SERENA SOFTWARE INC
Form 10-K
April 30, 2012
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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, 2012

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 Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1900 Seaport Boulevard	**(650) 481-3400**
Redwood City, California 94063-5587	**(Registrant s telephone number, including area code)**
(Address of Principal Executive Offices)	

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 x 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 July 31, 2011, the last business day of the registrant s most recently completed second fiscal quarter. The registrant is a privately-held company, and there is no public trading market for its common stock.

As of April 30, 2012, the number of shares of the registrant s common stock outstanding was 98,446,007

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.

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SERENA SOFTWARE, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended January 31, 2012

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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 2012 refers to the fiscal year ended January 31, 2012.

Our Company

We are the largest global independent software company in terms of revenue solely focused on managing change and processes across information technology, or IT, environments. Our products and services 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 IT service management, or ITSM, and business process 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 and ITSM 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, 2012. During the same period, we generated 65%, 30%, 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 25%, 65% and 10%, respectively, of our total revenue for the fiscal year ended January 31, 2012. 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 the 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 a majority of our common stock at the time of the merger on a fully diluted basis owned by investment funds affiliated with Silver Lake. Silver Lake and its affiliates, by virtue of their ownership of our common stock and their voting rights under a stockholders agreement, control the vote, in connection with substantially all matters subject to stockholder approval, of more than 99% of our outstanding common stock.

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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 processes and change. 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, release management, IT service management, or ITSM, and business process management, or BPM, 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 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 Process Management. As organizations grow, the requirement for managing and documenting 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.

Significant Opportunity to Replace Internally Developed and Legacy 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

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instead of relying on manual processes and internally developed software solutions. Due to the high cost of operating and maintaining legacy ITSM systems, an increasing number of organizations are replacing their first generation ITSM systems with more cost effective solutions.

Opportunity to Address Application Release Bottlenecks. Modern N-tier web applications are difficult, time consuming and expensive to release into virtualized data centers. The resulting bottlenecks can be resolved either with considerable labor and tolerance for defects, or through the automation of the application release process.

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. 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. We have developed a stable, recurring revenue base comprised of license, maintenance and professional services revenues due primarily to the mission critical nature of our products and our large installed customer base. For the fiscal year ended January 31, 2012, maintenance revenue comprised 65% of our total revenue. Our maintenance revenue is generally recurring, providing us with significant visibility into our future revenue and profitability. For the fiscal year ended January 31, 2012, 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 enter into and renew maintenance contracts, even during significant downturns within the software industry.

Margins and Strong Cash Flow Generation. Our current business model generates positive working capital and requires minimal capital expenditure, providing us with significant free cash flow due primarily to our broad portfolio of products, large installed customer base and leading market presence. For the fiscal year ended January 31, 2012, we had cash flows from operating activities of $32.2 million, an Adjusted EBITDA margin of 39.1% and $3.8 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.*

32 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, 2012. We are also continuing to expand our revenue base internationally. For the fiscal year ended January 31, 2012, we derived 35% 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 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 52% of our capitalization as of January 31, 2012.

Our Strategy

We are focused on continuing to be a leading provider of solutions that enable organizations to manage change throughout their IT environments, and becoming a broad scale IT management vendor with emphasis on workflow automation and integration with existing tools. 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 ALM products, together with *Serena Business Manager,* 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.

Develop Orchestrated IT Operations Solutions. Serena Service Manager, a process-based IT service management solution, leverages the flexibility of *Serena Business Manager* 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 have developed complementary ITSM solutions based on *Serena Service Manager*, including *Serena Request Center,* which serves as a store front or front office for IT organizations, and *Serena Demand Manager*, which allows IT organizations to prioritize and fulfill IT demand. We expect to continue our development of *Serena Service Manager*, including additional complimentary and content-based solutions, such as resource and capacity management, federated service catalog and asset management solutions.

Bridge IT Operations and Application Development to Orchestrate IT. IT operations and application development must work closely together to deliver the application services that businesses demand. *Serena Service Manager* and *Serena Release Manager* help organizations streamline and automate the process of capturing, routing and fulfilling requests for applications changes and IT services. We expect to continue to develop and integrate our solutions to allow application development and IT operations to work together more effectively.

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*.

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, ITSM and BPM) 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.

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 and the Gramm-Leach-Bliley Act, 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 focused on orchestrating and managing application development and IT operations and managing 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 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 and solutions serve a variety of market and customer needs and are grouped as follows:

Application Development:

Serena Development Manager: A comprehensive solution that helps global development organizations orchestrate application development across disparate platforms, departmental processes and development tools. *Serena Development Manager* helps IT organizations create a unified, flexible, and auditable development process that works with all tools, platforms, and processes throughout the entire application development lifecycle.

Serena Release Manager: A comprehensive solution that manages the implementation of software changes into the production environment. *Serena Release Manager* enables organizations to improve

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visibility into project timelines and progress, increase release flow by implementing critical changes into production sooner with existing resources, improve release quality and reduce downtime, and enforce consistency and traceability of changes.

Serena Requirements Manager: A comprehensive solution that orchestrates the entire requirements management process by providing comprehensive requirements capabilities, quick process coordination and reusable requirements across the application lifecycle. *Serena Requirements Manager* helps IT organizations shorten release times, increase customer satisfaction and reduce overall development costs.

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*.

PVCS®: *PVCS Professional:* Integrated suite of issue, version and build management tools for team-based environments. *PVCS Professional* includes *Serena Business Manager* 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.

IT Operations:

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. *Serena Service Manager* helps IT organizations deliver IT process improvements and efficiency in accordance with ITIL best practices. The *Serena Service Manager* product line includes *Serena Request Center*, which serves as a front end interface for corporate users to discover and request IT services, and *Serena Demand Manager*, which allows IT organizations to prioritize and fulfill IT demand.

Business Process Management:

Serena Business Manager, or SBM (formerly known as TeamTrack): An enterprise process management solution to map, track, and enforce any business process, such as IT requests. *Serena Business Manager* 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 *Serena Business Manager* product line includes *SBM Composer* for graphically designing composite applications that include workflow processes, orchestrated connections to other enterprise systems, and interactive web forms.

The following are our principal products:

Product/Solution Name	Brief Description
Serena Development Manager	An integrated suite that helps global development organizations orchestrate application development across disparate platforms, departmental processes and development tools. Includes *Dimensions CM* and *Serena Business Manager*.
Serena Release Manager	An integrated suite that manages the implementation of software changes into the production environment. Includes S*erena Release Control, Serena Release Vault* and *Serena Release Automation*.
Serena Release Control	Provides an automated, process-centric approach for software release management from requirements to deployment using *Serena Business Manager*.
Serena Release Vault	Provides a common and secure path to production for all new applications and changes, regardless of development platform. *Serena Release Vault* is 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 deployment of multi-tier, distributed applications and their configuration settings and centrally manages application releases.
Serena Requirements Manager	An integrated suite that orchestrates the entire requirements management process by providing comprehensive requirements capabilities, quick process coordination and reusable requirements across the application lifecycle. Includes *Dimension RM*, *Prototype Composer* and *Serena Business Manager*.
Serena Service Manager	
Serena Service Manager	Flexible process-based IT service management that 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 ITIL compliance.
Serena Demand Manager	Prioritizes and fulfills IT demand by managing business requests from *Serena Request Center* and routing them for review and approval across the enterprise. *Serena Demand Manager* includes collaborative scoring, voting and resource estimation and provides what-if portfolio analysis to model scenarios and optimize use of resources and delivery of initiatives.
Serena Request Center	Provides a one-stop interface for corporate users to discover and request IT services, submit incidents, and review knowledge base articles. An enterprise service catalog allows for services to be composed, organized and published into convenient categories.
Serena Dashboard	Provides IT organizations insight into their end-to-end IT processes through the use of adaptable dashboards and Key Performance Indicators (KPIs) that are specifically designed for ALM and ITSM processes.

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Product/Solution Name	Brief Description
Serena Business Manager (SBM)	
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 *TeamTrack*.
SBM Composer	Visual modeling tool for creating workflows, orchestrating connections to other enterprise systems, and designing user interfaces.
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.
PVCS®	
PVCS Professional	An integrated suite of issue and version management tools for team-based environments. Includes *PVCS Version Manager* and *Serena Business Manager*.
PVCS Version Manager	Version control across all platforms and standard IDEs.
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.
Serena PPM	
Serena PPM	Tracks and manages portfolio, project, resource, demand and financial management. Formerly known as *Mariner PPM*.

Products Under Development

In the coming year, we plan to 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 release management, we plan to continue to enhance the integrations between various products within our *Serena Release Manager* product portfolio, such as *Serena Release Control*, *Serena Release Vault* 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 IT strategy is focused on using *Serena Business Manager* and *Serena Service Manager* to integrate all aspects of application development and IT operations across the enterprise. The objective is to create an integrated suite of not only Serena products, but other third party and open source application lifecycle management products. In addition to *Serena Release Manager*, we plan to continue to develop and enhance the

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integrations within *Serena Requirements Manager* and *Serena Development Manager*. We also plan to develop and introduce *Serena Quality Manager*, an integrated, customizable and process-centric test control and automation solution. We are also developing new dashboards to provide visibility and control across the entire application lifecycle. We plan to continue to develop and enhance the capabilities of the core *Serena Business Manager* platform, including enhancing the rules based workflow engine and expanding the capability to rapidly change and modify existing process maps and workflows. As part of our strategy focused on the ITSM market, we plan to continue to enhance *Serena Service Manager* to address the needs of our customers and the ITSM market, and develop additional solutions based on *Serena Business Manager*, including resource and capacity management, federated service catalog and asset management solutions.

