

TERADATA CORP /DE/  
Form 10-K  
February 28, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33458

**TERADATA CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**75-3236470**  
(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

Edgar Filing: TERADATA CORP /DE/ - Form 10-K

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Common Stock, \$0.01 par value	Name of Each Exchange on which Registered New York Stock Exchange
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
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 <input checked="" type="checkbox"/> No <input type="checkbox"/>	
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 Regulations S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. <input checked="" type="checkbox"/>	
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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.	
Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2012, was approximately \$12.1 billion.	
At January 31, 2013, there were approximately 165.8 million shares of common stock outstanding.	

**Table of Contents****DOCUMENTS INCORPORATED BY REFERENCE**

Part III: Portions of the registrant's Notice of Annual Meeting of Stockholders and Proxy Statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after registrant's fiscal year end of December 31, 2012 are incorporated herein by reference.

**TABLE OF CONTENTS**

<b>Item</b>	<b>Description</b>	<b>Page</b>
	<b><u>PART I</u></b>	
1.	<u>Business</u>	4
1A.	<u>Risk Factors</u>	14
1B.	<u>Unresolved Staff Comments</u>	25
2.	<u>Properties</u>	25
3.	<u>Legal Proceedings</u>	25
4.	<u>Mine Safety Disclosures</u>	25
	<b><u>PART II</u></b>	
5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	26
6.	<u>Selected Financial Data</u>	28
7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
8.	<u>Financial Statements and Supplementary Data</u>	45
9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	77
9A.	<u>Controls and Procedures</u>	77
9B.	<u>Other Information</u>	78
	<b><u>PART III</u></b>	
10.	<u>Directors, Executive Officers and Corporate Governance</u>	78
11.	<u>Executive Compensation</u>	78
12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	78
13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	79
14.	<u>Principal Accounting Fees and Services</u>	79
	<b><u>PART IV</u></b>	
15.	<u>Exhibits, Financial Statement Schedules</u>	79

This report contains trademarks, service marks, and registered marks of Teradata Corporation and its subsidiaries, and other companies, as indicated.

**Table of Contents**

**PART I**

**FORWARD-LOOKING STATEMENTS**

Forward-looking statements in our public filings or other public statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other public statements. These forward-looking statements were based on various facts and were derived utilizing numerous important assumptions and other important factors, and changes in such facts, assumptions or factors could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives. Statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, projects, estimates, plans, may increase, may decrease, and similar expression or future or conditional verbs such as will, should, would, may and could are generally forward-looking in nature and are based on historical facts. You should understand that the factors described under Risk Factors and the following important factors could affect our future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

the rapidly changing and intensely competitive nature of the information technology industry and the software applications and enterprise data warehousing businesses, including the ongoing consolidation activity, threats from new and emerging analytic data technologies and competitors, and pressure on achieving continued price/performance gains for data warehousing solutions;

fluctuations in our operating results, timing of transactions, unanticipated delays or accelerations in our sales cycles and the difficulty of accurately estimating revenues;

our ability to successfully leverage our recent acquisitions;

the impact of global economic fluctuations on the markets in general or on the ability of our suppliers and customers to meet their commitments to us, or the timing of purchases by our current and potential customers; and

risks inherent in operating in foreign countries, including the impact of foreign currency fluctuations, economic, political, legal, regulatory, compliance, cultural and other conditions abroad.

Other factors not identified above, including the risk factors described in the section entitled Risk Factors included elsewhere in this Annual Report on Form 10-K ( Annual Report ), may also cause actual results to differ materially from those projected by our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our reasonable control. We undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events.

---

**Table of Contents**

**Item 1. BUSINESS**

**Overview.** Teradata Corporation ( we, us, Teradata, or the Company ) is a global leader in analytic data solutions, including integrated data warehousing, big data analytics and business applications. Our data warehousing solutions are comprised of software, hardware, and related business consulting and support services. Recognized as market leading by both industry analysts and customers, our solutions integrate an organization's departmental and enterprise-wide data about customers, financials, operations, and more into a single integrated data warehouse. Our analytic technologies then transform that data into actionable information that help customers make the best decisions possible. This intelligence helps our customers to compete and win in today's global marketplace. Having the right data foundation is becoming a priority for more companies, as they look to control and manage costs from the growing volumes and diversity of data, and to extract ever greater value from that data. Teradata is designed to enable our customers to improve business value and insight while reducing their total costs.

We serve customers across a broad set of industries from around the world ranging from small departmental and corporate implementations to many of the world's largest data warehouses and marketing applications. Teradata operates from four main locations in the United States: Dayton, Ohio; Johns Creek (Atlanta), Georgia; Rancho Bernardo (San Diego), California; and Indianapolis, Indiana. In addition, we have sales and services offices located in approximately 42 countries. For the full year ended December 31, 2012, we had net income of \$419 million and total revenues of \$2.665 billion, of which approximately 61% was derived in the North America and Latin America region (the Americas), 24% in the Europe, Middle East and Africa region (EMEA), and 15% in the Asia Pacific and Japan region (APJ), demonstrating our diversified business model. For financial information about these geographic areas which are also our reportable segments as of December 31, 2012, see Note 11 Segment, Other Supplemental Information and Concentrations in Notes to Consolidated Financial Statements elsewhere in this Annual Report.

**History and Development.** Teradata was formed in 1979 as a Delaware corporation. Teradata established a relational database management system on a proprietary platform in 1984. In 1990, Teradata partnered with NCR Corporation (NCR) to jointly develop next-generation database systems. In 1991, AT&T Corp. (AT&T) acquired NCR and, later that year, NCR purchased Teradata.

In 1996, AT&T spun off NCR (including Teradata) to form an independent, publicly-traded company, NCR Corporation. In 1999, NCR consolidated its Teradata data warehousing operations and product offerings into a separate operating division. On September 30, 2007, NCR was effectively separated into two independent, publicly-traded companies through the distribution of 100% of its Teradata data warehousing business to shareholders of NCR (the Separation). Since 2007, we have increased our investments and focus to extend the scope of our integrated data warehousing solutions, including enhancements to our leading database software, adding big data analytic solutions, increasing our business application software, and providing sophisticated support and consulting services.

