

SERENA SOFTWARE INC  
Form 10-K/A  
July 18, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K/A**

**Amendment No. 1**

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended January 31, 2007**

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**

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**SERENA SOFTWARE, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of

**Incorporation or Organization)**  
**2755 Campus Drive, 3rd Floor**

**San Mateo, California 94403-2538**  
(Address of Principal Executive Offices)

**94-2669809**  
(I.R.S. Employer

**Identification No.)**

**(650) 522-6600**  
(Registrant's telephone number,

including area code)

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

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**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

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

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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K/A or any amendment to this Form 10-K/A.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of common stock held by non-affiliates of the registrant was zero as of January 31, 2007, 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 April 30, 2007, the number of shares of the registrant's common stock outstanding was 98,560,022.

**DOCUMENTS INCORPORATED BY REFERENCE**

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K/A 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.

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**SERENA SOFTWARE, INC.**

**FORM 10-K/A**

**Amendment No. 1**

**Fiscal Year Ended January 31, 2007**

**EXPLANATORY NOTE**

The purpose of this Amendment No. 1 to the Serena Software, Inc. Annual Report on Form 10-K for the fiscal year ended January 31, 2007 is to restate our previously issued financial statements for the period from February 1, 2006 to March 9, 2006 (Predecessor) related to the recognition of \$10 million in fees paid in connection with the Spyglass Merger; and for the periods from March 10, 2006 to January 31, 2007 (Successor), February 1, 2006 to March 9, 2006 (Predecessor) and the years ended January 31, 2006 and 2005 to correct for the overstatement of our previously reported Cash and Cash equivalents balance and correct several misclassifications within our previously reported Statements of Cash Flows.

As discussed in Note 5 to the Consolidated Financial Statements, we paid \$10 million in fees to the Silver Lake Partners management company in connection with the Spyglass Merger which was previously recorded as an expense by the Predecessor in the period from February 1, 2006 to March 9, 2006. This fee is more properly reflected as a direct cost of the acquisition. This correction served to change the net loss from \$34.7 million to \$24.7 million for the period from February 1, 2006 to March 9, 2006 (Predecessor).

As a result of a detailed review of our application of FASB Statement No. 95, *Statement of Cash Flows*, we determined that several adjustments were required to conform to this standard, as follows:

*(a) Restatement of cash and cash equivalents balance and reclassification to short-term investments for investments with remaining maturities of three months or less but with original maturities of more than three months.* Adjustments were recorded to properly record investments with original maturities of more than three months as short term investments. Investments having remaining maturities of three months or less but with original maturities of more than three months have been reclassified from cash and cash equivalents to short-term investments, decreasing cash and cash equivalents and increasing short-term investments by \$17.8 million, \$27.1 million and \$0.3 million for the periods ended January 31, 2005, January 31, 2006 and March 9, 2006, respectively.

*(b) Reclassification of cash paid for acquisition, restructure and other charges.* Adjustments were recorded to reclassify cash paid relating to acquisition, restructure and other related charges to cash used in operating activities. Cash paid relating to acquisition, restructure and other related charges has been reclassified from cash used in financing or investing activities to cash used in operating activities, resulting in a decrease to cash flow from operating activities and an increase in cash used in either financing or investing activities of \$19.7 million, \$2.7 million (see reclassification adjustment (d) below) and \$14.3 million for the periods ended January 31, 2005, January 31, 2006 and January 31, 2007, respectively.

*(c) Reclassification of interest payments on term credit facility and subordinated notes.* Adjustments were recorded to properly classify cash interest payments on the term credit facility and subordinated notes to cash used in operating activities. Interest payments on the term credit facility and senior subordinated notes in the amount of \$35.2 million have been reclassified from cash flows from financing activities (increasing the net cash provided by financing activities) to cash flows from operating activities (reducing the net cash provided by operating activities) for the Successor period from March 10, 2006 to January 31, 2007.

*(d) Reclassification of cash paid for acquisition, restructure and other charges.* For the fiscal year ended January 31, 2005, \$2.8 million has been reclassified from cash provided by operating activities to cash paid in the acquisition of Merant. For the fiscal year ended January 31, 2006, a \$4.9 million change in the fair market value

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of consideration in the acquisition of Merant has been reclassified from cash used in operating activities to cash used in investing activities, offsetting the \$7.6 million reclassification in the same period and resulting in a total reclassification of \$2.7 million.

*(e) Reclassification of cash paid to the Company's Employee Benefit Trusts.* An adjustment was recorded to reclassify a cash acquisition cost to cash used in investing activities. For the period ended January 31, 2007, \$3.2 million of cash paid to our Employee Benefit Trusts has been reclassified from cash used in financing activities to cash used in investing activities.