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 needs include BPM (*Serena Business Manager*), release management (*Serena Release Manager*), and ITSM (*Serena Service Manager*). We will continue to develop our solutions to meet the needs of applicable markets, and our current and prospective customers.

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 our 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 and on-line 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 training courseware licenses for certain of our products, which allows our customers the ability to electronically access and download course materials and instructor guides to facilitate their own internal training programs. 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 software license price.

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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.

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 $32.7 million, $31.6 million and $26.9 million for fiscal years 2010, 2011 and 2012, respectively, representing 15%, 15% and 12% 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.

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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;
- 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 Corporation, 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 *Serena Business Manager,* such as IBM, Microsoft, Pegasystems Inc., 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 Software, Inc., ServiceNow, Inc. and smaller privately-held companies.

Competition in the Software Change and Configuration Management 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

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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, 2012, we had 560 full-time employees, 125 of whom were engaged in research and development, 191 in sales and marketing, 150 in consulting, education and customer and document support, and 94 in finance, administration and operations. In addition, we had 168 full-time contractors, 87 of whom are engaged in research and development in our Kiev development center and 81 in other functional areas. 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, 2012, our total indebtedness was $442.8 million. We are highly leveraged and our debt service costs are significant. Following the amendment of our senior secured credit agreement in March 2011 and our termination of the 2012 non-extended portion of the revolving credit commitment in September 2011, we have a $20.0 million committed source of credit available to us under the revolving credit facility of our senior secured credit agreement, of which the entire $20.0 million was unused and available to us as of January 31, 2012.

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.

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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, 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;
- make capital expenditures;
- create certain liens;
- sell certain assets;
- enter into agreements that restrict the ability of our subsidiaries to make dividend or other payments to us;

guarantee indebtedness;

engage in transactions with affiliates;

prepay, repurchase or redeem the senior subordinated notes;

create or designate unrestricted subsidiaries; and

consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis.

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Risks Related to Our Business

A decline or the continued uncertainty in global economic conditions could negatively affect our business, results of operations and financial condition.

Economic conditions, both domestically and abroad, directly affect our operating results. Current and future economic conditions, including such factors as consumer demand, unemployment and inflation levels, the availability of credit, and our customers financial condition, operating results and growth prospects may adversely affect our business and the results of our operations. A weakening or the continued uncertainty in global economic conditions presents a variety of risks and uncertainties that could negatively affect our business, results of operations and financial condition, including the following:

- the demand for our products and services, and IT spending generally, may decline as businesses postpone, reduce or cancel IT and other spending in response to tighter credit, negative financial news, declines in income or asset values or economic uncertainty;

- our customers, distributors and resellers may choose to defer payments or fail to pay amounts owed to us, even though they may have no contractual right to do so;

- prolonged economic uncertainty may increase the pricing pressure on our maintenance contract renewal business and could negatively affect our maintenance revenue in the future;

- adverse economic conditions may promote consolidation in our customers industries as has occurred in the financial services industry in which many of our customers operate. Customer consolidation may lead to such adverse effects as reduced demand for our products and services by particular customers and within their industry more generally, greater pricing pressure and pressure to renegotiate existing contracts, replacement of our products in our installed base with competing products, and cancellations and reductions of previously planned customer purchases;

- we may experience increased pricing competition for our products and services;

- significant currency fluctuations and uncertainty about the future of the Euro could negatively affect our revenues, specifically those derived internationally; and

- the length of time that existing economic and financial market conditions may persist is unknown.

In addition, although we do not anticipate needing additional capital in the near term due to our current financial position, financial market disruption may make it difficult for us to raise additional capital upon acceptable terms or at all. As of January 31, 2012, the committed source of credit available to us under our senior secured credit agreement was $20.0 million.

If adverse global economic conditions persist, the foregoing risks could result in our failure to meet the financial covenants under our senior secured credit agreement. A breach of any of these financial covenants would result in a default under our senior secured credit agreement, in which event all outstanding amounts could be declared immediately due and payable. Any such acceleration would also result in a default under the indenture governing our senior subordinated notes. If repayment under our senior secured credit agreement is accelerated, we cannot assure you that we would have sufficient assets or access to credit to repay our indebtedness or, if credit were available, that it would be upon acceptable terms.

If management is unable to effectively forecast revenues and budget operating expenses, our business could be harmed.

Management personnel regularly identify, track and forecast future revenue and trends in our business. Our sales personnel monitor the status of all qualified opportunities and proposals, such as the estimated date when a transaction will close and the potential dollar amount of the transaction. We aggregate these estimates in order to generate a sales pipeline and then evaluate the pipeline at various times to look for trends in our business. While this pipeline analysis provides visibility to our potential customers and the associated revenue for budgeting and

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planning purposes, these pipeline estimates may not correlate to revenue in a particular quarter or ever. A slowdown in the economy, domestically and internationally, has caused in the past and may cause in the future customer purchasing decisions to be delayed, reduced in amount or cancelled, all of which have reduced and could reduce the rate of conversion of the pipeline into contracts. A variation in the pipeline or in the conversion of the pipeline into contracts could cause us to plan or budget improperly and thereby could adversely affect our business, operating results and financial condition. In addition, primarily due to a substantial portion of our software licenses revenue contracts closing in the latter part of a quarter, management may not be able to adjust our cost structure in response to a variation in the conversion of the pipeline into contracts in a timely manner, and thereby adversely affect our business, operating results and financial condition.

Our future revenue is substantially dependent upon our installed customer base renewing maintenance agreements for our products and licensing or upgrading additional Serena products; our future professional service and maintenance revenue is dependent on future sales of our software products and could decline.

We depend on our installed customer base for future revenue from maintenance renewal fees and licenses or upgrades of additional products. Our maintenance revenue has declined in each of the past three years. If our customers do not purchase additional products, do not upgrade existing products or cancel or fail to renew their maintenance agreements, this could materially adversely affect our business, operating results and financial condition. The terms of our standard license arrangements provide for a one-time license fee and a prepayment of one year of software maintenance and support fees. The maintenance agreements are renewable annually at the option of the customer, and there are no minimum payment obligations or obligations to license additional software. In addition, prolonged economic uncertainty has increased the pressure our customers are placing on our maintenance renewal business. Therefore, our current customers may not necessarily generate significant maintenance revenue in future periods. In addition, our customers may not necessarily purchase additional products, upgrades or professional services. Our professional service and maintenance revenue are also dependent upon the continued use of these services by our installed customer base. Any downturn in our software license sales would have a negative impact on the growth of our professional service revenue and maintenance revenue in future periods.

If our target markets do not evolve as we anticipate, our business will be adversely affected.

If we fail to properly assess and address our target markets or if our products and services fail to achieve market acceptance for any reason, our business, operating results and financial condition would be materially adversely affected. With regard to the SCCM market, IT organizations have historically addressed their SCCM requirements with solutions developed internally. As SCCM requirements have become more complex, IT organizations have begun to migrate to more sophisticated third-party SCCM products. Our future financial performance will depend in large part on the continued growth in the number of businesses adopting third-party SCCM products and the expansion of their use on a company-wide basis. In addition, we only recently began to offer products in the BPM and ITSM markets and have significantly less experience with these markets than the SCCM market. Since the markets for our products are still evolving, it is difficult to assess the competitive environment or the size of the market that may develop. Moreover, these markets may grow more slowly than we anticipate. In addition, technologies, customer requirements and industry standards may change rapidly. If we cannot improve or augment our products as rapidly as existing technologies, customer requirements and industry standards evolve, our products or services could become obsolete. The introduction of new or technologically superior products by competitors could also make our products less competitive or obsolete. As a result of any of these factors, our position in existing markets or potential markets could be eroded.

If the market for IBM and IBM-compatible mainframes decreases, it could adversely affect our business.

Our mainframe revenue is dependent upon the continued use and acceptance of IBM mainframes, , IBM-compatible mainframes and the growth of this market. If the role of the mainframe does not increase as we anticipate, or if it in any way decreases, this may materially adversely affect our business, operating results and

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financial condition. Additionally, if there is a wide acceptance of other platforms or if new platforms emerge that provide enhanced enterprise server capabilities, our business, operating results and financial condition may be materially adversely affected. We expect that, for the foreseeable future, a significant portion of our software license revenue will continue to come from the sales of our mainframe products. As a result, future sales of our existing products and associated maintenance revenue and professional service revenue will depend on continued use of mainframes.

If we fail to effectively manage our sales and marketing organizations, it could adversely affect our business.

The loss of key sales or marketing employees could result in disruptions to our business and materially adversely affect our license revenue, operating results and financial condition. If we are required to hire new sales and marketing employees in the future, a substantial amount of time and training is generally required before these personnel become productive. The hiring, training and integration of additional and replacement personnel is time consuming, is expected to increase our operating expenses and may cause disruptions to our business, potentially materially adversely affecting our revenue, operating results and financial condition. If we fail to manage our sales and marketing organizations effectively, these organizations may fail to perform as we anticipate, which could materially adversely affect our license revenue and weaken our competitive position.

Any delays in our normally lengthy sales cycles could result in significant fluctuations in our operating results.