In 2011, Teradata completed its acquisitions of Aprimo, Inc. (Aprimo), a global provider of cloud-based integrated marketing software, and Aster Data Systems, Inc. (Aster Data), a technology leader in big data analytics. In 2012, Teradata completed the acquisition of Munich-based eCircle Beteiligungs GmbH (eCircle), a leading full service digital marketing provider in Europe. With Aprimo, Teradata has expanded its offering of business analytics with integrated marketing solutions that enable customers to improve marketing performance with data-driven insights. The eCircle acquisition expanded these solutions to include digital marketing applications. The acquisition of Aster Data brought Teradata greater market presence in the management of diverse, multi-structured data and complex data types that require the need for new analytical tools to extract their value. Additionally, the combination of Teradata and Aster Data technologies enables businesses to perform better big data analytics on large sets of multi-structured data.

## **Table of Contents**

### **Industry Overview**

Our revenues are primarily generated in the multi-billion dollar data warehousing market. This market includes data warehouse database software, supporting hardware (servers, storage and interconnects), consulting and installation-related ( consulting ) services and maintenance services. Additionally, Teradata offers business application software to help transform data into actionable business intelligence, allowing for improved analytics and better decision making. We expect that the need for data warehousing and business application software will continue to grow as organizations increasingly rely on enterprise analytics to compete on a global basis. This need is further driven by the convergence of the following key market dynamics we have observed:

high levels of data growth are being driven by new data types, in particular multi-structured data, often referred to as big data analytics, examples of which include web logs, sensor and social network data, Internet text and search indexing, call detail records, genomics, astronomy, biological research, military surveillance information, medical records, photography and video archives, and large scale eCommerce data;

new types of analytic methodologies, such as Hadoop and the MapReduce programming model, are available in the market to support new expanded types of analysis on both existing and new types of data.

economic and business uncertainty combined with intense competition is driving companies to increasingly adopt analytic data technologies to address the vast complexity inherent in their markets and businesses;

globalization, mobility, consolidation, security concerns and increased government regulation are creating the need for enhanced visibility across the entire enterprise at all times;

improved data warehousing affordability due to price/performance gains on server and disk hardware as well as software is enabling new types of usage, and the maintenance and analysis of more historical and near real-time data; and

the adoption by customers of more real time, or active, environments is driving more applications, usage and capacity.

### **Our Data Warehousing and Big Data Analytics Solutions**

*Data Warehousing.* Data warehousing is the process of capturing, integrating, storing, managing, and analyzing data to answer business questions and make more informed, faster decisions. Customers use our data warehousing software and hardware technologies and related services to:

acquire, aggregate, store and integrate data from multiple sources, including transaction and enterprise resource planning systems;

manage and analyze this data through the Teradata database software and tools, data mining, master data management and other enterprise analytical applications, such as customer management, demand and supply chain management, enterprise risk management, and financial management; and

integrate analytics-based decisions into operational processes.

Our solutions allow customers to (1) leverage their data to obtain an integrated view of their business (including customers, products, channels, financials, suppliers, partners, services, etc.), and (2) transform data into useful, insightful and actionable business intelligence.

## Edgar Filing: TERADATA CORP /DE/ - Form 10-K

*Big Data Analytics.* Big data analytics describe environments with significant data volume, variety, velocity and complexity. Teradata currently addresses this market with a number of offerings that provide a unified data architecture for our customers, including the Teradata database, the Aster MapReduce platform and software and services that integrate with the Apache Hadoop platform.

*Teradata Unified Data Architecture* A collection of services, platforms, applications and tools that help customers define and deploy a data architecture that makes optimal use of available technologies in a way that accesses the value of data. These tools and utilities specifically give organizations the ability to consistently manage all the data with workload-specific engines.

## **Table of Contents**

The Teradata Unified Data Environment is a framework for organizations to address all types of data and multiple Teradata systems. It leverages the complementary value of technologies from Teradata, Teradata Aster, and open source Apache Hadoop, to enable business users to ask questions against data with various analytics, at any time. Utilizing the Teradata Unified Data Architecture, organizations can deploy, support, manage, and seamlessly access all their data.

*Discovery Platform.* Many companies are looking to capture, refine, and analyze all types of data available to them regarding customer interactions and business operations, in order to gain insights that help them create value for their customers and shareholders. Doing this requires exploration of new data types in a rapid fashion to determine the value and then operationalize this data into a data warehouse.

A discovery platform provides business analysts and data scientists with a reliable workbench from which to explore and perform experiments on large data sets, at scale, in less time and at less cost than required with traditional approaches. Discovery platforms allow companies to innovate on analytics by testing hypothesis to uncover new insights in data. In addition, the discovery platform enables companies to identify new trends and insights that can lead to benefits such as better consumer personalization or fraud detection.

A discovery platform must support a variety of interfaces, including Structured Query Language ( SQL ), business intelligence tools ( BI ), statistics, and next-generation MapReduce analytics. Teradata Aster database combines the MapReduce analytic framework with the patented SQL-MapReduce® capabilities to allow SQL-trained IT professionals to easily gain value from MapReduce. Moreover, this discovery platform, when combined and integrated with Teradata's database software and Apache Hadoop, provides an architecture to support rapid discovery and the path to production usage of these new insights.

*Active Intelligence.* Teradata extends the use of traditional data warehousing by integrating advanced analytics into enterprise business processes through a solution known as Active Intelligence, which reduces the time between obtaining information and acting on it. Specifically, active intelligence integrates detailed historical information with near real-time data, and then deploys timely, accurate strategic intelligence to knowledge workers in the corporate office as well as operational intelligence to front line users, customers and partners.

**Our Products.** We are a single-source provider of analytic data solutions with a fully integrated business that includes dedicated professionals and technologies. Our products are optimized and integrated specifically for data warehousing, big data analytics and business applications, including our database and application software, hardware platform, and related consulting and support services. Our key software and hardware products include:

**Teradata Analytic Database Software** Our Teradata database software combined with our massively parallel processing ( MPP ) hardware architecture provides the foundation for our unique ability to support and manage a wide range of mixed workloads and data warehousing functions. Our Teradata database software delivers near real-time intelligence for our customers with capabilities and features such as support of short-term operational and long-term strategic workloads (mixed workloads), the ability to handle thousands of concurrent queries from thousands of concurrent users, robust and simplified system management, high system availability, event monitoring, and easy integration into the enterprise. We also offer license subscriptions that provide our customers with when-and-if-available upgrades and enhancements to our database software.

