SERENA SOFTWARE INC
Form S-3/A
April 30, 2004
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As filed with the Securities and Exchange Commission on April 30, 2004

Registration No. 333-112770

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM S-3

REGISTRATION STATEMENT

Under

The Securities Act of 1933

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 Number)**

2755 Campus Drive, 3rd Floor

San Mateo, California 94403-2538

(650) 522-6600

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

Vita A. Strimaitis

Vice President, General Counsel and Secretary

SERENA Software, Inc.

2755 Campus Drive, 3rd Floor

San Mateo, California 94403-2538

(650) 522-6600

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Professional Corporation

650 Page Mill Road

Palo Alto, CA 94304

(650) 493-9300

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 30, 2004

$220,000,000

SERENA SOFTWARE, INC.

1½% Convertible Subordinated Notes Due 2023 and

9,912,588 shares of Common Stock Issuable Upon Conversion of the Notes

We issued the notes in a private placement in December 2003. This prospectus will be used by selling security holders to resell their notes and the common stock issuable upon conversion of their notes. We will not receive any proceeds from this offering.

We will pay interest on the notes on June 15 and December 15 of each year. The first interest payment will be made on June 15, 2004.

You may convert the notes into shares of our common stock at an initial conversion rate of 45.0577 shares per $1,000 principal (representing an initial conversion price of approximately $22.194), subject to adjustment as set forth in this prospectus.

You may require us to purchase all or a portion of your notes on December 15, 2008, December 15, 2013 or December 15, 2018 or upon the occurrence of a change in control, as described in this prospectus. We may redeem all or a portion of the notes at any time (1) on or after December 15, 2006 and prior to December 15, 2008, if the closing price of our common stock exceeds 130% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of mailing of the redemption notice or (2) on or after December 15, 2008. In each case, we will pay the purchase price in an amount equal to 100% of the principal amount of notes being purchased, plus accrued and unpaid interest to, but excluding, the date of purchase or redemption.

We have pledged a portfolio of U.S. government securities to secure the first six scheduled interest payments on the notes. Other than this pledge of U.S. government securities, the notes are subordinated unsecured obligations and rank junior in right of payment to all of our existing and future senior indebtedness and structurally subordinated to all indebtedness and other liabilities of our subsidiaries.

The notes are not listed on any securities exchange. The notes and the shares of common stock issuable upon conversion are eligible for the Private Offerings, Resales and Trading through Automated Linkages, or PORTAL, system of the National Association of Securities Dealers, Inc. Our common stock is quoted on the NASDAQ National Market under the symbol SRNA. On April 28, 2004, the last reported sale price for our common stock on the NASDAQ National Market was $18.88 per share.

The securities offered hereby involve a high degree of risk. See Risk Factors beginning on page 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This prospectus is dated , 2004

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You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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SUMMARY

This summary contains basic information about us and this offering. Because this is a summary, it may not contain all the information that may be important to you. You should read this entire prospectus carefully, including the section entitled Risk Factors and our financial statements and the notes thereto before making an investment decision. Documents incorporated by reference form an integral part of this prospectus. Except as otherwise noted, we present all financial and operational data on a fiscal year and fiscal quarter basis. Our fiscal year ends on January 31. For example, we refer to the year ended January 31, 2003 as fiscal 2003 or 2003. Our fiscal quarters end April 30, July 31, October 31 and January 31. When used in this prospectus, unless otherwise stated, the terms we, our and us refer to SERENA Software, Inc. and its subsidiaries.

SERENA Software, Inc.

SERENA is a leading provider of Enterprise Change Management, or ECM, infrastructure software to manage change to enterprise applications. Our products and services are used to manage and control application change for organizations whose business operations are dependent on managing information technology, or IT. In our 23 year history, we have developed highly effective solutions for managing software change that enable our customers to improve their return on IT investments by improving application availability, accelerating time to market, and increasing programmer productivity while reducing application development and IT infrastructure maintenance costs. All large companies have a process for managing change to their internally developed applications, including new version releases, bug fixes, upgrades and application introductions. Our products help IT managers manage changes to applications by automating and enforcing the process throughout the application life cycle. Our consulting services help companies improve their process by identifying where their current practices deviate from standard practices and making appropriate recommendations. As of October 31, 2003, our products have been installed in over 3,600 customer sites worldwide and our customers include 43 of the Fortune 50 companies.