Our sales cycle typically takes three to eighteen months to complete and varies from product to product. Any delay in the sales cycle of a large license or a number of smaller licenses could result in significant fluctuations in our operating results. The length of the sales cycle may vary depending on a number of factors over which we may have little or no control, including the size and complexity of a potential transaction and the level of competition that we encounter in our selling activities. We have experienced an overall lengthening of sales cycles in the current economic environment as customers have more rigorously scrutinized potential IT purchases. Additionally, the emerging market for our products and services contributes to the lengthy sales process in that during the sales cycle we often have to educate potential customers on the use and the benefits of our products. In certain circumstances, we license our software to customers on a trial basis to assist customers in their evaluation of our products. Our sales cycle can also be further extended for product sales made through third party distributors.

Our industry changes rapidly due to evolving technology standards, and our future success will depend on our ability to continue to meet the sophisticated needs of our customers.

Our future success will depend on our ability to address the increasingly sophisticated needs of our customers by supporting existing and emerging hardware, software, database and networking platforms particularly for our distributed systems products. We must develop and introduce enhancements to our existing products and new products on a timely basis to keep pace with technological developments, evolving industry standards and changing customer requirements. We expect that we will have to respond quickly to rapid technological change, changing customer needs, frequent new product introductions and evolving industry standards that may render existing products and services obsolete. As a result, our position in existing markets or potential markets could be eroded rapidly by product advances. Our growth and future financial performance will depend in part upon our ability to enhance existing applications, develop and introduce new applications that keep pace with technological advances, meet changing customer requirements and respond to competitive products. We expect that our product development efforts will continue to require substantial investments, and we may not have sufficient resources to make the necessary investments. If we are unable to successfully and timely develop our products due to development constraints, such as high employee turnover, lack of management ability or lack of development resources, our products may fail to address these evolving customer requirements and become less competitive in our target markets. Any of these events could have a material adverse effect on our business, operating results and financial condition.

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We are subject to intense competition in our target markets, and we expect to face increased competition in the future, which could have an adverse effect on us.

We may not be able to compete successfully against current or future competitors, and such inability would materially adversely affect our business, operating results and financial condition. The market for our products is highly competitive and diverse. Moreover, the technology for products in our target markets may change rapidly. New products are frequently introduced, and existing products are continually enhanced. Competition may also result in changes in pricing policies by us or our competitors, potentially materially adversely affecting our business, operating results and financial condition. Competitors vary in size and in the scope and breadth of the products and services that they offer. Many of our current and potential competitors have greater financial, technical, marketing and other resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products than we can.

Competition in the Software Change and Configuration Management Distributed Systems Market. We face significant competition as we develop, market and sell our distributed systems products, including *PVCS Professional, PVCS Version Manager* and *Dimensions CM* products. Competitors in the distributed systems market include IBM, CA, Inc., Microsoft, and other smaller companies. A growing portion of the market is also using free open source tools to address their basic needs for issue/defect tracking and source code control, such as *Jira* and *Subversion*, resulting in an increased source of competition for our distributed system products, particularly *PVCS Professional, PVCS Version Manager, Serena Business Manager* and, to a lesser extent, *Dimensions CM* .

Competition in the Mainframe market. We currently face competition from a number of sources, including:

- customers internal IT departments;
- providers of products that compete directly with *ChangeMan ZMF* and *Comparex*, 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; and
- 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.

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

- providers of BPM solutions that compete directly with *Serena Business Manager*, such as IBM, Microsoft, PegaSystems, and smaller privately-held companies; and
- providers of on-premise and SaaS-based ITSM solutions that compete with *Serena Service Manager*, such as BMC, ServiceNow and smaller privately-held companies.

Future Competition. We may face competition in the future from established companies who have not previously entered the mainframe or distributed systems market or from emerging software companies. Increased competition may materially adversely affect our business, operating results and financial condition due to price reductions, reduced gross margins and reduction in market share. Established companies may not only develop their own mainframe or distributed systems solutions, but they may also acquire or establish cooperative relationships with our competitors, including cooperative relationships between large, established companies and smaller privately-held companies. Because larger companies have significant financial and organizational resources available, they may be able to quickly penetrate the mainframe or distributed systems market through acquisitions or strategic relationships and may be able to leverage the technology and expertise of smaller companies and develop successful SCCM products. We expect that the software industry in general, and providers of SCCM solutions in particular, will continue to consolidate. It is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

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Bundling or Compatibility Risks. Our ability to sell our products also depends, in part, on the compatibility of our products with other third party products, particularly those provided by IBM. Developers of these third party products may change their products so that they will no longer be compatible with our products. These third party developers may also decide to bundle their products with other SCCM products for promotional purposes. If that were to happen, our business, operating results and financial condition may be materially adversely affected as we may be priced out of the market or no longer be able to offer commercially viable products.

We may encounter problems conducting our international operations, and factors associated with international operations could adversely affect our business.

International Operations. We have sales subsidiaries in the United Kingdom, Germany, Sweden, France, Belgium, Spain, the Netherlands, Australia, Japan and Singapore. We have limited experience in marketing, selling and supporting our products in many countries, and may not be able to successfully market, sell, deliver and support our products internationally.

Risks of International Operations. International sales were 32%, 33%, and 35%, of our total revenue in the fiscal years ended January 31, 2010, 2011 and 2012, respectively. Our international revenue is attributable principally to our European operations. Our international operations are subject to a variety of risks associated with conducting business internationally that could materially adversely affect our business, operating results and financial condition, including the following:

- difficulties in staffing and managing international operations;
- problems in collecting accounts receivable;
- longer payment cycles;
- fluctuations in currency exchange rates and uncertainty about the future of the Euro;
- inability to control or predict the levels of revenue produced by our international distributors;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- limitations on repatriation of earnings;
- difficulties in enforcing the terms of our agreements with customers, distributors and resellers;
- reduced protection of intellectual property rights in some countries;
- increased austerity measures by several European governments;
- political and economic instability;

recessionary environments in foreign economies; and

increases in tariffs, duties, price controls or other restrictions on foreign currencies or trade barriers imposed by foreign countries.

Growing market acceptance of open source software could cause a decline in our revenue and operating margins.

Growing market acceptance of open source software has presented both benefits and challenges to the commercial software industry in recent years. Open Source software is made widely available by its authors and is licensed as is for a nominal fee or, in some cases, at no charge. As the use of open source software becomes more widespread, certain open source technology, such as *Subversion*, have become competitive with our products offering software version control capabilities, such as *PVCS Version Manager* and, to a lesser extent, *Dimensions CM*, which has caused the sale of these products to decline. In addition, *Jira*, an open source bug tracking tool, has become competitive with the use of *Serena Business Manager* as an issue and defect tracking tool. Further adoption of open source software within the markets that we sell could cause further declines in the sale of our products or force us to reduce the fees we charge for our products, which could have a material adverse impact on our revenue and operating margins.

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We may experience delays in developing our products which could adversely affect our business.

If we are unable, for technological or other reasons, to develop and introduce new and improved products and services in a timely manner, this could materially adversely affect our business, operating results and financial condition. We have experienced product development delays in new version and update releases in the past and may experience similar or more significant product delays in the future. Difficulties in product development could delay or prevent the successful introduction or marketing of new or improved products or the delivery of new versions of our products to our customers. Any delay in releasing our new distributed systems products, for whatever reason, could have a material adverse effect on our business, operating results and financial condition.

Acquisitions may be difficult to integrate, disrupt our business or divert the attention of our management.

Historically, we have expanded our product offerings by acquiring other companies and by acquiring specific products from third parties. We may acquire or make investments in other companies and technologies. In the event of any acquisitions or investments, we could:

- incur debt;
- assume liabilities;
- incur charges for the impairment of the value of investments or acquired assets; or
- incur amortization expense related to intangible assets.

If we fail to achieve the financial and strategic benefits of past and future acquisitions or investments, our operating results will suffer. Acquisitions and investments involve numerous other risks, including:

- difficulties integrating the acquired operations, technologies or products with ours;
- failure to achieve targeted synergies;
- unanticipated costs and liabilities;
- diversion of management s attention from our core business;
- adverse effects on our existing business relationships with suppliers and customers or those of the acquired organization;
- difficulties entering markets in which we have no or limited prior experience; and
- potential loss of key employees, particularly those of the acquired organizations.

Fluctuations in the value of foreign currencies could result in currency transaction losses.

A majority of our international business is conducted in foreign currencies, principally the British pound and the euro. Fluctuations in the value of foreign currencies relative to the U.S. dollar will continue to cause currency transaction gains and losses. We cannot predict the effect of exchange rate fluctuations upon future operating results. We may experience currency losses in the future. To date, we have not adopted a hedging program to protect us from risks associated with foreign currency fluctuations.

Our goodwill became impaired in fiscal year 2009 and certain amortizable intangible assets became impaired in fiscal year 2010. If our goodwill or amortizable intangible assets again becomes impaired in the future, we may be required to record a significant charge to earnings.

Under generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include

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a decline in expected future cash flows and slower growth rates in our industry. We impaired $6.8 million of capitalized software development costs in fiscal year 2010 and recorded a goodwill impairment charge of $326.7 million in fiscal year 2009, and may be required to record significant charges in any future period for which impairment of our goodwill or amortizable intangible assets is determined.

Third parties in the future could assert that our products infringe their intellectual property rights, possibly adversely affecting our business.