**Teradata Work-Load Specific Platforms** For the hardware component of our solutions, Teradata integrates and optimizes industry standard hardware components with our value-added, fault-tolerant BYNET MPP interconnect. We utilize industry standard Intel® XEON 64-bit servers, along with industry-standard storage offerings, to provide seamless, transparent scalability. Our research and development efforts have sought to optimize the Teradata Platform Family as high performance, scalable, and easily supportable MPP systems, purpose-built to meet the analytical architecture needs of our customers, and to optimize the performance of the Teradata database software. The Teradata Platform Family extends our market reach and opportunity to new customers and to grow Teradata's share of information technology ( IT ) spending within our existing customer base, by providing solutions from data marts, to entry-level data warehouses, to specialized analytical solutions and our active data warehouses. Teradata's purpose-built Platform Family allows customers to standardize on the Teradata database system, leveraging their existing training knowledge and experience, to meet all their architecture needs at various price points.



## **Table of Contents**

**Teradata Logical Data Models** Our industry-specific logical data models ( LDMs ) are designed as easy-to-follow blueprints for designing an integrated data warehouse that reflects business priorities tailored to the specific needs of a particular industry. In addition, our Unified LDM provides a unified view across multiple common subject areas. Our LDMs are licensed to our customers as a key component of our data warehousing solutions. We also offer subscriptions that provide our customers with when-and-if-available upgrades and enhancements to our LDMs.

**Teradata Aster MapReduce Platform** This purpose-built, integrated hardware and software solution for big data analytics is pre-configured to gain insights from large volumes of new types of multi-structured data. It combines the powerful Aster Database and Aster 's patented SQL-MapReduce® framework with a fully-supported Teradata hardware platform. This solution provides a platform for analyzing new multi-structured data sources and data types, from social network data to web log data, machine data, and more. The platform offers a powerful environment for developing and using data science-based analytics, with an integrated hardware/software solution delivered and supported by Teradata.

**Teradata Applications and Tools** We offer a full suite of data access and management tools and applications that leverage enterprise intelligence to solve business problems. These tools and applications include: data mining, master data management, integrated marketing management, digital marketing, enterprise risk management, finance and performance management, demand and supply chain management, and profitability analytics.

**Teradata Integrated Analytics** This portfolio enables businesses to convert their traditional data warehouse into an analytic services environment to meet the challenges of multi-structured data analytics (or big data analytics), complex analytics, mobile business intelligence, social analytics, pervasive business intelligence, agile analytics, and the many demands driven by new and diverse data and analytics. Teradata Integrated Analytics is a comprehensive portfolio of high-performance, in-database analytics technology and services that enable businesses to deliver consistent, high-value analytics across their analytics user community.

### **Our service offerings include:**

**Teradata Consulting Services** Teradata consultants combine a patented methodology with extensive industry expertise and hands-on experience to help our customers quickly recognize business value and minimize risk by using analytic data solutions. We employ skilled consultants who provide data warehousing business impact modeling, design, architecture, installation, implementation, and optimization consulting services, as well as enterprise analytics consulting, data management services, and managed services. Our Global Consulting Centers around the world are staffed with professionals trained in our patented solutions methodology, and supplement local area consulting teams by accessing and utilizing the accumulated wealth of our global knowledge base and providing offshore consulting resources as needed.

**Teradata Customer Support Services** Our customer services organization provides an experienced, single point of contact and delivery for the deployment, support and ongoing management of Teradata data warehouses around the world. Our customer support service offers both proactive and reactive services, including maintenance, monitoring, back up, and recovery services to allow customers to maximize availability and better leverage the value of their investments in data warehousing.

**Training Services** To enhance the value of their investment, we also provide our customers with training for their employees and contractors who are responsible for the operation and/or use of their Teradata data warehouses and analytical applications.

## **Table of Contents**

**Our Strategy.** Teradata is a leader in helping companies manage, integrate, and analyze growing data volumes and complexity and transform it into actionable business insight for competitive advantage. Teradata's strategy focuses on three large and growing markets—data warehousing, big data analytics, and integrated marketing management including digital marketing applications. Additionally, we have four key initiatives underway to broaden our position in the market and take advantage of these market opportunities. These initiatives are to:

Invest to extend Teradata's core database technology and software application offerings, and expand our family of compatible data warehouse platforms and applications to address multiple market segments and solution offerings through internal development and targeted strategic acquisitions,

Differentiate Teradata technology and drive platform and solutions demand by delivering consulting services that enable customers to achieve business value through the use of best-in-class analytics,

Invest in partnerships to increase the number of solutions available on Teradata platforms, maximize customer value and increase our market coverage, and

Continue to seek opportunities to increase our market coverage through additional sales territories (hiring incremental sales account executives as well as technology and industry consultants).

**Customers.** We focus the majority of our sales efforts on the Global 3000 leading companies across a broad set of industries, including banking/financial services, media and entertainment (including gaming and media), government, insurance and healthcare, manufacturing, retail, telecommunications, transportation, and travel. These industries provide a good fit for our analytic data solutions, as they tend to have large and increasing sources of data, complex data management requirements or large and varied groups of users. The extent to which any given customer contributes to our revenues generally varies significantly from year to year and quarter to quarter.

With more than 30 years of experience, Teradata is a leader in implementing analytic data solutions. Our customers represent some of the best-known companies around the world. Teradata solutions support nineteen of the top twenty global telecommunication firms, eight of the top ten travel and transportation companies, fourteen of the top twenty global retailers, and sixteen of the top twenty global commercial and savings banks. (Rankings are based on the 2012 Fortune Global Rankings and Teradata customers as of December 31, 2012.) Although Teradata is a well-established vendor with strong penetration in each of these industries, our market and growth potential remains strong, as existing customers routinely increase the size and scope of their data warehouse due to growth in the number of users, amounts and types of data, and types and complexity of queries and analytics being directed to the customers' data warehouse.

Data warehouses are typically built one project at a time. For example, an initial data warehouse may start with a single subject area, which forms the foundation of data that is available to be leveraged for the next project, and so on. Therefore, a customer with a large order in one quarter is likely to generate additional revenue for Teradata in subsequent periods. However, due to the breadth of our customer base, no single customer of Teradata (overall or within any of our reportable segments) accounted for 10% or more of our total revenue in any of the last three fiscal years. For the year ended December 31, 2012, our top ten customers collectively accounted for approximately 16% of our total revenues. Moreover, Teradata's total revenue and revenue for each reportable segment can vary considerably from period to period given the different growth patterns of our existing customers' data warehouse systems and the variable timing of new customer orders. Due to the size and complexity of these transactions (purchases), the sales cycle for a new data warehouse is often fairly long (typically more than a year). Our results in any particular quarter have generally been dependent on our ability to generate a relatively small number of large orders for that quarter.

