TERADATA CORP /DE/
Form 10-Q
November 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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 001-33458

TERADATA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**75-3236470**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

10000 Innovation Drive

Dayton, Ohio 45342

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (866) 548-8348

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark 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.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	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

At October 29, 2010, the registrant had approximately 167.5 million shares of common stock outstanding.

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Part 1 FINANCIAL INFORMATION

Item 1. Financial Statements.
Teradata Corporation

Condensed Consolidated Statements of Income (Unaudited)

In millions, except per share amounts	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue				
Product revenue	$ 243	$ 191	$ 666	$ 533
Service revenue	246	234	722	680
Total revenue	489	425	1,388	1,213
Costs and operating expenses				
Cost of products	72	72	215	192
Cost of services	138	126	390	361
Selling, general and administrative expenses	133	113	377	345
Research and development expenses	40	26	108	83
Total costs and operating expenses	383	337	1,090	981
Income from operations	106	88	298	232
Other expense, net	0	(4)	0	(4)
Income before income taxes	106	84	298	228
Income tax expense	31	21	82	58
Net income	$ 75	$ 63	$ 216	$ 170
Net income per weighted average common share				
Basic	$ 0.45	$ 0.37	$ 1.29	$ 0.99
Diluted	$ 0.44	$ 0.36	$ 1.27	$ 0.98
Weighted average common shares outstanding				
Basic	167.2	171.7	167.3	172.4
Diluted	170.1	174.1	170.1	174.1

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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Teradata Corporation

Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	**September 30, 2010**	**December 31, 2009**
Assets		
Current Assets		
Cash and cash equivalents	$ 741	$ 661
Accounts receivable, net	411	387
Inventories	65	47
Other current assets	55	57
Total current assets	1,272	1,152
Property and equipment, net	103	95
Capitalized software, net	114	102
Goodwill	136	109
Deferred income taxes	69	84
Other assets	61	27
Total assets	$ 1,755	$ 1,569
Liabilities and stockholders equity		
Current liabilities		
Accounts payable	$ 88	$ 102
Payroll and benefits liabilities	124	109
Deferred revenue	265	256
Other current liabilities	73	76
Total current liabilities	550	543
Pension and other postemployment plan liabilities	85	83
Other liabilities	36	33
Total liabilities	671	659
Commitments and contingencies (Note 6)		
Stockholders equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding at September 30, 2010 and December 31, 2009	0	0
Common stock: par value $0.01 per share, 500.0 shares authorized, 184.1 and 182.6 shares issued at September 30, 2010 and December 31, 2009, respectively	2	2
Paid-in capital	663	622
Treasury stock: 16.8 and 13.9 shares at September 30, 2010 and December 31, 2009, respectively	(399)	(311)
Retained earnings	800	583
Accumulated other comprehensive income	18	14
Total stockholders equity	1,084	910
Total liabilities and stockholders equity	$ 1,755	$ 1,569

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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Teradata Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine Months Ended September 30, 2010	2009
Operating activities		
Net income	$ 216	$ 170
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43	46
Stock-based compensation expense	18	17
Excess tax benefit from stock-based compensation	(3)	(2)
Deferred income taxes	16	23
Impairment of equity investment	0	5
Changes in assets and liabilities:		
Receivables	(24)	121
Inventories	(18)	(1)
Current payables and accrued expenses	(7)	(16)
Deferred revenue	11	7
Other assets and liabilities	13	(6)
Net cash provided by operating activities	265	364
Investing activities		
Proceeds from sales and maturities of short-term investments	0	65
Purchases of short-term investments	0	(25)
Expenditures for property and equipment	(25)	(18)
Additions to capitalized software	(37)	(43)
Other investing activities and business acquisitions, net	(61)	6
Net cash used in investing activities	(123)	(15)
Financing activities		
Repurchases of common stock	(88)	(71)
Excess tax benefit from stock-based compensation	3	2
Other financing activities, net	21	14
Net cash used in financing activities	(64)	(55)
Effect of exchange rate changes on cash and cash equivalents	2	8
Increase in cash and cash equivalents	80	302
Cash and cash equivalents at beginning of period	661	402
Cash and cash equivalents at end of period	$ 741	$ 704

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

These statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the results of operations, financial position and cash flows of Teradata Corporation (Teradata or the Company) for the interim periods presented herein. The year-end 2009 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates.