Recent Developments

On March 3, 2004, the Company s Board of Directors, together with the Board of Directors of Merant plc., announced that they had reached agreement on the terms of a recommended cash and share offer to be made by SERENA and by Lehman Brothers on our behalf (outside of the United States) for the entire issue and to be issued share capital of Merant, including Merant shares represented by Merant American Depository Shares, or ADS. At the time of the announcement, the offer valued the then entire issued share capital of Merant at approximately GBP206 million (US$380 million). The offer was made on March 18, 2004. If completed, the acquisition will create the second largest provider of Enterprise Change Management software solutions, serving the complex change management needs of at least 46 of the Fortune 50 largest companies worldwide, with a resulting combined install base of over 15,000 customers.

Our offer is 195 pence for each Merant share to be satisfied by 136.5 pence in cash and 0.04966 of a new Serena share. This is based on an exchange rate of US$1.8488 : GBP1.00 and a price per Serena share of US$21.78. We are offering a mix and match election under which Merant securityholders who validly accept our offer may request to vary the proportions in which they receive Serena shares and cash in respect of their Merant shares. As of January 31, 2004, Merant had net cash and equivalents of GBP38.8 million (US$70.7 million based on an exchange rate of US$1.8202 : GBP1.00). Certain historical and pro forma financial information regarding Serena, Merant and our offer is incorporated into this prospectus by reference to our current report on Form 8-K filed with the SEC on April 29, 2004.

SERENA was incorporated in California in 1980 and reincorporated in Delaware in 1998. Our executive offices are located at 2755 Campus Drive, 3rd Floor, San Mateo, California 94403-2538 and our telephone number at our headquarters facility is (650) 522-6600. Our website address is www.SERENA.com. Information on our website does not constitute part of this prospectus.

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The Offering

The following is a brief summary of some of the terms of this offering. For a more complete description of the terms of the notes, see Description of Notes in this offering.

Issuer	SERENA Software, Inc.
Notes Offered	$220,000,000 aggregate principal amount of 1½% Convertible Subordinated Notes due 2023.
Issue Price	100% of principal amount, plus accrued interest from December 15, 2003.
Maturity	December 15, 2023.
Interest	1½% per year on the principal amount, payable semi-annually on December 15 and June 15, beginning on June 15, 2004.
Security	We pledged to the trustee under the indenture for the exclusive benefit of the holders of the notes, $9.591 million of U.S. government securities, which is sufficient, upon receipt of scheduled principal and interest payments thereon, to provide for the payment in full of the first six scheduled interest payments on the notes when due. We are responsible for determining the sufficiency of the securities to be pledged. The independent accountant verified the mathematical accuracy of our computations. The notes are not otherwise be secured. See Description of Notes Security.
Conversion Rights	Unless we have previously redeemed or purchased the notes, you have the right, at your option, to convert your notes, in whole or in part, into shares of our common stock at any time on or prior to the close of business on the maturity date, subject to adjustments described in this prospectus, at a conversion rate of 45.0577 shares of common stock per $1,000 principal amount of notes (which is equivalent to a conversion price of approximately $22.194 per share), under any of the following circumstances:
	prior to December 15, 2021, on any date during any fiscal quarter (and only during such fiscal quarter) after the fiscal quarter ending January 31, 2004, if the closing sale price of our common stock was more than 120% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter;
	on or after December 15, 2021, at all times on or after any date on which the closing sale price of our common stock is more than 120% of the then current conversion price of the notes;
	until the close of business on the business day prior to the redemption date if we elect to redeem the notes;