## **Partners, Marketing and Distribution Channels**

*Strategic Partnerships.* We seek to leverage our sales and marketing reach through our strategy of partnering with leading global and regional systems integrators, independent software vendors, and consultants which we believe complement our analytic data solutions.

## **Table of Contents**

**Alliance Partners** Strategic partnerships are a key factor in our ability to leverage the value of our analytic data solutions and expand the scope of our offerings to the marketplace. Our partner program is focused on working collaboratively with independent software vendors in several areas critical to data warehousing, including tools, data and application integration solutions, data mining, analytics, business intelligence, and specific horizontal and industry solutions. Our goal is to provide customer choices with partner offerings that are optimized and certified with our solutions, and fit within the customer's enterprise IT environment. Our strategic alliance partners include many leaders in the business intelligence, data acquisition and analytics market.

**Systems Integrators** Teradata works with a range of consultants and systems integrators that engage in the design, implementation and integration of analytic data solutions for our joint clients. Our strategic partnerships with select global consulting and systems integration firms provide broad industry and technology expertise in the design of business solutions that leverage Teradata technology to enable enterprise analytics and operational intelligence. In general, these partners are trusted advisors who assist in vision and strategy development with our customers while objectively assessing and meeting their needs. By working with premier system integrators and consulting firms, we combine our expertise in data warehousing with top-notch consultants to provide true end-to-end solutions. Our strategic global consulting and systems integration partners include Accenture, Capgemini, Cognizant, Wipro Limited, and IBM Global Business Services.

**Sales and Marketing.** We sell and market our analytic data solutions in our reportable segments (which as of December 31, 2012 consisted of the Americas region; the EMEA region; and the APJ region) primarily through a direct sales force. We believe our quota-carrying sales force increases our visibility and penetration in the marketplace and fosters long-term customer relationships and additional product sales. We have approximately 80% of our employees in customer-facing and/or revenue driving roles (including sales, consulting and customer service, and product engineering).

We support our sales force with marketing and training programs which are designed to grow awareness and highlight our technology leadership and differentiation, as well as provide a robust set of tools for use by our direct sales force. In support of growing awareness of the need for enterprise data warehousing and Teradata solutions specifically, we employ a broad range of marketing strategies including programs to inform and educate the media, industry analysts, academics and other third-party influencers. These strategies include targeted direct marketing, our website, webinars, trade shows and conferences. We annually host or participate in worldwide and regional user conferences that take place in numerous locations around the globe.

We also believe that promoting customer success and return on investment is an important element of our success. As a result, and because we have an enthusiastic customer base, we have developed an active program to support and leverage customer references.

**Resellers and Distributors.** Although the majority of our sales are direct, to extend our sales coverage, in limited situations we also market and sell our products through third-party channels, including resellers and distributors. We have a small number of licensed resellers, and have license and distribution agreements with independent distributors in some countries worldwide. The distribution agreements generally provide for the right to offer our products within a territory. Our distributors generally maintain sales and services personnel dedicated to our products. Accordingly, we have dedicated sales, marketing, and technical alliance resources designed to optimize our reseller and distributor relationships.

**Sources of Materials.** Our hardware components are assembled and configured by Flextronics International Ltd. Our platform line is designed to leverage the best-in-class components from industry leaders such as Intel Corporation for microprocessors. In addition, our computer data storage devices (such as disk arrays) are industry-standard technologies provided by NetApp, Inc., but are selected and configured by us to work optimally with our software and hardware platform. Flextronics also procures a wide variety of components used in the assembly process on our behalf. Although many of these components are available from multiple sources, Teradata utilizes preferred supplier relationships to better ensure more consistent quality, cost and delivery. Typically, these preferred suppliers maintain alternative processes and/or facilities to ensure continuity of supply.

## Table of Contents

Given our strategy to outsource product assembly activities to Flextronics and to source certain components from single suppliers, a disruption in production at Flextronics or at a supplier, or a global shortage of components, could impact the timing or profitability of customer shipments.

**Competition.** The overall analytic data solutions market is very competitive, and we face competition for nearly every sales opportunity we pursue. Our primary competitors include IBM and Oracle. Since the overall market is large and growing, we historically have, and expect to continue to see new and emerging competitors with alternative approaches. We compete successfully in the marketplace and intend to continue to do so based on our expanded Teradata platform family which includes the following offerings: MPP Teradata relational database, Aster MapReduce platform, a powerful suite of software applications, and related services. We believe our proven architecture for both structured and unstructured data, integrated solutions with high-performing and scalable technology, deep and broad consulting and support services capabilities, strong customer relationships, and our successful track record will enable us to continue to successfully compete. For more information, see Item 1A, Risk Factors, elsewhere in this Annual Report.

Competitors take different technical and integration approaches to addressing enterprise analytics needs, and therefore they often recommend a different architecture than our solutions. We believe that our customers recognize the advantages of our technology, our integrated data warehousing approach and our purpose-built platform family to meet their architecture needs, which enables us to successfully compete in the marketplace.

Key factors used to evaluate competitors in these markets include: data warehousing experience and customer references; technology leadership; product quality; performance, scalability, availability and manageability; support and consulting services capabilities; industry knowledge; and total cost of ownership. We believe we have a competitive advantage in providing complete, integrated, and optimized analytic data solutions that address these customer business, technical and architecture requirements. Our high performance Active Enterprise Data Warehouse platform technology is designed to not only seamlessly and linearly scale with customer growth needs but to do so in a manner that allows us to add current generation nodes with several generations of our technology, thereby protecting our customers' prior investments. Because our Teradata Platform Family also includes appliances, we believe we have the right platform for any analytical architecture need, for both structured and unstructured data, which makes our data warehousing solutions particularly attractive to customers.

Many companies participate in specific areas of our business, such as enterprise analytic and business intelligence application software. The status of our business relationships with these companies can influence our ability to compete for data warehousing opportunities that include such areas. Our products also complement offerings of some of our competitors, with whom we have formed partnerships to work with their business intelligence and application software businesses. Examples of these companies include both IBM and Oracle, due to their acquisitions of other business intelligence, consulting and application software companies in recent years.

**Seasonality.** Historically our sales are somewhat seasonal, in line with capital spending patterns of our customers, with lower revenue typically in the first quarter and higher revenue generally in the fourth quarter of each year. Such seasonality causes our working capital cash flow requirements to vary from quarter to quarter depending on the variability in the volume, timing and mix of product sales. In addition, revenue in the third month of each quarter has historically been significantly higher than in the first and second months. These factors, among others as more fully described in Item 1A, Risk Factors, elsewhere in this Annual Report, make forecasting more difficult and may adversely affect our ability to accurately predict financial results.