Third parties may claim that our current or future products and services infringe their proprietary rights. Any claims of this type could affect our relationships with existing customers and may prevent future customers from licensing our products or using our services. Because we are dependent upon a limited number of products and services, any such claims, with or without merit, could be time consuming to defend, result in costly litigation, cause product shipment or service deployment delays or require us to enter into royalty or licensing agreements. Royalty or license agreements may not be available on acceptable terms or at all. We expect that software product developers will increasingly be subject to infringement claims as the number of products, services and competition in the software industry segments increase and the functionality of products and services in different industry segments overlap. In addition, we use open source software in our solutions and will use open source software in the future. From time to time we may face claims against companies that incorporate open source software into their products, claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. Infringement claims could result in litigation, require us to purchase costly licenses or require us to devote additional research and development resources to change our products, any of which would have a negative effect on our business and operating results.

Errors in our products or the failure of our products to conform to specifications could result in our customers demanding refunds from us or asserting claims for damages against us.

Because our software products and services are complex, they often contain errors or bugs that can be detected at any point in a product s life cycle. While we continually test our products for errors and work with customers through our customer support services to identify and correct bugs in our software, we expect that errors in our products and services will continue to be found in the future. Although many of these errors may prove to be immaterial, certain of these errors could be significant. Detection of any significant errors may result in, among other things, loss of, or delay in, market acceptance and sales of our products and services, diversion of development resources, injury to our reputation, or increased service and warranty costs. These problems could materially adversely affect our business, operating results and financial condition. In the past we have discovered errors in certain of our products and have experienced delays in the shipment of our products during the period required to correct these errors. These delays have principally related to new version and product update releases. To date, none of these delays have materially affected our business. However, product and services errors or delays in the future, including any product and services errors or delays associated with the introduction of our distributed systems products and solutions, could be material. In addition, in certain cases we have warranted that our products will operate in accordance with specified customer requirements. If our products or services fail to conform to such specifications, customers could demand a refund for the software license fees or service fees paid to us or assert claims for damages.

Product liability claims asserted against us in the future could adversely affect our business.

We may be subject to claims for damages related to product errors in the future. A material product liability claim could materially adversely affect our business. Our license agreements with our customers typically contain provisions designed to limit exposure to potential product liability claims. Our standard software licenses provide that if our products fail to perform, we will correct or replace such products. If these corrective measures fail, we may be required to refund the license fee for the non-performing products. Our standard license agreement limits our liability for non-performing products to the amount of license fee paid. Our standard license also provides that we will not be liable for indirect or consequential damages caused by the failure of our

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products. Such limitation of liability provisions may, however, not be effective under the laws of certain jurisdictions to the extent local laws treat certain warranty exclusions as unenforceable. Although we have not experienced any product liability claims to date, the sale and support of our products entail the risk of such claims.

Changes in accounting regulations and related interpretations and policies regarding revenue recognition could cause us to defer recognition of revenue or recognize lower revenue and profits.

Although we use standardized license agreements designed to meet current revenue recognition criteria under generally accepted accounting principles, we must often negotiate and revise terms and conditions of these standardized agreements, particularly in multi-product or multi-year transactions. As our transactions increase in complexity with the sale of larger, multi-product, multi-year licenses, negotiation of mutually acceptable terms and conditions can extend the sales cycle and, in certain situations, may require us to defer recognition of revenue on such licenses. We believe that we are in compliance with revenue recognition guidance applicable to software transactions, however, these future, more complex, multi-product, multi-year license transactions may require additional accounting analysis to account for them accurately, could lead to unanticipated changes in our current revenue accounting practices and may contain terms affecting the timing of revenue recognition.

If we do not adequately manage and evolve our financial reporting and managerial systems and processes, our ability to manage and grow our business may be harmed.

Our ability to successfully implement our business plan and comply with regulations, including the Sarbanes-Oxley Act, requires an effective planning and management process. We expect that we will need to continue to improve existing, and implement new, operational and financial systems, procedures and controls to manage our business effectively in the future. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures and controls, could harm our ability to accurately forecast sales demand, manage our supply chain and record and report financial and management information on a timely and accurate basis.

Our executive officers and certain key personnel are critical to our business, and such officers and key personnel may not remain with us in the future.

Our success will depend to a significant extent on the continued service of our senior executives and certain other key employees, including certain sales, consulting, technical and marketing personnel. If we lost the services of one or more of our executives or key employees, including if one or more of our executives or key employees decided to join a competitor or otherwise compete directly or indirectly with us, our business could be materially adversely affected. During fiscal year 2012, our Senior Vice President and Chief Financial Officer, Senior Vice President, Products and Worldwide Customer Service, and Senior Vice President, SBM Solutions resigned from their executive officer positions at our company. Certain of our executive officers are not parties to employment agreements with us. In addition, we do not maintain key man life insurance on our employees and have no plans to do so. If we are unable to successfully reorganize our business around the departures of executive officers or key personnel or identify, hire and integrate new executive officers or other key personnel into our business, if any new executive officers are unable to successfully perform in their positions, establish and implement our business strategy or manage our business, or if any key management personnel are unable to successfully perform in their positions or manage their functional areas, our business and operating results could be materially adversely affected.

The interests of our controlling stockholder may differ from the interests of the holders of our securities.

Silver Lake and its affiliates own, in the aggregate, approximately 67.2% of our outstanding common stock as of January 31, 2012 and beneficially own the only authorized share of our series A preferred stock. In addition, Silver Lake and its affiliates, by virtue of their ownership of our common stock and their voting rights under a stockholders agreement, control the vote, in connection with substantially all matters subject to stockholder approval, of more than 99% of our outstanding common stock. As a result of this ownership and the terms of a stockholders agreement, Silver Lake is entitled to elect directors with majority voting power in our Board of Directors, to appoint new management and to approve actions requiring the approval of the holders of our outstanding voting shares as a single class, including adopting most amendments to our certificate of incorporation and approving mergers or sales of all or substantially all of our assets.

The interests of Silver Lake and its affiliates may differ from other holders of our securities in material respects. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of Silver Lake and its affiliates, as equity holders, might conflict with the interests of our other holders of our securities. Silver Lake and its affiliates may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in its judgment, could enhance its equity investments, even though such transactions might involve risks to other holders of our securities, including the incurrence of additional indebtedness. Additionally, the indenture governing our senior subordinated notes permits us to pay advisory fees, dividends or make other restricted payments under certain circumstances, and Silver Lake may have an interest in our doing so. We are party to a management advisory agreement with Silver Lake that provides for us to pay advisory and other fees to Silver Lake.

Silver Lake and its affiliates are in the business of making investments in companies and may, from time to time in the future, acquire interests in businesses that directly or indirectly compete with certain portions of our business or are suppliers or customers of ours. You should consider that the interests of Silver Lake and its affiliates may differ from other holders of our securities in material respects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal administrative, sales, marketing, consulting, education, customer support and research and development facilities are located at our headquarters in Redwood City, California and in Hillsboro, Oregon. We currently occupy an aggregate of approximately 30,000 square feet of office space in our Redwood City facility, 33,000 square feet of office space in our Hillsboro facility, 16,000 square feet of research and development space in our Kiev facility in Ukraine, 13,000 square feet of office space in our St. Albans facility in the United Kingdom, 5,600 square feet of office space in our Woodland Hills facility in California, 5,500 square feet of office space in our Paris facility in France, 4,000 square feet of office space in the Colorado Springs facility in Colorado and 2,800 square feet of office space in our Munich facility in Germany, under leases with terms running through July 2012, November 2018, January 2015, March 2021, October 2017, March 2014, April 2014 and December 2016, respectively. The lease for our headquarters facility in Redwood City, California will expire on July 31, 2012. We entered into a new lease for a headquarters facility consisting of 21,000 square feet of office space located in San Mateo, California that will commence on August 1, 2012. Management believes its current facilities will be adequate to meet our needs for at least the next twelve months. We believe that suitable additional facilities will be available in the future as needed on commercially reasonable terms.

We also lease office space for sales and marketing in various locations throughout North America and in Brazil, Belgium, Spain, Germany, Italy, Netherlands, Sweden, Switzerland, Australia, Korea, Japan, Singapore and India.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of our business, we are subject to periodic legal proceedings and claims. Although we cannot predict with certainty the ultimate outcome of these matters, we do not believe that any currently pending legal proceeding to which we are a party is likely to have a material adverse effect on our business, results of operations, cash flows or financial condition.

ITEM 4. Mine Safety Disclosures

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our outstanding common stock is privately held, and there is no established public trading market for our common stock. As of the date of this filing, there were 25 holders of record of our common stock.

See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a description of restrictions on our ability to pay dividends.

See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plan Information.

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ITEM 6. SELECTED FINANCIAL DATA

The selected historical data presented below are derived from the consolidated financial statements of Serena Software, Inc. The selected consolidated financial data set forth below is qualified in its entirety by, and should be read in conjunction with, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements of Serena and notes thereto included elsewhere in this report.

