete directly with *Serena Service Manager*, such as BMC, ServiceNow and smaller privately-held companies.

Competition in the Software Change and Configuration Management (SCCM) Distributed Systems Market. We face significant competition as we develop, market and sell our distributed systems products, including Serena *PVCS Professional, PVCS Version Manager* and *Dimensions CM* products. Competitors in the distributed systems market include IBM, CA, Inc., Microsoft and other smaller companies. An increasing portion of the market also uses open source or freeware tools to address their basic needs for issue/defect tracking and source code control, such as *Jira* and *Subversion*.

Future Competition. We may face competition in the future from established companies who have not previously entered the SCCM, BPM and ITSM markets and from emerging software and SaaS-based companies. Barriers to entry in the distributed systems software market are relatively low.

Intellectual Property

Our continued success depends upon proprietary technology. We rely primarily on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary rights. Such laws, procedures and contracts provide only limited protection. The duration of our trademark registrations vary from country to country. In the United States, we generally are able to maintain our trademark rights and renew trademark registrations for as long as the trademarks are in use. The duration of our patents issued in the United States is typically 17 years from the date of issuance of the patent or 20 years from the date of filing of the patent application. While we believe that our ability to maintain and protect our intellectual property rights is important to our success, we also believe that our business as a whole is not materially dependent on any particular patent, trademark, license or other intellectual property right of our company.

Seasonality

We have experienced and expect to continue to experience seasonality in sales of our software products. These seasonal trends materially affect our operating results. Revenue and operating results in our quarter ended January 31 are typically higher relative to other quarters because many customers make purchase decisions based on their calendar year-end budgeting requirements. In addition, our January quarter tends to reflect the effect of the incentive compensation structure for our sales organization, which is based on satisfaction of fiscal year-end quotas. As a result, we have historically experienced a substantial decline in revenue in the first quarter of each fiscal year relative to the preceding quarter.

Employees

As of January 31, 2011, we had 579 full-time employees, 144 of whom were engaged in research and development, 197 in sales and marketing, 148 in consulting, education and customer and document support, and

90 in finance, administration and operations. Our future performance depends in significant part upon the continued service of our key technical, sales and senior management personnel. The loss of the services of one or more of our key employees could materially adversely affect our business, operating results and financial condition. Our future success also depends on our continuing ability to attract, train and retain highly qualified technical, sales and managerial personnel. Competition for such personnel is intense, and we may not be able to retain our key personnel in the future. None of our employees is represented by a labor union. We have not experienced any work stoppages and consider our relations with our employees to be good.

Financial Information

See Note 1(p) of notes to our consolidated financial statements for information regarding segment reporting and financial information about geographic areas.

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ITEM 1A.   RISK FACTORS

Risks Related to Our Indebtedness

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under the senior subordinated notes.

As of January 31, 2011, our total indebtedness was $485.3 million. We are highly leveraged and our debt service costs are significant. Following the amendment of our senior secured credit agreement in March 2011, we have a $75.0 million committed source of credit available to us under the revolving credit facility of our senior secured credit agreement, of which $40.0 million is unused and available to us as of January 31, 2011.

Our high degree of leverage could have important consequences, including:

> making it more difficult for us to make payments on the senior subordinated notes;

> increasing our vulnerability to general economic and industry conditions;

> requiring a substantial portion of cash flows from operating activities to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund operations, capital expenditures and future business opportunities;

> exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under our senior secured credit agreement, are at variable rates of interest;

> restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

> limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and

> limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our senior secured credit agreement and the indenture governing the senior subordinated notes. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our senior secured credit agreement contains specified financial ratios and other financial condition tests that we must satisfy in order to avoid an event of default under our debt agreements.

Under our senior secured credit agreement, we are required to satisfy and maintain specified financial ratios and to satisfy other financial condition tests. Our ability to meet those financial ratios and tests is dependent upon our financial performance, which can be affected by events beyond our control. We have experienced declines in license and maintenance revenue in the recent past, which have been offset in part by decreases in costs. If our license or maintenance revenue continues to decline, and we are unable to grow our maintenance revenue or reduce our operating expenses, we may be unable to satisfy these ratios and tests. This would force us to seek a waiver or amendment with the lenders under our senior secured credit agreement, and no assurance can be given that we will be able to obtain any necessary waivers or amendments on satisfactory terms, if at all. The lenders would likely condition any waiver or amendment, if given, on additional consideration from us, such as a consent fee, a higher interest rate, principal repayment or more restrictive covenants and limitations on our business.

A breach of any of these covenants, if not waived by the lenders, would result in a default under our senior secured credit agreement. Upon the occurrence of an event of default under our senior secured credit agreement,

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all amounts outstanding under our senior secured credit agreement could be declared to be (or could automatically become) immediately due and payable and all commitments to extend further credit could be terminated. In addition, a default under our senior secured credit agreement would result in a default under the indenture governing our senior subordinated notes, and all amounts outstanding under these notes could be declared immediately due and payable. If we were unable to repay those amounts, the lenders under our senior secured credit agreement could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under our senior secured credit agreement. If the repayment of borrowings under our senior secured credit agreement is accelerated, we cannot assure you that we will have sufficient assets to repay our indebtedness under our senior secured credit agreement, as well as our unsecured indebtedness, including the senior subordinated notes.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our senior secured credit agreement and the indenture governing our senior subordinated notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

Our senior secured credit agreement and the indenture governing our senior subordinated notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our and our restricted subsidiaries   ability to, among other things:

incur additional indebtedness or issue certain preferred shares;

pay dividends on, redeem or repurchase our capital stock or make other restricted payments;

make investments;