**Research and Development ( R&D ).** We remain focused on designing and developing products, services and solutions for data warehousing, big data analytics, and marketing and business applications, that anticipate our customers' changing technological needs. As we seek improvements in our products and services, we also consider our customers' current needs as we design our new technology so that new generations of the Teradata database software and operating platforms are compatible with prior generations of our technology. We believe our extensive R&D workforce is one of our core strengths. This global R&D team is headquartered at our facility in Rancho Bernardo (San Diego), California. We anticipate that we will continue to have significant R&D expenditures, which may include strategic acquisitions, in the future in order to continue a flow of innovative,

## Table of Contents

high-quality products and services, which is vital to our leading competitive position. For information regarding the accounting and costs included in R&D activities see Note 1 Description of Business, Basis of Presentation and Significant Accounting Policies in Notes to Consolidated Financial Statements elsewhere in this Annual Report.

**Intellectual Property and Technology.** The Company owns approximately 610 patents in the United States and about 52 patents in foreign countries. The foreign patents are generally counterparts of the Company's U.S. patents. Many of the patents that we own are licensed to others, and we are licensed to use certain patents owned by others. While our portfolio of patents and patent applications in aggregate is of significant value to our Company, we do not believe that any particular individual patent is by itself of material importance to our business as a whole.

In addition, the Company owns copyrights and trade secrets in its vast code base which makes up the core Teradata software product offerings, including the Teradata database and application software products. The Teradata database software, which was initially based upon computer science research at the California Institute of Technology, works on multiple tasks at once, an approach known as parallel processing. The Teradata database software architecture is known in the industry as a massively parallel processing system. Parallel processing vastly increases the speed with which results are delivered and correspondingly increases the amount of data that can be queried and the number and complexity of queries that can be run at the same time. The name Teradata evokes the ability to manage terabytes (*i.e.*, trillions of bytes) of data. One of our key technological advances has been making the Teradata database software and hardware compatible with several operating systems, such as UNIX, LINUX and Windows. The Teradata database software is a relational database management system ( RDBMS ), reflecting the investment of hundreds of person-years of development work.

The source code versions of our products are protected as trade secrets and, in all major markets, as unpublished copyright works. We also vigorously protect our rights in the Teradata database software and related intellectual property; however, there can be no assurance that these measures will be successful. The Company owns the Teradata®, Aprimo®, Aster® and eCircle® trademarks, which are registered in the United States and in many foreign countries, as well as other tradenames, service marks, and trademarks such as BYNET.

**Employees.** As of December 31, 2012, we had approximately 10,200 employees globally. We believe that our future success will depend, in part, on our ability to continue to attract, hire and retain skilled and experienced personnel.

**Properties and Facilities.** Our corporate headquarters is located in Dayton, Ohio, and we manage our business through four main locations in the United States: Dayton, Ohio; Johns Creek (Atlanta), Georgia; Rancho Bernardo (San Diego), California; and Indianapolis, Indiana. As of December 31, 2012, we operated approximately 110 facilities throughout the world. We own our Rancho Bernardo complex, which is the headquarters of our research and development operations. All of our other research and development facilities are leased, as well as our offices in Dayton, Johns Creek and Indianapolis, technical support centers, training, and other miscellaneous sites. We maintain facilities in approximately 42 countries.

**Executive Officers of the Registrant.** The following table sets forth the information as of January 31, 2013 regarding the individuals who are serving as our executive officers.

Name	Age	Position(s)
Michael Koehler	60	President and Chief Executive Officer
Stephen Scheppmann	57	Executive Vice President and Chief Financial Officer
Rocky Blanton	52	Executive Vice President, Americas
Saundra Davis	49	Chief Human Resource Officer
Robert Fair	50	Executive Vice President, Chief Marketing and Information Officer
Scott Gnau	47	Executive Vice President, Teradata Labs
Daniel Harrington	49	Executive Vice President, Services
Bruce Langos	59	Chief Operations Officer
Darryl McDonald	54	Executive Vice President, Applications
Laura Nyquist	59	General Counsel and Secretary
Hermann Wimmer	49	Executive Vice President, International

## **Table of Contents**

**Michael Koehler.** Mr. Koehler is President and Chief Executive Officer of Teradata. Previously, Mr. Koehler served as Senior Vice President, Teradata Division of NCR from 2003 to 2007. From September 2002 until March 2003, he was the Interim Teradata Division Leader, Teradata Division. From 1999 to 2002, Mr. Koehler was Vice President, Global Field Operations, Teradata Division, and held management positions of increasingly greater responsibility at NCR prior to that time. He joined our board in August 2007 and also serves as a director of Hertz Global Holdings, Inc., a publicly-traded company, which through its subsidiary, Hertz Corporation, is a leading rental car and equipment provider.

**Stephen Scheppmann.** Stephen Scheppmann has served as Executive Vice President and Chief Financial Officer of Teradata since September 4, 2007. He served as Executive Vice President and Chief Financial Officer of Per-Se Technologies, Inc., a leading provider of administrative healthcare industry services, from May 2006 until May 2007, following the completion of that company's acquisition. From 2000 to May 2006, Mr. Scheppmann served as Executive Vice President and Chief Financial Officer for NOVA Information Systems, Inc., and, from 1988 to 2000, he was Senior Vice President and Chief Financial Officer of Larson-Juhl, Inc. From January 2006 until June 2012, Mr. Scheppmann served as a member of the Board of Directors of eResearch Technology, Inc., a publicly-traded biotechnical services and technology company, and as chairman of its Audit Committee from April 2006 until June 2012.

**Rocky Blanton.** Rocky Blanton is Executive Vice President, Americas of Teradata. Mr. Blanton served as Vice President of the Americas region for Teradata from October 2007 to December 2012. He served as Vice President of the Americas region, Teradata Division of NCR from 2002 to September 2007. Mr. Blanton began his career with NCR in 1982 and held various sales and management positions of increasing responsibility before joining Teradata.

**Sandra Davis.** Sandra Davis is Teradata's Chief Human Resource Officer and has served in this role since joining Teradata in 2007. Ms. Davis served as Vice President, Human Resources, Teradata Division of NCR from January 2004 to September 2007. Prior to this position, Ms. Davis served as Vice President, Human Resources, Corporate Infrastructure, at NCR from January 2003 to December 2003. Ms. Davis joined NCR in 1985 and held a number of positions of increasing responsibility in human resources during her career there.