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	upon the occurrence of specified corporate transactions or significant distributions to holders of our common stock, as described in this prospectus; or
	during the five consecutive business day period following any five consecutive trading day period ending at any time on or prior to December 15, 2018 in which the average of the trading price for the notes for such five trading day period was less than 98% of the average of the closing sale prices of our common stock during such five trading day period multiplied by the then current conversion rate, as described in more detail under Description of Notes Conversion Upon Satisfaction of Trading Price Condition.
	The conversion rate may be adjusted for certain reasons, but will not be adjusted for accrued interest. Upon conversion, a holder will not receive any payment representing accrued interest, subject to certain exceptions. See Description of Notes Conversion Rights.
Sinking Fund	None.
Optional Redemption by SERENA	We may redeem all or a portion of the notes at any time (1) on or after December 15, 2006 and prior to December 15, 2008, if the closing price of our common stock exceeds 130% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of mailing of the redemption notice or (2) on or after December 15, 2008, in each case, upon at least 20 days but not more than 60 days notice by mail to holders of notes at a redemption price equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. See Description of Notes Optional Redemption.
Purchase at Option of Holders on Specified Dates	You may require us to purchase for cash all or a portion of your notes on December 15, 2008, December 15, 2013 or December 15, 2018 at a purchase price equal to 100% of the principal amount of the notes being purchased, plus accrued and unpaid interest to, but excluding, the purchase date. See Description of Notes Purchase at Option of Holders.
Change in Control	Upon a change in control, you may require us to purchase all or a portion of your notes at a purchase price equal to 100% of the principal amount of the notes being purchased, plus accrued and unpaid interest, if any, on such notes to, but excluding, the purchase date. We may pay the purchase price in cash, or, at our option, in common stock if certain conditions are met. See Description of Notes Purchase at Option of Holders Upon a Change in Control.

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Ranking	The notes:
	are general subordinated unsecured obligations (except as set forth in Description of Notes Security);
	are subordinated in right of payment to all of our existing and future senior indebtedness (except as set forth in Description of Notes Security); and
	are structurally subordinated to any existing and future indebtedness and liabilities of our subsidiaries.
	At October 31, 2003, we had no senior indebtedness outstanding, while our subsidiaries as of that same date had approximately $6.1 million of outstanding liabilities (excluding intercompany liabilities). Because the notes are subordinated, in the event of bankruptcy, liquidation or dissolution and acceleration of or payment default on senior indebtedness, holders of the notes will not receive any payment until holders of senior indebtedness have been paid in full.
DTC Eligibility	The notes are issued in fully registered book-entry form and represented by one or more permanent global notes without coupons. The global notes are deposited with the trustee as a custodian for The Depository Trust Company, or DTC, and registered in the name of Cede & Co., DTC s nominee. Beneficial interests in global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, and your interest in any global note may not be exchanged for certificated notes, except in limited circumstances described in this prospectus. See Description of Notes Global Notes; Book Entry; Form.
Registration Rights	In connection with the initial private placement of the notes, we have agreed to:
	file the shelf registration statement of which this prospectus is part with respect to the resale of the notes and the common stock issuable upon conversion of the notes with the SEC within 90 days after the original issuance of the notes; and
	use our reasonable best efforts to cause the shelf registration statement to be declared effective within 180 days after the original issuance of the notes, subject to our right to postpone having the shelf registration statement declared effective for an additional 60 days in the event of certain mergers or acquisitions.
	We have agreed to keep the shelf registration statement effective until the earlier of (1) the sale pursuant to the shelf registration statement of all the notes and the shares of common stock issuable upon conversion of the notes and (2) the date when the holders of the notes and common stock issuable upon conversion of the notes are able to sell

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	such securities immediately without regard to the volume limitation provisions of Rule 144 under the Securities Act, or any successor provision, subject to permitted exceptions. We will be required to pay liquidated damages to the holders of the notes if we fail to comply with our obligations to register the notes and the common stock issuable upon conversion of the notes within the specified time periods. See Description of Notes Registration Rights.
Use of Proceeds	We will not receive any of the proceeds from the sale by any selling securityholder of the notes or the underlying common stock into which the notes are converted.
Risk Factors	See Risk Factors and other information in this prospectus for a discussion of factors you should consider carefully before deciding to invest in the securities.

Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Year Ended January 31,					Nine Months Ended October 31,	
	1999	**2000**	**2001**	**2002**	**2003**	**2002**	**2003**
						(unaudited)	
Ratio of earnings to fixed charges	66.7x	80.9x	111.4x	58.6x	77.4x	72.5x	63.9x

These computations include us and our consolidated subsidiaries. Ratio of earnings to fixed charges is computed by dividing:

earnings before taxes adjusted for fixed charges by,

fixed charges, which consist of that portion of rent expense under operating leases deemed by us to be representative of the interest factor.