These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Teradata s most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the 2009 Annual Report). The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

2. New Accounting Pronouncements

Multiple-Deliverable Revenue Arrangements. In October 2009, the Financial Accounting Standards Board (FASB) issued new guidance regarding the accounting for revenue arrangements with multiple deliverables. This new guidance provides principles for allocation of consideration among its multiple-elements, allowing more alternatives in identifying and accounting for separate deliverables under an arrangement. The guidance will eliminate the residual method of allocation and require use of the relative selling price method. The guidance also introduces the best estimate selling price (BESP) for valuing the deliverables of a bundled arrangement if vendor specific objective evidence (VSOE) or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This guidance is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. The Company expects to adopt this guidance, on a prospective basis, for applicable transactions originating or materially modified on or after January 1, 2011. The Company is currently evaluating the impact of adopting this standard.

Certain Revenue Arrangements That Include Software Elements. In October 2009, the FASB issued new guidance for revenue arrangements that include software elements. This new guidance changes the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software and nonsoftware elements that function together to deliver the tangible product s essential functionality will no longer be within the scope of software revenue guidance. The new guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and early application is permitted. The Company expects to adopt this guidance, on a prospective basis, for applicable transactions originating or materially modified on or after January 1, 2011. The Company is currently evaluating the impact of adopting this standard.

Fair Value Measurements. In January 2010, the FASB issued an update to provide new disclosures, and clarifications of existing disclosures related to fair value measurements. The new disclosures will require reporting entities to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. Additionally, in the Level 3 reconciliations, a reporting entity should present separately information about purchases, sales, issuances, and settlements. The update also clarifies that a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements in Level 2 and Level 3. The new disclosures and clarifications

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of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

3. Supplemental Financial Information

In millions	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Comprehensive Income				
Net income	$ 75	$ 63	$ 216	$ 170
Other comprehensive income, net of tax:				
Net change in unrealized components of defined benefit plans, net of tax	(1)		(1)	
Currency translation adjustments	4	3	5	7
Total comprehensive income	$ 78	$ 66	$ 220	$ 177

In millions	As of September 30, 2010	As of December 31, 2009
Inventories		
Finished goods	$ 41	$ 27
Service parts	24	20
Total inventories	$ 65	$ 47

4. Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant infrequent or unusual items which are required to be discretely recognized within the current interim period. The Company s intention is to permanently reinvest its foreign earnings outside of the United States. As a result, the effective tax rates in the periods presented are largely based upon the forecasted pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business that apply a broad range of statutory income tax rates, certain of which are less than the U.S. statutory rate.

The effective tax rate for the three months ended September 30, 2010 and September 30, 2009 was 29% and 25%, respectively. The effective tax rate for the nine months ended September 30, 2010 and September 30, 2009 was 28% and 25%, respectively. The tax rate for the nine months ended September 30, 2010 included a $5 million, or 2%, tax benefit associated with the recognition of certain foreign net operating loss carryforwards resulting from an audit settlement in the first quarter of 2010.

5. Derivative Instruments and Hedging Activities

As a portion of the Company s operations and revenue occur outside the United States and in currencies other than the U.S. dollar, the Company is exposed to potential gains and losses from changes in foreign currency exchange rates. To mitigate the impact of currency fluctuations, the Company uses foreign exchange forward contracts to hedge transactional exposures resulting from foreign currency denominated inter-company receivables and payables. The forward contracts are designated as fair value hedges of specified foreign currency denominated inter-company receivables and payables and generally mature in three months or less. The Company does not hold or issue derivative financial instruments for trading purposes, nor does it hold or issue leveraged derivative instruments. By using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to credit risk. The Company manages exposure to counterparty credit risk by entering into derivative financial

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instruments with highly rated institutions that can be expected to fully perform under the terms of the applicable contracts.