The restatement had no impact on the total of cash and cash equivalents and short-term investments on our Consolidated Balance Sheets.

For ease of reference, this Form 10-K/A restates our Form 10-K for the fiscal year ended January 31, 2007 in its entirety. This Form 10-K/A does not reflect events after the filing of the original Form 10-K with the Securities and Exchange Commission on April 30, 2007 and does not modify or update disclosures as originally filed, except as required to reflect the effects of the restatement described above. Specifically, the following items have been amended:

Part II Item 6 Selected Consolidated Financial Data

Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II Item 8 Financial Statements and Supplementary Data

Part II Item 9A Controls and Procedures

Part IV Item 15 Exhibits, Financial Statement Schedules

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**SERENA SOFTWARE, INC.**

**ANNUAL REPORT ON FORM 10-K**

**For the Fiscal Year Ended January 31, 2007**

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### **PART I**

#### **ITEM 1. BUSINESS**

*Our fiscal year ends on January 31 and, except as otherwise provided, references in this Annual Report on Form 10-K/A mean the fiscal year ended on January 31 of such year. For example, fiscal year 2007 refers to the fiscal year ended January 31, 2007.*

#### **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 are used to manage and control change in mission critical technology and business process applications. Our software configuration management, business process management, helpdesk, requirements management and product portfolio management solutions enable our customers to improve process consistency, enhance software integrity, mitigate risks, support regulatory compliance and boost productivity. Our revenue is generated by software licenses, maintenance contracts and professional services. Our customers rely on our software products, which are typically embedded within their IT environment, and are 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 over 15,000 installations of our products at customer sites worldwide. Our customers include 96 of the Fortune 100 companies and 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, 2007. During the same period, we generated 66.1%, 29.5% and 4.4% of our total revenue in North America, Europe and the Asia Pacific region, respectively.

Revenue generated from software licenses, maintenance contracts and professional services accounted for 33.9%, 52.7% and 13.4%, respectively, of our total revenue for the fiscal year ended January 31, 2007. 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 and users and develop a need for 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 software license price. The annual maintenance contracts provide customers the right to obtain available 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. Professional services revenue is generated through services such as best practices implementations to facilitate the optimal installation and usage of our software, and technical consulting and education services.

Serena Software, Inc. was incorporated under the laws of California in 1980 and re-incorporated under the laws of Delaware in 1998.

#### **Recent Developments**

##### *Pacific Edge Software, Inc.*

On October 20, 2006, we acquired Pacific Edge Software, Inc., or Pacific Edge, a privately held company specializing in the development of project and portfolio management, or PPM, solutions. With the acquisition of Pacific Edge, we add *Mariner*, a PPM product, to our product portfolio. *Mariner* complements our existing strategy, which provides solutions for application lifecycle management, or ALM.

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### *Spyglass Merger Corp.*

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 report as the merger. Pursuant to the merger, Serena Software, Inc., or Serena, stockholders received \$24.00 in cash in exchange for each share of stock, except that certain members of our management team retained a portion of their shares of Serena common stock and/or options to purchase Serena common stock after 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.

### **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 and/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, which requires 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 an IT system. Organizations have an ongoing and growing need for solutions that efficiently and effectively manage change across the increasingly complex IT environment.

Our products address a number of industry segments, including application lifecycle management, or ALM, software change management, or SCM, requirements management, or RM, business process management, or BPM, and project and portfolio management, or PPM, markets.

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 regulations, such as the Sarbanes-Oxley Act, that effectively 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, for the first time, 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.

*Outsourcing.* Companies continue to outsource critical IT functions by shifting software development to new geographic locations, which creates 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.

*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

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the software development life cycle. Customers will look to vendors to provide well-integrated solutions that assure delivery of high quality applications to the market faster.

*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 environment. 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 IDC's 2006 report on worldwide software change and configuration management vendor market shares, we were the number two ranked vendor in the software change and configuration management market in 2005. We attribute our leading positions 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, 2007, maintenance revenue comprised 52.7% of our total revenue. Our maintenance revenue is highly recurring, which provides us with significant visibility into our future revenue and profitability. For the fiscal year ended January 31, 2007, our maintenance contract renewal rate was approximately 90%, which we believe is higher than the industry average. We have a resilient revenue model where customers continue to buy licenses, and enter into and renew maintenance contracts, even during significant downturn periods for the software industry, such as from 2001 to 2003 when global IT spending experienced significant declines.