	Fiscal Year Ended January 31,				
	2008	2009 (1)	2010 (1) (in thousands)	2011 (1)	2012
Consolidated Statement of Operations Data (1):					
Revenue:					
Software licenses	$ 78,405	$ 64,578	$ 49,397	$ 51,382	$ 54,913
Maintenance	155,465	161,626	152,464	143,974	141,669
Professional services	36,325	34,033	22,153	19,030	22,959
Total revenue	270,195	260,237	224,014	214,386	219,541
Cost of revenue:					
Software licenses	1,861	1,935	3,253	1,380	2,632
Maintenance	15,551	15,626	12,585	11,545	11,452
Professional services	33,083	31,824	21,164	18,151	21,643
Amortization of acquired technology and impairment of intangibles	35,217	35,370	41,415	33,695	3,672
Total cost of revenue	85,712	84,755	78,417	64,771	39,399
Gross profit	184,483	175,482	145,597	149,615	180,142
Operating expenses:					
Sales and marketing	78,318	76,651	57,488	55,602	61,247
Research and development	40,384	33,900	32,737	31,584	26,925
General and administrative	20,129	15,847	16,600	15,939	14,033
Amortization of intangible assets	36,813	36,812	36,813	36,813	36,796
Restructuring, acquisition and other charges	2,789	6,077	7,796	5,332	2,974
Goodwill impairment and adjustments		322,781		1,433	
Total operating expenses	178,433	492,068	151,434	146,703	141,975
Operating income (loss)	6,050	(316,586)	(5,837)	2,912	38,167
Other income (expense):					
Interest income	1,928	1,498	437	212	168
Gain (loss) on early extinguishment of debt		8,707	4,602	(243)	
Interest expense	(47,535)	(41,222)	(33,048)	(24,633)	(25,625)
Change in fair value of derivative instrument	(7,378)	2,639	4,277	1,616	
Amortization and write-off of debt issuance costs	(1,111)	(2,070)	(2,158)	(1,857)	(1,361)
Amend and extend transaction fees					(1,487)
Total other income (expense)	(54,096)	(30,448)	(25,890)	(24,905)	(28,305)
(Loss) income before income taxes	(48,046)	(347,034)	(31,727)	(21,993)	9,862
Income tax (benefit) expense	(20,936)	(11,424)	(18,705)	(12,437)	918
Net (loss) income	$ (27,110)	$ (335,610)	$ (13,022)	$ (9,556)	$ 8,944
Consolidated Balance Sheet Data As of January 31:					
Cash and cash equivalents	$ 48,304	$ 115,044	$ 124,996	$ 126,374	$ 109,688

Working (deficit) capital (1)	(17,038)	38,175	50.902	48,074	47,455
Total assets	1,243,545	901,532	823,222	748,037	694,372
Convertible subordinated debentures	5				
Term loan	320,000	320,000	318,000	316,000	308,500
Revolving term credit facility		65,000	65,000	35,000	
Senior subordinated notes	200,000	167,383	142,952	134,265	134,265
Total other long-term liabilities	141,102	105,475	74,635	50,996	35,701
Total stockholders equity (1)	463,510	127,556	114,966	107,465	117,132

(1) In fiscal 2012, we identified certain errors related to overstated income tax accruals of approximately $3.9 million that originated in fiscal 2009. Management concluded that the effect of correcting these errors is not material to fiscal 2009 but would have been material if corrected in fiscal 2012. Accordingly, the above selected financial data for the fiscal years ended January 31, 2009, 2010 and 2011 have been revised to reflect the correction of these errors, with the as reported and as revised amounts as follows (in thousands):

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	Fiscal Years Ended January 31, 2009	2010	2011
Consolidated Balance Sheet Data As of January 31:			
Income taxes payable, as reported	$ 12,173	$ 5,972	$ 6,284
Income taxes payable, as revised	$ 8,284	$ 2,083	$ 2,395
Total current liabilities, as reported	$ 122,014	$ 113,558	$ 115,700
Total current liabilities, as revised	$ 118,125	$ 109,669	$ 111,811
Working capital, as reported	$ 34,279	$ 47,013	$ 44,185
Working capital, as revised	$ 38,175	$ 50,902	$ 48,074
Total liabilities, as reported	$ 777,872	$ 712,145	$ 644,461
Total liabilities, as revised	$ 773,983	$ 708,256	$ 640,572
Accumulated deficit, as reported	$ (389,112)	$ (402,134)	$ (411,690)
Accumulated deficit, as revised	$ (385,223)	$ (398,245)	$ (407,801)
Total stockholders equity, as reported	$ 123,660	$ 111,077	$ 103,576
Total stockholders equity, as revised	$ 127,556	$ 114,966	$ 107,465
Consolidated Statement of Operations Data:			
Goodwill impairment, as reported	$ 326,677		
Goodwill impairment, as revised	$ 322,781		
Total operating expenses, as reported	$ 495,964		
Total operating expenses, as revised	$ 492,068		
Operating loss, as reported	$ (320,482)		
Operating loss, as revised	$ (316,586)		
Loss before income taxes, as reported	$ (350,930)		
Loss before income taxes, as revised	$ (347,034)		
Net loss, as reported	$ (339,506)		
Net loss, as revised	$ (335,610)		

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements of Serena and the notes thereto included elsewhere in this report. Our discussion contains forward-looking statements under the Private Securities Reform Act of 1995 which include, but are not limited to, statements about our plans, objectives, expectations and intentions and other statements contained in this report that are not historical facts. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions are generally intended to identify forward-looking statements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including those factors set forth under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business, and elsewhere in, or incorporated by reference into, this report. We assume no obligation to update the forward-looking information contained in this report.

Overview

We are the largest global independent software company in terms of revenue solely focused on managing change and processes across information technology, or IT, environments. Our products and services 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 IT service management, or ITSM, and business process 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 and ITSM 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.

In connection with our merger with Spyglass Merger Corp., an affiliate of Silver Lake, in March 2006, we entered into a senior secured credit agreement, issued senior subordinated notes, and entered into other related transactions, which we refer to collectively as the acquisition transactions. After consummation of the acquisition transactions, we became and continue to be highly leveraged. As of January 31, 2012, we had outstanding $442.8 million in aggregate indebtedness. Our liquidity requirements are significant, primarily due to debt service requirements.

The maturity dates of our term loans and revolving credit facilities under our senior secured credit agreement were originally March 10, 2013 and March 10, 2012, respectively. In order to improve our liquidity and mitigate risks associated with our ability to refinance our indebtedness in the future, and prompted by recent improvements in the credit markets, we took various actions to extend the maturity dates of our term loans and revolving credit commitments under our senior secured credit agreement.

On March 2, 2011 we entered into an amendment to our senior secured credit agreement to extend the final maturity date for the repayment of a portion of outstanding term loans, extend the commitment termination date of the commitments for a portion of the revolving credit facility and provide for additional flexibility in the financial covenants under the senior secured credit agreement. As a result of the amendment, $191.1 million of the existing term loans were extended and will mature on March 10, 2016, and $20.0 million of the existing revolving credit commitments were extended and will terminate on March 10, 2015. As a result of the amendment, the interest rate margins increased by 200 basis points for the extended facilities. The $124.9 million of existing term loans and the $55.0 million of existing revolving credit commitments that were not extended continued to have maturity dates of March 10, 2013 and March 10, 2012, respectively. In February 2011, we paid down $7.5 million of the existing terms loans. In September 2011, we paid off and cancelled the non-extended portion of the revolving credit facility, thereby leaving an extended revolving credit facility of $20.0 million maturing on March 10, 2015. As of January 31, 2012, the outstanding balance of the extended term loans and non-extended term loans was $191.1 million and $117.4 million, respectively, and there was no outstanding balance on the extended revolving credit facility.

On April 12, 2012 we entered into an Extension Agreement and Amendment No. 1 (the Extension Agreement and Amendment) to our senior secured credit agreement to extend the final maturity date of our non-extended term loans due March 10, 2013. In addition, we borrowed $15.9 million of incremental term loans under the senior secured credit agreement. Because of amendments to our senior secured credit agreement effected by the Extension Agreement and Amendment, this borrowing of incremental term loans is not deemed to reduce our overall incremental borrowing limit. As a result of the Extension Agreement and Amendment, $101.5 million of the non-extended term loans due March 10, 2013 were extended through the establishment of a new series of extended term loans, and we used the proceeds of the incremental term loans to repay in full $15.9 million of non-extended term loans due March 10, 2013 that were not extended as part of the Extension Agreement and Amendment. We refer to the incremental term loans and the newly extended term loans as the 2016 Tranche B Term Loans. The 2016 Tranche B Term Loans have an applicable margin for London Interbank Offered Rate, or LIBOR, -based loans of 4.0% (or, if we exceed a specified leverage ratio, 4.25%) (which is 200 basis points higher than the interest rate under the non-extended term loans) and a LIBOR floor of 1.0%. The 2016 Tranche B Term Loans are subject to a prepayment premium of 1.00% if repaid or refinanced on or before April 12, 2013. The other terms and conditions of the 2016 Tranche B Term Loans are the same as those for the extended term loans due March 10, 2016. After giving effect to the Extension Agreement and Amendment and the repayment of the remaining non-extended term loans due March 10, 2013, all of our outstanding term loans under the senior secured credit agreement have a final maturity date of March 10, 2016 and the aggregate principal amount of the term loans outstanding under the senior secured credit agreement did not change.

For additional information regarding the our indebtedness under the senior secured credit agreement, see *Liquidity and Capital Resources Senior Secured Credit Agreement* below.

We derive our revenue from software licenses, maintenance and professional services. Our distributed systems products are licensed on a per user seat basis. Customers typically purchase mainframe products under million instructions per second, or MIPS-based, perpetual licenses. Mainframe software products and applications are generally priced based on hardware computing capacity the higher the mainframe computer s MIPS capacity, the higher the cost of the software license.

We also provide ongoing maintenance, which includes technical support, version upgrades and enhancements, for an annual fee of approximately 21% of the software license fee for our distributed systems products and approximately 17% to 18% of the software license fee for our mainframe products. We recognize maintenance revenue over the term of the maintenance contract on a straight-line basis.

Professional services revenue is derived from technical consulting and educational services. Our professional services are typically billed on a time and materials basis and revenue is recognized as the related services are performed. Maintenance revenue and professional services revenue have lower gross profit margins than software license revenue as a result of the costs inherent in operating our customer support and professional services organizations.