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RISK FACTORS

Before you invest in any of our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included or incorporated by reference in this prospectus, before you decide whether to purchase the notes. The risks set out below are not the only risks we face.

If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of the notes could decline, and you may lose all or part of your investment.

Keep these risk factors in mind when you read forward-looking statements elsewhere in this prospectus and in the documents incorporated by reference in this prospectus. These are statements that relate to our expectations for future events and time periods. Generally, the words, anticipate , expect , intend and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements.

There are many factors, including some beyond our control, that may cause fluctuations in our quarterly operating results.

Our quarterly operating results have varied greatly in the past and may vary greatly in the future depending upon a number of factors described below and elsewhere in this prospectus, including many that are beyond our control. As a result, we believe that quarter-to-quarter comparisons of our financial results are not necessarily meaningful, and you should not rely on them as an indication of our future performance.

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. If a large number of orders or several large orders do not occur or are deferred, our revenue in that quarter could be substantially reduced. This would materially adversely affect our operating results and could impair our business in future periods.

Because we do not know when, or if, our potential customers will place orders and finalize contracts, we cannot accurately predict our revenue and operating results for future quarters. In addition, as a result of the economic slowdown worldwide, a number of customers have delayed discretionary spending for software and hardware, which has reduced our revenue. Additionally, sales cycles beginning in fiscal 2002 lengthened as customers delayed decisions to purchase our products and increase capacity on mainframe computers. Historically, a majority of our revenue has been attributable to the licenses of our mainframe software products. Changes in the mix of software products and services sold by us, including the mix between higher margin software products and lower margin maintenance and services, could materially affect our operating results for future quarters.

Economic conditions worldwide could adversely affect our revenue growth and ability to forecast revenue.

The revenue growth and profitability of our business depends on the overall demand for application software and services. Because our sales are primarily to major corporate customers, our business also depends on general economic and business conditions. The general weakening of the worldwide economy has caused us to experience a decrease in revenues and revenue growth rates of our software licenses. A softening of demand for computer software caused by a continued weakening of the economy, domestically

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or internationally, may result in a continued decrease in revenues and revenue growth rates. Our license revenues have fluctuated in recent years and we may not experience any license revenue growth in the future and our license revenues could in fact decline.

Our management personnel identify, track and forecast future revenues, backlog and trends in our business. Our sales personnel monitor the status of all proposals, such as the estimated date when a transaction will close and the potential dollar amount of such sale. We aggregate these estimates periodically 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 revenues for budgeting and planning purposes, these pipeline estimates may not consistently correlate to revenues in a particular quarter or ever. A slowdown in the economy, domestically and internationally, 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 in the conversion of the pipeline into contracts could cause us to plan or budget improperly and thereby could adversely affect our business or results of operations. 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 the Company s 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 or results of operations.

If we encounter difficulties integrating our business operations with Merant, it could adversely affect the business of the combined company

In the event that our proposed acquisition of Merant is consumated, we intend, to the extent possible, to integrate our operations with those of Merant. Our goal in integrating these operations is to increase earnings and achieve cost savings by taking advantage of the significant anticipated synergies of consolidation and enhanced growth opportunities. We anticipate incurring severance payments and other employee related costs, costs for lease terminations, meetings, trainings, rebranding, integration of information technology systems, and other costs in connection with the integration of SERENA and Merant. We cannot be sure that we will not encounter substantial difficulties integrating our operations with Merant s operations, resulting in a delay or the failure to achieve the anticipated synergies and, therefore, the expected increases in earnings and cost savings. The difficulties of combining the operations of the two companies include, among other things:

- Possible inconsistencies in standards, controls, procedures and policies, business cultures and compensation structures between SERENA and Merant;
- Coordinating and consolidating ongoing and future research and development efforts;
- Consolidating corporate and administrative infrastructure, particularly in light of Merant s complex corporate structure;
- Integrating and managing the technologies and products of the two companies, including consolidating and integrating computer information systems;
- Consolidating sales and marketing operations;
- Retaining existing customers and attracting new customers;
- Retaining strategic partners and attracting new strategic partners;

Retaining key employees;

Retaining and integrating distributors and key sales representatives;

Identifying and eliminating redundant and underperforming operations and assets;

Using capital assets efficiently to develop the business of the combined company;

Minimizing the diversion of management s attention from ongoing business concerns;

Coordinating geographically separate organisations;

Possible tax costs or inefficiencies associated with integrating the operations of the combined company;

Possible modification of operating control standards in order to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder; and

Retaining and attracting new employees to support existing and new products and new technology development.