All derivatives are recognized in the Condensed Consolidated Balance Sheet at their fair value. The fair values of foreign exchange contracts are based on market spot and forward exchange rates. As these fair value amounts relate to open foreign exchange contracts which have not yet reached maturity, they represent possible gains or losses that may not be realized in the future. Changes in the fair value of derivative financial instruments, along with the loss or gain on the hedged asset or liability, are recorded in current period earnings. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based, and are an indication of the extent of Teradata s involvement in such instruments. These notional amounts do not represent amounts exchanged by the parties and, therefore, are not a measure of the instrument s fair value. Across its portfolio of contracts, Teradata has both long and short positions relative to the U.S. dollar. As a result, Teradata s net exposure is less than the total contract notional amount of the Company s foreign exchange forward contracts.

At September 30, 2010, the contract notional amount of the Company s foreign exchange forward contracts was $70 million ($29 million on a net basis). At September 30, 2010, the Company had no material liabilities for active foreign exchange forward contracts currently in an unrealized loss position, and no material fair value assets for its active foreign exchange forward contracts currently in an unrealized gain position.

Gains and losses from the Company s fair value hedges (foreign currency forward contracts and related hedged items) were immaterial for the three and nine months ended September 30, 2010 and September 30, 2009. Gains and losses from foreign exchange forward contracts are fully recognized each period and reported along with the offsetting gain or loss of the related hedged item, either in cost of products or in other income, depending on the nature of the related hedged item.

6. Commitments and Contingencies

In the normal course of business, the Company is subject to proceedings, lawsuits, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, intellectual property, tax matters, and other regulatory compliance and general matters, including those described below.

The Company is subject to governmental investigations and requests for information from time to time. As previously reported prior to Teradata s Separation from NCR, the United States Department of Justice is conducting an investigation regarding the propriety of the Company s arrangements or understandings with others in connection with certain federal contracts and the adequacy of certain disclosures related to such contracts. The investigation arises in connection with civil litigation in federal district court filed under the qui tam provisions of the civil False Claims Act against a number of information technology companies, including the Company. The complaints against the Company remain under seal. The Company continues to conduct its analysis of such claims focusing on the propriety of certain transactions under federal programs under which Teradata was a contractor. During 2008 the Company shared evidence with the Justice Department of questionable conduct that the Company uncovered and is continuing to cooperate with the Justice Department in its investigation.

A separate portion of the government s investigation relates to the adequacy of pricing disclosures made to the government in connection with negotiation of NCR s General Services Administration Federal Supply Schedule as it relates to Teradata, prior to the Company s Separation from NCR, and to whether certain subsequent price reductions were properly passed on to the government. Both NCR and the Company are participating in this aspect of the investigation, with respect to certain products and services of each, and each will assume financial responsibility for its own exposures, if any, without indemnification from the other. At this time, the Company is unable to determine the extent of its liability with respect to this aspect of the investigation.

The Company has an accrual of approximately $2 million related to the current best estimate of probable liability relating to these matters. The Company believes the amounts provided in its financial statements are adequate in light of the probable and estimable liabilities. However, because such matters are subject to many uncertainties, the outcomes are not predictable and there can be no assurances that the actual amounts required to satisfy alleged

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liabilities from the matters described above and other matters, and to comply with applicable laws and regulations, will not exceed the amounts reflected in the Company s financial statements or will not have a material adverse effect on its results of operations, financial condition or cash flows.

Guarantees and Product Warranties. Guarantees associated with the Company s business activities are reviewed for appropriateness and impact to the Company s financial statements. Periodically, the Company s customers enter into various leasing arrangements coordinated with a leasing company. In some instances, the Company guarantees the leasing company a minimum value at the end of the lease term on the leased equipment. As of September 30, 2010, the maximum future payment obligation of this guaranteed value and the associated liability balance was $4 million.

The Company provides its customers a standard manufacturer s warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon historical factors such as labor rates, average repair time, travel time, number of service calls and cost of replacement parts. For each consummated sale, the Company recognizes the total customer revenue and records the associated warranty liability using pre-established warranty percentages for that product class.