Our total revenue was $224.0 million, $214.4 million and $219.5 million in the fiscal years ended January 31, 2010, 2011 and 2012, respectively, representing a decrease of 4% from fiscal year 2010 to 2011 and an increase of 2% from fiscal 2011 to 2012. The decrease in total revenues in the fiscal year ended January 31, 2011, when compared to the same period a year before, was primarily the result of pricing pressures on maintenance renewals as a result of the continued weak economy, foreign currency exchange rate fluctuations negatively impacting translated foreign revenues, and certain maintenance contract cancellations, and declines in our consulting business fueled in part by slower software purchasing activity. The increase in total revenues in the fiscal year ended January 31, 2012, when compared to the same period a year ago, was primarily the result of

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increases in software license revenues coming predominantly from our *Serena Release Management* and *Serena Service Management* new product offerings and increases in our consulting business fueled in part by higher software purchasing activity, all partially offset by pricing pressures on maintenance renewals as a result of the continued weak economy and certain maintenance contract cancellations.

In each of the fiscal years ended January 31, 2010, 2011 and 2012, 58% of our total software license revenue came from our distributed systems products and 42% came from our mainframe products.

Historically, our revenue has been generally attributable to sales in North America, Europe and to a lesser extent Asia Pacific and South America. Revenue attributable to sales in North America accounted for approximately 68%, 67% and 65% of our total revenue in the fiscal years ended January 31, 2010, 2011 and 2012, respectively. Our international revenue is attributable principally to our European operations and to a lesser extent Asia Pacific and South America. International revenue accounted for approximately 32%, 33% and 35% of our total revenue in the fiscal years ended January 31, 2010, 2011 and 2012, respectively.

Critical Accounting Policies and Estimates

This discussion is based upon our consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by us. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation of our financial condition or results of operations could be affected.

On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, trade accounts receivable and allowance for doubtful accounts, impairment or disposal of long-lived assets, accounting for income taxes, impairment of goodwill, valuation of our common stock, and assumptions around valuation of our options and restricted stock, among other things. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We refer to accounting estimates of this type as critical accounting policies and these are discussed further below.

In addition to these estimates and assumptions utilized in the preparation of historical financial statements, the inability to properly estimate the timing and amount of future revenue could significantly affect our future operations. We must make assumptions and estimates as to the timing and amount of future revenue. Specifically, our sales personnel monitor the status of all proposals, including the estimated closing date and potential dollar amount of such transactions. We aggregate these estimates to generate a sales pipeline and then evaluate the pipeline to identify trends in our business. This pipeline analysis and related estimates of revenue may differ significantly from actual revenue in a particular reporting period as the estimates and assumptions were made using the best available data at the time, which is subject to change. Specifically, slowdowns in the global economy and information technology spending has caused and may continue to cause customer purchasing decisions to be delayed, reduced in amount or cancelled, all of which have reduced and could continue to reduce the rate of conversion of the pipeline into contracts. A variation in the pipeline or the conversion rate of the pipeline into contracts could cause us to plan or budget inaccurately and thereby could adversely affect our business, financial condition or results of operations. In addition, because a substantial portion of our software license contracts close in the latter part of a quarter, we may not be able to adjust our cost structure to respond to a variation in the conversion of the pipeline in a timely manner, and thereby the delays may adversely and materially affect our business, financial condition or results of operations.

We believe the following are critical accounting policies and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenue in accordance with guidance applicable to software transactions and recognize revenue when all of the following criteria are met as set forth in the guidance: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the fee is fixed or determinable and (4) collectibility is probable.

For multiple element arrangements (e.g., license and maintenance), revenue is allocated to each component of the contract based on vendor specific objective evidence, or VSOE, of its fair value represented by the price charged when the elements are sold separately. VSOE must exist for the undelivered elements to allocate the total fee among all delivered and non-essential undelivered elements of the arrangement. Since VSOE of fair value has been established for maintenance but not for software licenses, the residual method is used to allocate revenue to the license portion of multiple-element arrangements.

Our VSOE for certain elements of an arrangement is based upon the pricing in comparable transactions when the element is sold separately. VSOE for maintenance is primarily based upon customer renewal history when the services are sold separately. VSOE for professional services is also based upon the price charged when the services are sold separately.

If the undelivered elements of the arrangement are essential to the functionality of the software product(s), revenue is deferred until the essential elements are delivered. If VSOE does not exist for one or more non-essential undelivered elements, revenue is deferred until such evidence does exist for the undelivered elements, or until all elements are delivered, whichever is earlier. If VSOE of all non-essential undelivered elements exists but VSOE does not exist for one or more delivered elements, revenue is recognized using the residual method. Under the residual method, the revenue for the undelivered elements is deferred based upon VSOE and the remaining portion of the arrangement fee is recognized as revenue for the delivered elements, assuming all other criteria for revenue recognition have been met. If we could no longer establish VSOE for non-essential undelivered elements of multiple element arrangements, revenue would be deferred until all elements are delivered or VSOE is established for the undelivered elements, whichever is earlier.

We sell products to our end users and distributors under license agreements or purchase orders. Software license revenue from license agreements or purchase orders is recognized upon receipt and acceptance of a signed contract or purchase order and delivery of the software, provided the related fee is fixed or determinable and collection of the fee is probable. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period, as defined in the applicable software license agreement. Each new license includes maintenance, including the right to receive telephone support, bug fixes and unspecified upgrades and enhancements, for a specified duration of time, usually one year. The fee associated with such agreements is allocated between software license revenue and maintenance revenue based on the residual method.

We recognize maintenance revenue ratably over the life of the related maintenance contract. Maintenance contracts on perpetual licenses generally renew annually. We typically invoice and collect maintenance fees on an annual basis at the anniversary date of the license. Deferred revenue represents amounts received by us in advance of performance of the maintenance obligation. Professional services revenue includes fees derived from the delivery of training, installation, and consulting services. Revenue from training, installation, and consulting services is recognized on a time and materials basis as the related services are performed. These services have not historically involved significant production, modification or customization of the software and the services have not been essential to the functionality of the software.

Stock-based Compensation. We currently use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based awards on the date of grant using an option-pricing model is affected by our estimate of fair value for our common stock as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

Our common stock is privately held and therefore there is no public market for our common stock. To assist management in determining the estimated fair value of our common stock, we engage an external valuation specialist to perform valuations as of July 31 and January 31 of each fiscal year. We also engaged an external valuation specialist to perform a valuation to assist management in determining the estimated fair value of our common stock in connection with our tender offer completed in the third quarter of fiscal 2010. In estimating the fair value of our common stock as of January 31, 2011 and 2012, the external valuation firm employed a two-step approach that first estimated the fair value of our company as a whole, and then allocated the enterprise value to our common stock. These estimates were also used to assist management in measuring our expected stock price volatility over time.

We estimate the expected term of options granted based on observed and expected time to post-vesting exercise or cancellations. Expected volatility is based on the combination of historical volatility of our common stock and our peer group s common stock over the period commensurate with the expected life of the options. We base the risk-free interest rate that we use in the option pricing model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use forecasted projections to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating results.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our option grants. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the ultimately realized fair values of our stock-based awards. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

Stock-based compensation expense is associated with employee stock options, restricted stock awards and restricted stock units. In the fiscal years ended January 31, 2010, 2011 and 2012, stock-based compensation expense totaled \$2.9 million, \$3.6 million and \$1.4 million, respectively.

See Notes 1(o) and 5 of notes to our consolidated financial statements for further information regarding stock-based compensation.

Valuation of Long-Lived Assets, Including Goodwill. Assets such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such events or changes in

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circumstances include, but are not limited to, a significant decrease in the fair value of the underlying business or asset, a significant decrease in the benefits realized from the acquired business or asset, difficulties or delays in integrating the business, or a significant change in the operations of the acquired business or use of an asset. Recoverability of long-lived assets other than goodwill is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Significant management judgment is required in identifying a triggering event that arises from a change in circumstances; forecasting future operating results; and estimating the proceeds from the disposition of long-lived or intangible assets. Material impairment charges could be necessary should different conditions prevail or different judgments be made. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would be no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

Goodwill is tested annually for impairment in the fourth quarter of each fiscal year, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. Factors we consider important that could trigger an impairment review include, but are not limited to, significant under-performance relative to expected, historical or projected future operating results, significant changes in the manner of our use of acquired assets or the strategy for our overall business, or significant negative economic trends. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. This determination is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill.

We completed this test during the fourth quarters of fiscal years 2010, 2011, and 2012, respectively, and did not record an impairment loss on goodwill in any of those fiscal years.

Significant assumptions and estimates are made when determining if our goodwill has been impaired or if there are indicators of impairment. We base our estimates on assumptions that we believe to be reasonable, but actual future results may differ from those estimates as the assumptions used by us are inherently unpredictable and uncertain. These estimates include estimates of future market growth and trends, forecasted revenue and costs, expected periods of asset utilization, appropriate discount rates and other variables.

Accounting for Income Taxes. Income taxes are recorded using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We assess the likelihood that deferred tax assets will be recoverable from future taxable income and a valuation allowance is provided if it is determined more likely than not that some portion of the deferred tax assets will not be realized.

Recent Accounting Pronouncements

Refer to Note 1(r) of notes to our consolidated financial statements for a full description of recent accounting pronouncements including the expected dates of adoption and potential effects on our financial position, results of operations and cash flows.

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Historical Results of Operations

The following table sets forth our historical results of operations expressed as a percentage of total revenue and is not necessarily indicative of the results for any future period.