For these reasons, we may fail to complete successfully the necessary integration of SERENA and Merant, or to realise any of the anticipated benefits of the integration of the two companies. Actual cost savings and synergies may be lower than we currently expect and may take a longer time to achieve than we currently anticipate.

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Whether or not our offer to acquire Merant is completed, the announcement of the offer may cause disruptions, including potential loss of customers, suppliers and other business partners, in our business or Merant, which could have material adverse effects on each company s or the combined company s business and operations

Whether or not the offer is completed, SERENA s and Merant s customers, suppliers, distributors, licensors and other business partners, in response to the announcement of the offer, may adversely change or terminate their relationships with either company or the combined company, which could have a material adverse effect on the business of the company concerned. Certain of SERENA s or Merant s current or potential customers may cancel or defer orders for each company s products. In addition, customers of both companies may expect re-negotiated pricing as a result of the offer or the announcement of the offer. The announcement of the offer may also adversely affect the companies ability to attract new customers.

Some of the contracts with suppliers, distributors, system integrators, customers, licensors, facility owners and other business partners require SERENA or Merant to obtain consent from these other parties in connection with the offer. If their consent cannot be obtained on favourable terms, the combined company may incur higher costs related to replacing suppliers, may suffer a loss of potential future revenue and may lose rights to facilities or intellectual property that are material to the business of the combined company.

Charges to earnings resulting from our proposed acquisition of Merant, if completed, including the application of the purchase method of accounting, and restructuring and integration costs may materially adversely affect the market value of SERENA shares following the acquisition

In accordance with US GAAP, the combined company will account for the acquisition using the purchase method of accounting. The combined company will allocate the total estimated purchase price to Merant s net tangible assets, amortisable intangible assets, and in-process research and development based on their fair values as at the date of completion of the acquisition, and record the excess of the purchase price over those fair values as goodwill. The combined company s financial results, including earnings per share, could be adversely affected by a number of financial adjustments required by US GAAP including the following:

The portion of the existing deferred revenues on Merant s balance sheet at the closing of the acquisition which represents maintenance revenue will be adjusted, based on estimated cost to deliver plus an appropriate gross margin;

The portion of the estimated purchase price allocated to in-process research and development will be expensed by the combined company in the quarter in which the acquisition is completed;

The combined company will incur additional amortization expense over the estimated useful lives of certain of the intangible assets acquired in connection with the acquisition during such estimated useful lives; and

To the extent the value of goodwill or intangible assets with indefinite lives becomes impaired, the combined company may be required to incur material charges relating to the impairment of those assets.

We expect to incur costs associated with combining the operations of the two companies, including advisors fees and other costs related to the offer and the acquisition. These costs may be substantial and may include those related to the severance and stock option acceleration provisions of Merant s employee benefit plans, which could be triggered by the acquisition. We also face potential costs related to employee redeployment or relocation, employee retention which could include salary increases, bonuses or option grants, reorganisation or closure of facilities, relocation and disposal of excess equipment, termination of contracts with third parties that provide redundant or conflicting services and other integration costs. We have not yet determined the amount of these costs. We expect to account for these costs as purchase related adjustments when the acquisition is completed, which will decrease our net income and impact cash balances for the periods in which those adjustments are made. Each of these charges would negatively impact earnings, which could have a material adverse effect on the price of SERENA shares.