*High Margins with Strong Cash Flow Generation.* Due primarily to our broad portfolio of products, large installed customer base and leading market presence, our total revenue has increased at a compound annual growth rate of 21.7% for the period from fiscal year 2003 to fiscal year 2007 and our Adjusted EBITDA has increased at a compound annual growth rate of 21.7% for the same period. For the fiscal year ended January 31, 2007, gross margin from our maintenance contracts was 89.9%. Additionally, our 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, 2007, we had cash flows from operating activities of \$104.4 million, an Adjusted EBITDA margin of 40.5% and \$3.7 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.

*26 Year History with Diversified, Global Customer Base.* We have a diversified, global customer base with over 15,000 installations of our products at customer sites worldwide, including 96 of the Fortune 100 companies. 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, 2007. We are also continuing to expand our revenue base internationally. For the fiscal year ended January 31, 2007, we derived 33.9% 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 become a key part of our customers' application development infrastructure and are typically embedded deep within multiple parts of a customer's mission-critical IT



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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.

*Experienced and Committed Management Team.* Our management team has an established track record of operational excellence and our senior management team has many years of software industry experience. We believe that our management team has been instrumental in growing our business, both internally and through strategic acquisitions.

*Significant Equity Investments from our Founder, our Management and Silver Lake Partners.* 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 in Serena, which were valued for purposes of the exchange at approximately \$154.1 million, for equity interests in the surviving corporation. Our former Chief Executive Officer, our Chief Financial Officer and certain other members of our management made equity investments in the surviving corporation in an aggregate amount of approximately \$16.2 million, on a pre-tax basis (not including \$4.5 million, on a pre-tax basis, of equity interests in the surviving corporation related to the roll-over of unvested restricted stock). This significant equity investment by our founder and management, together with the investment of \$335.5 million by investment funds affiliated with or designated by Silver Lake Partners, represented over 44% of our capitalization as of January 31, 2007.

## **Our Strategy**

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

*Cross-Sell and Increase Penetration into Our Large, Global Installed Customer Base.* We have a large, global installed base that primarily uses our SCM products for specific platforms. We have a significant opportunity to sell these existing customers SCM products on additional platforms, expand their use of our products outside of SCM (for example, for requirements management) 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. Since we currently provide mission critical solutions to these customers, we believe we can generate these opportunities efficiently.

*Maintain and Strengthen Technological Leadership of Our Products.* We have a strategic vision to expand our suite of products to address change processes that span both application development and IT infrastructure. Our goal is to offer a suite of products that will provide a unified framework for connecting people, tools and processes involved throughout the application lifecycle, delivering automated change processes, managing workflow and enforcing business rules within an IT environment. We have assembled a global team of research and development personnel with strong industry and technical expertise. We continue to focus on improving and upgrading our existing product portfolio, and on 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, which we expect will enable us to increase our revenue.

*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 new 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 meet the regulatory parameters. Our products support regulatory compliance by, for example, providing automatic audit trails with a feedback loop necessary to comply with requirements

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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.

*Increase Federal Government Exposure.* We work with federal government agencies and contractors to enable them to enforce standards and processes and improve software development. We believe the federal government market is not served efficiently by change management software vendors and is under-penetrated. We have recently increased our focus and investment in federal government initiatives to increase our penetration of this market, and we plan to leverage our partner relationships as part of these 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.

*Increase Our Revenue in the Asia Pacific Region.* We provide localized versions of our products to serve the faster growing markets in the Asia Pacific region. In the fiscal year ended January 31, 2006, we introduced localized versions of two of our distributed systems products to the Chinese, Japanese and Korean markets. We have a network of channel partners in Singapore, Australia, Korea, Japan, Taiwan and China, which we consider to be the most important markets in the Asia Pacific region. We recently increased our investment in the Asia Pacific region expansion and intend to utilize partner relationships to expand further in such region. Revenue from the Asia Pacific region accounted for 4.4% of our total revenue for the fiscal year ended January 31, 2007.

*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. For example, in October 2006, we completed our acquisition of Pacific Edge, a provider of PPM solutions.

## **Our Products**

We develop, market and support an integrated, cross-platform suite of software products for managing and controlling change across both 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 our customers create or modify. This helps protect our customers' valuable application assets and improve software developer productivity, operational efficiency, application availability and customers' return on IT investments, all of which ultimately reduces the costs of managing their IT environment. Our products serve a variety of market and customer needs and are grouped as follows:

*Dimensions*<sup>®</sup>: 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 10* features tight integration between requirements management and change/configuration management through a common process model and a unified data store

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which enables IT organizations to trace, validate and implement change requests without disruption during development. The *Dimensions* product line includes *CM* for managing the application development, change and configuration process; *RM* for gathering, tracking and managing requirements throughout a project's lifecycle; *Command Center* for providing a unified executive view of requirements and change management which allows executives to monitor project progress, status and priorities; and *Composer* for defining and modeling customer application software requirements, including business processes, user interfaces, system connections and application data.