**Robert Fair.** Robert Fair is Executive Vice President and Chief Marketing and Information Officer for Teradata. Mr. Fair served as Executive Vice President, Global Field Operations of Teradata from October 2007 to December 2012. From April 2003 to September 2007, he served as Vice President, Business Development and Global Marketing, Teradata Division of NCR. From March 2000 to April 2003, he was Vice President, Americas Communications Industry, Teradata Division. Mr. Fair began his career at NCR in 1984 and held a number of positions of increasing responsibility in the areas of sales, consulting services and marketing before joining Teradata.

**Scott Gnau.** Scott Gnau is Executive Vice President, Teradata Labs, and has been head of Teradata's research, development and sales support activities for its integrated data warehousing, big data analytics, and associated solutions since 2011. He served as Chief Development Officer of Teradata from September 2007 until January 2011. Prior to that time, he was Vice President, Teradata Research and Development for NCR from June 2005 to September 2007. Mr. Gnau joined NCR in 1995 and held various technology research, product development and management positions of increasing responsibility before joining Teradata.

---

**Table of Contents**

**Daniel Harrington.** Daniel Harrington is Executive Vice President, Services for Teradata leading Teradata's global consulting and support services organizations. Prior to this position, Mr. Harrington served as Executive Vice President, Technology and Support Services of Teradata from October 2007 to December 2012. He served as Vice President, Customer Services, Teradata Division of NCR, from January 2005 until September 2007. From April 1999 to December 2004, he was Vice President, Northern Europe, Teradata Division with responsibility for Europe sales. Mr. Harrington joined NCR in 1985 and held a number of positions of increasing responsibility in the areas of sales, marketing and product management before he joined Teradata.

**Bruce Langos.** Bruce Langos is Chief Operations Officer of Teradata. Mr. Langos was Senior Vice President, Global Operations of NCR, from May 2006 to September 2007. From 1996 until that time, Mr. Langos was Vice President, Business Operations, Teradata Division. Mr. Langos joined NCR in 1976 and held positions of increasing responsibility in sales, marketing, product management and strategic planning prior to joining Teradata.

**Darryl McDonald.** Darryl McDonald serves as Executive Vice President, Applications for Teradata. Mr. McDonald served as Executive Vice President, Applications, Business Development & Chief Marketing Officer from May 2010 to December 2012. Prior to that, he was the Chief Marketing Officer from September 2007 to April 2010. Mr. McDonald was Vice President, Global Consulting Services, Teradata Division of NCR from April 2003 to September 2007. From 1997 until April 2003, Mr. McDonald was Vice President, Americas Retail Industry, Teradata Division. Mr. McDonald joined NCR in 1982 and held a number of positions of increasing responsibility in the areas of sales and consulting before joining Teradata.

**Laura Nyquist.** Laura Nyquist is the General Counsel and Secretary of Teradata. Ms. Nyquist served as Deputy General Counsel and Chief Counsel, Business Counsel Group, NCR, from October 2006 to September 2007. Prior to this position, Ms. Nyquist was Chief Counsel, Financial Solutions Division from 2004 to September 2006, and was Vice President, Corporate Affairs, and Secretary to the Board of Directors of NCR from 1999 to 2004. Ms. Nyquist joined NCR in 1986 and held a number of positions of increasing responsibility at NCR prior to joining Teradata.

**Hermann Wimmer.** Hermann Wimmer is Executive Vice President, International of Teradata, with responsibility for the Company's business in Europe, Middle East, Africa ( EMEA ) and Asia-Pacific/Japan. From October 2007 to December 2012, Mr. Wimmer was Vice President of the EMEA region for Teradata, and from January 2004 to September 2007, Mr. Wimmer was Vice President of the EMEA region, Teradata Division of NCR. Mr. Wimmer joined NCR in 1996 and held various management positions of increasing responsibility prior to joining Teradata.

There are no family relationships between any of the executive officers or directors of Teradata.

There are no contractual obligations regarding the election of our executive officers or directors.

**Information.** Teradata makes available through its website, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and all amendments to such reports, as soon as reasonably practicable after these reports are electronically filed or furnished to the U.S. Securities and Exchange Commission ( SEC ) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports and other information are also available, free of charge, at [www.sec.gov](http://www.sec.gov). Alternatively, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Teradata will furnish, without charge to a security holder upon written request, the Notice of Meeting and Proxy Statement for the 2013 Annual Meeting of Stockholders. Teradata will furnish the Code of Conduct and any other exhibit at cost (the Code of Conduct is also available through Teradata's website at <http://www.teradata.com/code-of-conduct/>). Document requests are available by calling or writing to:

Teradata Shareholder Relations

10000 Innovation Drive

Dayton, OH 45342

Phone: 937-242-4878

Website: <http://www.teradata.com>





---

## **Table of Contents**

### **Item 1A. RISK FACTORS**

*You should carefully consider each of the following risk factors and all of the other information set forth in this Annual Report. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our company in each of these categories of risks. However, the risks and uncertainties our company faces are not limited to those set forth in the risk factors described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.*

*In addition, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.*

*If any of the following risks and uncertainties develops into actual events, these events could have a material adverse effect on our business, financial condition or results of operations. In such case, the trading price of our common stock could decline.*

***Economic Pressures and Uncertainty*** *Our business is affected by the global economies in which we operate and the economic climate of the industries we serve.*

Our business and results of operations are affected by international, national and regional economic conditions. In particular, the IT industry in which we operate is susceptible to significant changes in the strength of the economy and the financial health of companies who make capital commitments for new technologies. Accordingly, downturns or uncertainty in the global or regional economies in which we operate or certain economic sectors (such as the retail, manufacturing or financial services industries) may adversely impact our business. For example, adverse changes to the economy could impact the timing of purchases by our current and potential customers or the ability of our customers to fulfill their obligations to us. In addition, decreased or more closely scrutinized capital spending in our customers' businesses and in the industries we also serve may adversely impact our business. Uncertainty about future economic conditions makes it difficult for us to forecast operating results and to make decisions about future investments. Accordingly, global economic and market conditions may cause material impacts on our results of operations, prospects and financial condition. The Company's success in periods of economic uncertainty is also dependent, in part, on our ability to reduce costs in response to changes in demand and other activity.