The following table identifies the activity relating to the warranty reserve for the nine months ended September 30:

In millions	2010	2009
Warranty reserve liability		
Beginning balance at January 1	$ 5	$ 6
Provisions for warranties issued	11	8
Settlements (in cash or in kind)	(10)	(9)
Balance at September 30	$ 6	$ 5

The Company also offers extended and/or enhanced coverage to its customers in the form of maintenance contracts. The Company accounts for these contracts by deferring the related maintenance revenue over the extended and/or enhanced coverage period. Costs associated with maintenance support are expensed as incurred. Amounts associated with these maintenance contracts are not included in the table above.

In addition, the Company provides its customers with certain indemnification rights. In general, the Company agrees to indemnify the customer if a third party asserts patent or other infringement on the part of the customer for its use of the Company s products. The Company has entered into indemnification agreements with the officers and directors of its subsidiaries. From time to time, the Company also enters into agreements in connection with its acquisition and divesture activities that include indemnification obligations by the Company. The fair value of these indemnification obligations is not readily determinable due to the conditional nature of the Company s potential obligations and the specific facts and circumstances involved with each particular agreement, and as such the Company has not recorded a liability in connection with these indemnification arrangements. Historically, payments made by the Company under these types of agreements have not had a material effect on the Company s consolidated financial condition, results of operations or cash flows.

7. Fair Value Measurements

The Company follows the accounting standard dealing with fair value measurements for financial and non-financial assets and liabilities recorded at fair value on a recurring basis, wherein a three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, quoted prices in active markets for similar assets or liabilities, or quoted prices in less-active markets for identical assets; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company s assets and liabilities measured at fair value on a recurring basis include money market funds and foreign currency exchange contracts. A portion of the Company s excess cash reserves are held in money market funds which generate interest income based on the prevailing market rates. Money market funds are included in cash and cash equivalents in the Company s balance sheet. Money market fund holdings are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy. When deemed appropriate, the Company minimizes its exposure to changes in foreign currency exchange rates through the use of derivative financial instruments, specifically, forward foreign exchange contracts. The fair value of these contracts are measured at the end of each interim reporting period using observable inputs other than quoted prices, specifically market spot and forward exchange rates. As such, these derivative instruments are classified within Level 2 of the valuation hierarchy. Unrealized fair value gains for open contracts are recognized as assets and unrealized fair value losses are recognized as liabilities in the Company s Condensed Consolidated Balance Sheets. At September 30, 2010, the Company had no material fair value liabilities for open foreign exchange forward contracts currently in an unrealized loss position, and no material fair value assets for open foreign exchange forward contracts currently in an unrealized gain position. At December 31, 2009, the Company had no material fair value gains or losses for its open foreign exchange forward contracts. Any realized gains or losses would be mitigated by corresponding gains or losses on the underlying exposures.

The Company s assets and liabilities measured at fair value on a recurring basis at September 30, 2010 were as follows:

		Fair Value Measurements at Reporting Date Using		
In millions	**September 30, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Money market funds	$ 409	$ 409	$	$

The Company s assets and liabilities measured at fair value on a recurring basis at December 31, 2009 were as follows:

		Fair Value Measurements at Reporting Date Using		
In millions	**December 31, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Money market funds	$ 403	$ 403	$	$

8. Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic earnings per share, except that the weighted average number of shares outstanding includes the dilution from potential shares resulting from stock options and unvested restricted stock awards.

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The components of basic and diluted earnings per share are as follows:

In millions, except per share amounts	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net income available for common stockholders	$ 75	$ 63	$ 216	$ 170
Weighted average outstanding shares of common stock	167.2	171.7	167.3	172.4
Dilutive effect of employee stock options and restricted stock	2.9	2.4	2.8	1.7
Common stock and common stock equivalents	170.1	174.1	170.1	174.1
Earnings per share:				
Basic	$ 0.45	$ 0.37	$ 1.29	$ 0.99
Diluted	$ 0.44	$ 0.36	$ 1.27	$ 0.98

Employee stock options to purchase 0.4 million shares of common stock for the nine months ended September 30, 2010 and 0.8 million and 2.0 million shares for the three and nine months ended September 30, 2009 were not included in the computation of diluted earnings per share because their exercise prices were greater than the average market price of the common shares for the respective periods and, therefore, the effect would have been anti-dilutive. There were no such anti-dilutive options outstanding for the three months ended September 30, 2010.