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The cash portion of the consideration to be paid in our offer to Merant securityholders who accept the offer is based on a fixed amount of pounds sterling and, therefore, we are subject to currency fluctuations through the payment date

Because SERENA will pay all holders of Merant shares in pounds sterling, SERENA must buy pounds sterling with US dollars at the prevailing exchange rate on the payment date. As a result, the actual amount of US dollars required to buy a sufficient amount of pounds sterling to pay the cash portion of the consideration to such holders will depend upon the exchange rate prevailing on the business day on which the funds are made available by SERENA to the UK Receiving Agent. Additionally, because the cash portion of the consideration payable in the offer is a fixed amount of pounds sterling, the actual amount of US dollars that SERENA will pay with respect to the cash portion of the consideration will depend upon the exchange rate prevailing on the business day on which the funds are made available by SERENA to the US Depositary. Therefore, SERENA is subject to the risk of fluctuations in the dollar/pound sterling exchange rate.

We have relied and expect to continue to rely on sales of our mainframe products for our revenue.

Historically, the majority of our software license revenue has resulted from the sale of our mainframe products. Any factors adversely affecting the pricing of, demand for or market acceptance of our mainframe products, such as competition or technological change, could materially adversely affect our business and quarterly and annual operating results. Our mainframe products have been responsible for a significant portion of our revenue. In each of the last three fiscal years ending January 31, 2002, 2003 and 2004, sales of our mainframe products accounted for approximately 84%, 80% and 71% of our total software licenses revenue, respectively. We expect that these products will continue to account for a large portion of our software licenses revenue for the foreseeable future. Our future operating results depend on the continued market acceptance of our mainframe products, including future enhancements.

Our future revenue is substantially dependent upon our installed customers renewing maintenance agreements for our products and licensing or upgrading additional SERENA ECM products; our future professional service and maintenance revenue is dependent on future sales of our software products.

We depend on our installed customer base for future revenues from maintenance renewal fees and licenses or upgrades of additional ECM products. If our customers do not purchase additional products, upgrade existing products or cancel or fail to renew their maintenance agreements, this could materially adversely affect our business and future quarterly and annual operating results. 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 customers and there are no minimum payment obligations or obligations to license additional software. 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 revenue and maintenance revenue are also dependent upon the continued use of these services by our installed customer base. Any downturn in our software license revenue would have a negative impact on the growth of our professional service revenue and maintenance revenue in future quarters.

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We expect that our operating expenses will increase in the future and these increased expenses may adversely affect our future operating results and financial condition.

Although SERENA has been profitable in recent years, we may not remain profitable on a quarterly or annual basis in the future. We anticipate that our expenses will increase in the foreseeable future as we:

- Increase our sales and marketing activities, including expanding our United States and international direct sales forces and extending our telesales efforts;
- Develop our technology, including our distributed systems products;
- Invest in penetrating the systems integrator and federal government marketplaces;
- Include expenses associated with our TeamShare acquisition;
- Expand our distribution channels; and
- Pursue strategic relationships and acquisitions.

With these additional expenses, in order to maintain our current levels of profitability, we will be required to increase our revenue correspondingly. Any failure to increase our revenue as we implement our product, service and distribution strategies would materially adversely affect our business, quarterly and annual operating results and financial condition. Our revenue has fluctuated in recent years and we may not experience any revenue growth in the future and our revenue could in fact decline. Our efforts to expand our software product suites, sales and marketing activities, direct and indirect distribution channels and professional service offerings and to pursue strategic relationships or acquisitions may not succeed or may prove more expensive than we currently anticipate. As a result, we cannot predict our future operating results with any degree of certainty.

Our business is dependent on the continued market for IBM and IBM-compatible mainframes.

We are substantially dependent upon the continued use and acceptance of IBM and 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 would materially adversely affect our business, future quarterly and annual operating results and 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 and future operating results may be materially adversely affected. The majority of our software license revenue to date has been attributable to sales of our mainframe products. We expect that, for the foreseeable future, the majority of our software license revenue will continue to come from 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.

Our license revenues from products for distributed systems may fluctuate.