***Competition*** *The information technology industry is intensely competitive and evolving, and competitive pressures could adversely affect our pricing practices or demand for our products and services.*

We operate in the intensely competitive IT industry, which is characterized by rapidly changing technology, evolving industry standards and models for consuming and delivering business and IT services, frequent new product introductions, and price and cost reductions. In general, as a participant in the analytic data solutions market, we face:

Changes in customer IT spending habits and other shifts in market demands, which drive competition;

A continuing trend toward consolidation of companies which could adversely affect our ability to compete, including if our key partners merge or partner with our competitors;

Continued pressure on price/performance for data warehousing solutions due to constant technology improvements in processor capacity and speed;

Changes in pricing, marketing and product strategies, such as potential aggressive price discounting and the use of different pricing models by our competitors or other factors;

Rapid changes in computing technology and capabilities that challenge our ability to maintain differentiation at the lower range of business intelligence analytic functions;

Edgar Filing: TERADATA CORP /DE/ - Form 10-K

New and emerging analytic data technologies, competitors, and business models; and

Changing competitive requirements and deliverables in developing and emerging markets.

## **Table of Contents**

To compete successfully in this environment, we must rapidly and continually design, develop and market solutions and related products and services that are valued in the marketplace. To do this, we must react on a timely basis to shifts in market demands. In addition, our market position depends on our ability to continually improve the price/performance of our solutions without creating operating inefficiencies and to sustain competitive operating margins, while also maintaining the quality of our products and services. If we are unable to react quickly when and as needed to improve the value of our product offerings our operating results could be negatively impacted.

Our competitors include certain larger companies, such as IBM and Oracle, who are well-capitalized companies with widespread distribution, brand recognition and penetration of platforms and service offerings. The significant purchasing and market power of these larger competitors, which have greater financial resources than we do, could allow them to surpass our market penetration and marketing efforts to promote and sell their products and services. In addition, many other companies participate in specific areas of our business, such as enterprise application analytic and business intelligence software. In some cases we may partner with a company in one area of our business and compete with them in another. The status of our business relationships with these companies can influence our ability to compete for analytic data solutions opportunities in such areas. We also expect additional competition from both established and emerging companies. Failure to compete successfully with new or existing competitors in these and other areas could have a material adverse impact on our ability to generate additional revenues or sustain existing revenue levels.

***Analytic Data Solutions Market*** *If the overall analytic data solutions market declines or does not grow, we may sell fewer products and services, and our business may not be able to sustain and/or grow its current level of operations.*

If the market trends toward more limited IT spending, or limited liquidity, this could result in fewer customers making, or customers delaying investments in our products and services. In the past, we have seen periodic breaks in the buying patterns from some of our larger customers, which indicate a level of maturation of their current data warehouse implementation or a shifting of IT priorities when these customers are still incorporating the investments they have made in their core data warehousing infrastructures during past years. In addition, reduced prices and improvements in analytic data solutions increase pressure on our product revenues and margins, as well as on the annuity streams we receive from our maintenance business. If the growth rates for the analytic data solutions market decline for any reason, there could be a decrease in demand for our products and services, which could have a material adverse effect on our financial results.

***Renewal Rates and Support Services Pricing Pressures*** *If our existing customers fail to renew their support agreements, or if customers do not license updated software products on terms favorable to us, our revenues could be adversely affected.*

We currently derive a significant portion of our overall revenues from maintenance services and software subscriptions, and we depend on our installed customer base for future revenue from maintenance services and software subscriptions and licenses of updated products. The terms of our standard maintenance services and software subscription arrangements generally provide for the payment of license fees and prepayment of first-year support fees and are generally renewable on an annual basis. The IT industry generally has been experiencing increasing pricing pressure from customers when purchasing or renewing support agreements. Moreover, the trend towards consolidation in certain industries that we serve, such as financial services and telecommunications, could result in a reduction of the software and hardware being serviced and put pressure on our maintenance terms with customers who have merged. Given this environment, there can be no assurance that our current customers will renew their maintenance agreements or agree to the same terms when they renew, which could result in our reducing or losing maintenance fees.

If our existing customers fail to renew their maintenance agreements, or if we are unable to generate additional maintenance fees through the license of updated products to existing or new customers, our business and future operating results could be adversely affected.

## **Table of Contents**

Replacements of older Teradata systems often result in less maintenance revenue associated with the prior hardware platforms since Teradata's newer hardware is designed to be more powerful, use less energy and require less floor space. As a result, less hardware is needed for the same workload, and therefore less maintenance may be required on the replacement system. However, it is common that when a customer replaces an older system the customer often expands the size and scope their Teradata system, so as a result the maintenance revenue does increase, though not at the same rate as product revenue.

Additionally, as a result of recent acquisitions, Teradata's software application offerings have been expanded to include term licenses, hosting arrangements and Software as a Service ( SaaS ). As a result, future revenue streams could be adversely affected if customers do not renew their term and SaaS arrangements.

***Operating Result Fluctuations*** *Our financial results are subject to fluctuations caused by many factors that could result in our failing to achieve anticipated financial results.*

Our quarterly and annual financial results have varied in the past and are likely to continue to vary in the future due to a number of factors, many of which are beyond our control. In particular, if transactions that we expect to close by the end of a quarter are not closed until a later date, our revenue and/or net income for that quarter could be substantially below expectations, especially given the large size of our transactions. These and any one or more of the factors listed below or other factors could cause us not to achieve our revenue or profitability expectations. The resulting failure to meet market expectations could cause a decrease in our stock price. These factors include the risks discussed elsewhere in this section and the following:

Downturns in our customers' businesses, in the domestic economy or in international economies where our customers do substantial business;

Changes in demand for our products and services, including changes in growth rates in the analytic data solutions market;

The size, timing and contractual terms of large orders for our products and services, which may impact in particular our quarterly operating results (either positively or negatively);

Possible delays in our ability to recognize revenue as the result of contract terms;

The budgeting cycles of our customers and potential customers;

Changes in pricing policies resulting from competitive pressures, such as aggressive price discounting by our competitors, new pricing strategies, or other factors;

Our ability to develop and introduce on a timely basis new or enhanced versions of our products and services;

Changes in the mix of pre-tax earnings attributable to domestic versus international sales;

Seasonal fluctuations in buying patterns;

Future acquisitions and divestitures of technologies, products and businesses;

Unexpected needs for capital expenditures or other unanticipated expenses; and

Changes in certain assumptions, estimates and judgments of management (which are required in connection with the preparation of the Company's financial statements) that could affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosure of contingent liabilities.