9. Segment and Other Supplemental Information

Teradata manages its business in three geographic regions, which are also the Company s operating segments: (1) the North America and Latin America (Americas) region; (2) the Europe, Middle East and Africa (EMEA) region; and (3) the Asia Pacific and Japan (APJ) region. Management evaluates the performance of its segments based on revenue and segment margin, and does not include segment assets for management reporting purposes. Corporate-related costs are fully allocated to the segments.

The following table presents regional segment revenue and gross margin for the Company:

In millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Revenue				
Americas	$ 292	$ 247	$ 825	$ 681
EMEA	109	109	323	324
APJ	88	69	240	208
Total revenue	489	425	1,388	1,213
Gross margin				
Americas	180	138	497	388
EMEA	56	58	170	175
APJ	43	31	116	97
Total gross margin	279	227	783	660
Selling, general and administrative expenses	133	113	377	345
Research and development expenses	40	26	108	83

Total income from operations	$ 106	$ 88	$ 298	$ 232

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The following table presents revenue by product and services for the Company:

In millions	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Products (software and hardware)[1]	$ 243	$ 191	$ 666	$ 533
Consulting services	131	124	380	357
Maintenance services	115	110	342	323
Total services	246	234	722	680
Total revenue	$ 489	$ 425	$ 1,388	$ 1,213

(1) Our data warehousing software and hardware products are often sold and delivered together in the form of a node of capacity as an integrated technology solution. Accordingly, it is impracticable to provide the breakdown of revenue from various types of software and hardware products.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. (MD&A)

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Quarterly Report on Form 10-Q and in the 2009 Annual Report on Form 10-K.

Third Quarter Financial Overview

As more fully discussed in later sections of this MD&A, the following were significant financial items for the third quarter of 2010:

Total revenue was $489 million for the third quarter of 2010, up 15% from the third quarter of 2009. Higher product revenue, particularly in the North America and Latin America (Americas); and the Asia Pacific and Japan (APJ) regions, was the primary driver in the reported year-over-year revenue growth.

Gross margin increased to 57.1% in the third quarter of 2010 from 53.4% in the third quarter of 2009. Gross margins increased primarily due to improved product margins in the Americas region.

Operating income was $106 million in the third quarter of 2010, compared to $88 million in the third quarter of 2009. The increase in operating income was largely due to revenue growth, particularly product revenue, as well as improved product margins, offset in part by higher research and development (R&D) expenses, selling expenses and services costs.

Net income of $75 million in the third quarter of 2010 increased 19% from $63 million in the third quarter of 2009, based primarily on higher product revenues, as well as improved product margins, offset in part by a higher effective income tax rate.

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Strategic Overview

Teradata is a leader in helping companies manage and analyze growing data volumes and complexity to gain business insight and competitive advantage. We have four key initiatives underway to broaden our position in the market and take advantage of this opportunity. These initiatives include continuing to:

- Increase our market coverage through additional sales territories (hiring incremental sales account executives as well as technology and industry consultants),
- Invest to extend Teradata s core technology and expand our family of compatible data warehouse platforms to address multiple market segments and solution offerings through internal development and targeted strategic acquisition initiatives,
- Differentiate Teradata and drive demand by delivering services that enable customers to achieve best-in-class analytics, and
- Invest in partnerships to increase the number of solutions available on Teradata platforms to maximize customer value, and to provide more market coverage.

Future Trends

We believe that demand for our solutions will continue to increase due to the continued increase in data volumes, the scale and complexity of business requirements, and the growing use of new data elements and more near real-time analytics over time. The adoption by customers of more near real-time analysis for enterprise intelligence is driving more applications, usage and capacity.

As a portion of the Company s operations and revenue occur outside the United States, and in currencies other than the U.S. dollar, the Company is exposed to fluctuations in foreign currency exchange rates. In 2010, Teradata expects approximately one percentage point of benefit from currency translation on its reported revenue and a corresponding currency impact on operating income, based on currency rates as of October 27, 2010.

The United States and other international economies, significant to Teradata s sales efforts, experienced severe economic recessions in 2009, which had an adverse impact on IT budgets and capital spending trends, and contributed to lengthened sa