We introduced our *ChangeMan DS* product in fiscal 2000, our *ChangeMan ALM* and *ChangeMan ECP* products in fiscal 2001, our *ChangeMan WCM* product in the first quarter of fiscal 2002 and our *ChangeMan ZDD* product in the first quarter of fiscal 2003. In the second quarter of fiscal 2004, we acquired the *TeamTrack* product with our acquisition of TeamShare effective June 5, 2003. While license revenues from our distributed systems products increased to 29% of total license revenues in fiscal

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2004, they may fluctuate materially from quarter to quarter and could in fact decline. We are currently developing new products and enhancing our product suite to support additional distributed systems products. If we do not successfully develop, market, sell and support our distributed systems products, this would materially adversely affect our business and our future quarterly and annual operating results. Historically, the majority of our products have been designed for the mainframe platform, and the majority of our software license revenue, maintenance revenue and professional services revenue to date have been attributable to licenses for these mainframe products. We have limited experience developing, marketing, selling or supporting distributed systems products. Our sales and marketing organizations have historically focused exclusively on sales of our products for the mainframe and have limited experience marketing and selling distributed systems products. Additionally, we have limited experience in providing support services for distributed systems products. Many of our competitors have substantially greater experience providing distributed systems compatible software products than we do, and many also have significantly greater financial and organizational resources.

The license revenues from our IBM original equipment manufacturer, or OEM, relationship may fluctuate.

In January 2002, we entered into an OEM Agreement with IBM Corporation whereby IBM acquired the rights to resell our StarTool APM technology. IBM provides SERENA a quarterly royalty report one month after each of IBM s calendar quarters detailing licenses and maintenance sold through to end users during the quarter. While license revenues from our IBM OEM relationship were 9% of total license revenues in fiscal 2004, they may fluctuate materially from quarter to quarter and could in fact decline. We recognized our first revenue from this arrangement in the second quarter of fiscal 2003. Because we have little or no visibility during the quarter on pipelines, sales forecasts, sales volumes or the amount of license revenue that will be reported, we cannot accurately predict our revenue from IBM or our operating results for the quarter or any future quarter. Because the IBM OEM license revenue may be significant to our total license revenue in any fiscal quarter, any decline in revenue could materially adversely affect our business and our future quarterly and annual operating results.

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

In June 2003, we acquired TeamShare, Inc., in March 2004, we announced our offer for Merant plc., and we are continuing to explore potential acquisition and investment opportunities. We may acquire or make investments in these or other companies and technologies. As part of any such acquisition, we may issue shares of our common stock or other securities. We may also use some or all of the net proceeds we received upon issuance of the notes for acquisition of businesses, products, product rights, technologies or strategic investments. In the event of any acquisitions or investments, we could:

- Issue stock in an amount that would dilute the ownership of our then-existing stockholders;
- Incur debt;
- Assume liabilities;
- Incur charges for the impairment of the value of investments or acquired assets; or
- Incur amortization expense related to intangibles 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;

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Failure to achieve targeted synergies or other expected benefits of an acquisition;

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.

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

Our sales cycle typically takes six 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 quarterly 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. Beginning in fiscal 2002, we have experienced an overall lengthening of sales cycles as customers delayed purchases or customers reduced budgets as a result of economic conditions. Additionally, the emerging market for ECM products and services contributes to the lengthy sales process in that during the sales cycle we often have to teach potential customers about the use and benefits of our products. In certain circumstances, we license our software to customers on a trial basis to assist the customers in their evaluation of our products. Our sales cycle can be further extended for product sales made through third party distributors.

Seasonal trends in sales of our software products may affect our quarterly operating results.

We have experienced and expect to continue to experience seasonality in sales of our software products. These seasonal trends materially affect our quarter-to-quarter operating results. Revenue and operating results in our quarter ending January 31 are typically higher relative to our 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. We expect our quarter ending October 31 to reflect the effects of summer slowing of international business activity and spending activity generally associated with that time of year.

If the software change management, or SCM, market does not evolve as we anticipate, our business will be adversely affected.

If we fail to properly assess and address the SCM market or if our products and services fail to achieve market acceptance for any reason, our business and quarterly and annual operating results would be materially adversely affected. The SCM market is in an early stage of development. IT organizations have traditionally addressed SCM needs internally and have only recently become aware of the benefits of third-party SCM solutions as their SCM requirements have become more complex. Since the market for our products is still evolving, it is difficult to assess the competitive environment or the size of the market that may develop. Our future financial performance will depend in large part on the continued growth in the number of businesses adopting third-party SCM products and the expansion of their use on a company-wide basis. The SCM market for third-party products 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.