*TeamTrack*®: Enterprise process management solution to map, track, and enforce IT requests and related operations processes. Our *TeamTrack* product also 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.

*PVCS*®: *PVCS Professional Suite* includes *TeamTrack*, *Version Manager* and *Builder* as an integrated suite of issue, version and build management tools for team-based environments.

*Mariner*: Portfolio, project, resource, demand and financial management for complete project and portfolio management. *Mariner's* project management capabilities allow for a flexible approach for project initiation, planning and tracking. With *Mariner's* portfolio management capabilities, IT can examine investment tradeoffs and track performance, and use *Mariner's* resource management features to analyze resource capacity and assess the impact of project changes. With *Mariner'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.

*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. *ChangeMan* also enables users to automate, control and synchronize those changes throughout the customer's IT environment from a single point of control.

*Collage*®: Enterprise-class Web content management solution. Our *Collage* solution manages change implementation workflow across the content on an organization's Internet, intranet or extranet sites. *Collage* increases Web team productivity, shortens the time to Web of new and changing content, and helps automate the process of maintaining Websites.

*StarTool*®: Application testing, implementation and problem analysis for mainframe systems. Our *StarTool* solution improves mainframe application availability through file and data management, data comparison, fault analysis, application performance management, input/output optimization and application test debugging.

The following are our currently offered products:

Product Name	Year Product		Brief Description
	First Introduced	Last Introduced	
Serena <i>Dimensions</i>	1987	2006	Process-driven change management for heterogeneous systems
Serena <i>PVCS Professional Suite</i>	1985	2005	Advanced SCM for team-based environments
Serena <i>ChangeMan ZMF</i>	1988	2006	

Provides automated infrastructure to control and manage mainframe software change

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<b>Product Name</b>	<b>Year Product</b>		<b>Brief Description</b>
	<b>First Introduced</b>	<b>Last Introduced</b>	
Serena <i>ChangeMan ZDD</i>	2001	2005	Allows desktop developers working in their chosen graphical integrated development environment, or IDE, to develop mainframe application code under control of Serena <i>ChangeMan ZMF</i>
Serena <i>ChangeMan M+R</i>	1994	2001	Merges versions of programs to enable mainframe concurrent development
Serena <i>ChangeMan SSM</i>	1993	2006	Detects, tracks and synchronizes changes in multiple environments to improve system integrity and recoverability
Serena <i>PVCS Version Manager</i>	1985	2006	Version control across all platforms and standard IDEs
Serena <i>Mover</i>	2003	2007	Automates deployment of software assets into production
Serena <i>Builder</i>	2003	2005	Integrates with <i>ChangeMan Dimensions</i> and <i>ChangeMan Professional</i> to automate, accelerate, and simplify software builds
Serena <i>Meritage</i>	2003	2005	Enable version control and change management for Microsoft Office documents
Serena <i>TeamTrack</i>	1997	2005	Maps, tracks and enforces business processes. Manages issues throughout the entire life cycle
Serena <i>Dimensions RM</i>	1991	2006	Tracks and manages requirements throughout the development lifecycle
Serena <i>Mariner</i>	2005	2007	Tracks and manages portfolio, project, resource, demand and financial management
Serena <i>ChangeMan Composer</i>	2005	2006	Defines and models customer application software requirements
Serena <i>Collage</i>	2001	2006	Automates and controls the process of updating and maintaining web content
Serena <i>Comparex</i>	1981	2004	Performs data comparison for mainframe application testing and software quality
Serena <i>StarTool FDM</i>	1989	2007	Facilitates complex mainframe file and data management tasks
Serena <i>StarTool DA Batch and CICS</i>	1995	2006	Automates mainframe dump and abend analysis and speeds application problem solving activities
Serena <i>StarTool APM</i>	2000	2005	Monitors and records information for mainframe application performance/tuning activities
Serena <i>StarTool IOO</i>	1987	2003	Automatically optimized mainframe application I/O operations
Serena <i>StarTool RB VSAM</i>	1999	2000	Perform record level backup and restore utility for mainframe VSAM data

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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 rigorous market analysis, taking into consideration the needs of our existing and prospective customers, the trends in the market, competitive moves and technological advancements, there are a number of overarching corporate goals that will be considered as well.