The following table sets forth our results of operations expressed as a percentage of total revenue. These operating results for the periods presented are not necessarily indicative of the results to be expected for any future period.

	Fiscal Years Ended January 31,		
	2010	2011	2012
Revenue:			
Software licenses	22%	24%	25%
Maintenance	68%	67%	65%
Professional services	10%	9%	10%
Total revenue	100%	100%	100%
Cost of revenue:			
Software licenses	1%	1%	1%
Maintenance	6%	5%	5%
Professional services	10%	8%	10%
Amortization of acquired technology and impairment of intangibles	18%	16%	2%
Total cost of revenue	35%	30%	18%
Gross profit	65%	70%	82%
Operating expenses:			
Sales and marketing	26%	26%	28%
Research and development	15%	15%	12%
General and administrative	7%	7%	7%
Amortization of intangible assets	16%	17%	17%
Restructuring, acquisition and other charges	3%	3%	1%
Goodwill adjustments		1%	
Total operating expenses	67%	69%	65%
Operating (loss) income	(2)%	1%	17%
Other income (expense):			
Interest income			
Gain (loss) on early extinguishment of debt	2%		
Interest expense	(15)%	(11)%	(11)%
Change in fair value of derivative instrument	2%	1%	
Amortization and write-off of debt issuance costs	(1)%	(1)%	(1)%
Amend and extend transaction fees			(1)%
Total other income (expense)	(12)%	(11)%	(13)%
(Loss) income before income taxes	(14)%	(10)%	4%
Income tax (benefit) expense	(8)%	(6)%	
Net (loss) income	(6)%	(4)%	4%

Comparison of Fiscal Years Ended January 31, 2010, 2011 and 2012

Revenue

Our total revenue was $224.0 million, $214.4 million and $219.5 million in fiscal years 2010, 2011 and 2012, respectively, representing a decrease of 4% from fiscal year 2010 to 2011 and an increase of 2% from fiscal year 2011 to 2012.

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The following table summarizes software licenses, maintenance and professional services revenues for the periods indicated:

	Fiscal Years Ended January 31,			Fiscal Year 2011 vs. 2010 Increase (Decrease)		Fiscal Year 2012 vs. 2011 Increase (Decrease)	
	2010	2011	2012	In Dollars	In %	In Dollars	In %
	(dollars in thousands)						
Revenue:							
Software licenses	$ 49,397	$ 51,382	$ 54,913	$ 1,985	4%	$ 3,531	7%
Maintenance	152,464	143,974	141,669	(8,490)	(6)%	(2,305)	(2)%
Professional services	22,153	19,030	22,959	(3,123)	(14)%	3,929	21%
Total revenue	$ 224,014	$ 214,386	$ 219,541	$ (9,628)	(4)%	$ 5,155	2%

Software Licenses. Software licenses revenue was $49.4 million, $51.4 million and $54.9 million in fiscal year 2010, 2011 and 2012, respectively, representing 22%, 24% and 25% of total revenue, respectively. Software licenses revenue increased $2.0 million, or 4%, from fiscal year 2010 to 2011 and $3.5 million, or 7%, from fiscal year 2011 to 2012. The increase in fiscal year 2011, when compared to fiscal year 2010, in both absolute dollars and as a percentage of total revenue was primarily due to our hiring of additional sales representatives and additional marketing programs during the fiscal year. The increase in fiscal year 2012, when compared to fiscal year 2011, in both absolute dollars and as a percentage of total revenue was primarily the result of increases in software license revenues coming from our *Serena Release Manager* and *Serena Service Manager* new product offerings. Our core ALM products continue to make up a significant portion of our total software license revenue. Combined, our core ALM products accounted for $44.7 million, $46.0 million and $49.1 million in fiscal year 2010, 2011 and 2012, respectively, representing 91%, 90% and 89% of total software license revenue, respectively. In each of the years in the three year period ended January 31, 2012, distributed systems products accounted for 58% of total software licenses revenue. Distributed systems products were $28.5 million, $29.8 million and $31.7 million of total software licenses revenue in fiscal year 2010, 2011 and 2012, respectively. We expect that our *Serena Release Manager* and *Serena Service Manager* offerings will account for a substantial portion of software license revenue in the future along with our *Dimensions, Professional* and *Serena Business Manager* family of products. We expect software license revenue for the fiscal quarter ending April 30, 2012 to decline sequentially when compared to the fiscal quarter ending January 31, 2012 due to seasonally stronger sales in our fiscal quarter ending January 31.

Maintenance. Maintenance revenue was $152.5 million, $144.0 million and $141.7 million in fiscal year 2010, 2011 and 2012, respectively, representing 68%, 67% and 65% of total revenue, respectively. Maintenance revenue decreased $8.5 million, or 6%, from fiscal year 2010 to 2011 and $2.3 million, or 2%, from fiscal year 2011 to 2012. The decrease in fiscal year 2011, when compared to fiscal year 2010 was primarily due to pricing pressures on maintenance renewals as a result of the weak global economy, foreign currency exchange rate fluctuations negatively impacting translated foreign revenues, and certain maintenance contract cancellations. The decrease in fiscal year 2012, when compared to fiscal year 2011 was primarily due to continued pricing pressures on maintenance renewals and maintenance contract cancellations. We expect maintenance revenue to remain generally flat in the near term as maintenance contracts continue to renew at consistent rates and we continue to sell software licenses.

Professional Services. Professional services revenue was $22.2 million, $19.0 million and $23.0 million in fiscal year 2010, 2011 and 2012, respectively, representing 10%, 9% and 10% of total revenue, respectively. Professional services revenue decreased $3.2 million, or 14%, from fiscal year 2010 to 2011 and increased $4.0 million, or 21%, from fiscal year 2011 to fiscal year 2012. The decrease in fiscal year 2011, when compared to fiscal year 2010, in both absolute dollars and as a percentage of total revenue was primarily due to a decline in the number of consulting engagements primarily as a result of the continuing general weakening of the worldwide economy. The increase in fiscal year 2012, when compared to fiscal year 2011, in both absolute

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dollars and as a percentage of total revenue was primarily due to an increase in the number of consulting engagements primarily as a result of higher software license revenue and our focus on solution-oriented sales, and an expanded professional services organization. In general, professional services revenue is attributable to consulting opportunities in our installed customer base and expanding our consulting service capabilities. We expect professional services revenue to remain generally flat or slightly increase in the near term as we maintain our focus on selling solution-oriented offerings based on our ALM products and *Serena Business Manager* and *Serena Service Manager* family of products.

Cost of Revenue

Cost of revenue, consisting of cost of software licenses, cost of maintenance, cost of professional services and amortization of acquired technology and impairment of intangibles was $78.4 million, $64.8 million and $39.4 million in fiscal year 2010, 2011 and 2012, respectively, representing 35%, 30% and 18% of total revenue, respectively. Cost of revenue decreased $13.6 million, or 17%, from fiscal year 2010 to fiscal year 2011 and $25.4 million, or 39%, from fiscal year 2011 to fiscal year 2012. Cost of revenue decreased from fiscal year 2010 to fiscal year 2011 primarily due to the absence in 2011 of the impairment charge taken in fiscal year 2010 on capitalized software costs related to our on-demand application services totaling $6.8 million and a decrease in cost of professional services resulting from a decline in professional services revenue. Cost of revenue decreased from fiscal year 2011 to fiscal year 2012 primarily due to certain acquired technology assets from the merger in 2006 being fully amortized in the first quarter of fiscal 2012, offset in part by an increase in cost of professional services resulting from an increase in professional services revenue.

The following table summarizes cost of revenue for the periods indicated:

	Fiscal Years Ended January 31,			Fiscal Year 2011 vs. 2010 Increase (Decrease)		Fiscal Year 2012 vs. 2011 Increase (Decrease)	
	2010	**2011**	**2012**	**In Dollars**	**In %**	**In Dollars**	**In %**
	(dollars in thousands)						
Cost of revenue:							
Software licenses	$ 3,253	$ 1,380	$ 2,632	$ (1,873)	(58)%	$ 1,252	91%
Maintenance	12,585	11,545	11,452	(1,040)	(8)%	(93)	(1)%
Professional services	21,164	18,151	21,643	(3,013)	(14)%	3,492	19%
Amortization of acquired technology and impairment of intangibles	41,415	33,695	3,672	(7,720)	(19)%	(30,023)	(89)%
Total cost of revenue	$ 78,417	$ 64,771	$ 39,399	$ (13,646)	(17)%	$ (25,372)	(39)%
Percentage of total revenue	35%	30%	18%				

Software Licenses. Cost of software licenses consists principally of fees associated with integrating third party technology into our *Serena Release Automation, PVCS* and *Dimensions* distributed systems products and, to a lesser extent, salaries, bonuses and other costs associated with our product release organization. In fiscal 2010 only, cost of software licenses also included amortization of capitalized software costs associated with our on-demand application services. Beginning in fiscal 2011, we ceased amortizing capitalized software costs because the capitalized software costs were fully impaired in the fourth quarter of fiscal 2010. Cost of software licenses was $3.3 million, $1.4 million and $2.6 million in fiscal year 2010, 2011 and 2012, respectively, representing 7%, 3% and 5% of total software licenses revenue, respectively. Cost of software licenses decreased $1.9 million, or 58%, from fiscal year 2010 to fiscal year 2011 and increased $1.2 million, or 91%, from fiscal year 2011 to fiscal year 2012. The decrease in both absolute dollars and as a percentage of total software licenses revenue in fiscal year 2011, when compared to fiscal year 2010, was primarily due to the absence of amortization of certain capitalized software costs associated with our on-demand application services in fiscal 2011. The increase in both absolute dollars and as a percentage of total software licenses revenue in fiscal year 2012, when compared to fiscal year 2011, was primarily due to increases in certain distributed systems products sales that have fees associated with distributing third party product and integrating third party technology into our products.