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 in a timely manner, this could materially adversely affect our business and future quarterly and annual operating results. 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. To date, none of these delays has materially affected our business. 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, would impair our revenue growth.

We intend to expand our international operations and may encounter a number of problems in doing so; there are also a number of factors associated with international operations that could adversely affect our business.

Expansion of International Operations. We intend to expand the scope of our international operations, although more slowly than in prior years, and currently have sales subsidiaries in the United Kingdom, Germany, Sweden, France and Belgium. We may also acquire additional international operations or assets through acquisitions. If we are unable to expand our international operations successfully and in a timely manner, or if these operations experience declining revenue growth, this could materially adversely affect our business and quarterly and annual operating results. We have only limited experience in marketing, selling and supporting our products internationally. Additionally, we do not have any experience in developing foreign language versions of our products. Such development may be more difficult or take longer than we anticipate. We may not be able to successfully market, sell, deliver and support our products internationally.

Risks of International Operations. International sales represented 29% of our total revenue in the fiscal year ended January 31, 2004 as compared to 29% and 19% in each of the fiscal years ended January 31, 2003 and 2002, respectively. Our international revenue is attributable principally to our European operations. Our international operations are, and any expanded international operations will be, subject to a variety of risks associated with conducting business internationally that could materially adversely affect our business and future quarterly and annual operating results, including the following:

- Difficulties in staffing and managing international operations;
- Limitation on repatriation of earnings;
- Reduced protection of intellectual property rights in some countries;
- Problems in collecting accounts receivable;

Longer payment cycles;

Fluctuations in currency exchange rates;

Inability to control or predict the levels of revenue produced by our international distributors;

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Seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;

Political instability or 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.

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

A majority of our international business is conducted in foreign currencies, principally the British pound and 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 quarterly and annual operating results. We may experience currency losses in the future. To date, we have not adopted a hedging program to protect SERENA from risks associated with foreign currency fluctuations.

We are subject to intense competition in the SCM industry and we expect to face increased competition in the future, including competition in the SCM distributed systems market.

We may not be able to compete successfully against current or future competitors and such inability would materially adversely affect our business, quarterly and annual operating results and financial condition. The market for our products is highly competitive and diverse. Moreover, the technology for SCM products may change rapidly. New products are frequently introduced, and existing products are continually enhanced. Competition may also result in changes in pricing policies by SERENA or our competitors, which could materially adversely affect our business and future quarterly and annual operating results. 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.

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

Customers internal IT departments;

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

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

Competition in the Distributed Systems SCM Market. We also face significant competition as we develop, market and sell our distributed systems products, including *ChangeMan DS* and *TeamTrack*. If we are unable to successfully penetrate the distributed systems SCM market, our business and future quarterly and annual operating results will be materially adversely affected. Penetrating the existing distributed systems SCM market will be difficult. Competitors in the distributed systems market include IBM/Rational Software, Computer Associates, MERANT, Microsoft, Telelogic and other smaller private companies.

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Future Competition. We may face competition in the future from established companies who have not previously entered the mainframe or distributed systems SCM market, or from emerging software companies. Barriers to entry in the software market are relatively low. Increased competition may materially adversely affect our business and future quarterly and annual operating results due to price reductions, reduced gross margins and reduction in market share. Established companies may not only develop their own mainframe or distributed systems SCM solutions, but they may also acquire or establish cooperative relationships with our current competitors, including cooperative relationships between large, established companies and smaller private companies. Because larger companies have significant financial and organizational resources available, they may be able to quickly penetrate the mainframe or distributed systems SCM market through acquisitions or strategic relationships and may be able to leverage the technology and expertise of smaller companies and develop successful SCM products for the mainframe. We expect that the software industry, in general, and providers of SCM 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.

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 SCM products for promotional purposes. If that were to happen, our business and future quarterly and annual operating results may be materially adversely affected as we may be priced out of the market or no longer be able to offer commercially viable products.

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 SERENA, this could materially adversely affect our business. In particular, we have historically relied on the experience and dedication of our product authors. With the exception of Douglas D. Troxel, SERENA s founder, Chief Technology Officer and chairman of SERENA s board of directors, the employment of all of our senior and key employees, including key product authors, is at will. Mr. Troxel s employment is o