A major focus for us will be to continue to develop tight integrations between the various products within our portfolio, and with third-party vendor solutions, to ensure that our customers have the ability to track and manage change in a closed loop environment ensuring that traceability and auditability for any change is maintained.

In addition, we continue to see significant opportunities to increase our presence in foreign markets, and as such will invest product development resources to internationalize and localize our products and solutions.

Our large and diverse customer base provides a great source for ideas on ways we can evolve our products to meet the needs of markets outside of SCM. Examples of markets in which our products already address identified customer problems include BPM (Serena *TeamTrack*), PPM (Serena *Mariner*), requirements management (Serena *Dimensions RM*), and Web content management (Serena *Collage*). We will continue to develop our solutions to meet the needs of the markets 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 education 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 SCM 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 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 San Mateo, California, at our offices in London 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 education 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

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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 are 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. This is useful because a project to create a new software application might involve hundreds of developers working around the world on tens of thousands of software components, or pieces of code. Several developers might need to work on one component at the same time, or one developer might want to make a change to a single component that also requires changes to many other components. In this situation it is critical to coordinate and control what the developers are doing.

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 gives each file a unique token or fingerprint that changes if any bit is altered, which facilitates problem detection and resolution.

*Leadership in open source standards for integration of software development tools.* Our products comply with the Application Lifecycle Framework, or ALF, a set of open source standards which we have helped develop and whose purpose is to enable a diverse set of vendor tools, irrespective of architecture or platform, to exchange data and collaborate. This is useful because developers use a wide variety of tools to build software. They need tools to capture and define business requirements, to make designs, to write code components, to combine components into final applications, and to set up applications so that they are ready for use by end users. There are often many tools available for a given purpose, and organizations and individuals have their own preferences in each area, which may include products from different vendors.

**Research and Development**

We plan to continue making substantial investments in research and development to maintain our leadership position in the software configuration management market. We believe that our success will continue to depend



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on our ability to enhance our current products and to develop new products that meet the needs of our customers and the market. Our commitment to research and development is reflected in our growing investments in this area, which were \$31.2 million, \$34.7 million and \$35.8 million for fiscal years 2005, 2006 and 2007, respectively, representing 15%, 14% and 14% of our total revenue in those years.

We are committed to delivering products 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 San Mateo, California; Hillsboro, Oregon; Colorado Springs, Colorado; Bellevue, Washington and Woodland Hills, California. We also perform product development internationally in the United Kingdom, India and Ukraine.

## **Sales and Marketing**

In the United States, Canada, the United Kingdom, Germany, Switzerland, France, Italy, the Benelux and Nordic regions, Australia, Singapore, Korea, Japan, China and India, we market our software primarily through our direct sales organization.

In addition to our direct sales and telesales efforts, we have established relationships with distributors, resellers and original equipment manufacturers, or OEMs, located in North America, Spain, Italy, Latin America, Belgium, Hong Kong, Israel, Australia, 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, 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 at our Executive Briefing Center 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.

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

Customers internal IT departments;

Providers of products that compete directly with the Serena *ChangeMan ZMF* and *Comparex* products, such as Computer Associates, IBM and smaller private companies;

Providers of application development programmer productivity and system management products, such as Compuware, IBM and smaller private companies.

Providers of mainframe application availability products that compete directly with Serena *Comparex* and the Serena *StarTool* product family, such as Compuware, IBM, Computer Associates and smaller private companies; and



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Providers of web content management products that compete directly with Serena *Collage*, such as Interwoven, Vignette, and Documentum.

*Competition in the Software Configuration Management (SCM) Distributed Systems Market.* We face significant competition as we develop, market and sell our distributed systems products, including Serena *Professional*, *Dimensions*, *Mariner*, *TeamTrack* and *Version Manager* products. Competitors in the distributed systems market include IBM, Computer Associates, Microsoft, Telelogic, and other smaller private companies. Measurable portions of the market also use freeware tools to address their basic needs for issue/defect tracking and source code control.

*Future Competition.* We may face competition in the future from established companies who have not previously entered the SCM market or from emerging software 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 U.S., 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 U.S. 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.

## **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, 2007, we had 810 full-time employees, 212 of whom were engaged in research and development, 272 in sales and marketing, 206 in consulting, education and customer and document support, and 120 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 are represented by a labor union. We have not experienced any work stoppages and consider our relations with our employees to be good.

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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, 2007, our total indebtedness was \$575.0 million, excluding our convertible subordinated notes that have substantially since been converted and paid. We also had an additional \$75.0 million available at that date for borrowing under the revolving credit facility of our senior secured credit agreement.

Our high degree of leverage could have important consequences for you, 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 our 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.

**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 financ