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Maintenance. Cost of maintenance consists primarily of salaries, bonuses and other costs associated with our customer support organizations. Cost of maintenance was $12.6 million, $11.5 million and $11.4 million in fiscal year 2010, 2011 and 2012, respectively, representing 8% of total maintenance revenue in each of the three fiscal periods. Cost of maintenance decreased $1.1 million, or 8%, from fiscal year 2010 to 2011 and $0.1 million, or 1%, from fiscal year 2011 to 2012. The decrease in absolute dollars in fiscal year 2011, when compared to fiscal year 2010, was primarily attributable to decreases in expenses associated with our customer support organization resulting from restructuring and other cost cutting initiatives. The decrease in absolute dollars in fiscal year 2012, when compared to fiscal year 2011, was primarily attributable to decreases in expenses associated with our customer support organization resulting from prior restructuring and other cost cutting initiatives, offset in part by general cost increases associated with our customer support organization.

Professional Services. Cost of professional services consists of salaries, bonuses and other costs associated with supporting our professional services organization. Cost of professional services was $21.2 million, $18.2 million and $21.6 million in fiscal year 2010, 2011 and 2012, respectively, representing 95%, 95% and 94% of total professional services revenue, respectively. Cost of professional services decreased $3.0 million, or 14%, from fiscal year 2010 to 2011 and increased $3.4 million, or 19%, from fiscal year 2011 to fiscal year 2012. The absolute dollar decrease in fiscal year 2011, when compared to fiscal year 2010, was predominantly due to decreases in expenses as a result of lower professional services revenue and, to a lesser extent, restructuring and other cost cutting initiatives, all partially offset by increases in stock-based compensation expenses. The absolute dollar increase in fiscal year 2012, when compared to fiscal year 2011, was predominantly due to increases in headcount to support higher professional services revenue.

Amortization of Acquired Technology and Impairment of Intangibles. In connection with our merger in March 2006, and to a lesser extent, small technology acquisitions in March 2006, October 2006 and September 2008, we recorded $178.7 million in acquired technology, offset by amortization totaling $178.7 million as of January 31, 2012. Amortization of acquired technology was $41.4 million, $33.7 million and $3.7 million in fiscal year 2010, fiscal year 2011 and fiscal year 2012, respectively. Amortization of acquired technology in fiscal year 2010 also included an impairment charge totaling $6.8 million on certain capitalized software intangibles related to our on-demand application services. The acquired technology associated with our merger in March 2006 became fully amortized in the first quarter of fiscal 2012. Amortization expense was predominantly due to the acquired technology recorded in connection with the merger.

Operating Expenses

The following table summarizes operating expenses for the periods indicated:

	Fiscal Years Ended January 31,			Fiscal Year 2011 vs. 2010 Increase (Decrease)		Fiscal Year 2012 vs. 2011 Increase (Decrease)	
	2010	2011	2012	In Dollars	In %	In Dollars	In %
			(dollars in thousands)				
Operating expenses:							
Sales & marketing	$ 57,488	$ 55,602	$ 61,247	$ (1,886)	(3)%	$ 5,645	10%
Research & development	32,737	31,584	26,925	(1,153)	(4)%	(4,659)	(15)%
General & administrative	16,600	15,939	14,033	(661)	(4)%	(1,906)	(12)%
Amortization of intangible assets	36,813	36,813	36,796			(17)	
Restructuring, acquisition and other charges	7,796	5,332	2,974	(2,464)	(32)%	(2,358)	(44)%
Goodwill adjustments		1,433		1,433		(1,433)	(100)%
Total operating expenses	$ 151,434	$ 146,703	$ 141,975	$ (4,731)	(3)%	$ (4,728)	(3)%
Percentage of total revenue	67%	69%	65%				

Sales and Marketing. Sales and marketing expenses consist primarily of salaries, commissions and bonuses, payroll taxes and employee benefits as well as travel, entertainment and marketing expenses. Sales and marketing expenses were $57.5 million, $55.6 million and $61.2 million in fiscal year 2010, 2011 and 2012, respectively, representing 26%, 26% and 28% of total revenue, respectively. Sales and marketing expenses decreased $1.9 million, or 3%, from fiscal year 2010 to 2011 and increased $5.6 million, or 10%, from fiscal year 2011 to 2012. In absolute dollars, the decrease in fiscal year 2011, when compared to fiscal year 2010, was the result of restructuring and other cost cutting initiatives put in place in the second half of fiscal 2010, partially offset by higher direct costs, such as travel expenses and sales commissions, associated with higher software licenses revenue. In both absolute dollars and as a percentage of total revenue, the increase in fiscal year 2012, when compared to fiscal year 2011, was primarily the result of growing our sales and marketing organizations to support future software licenses sales and marketing programs, and higher direct costs, such as sales commissions and cash incentive compensation, associated with higher software licenses revenue. In absolute dollar terms, we expect sales and marketing expenses to increase in the near term.

Research and Development. Research and development expenses consist primarily of salaries, bonuses, payroll taxes and employee benefits and costs attributable to research and development activities. Research and development expenses were $32.7 million, $31.6 million and $26.9 million in fiscal year 2010, 2011 and 2012, respectively, representing 15%, 15% and 12% of total revenue, respectively. Research and development expenses decreased $1.1 million, or 4%, from fiscal year 2010 to 2011 and $4.7 million, or 15%, from fiscal year 2011 to 2012. In absolute dollars, the decrease in fiscal year 2011, when compared to fiscal year 2010, was primarily attributable to restructuring and other cost cutting initiatives put in place in the second half of fiscal year 2010 and first quarter of fiscal 2011. In both absolute dollars and as a percentage of total revenue, the decrease in fiscal year 2012, when compared to fiscal year 2011, was primarily attributable to restructuring and other cost cutting initiatives, including moving some of our research and development activities to lower cost offshore locations, put in place in fiscal 2011 and the first quarter of fiscal 2012, and a decrease in stock-based compensation expense totaling $0.9 million. In absolute dollar terms, we expect research and development expenses to remain generally flat or slightly increase in the near term.

General and Administrative. General and administrative expenses consist primarily of salaries, bonuses, payroll taxes and benefits and certain non-allocable administrative costs, including legal and accounting fees and bad debts. General and administrative expenses were $16.6 million, $15.9 million and $14.0 million in fiscal year 2010, 2011 and 2012, respectively, representing 7% of total revenues in each of the fiscal years ending in 2010, 2011 and 2012. General and administrative expenses decreased $0.7 million, or 4%, from fiscal year 2010 to 2011 and $1.9 million, or 12%, from fiscal year 2011 to 2012. In absolute dollars, the decrease in general and administrative expenses in fiscal year 2011, when compared to fiscal year 2010, was primarily attributable to restructuring and other cost cutting initiatives put in place in the second half of fiscal year 2010 and first quarter of fiscal 2011 and a decrease in bad debt expenses, all partially offset by an increase in stock-based compensation expense and fluctuations in foreign currency exchange rates. In absolute dollars, the decrease in general and administrative expenses in fiscal year 2012, when compared to fiscal year 2011, was primarily attributable to restructuring and other cost cutting initiatives put in place in fiscal 2011 and the first quarter of fiscal 2012, and a decrease in stock-based compensation expense totaling $1.3 million. We expect general and administrative expenses to remain generally flat or slightly increase in the near term.

Amortization of Intangible Assets. In connection with our merger in March 2006, and to a lesser extent a small technology acquisition in October 2006, we have recorded $299.9 million in identifiable intangible assets, reduced by amortization totaling $222.6 million as of January 31, 2012. For each of the fiscal years ended January 31, 2010, 2011 and 2012, amortization expense was predominantly due to the identifiable intangible assets recorded in connection with the merger. Assuming there are no impairments and no acquisitions, we expect to record $9.2 million in amortization expense in the next fiscal quarter, $9.1 million in amortization expense in each of the seven fiscal quarters following thereafter and finally, $3.9 million in amortization expense in the first quarter of fiscal 2015.

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Restructuring, Acquisition and Other Charges. In connection with our restructuring plans put in place in April 2009, September 2009, December 2009, January 2010, March 2010 and February 2011, and to a lesser extent, severance and other employee related costs, sponsor fees and other charges which are not part of ongoing operations, we recorded $7.8 million, $5.3 million and $3.0 million in restructuring, acquisition and other charges in the fiscal years ended January 31, 2010, 2011 and 2012, respectively. Restructuring, acquisition and other charges for the fiscal years ended January 31, 2010, 2011 and 2012 are categorized as follows (in thousands):

	Fiscal Years Ended January 31,		
	2010	**2011**	**2012**
Sponsor fees, administration fees and other costs related to the Merger and the issuance of debt	$ 1,226	$ 1,238	$ 1,240
Restructuring charges consisting principally of severance, payroll taxes and other employee benefits, facilities closures and legal and other miscellaneous costs (1)	5,579	2,272	163
Other redundancy costs not related to our restructuring plans including severance and other employee related costs, costs to establish or liquidate entities, and other miscellaneous costs not part of ongoing operations	991	1,822	1,571
Total restructuring, acquisition and other charges	$ 7,796	$ 5,332	$ 2,974

(1)