***Acquisitions and Alliances*** ***Our ability to successfully integrate acquisitions and effectively manage acquisition and alliance activities may be an important element of future growth.***

We are continually evaluating the most effective ways to extend Teradata's core technology and expand our family of compatible data warehouse platforms and software applications to address multiple market segments and solution offerings. From time to time, this includes acquisitions, equity investments, joint ventures or strategic alliances. Such transactions entail various risks, including risks associated with:

Assimilating and integrating different business operations, corporate cultures, personnel, infrastructure and technologies or products acquired or licensed;

## **Table of Contents**

Retaining key employees and maintaining relationships with employees, customers, clients or suppliers of the acquired companies, and recurring revenue of the acquired company may decline or fail to be renewed;

The potential for unknown liabilities, as well as undetected internal control, compliance or quality issues within the acquired or combined business or additional costs not anticipated at the time of acquisition;

Disruptions of our ongoing business or inability to successfully incorporate acquired products, services or technologies into our solutions and maintain quality;

Failure to achieve the projected synergies after integration of acquired companies or a decline in value of the acquired business and related impairments; and

Funding acquisition activities, whether through the use of existing cash reserves, or through the use of debt, and the related impact on our liquidity and financial condition.

Our operating results may fluctuate as a result of acquisitions and related integration activities, as well as other strategic growth transactions, and there is a risk that our financial results may be adversely affected.

***Changing Tax Rates*** *A change in our effective tax rate can have a significant adverse impact on our business.*

A number of factors may adversely impact our future effective tax rates, such as the jurisdictions in which our profits are determined to be earned and taxed; the resolution of issues arising from tax audits with various tax authorities; changes in the valuation of our deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; changes in available tax credits, especially surrounding tax credits in the United States for our research and development activities; and the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision, however, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could have a material impact on our net income or financial condition. Changes in tax laws or tax rulings could materially impact our effective tax rate. For example, proposals for fundamental U.S. international tax reform, if enacted, could have a significant adverse impact on our future results of operations.

***Sales Cycle Variations*** *Unanticipated delays or accelerations in our sales cycles make accurate estimation of our revenues difficult and could result in significant fluctuations in our quarterly operating results.*

The size and timing of large orders for our products and services varies considerably, which can impact results from quarter to quarter. The process we use to forecast sales and trends in our business relies heavily on estimates of closure on a transaction-specific basis. It is very difficult to predict sales in a particular quarter or over a longer period of time. Unanticipated delays or accelerations in our sales cycles make accurate estimation of our revenues difficult and could result in significant fluctuations in our quarterly operating results.

The length of our sales cycle varies depending on a number of factors over which we may have little or no control, including the size and complexity of a potential transaction, the level of competition that we encounter in our selling activities and our current and potential customers internal budgeting and approval process, as well as overall macro-economic conditions. As a result of a generally long sales cycle, we may expend significant effort over a long period of time in an attempt to obtain an order, but ultimately not complete the sale, or the order ultimately received may be smaller than anticipated. Our revenue from different customers varies from quarter to quarter, and a customer with a large order in one quarter may generate significantly lower revenue in subsequent quarters/years. Our results in any particular quarter have generally been dependent on the timing of a relatively small number of large transactions.

Due to resulting fluctuations, we believe that quarter-to-quarter comparisons of our revenue, margins, and operating results may not be meaningful, and that these comparisons may not be an accurate indicator of our future performance.

## **Table of Contents**

In addition, the budgeting and IT capital spending cycles of our customers and potential customers make forecasting more difficult and may adversely affect our ability to accurately predict financial results. Spending may be particularly heavy in our fourth quarter because of large enterprise customers placing orders before the expiration of IT budgets tied to that calendar year.

Our operating expense budgets (including such categories as headcount, real estate, and technology resources) are based on projected annual and quarterly revenue levels and are generally incurred ratably throughout each quarter. Since our operating expenses are relatively fixed in the short term, failure to generate projected revenues for a specified period could adversely impact our operating results, reducing net income or causing an operating loss for that period. The deferral or non-occurrence of such sales revenues could materially adversely affect our operating results for that quarter and could negatively impact our business in future periods.

***Seasonal Variability*** *Seasonal trends in sales of our products and services could adversely affect our quarterly operating results.*

In general, we see fluctuations in buying patterns with lower revenue in the first quarter and higher revenue in the fourth quarter of each year. Such seasonality also causes our working capital cash flow requirements to vary from quarter to quarter depending on the variability in the volume, timing and mix of product sales. In addition, revenue in the third month of each quarter has historically been significantly higher than in the first and second months, which further impacts our ability to predict financial results accurately and enhances the enterprise risks inherent in our business. These and other factors make forecasting more difficult and may adversely affect our ability to predict financial results accurately.

***Revenue Mix Variability*** *Our revenue is variable depending on the mix of products and services in any given period, and changes in the mix of products and services that we sell could materially adversely affect our operating results.*

Our business model is based on our anticipated mix of products and services and the corresponding profit margins for such products and services. Unanticipated shifts in such mix could adversely impact our results of operations and require changes to our business model. Consulting services margins are generally lower than the other elements of our analytic data solutions. In addition, when we use third parties to supplement some consulting services we provide to customers, this generally results in lower margin rates. As a result, increases in consulting services revenues as a percentage of our total revenues may decrease overall margins.

We also realize different margins on enterprise data warehousing and appliance products, as well as certain components we re-sell as part of our solutions, and the mix of such hardware and software varies from quarter to quarter depending on customer requirements. In addition, changes in the price and performance of our analytic data solutions, particularly for certain hardware components, could negatively impact maintenance and support services, and software subscription revenues.

***Advancement of Our Solutions*** *The solutions we sell are advanced, and we need to rapidly and successfully develop and introduce new solutions in a competitive, demanding and rapidly changing environment.*

To succeed in the intensely competitive IT industry, we must continually improve, refresh and expand our product and service offerings to include newer features, functionality or solutions, and keep pace with price-to-performance gains in the IT industry. Shortened product life cycles due to customer demands and competitive pressures impact the pace at which we must introduce and implement new technology. This requires a high level of innovation by both our software developers and the suppliers of the third-party software components included in our systems. In addition, bringing new solutions to the market entails a costly and lengthy process, and requires us to accurately anticipate customer needs and technology trends. We must continue to respond to market demands, develop leading technologies and maintain leadership in analytic data solutions performance and scalability, or our business operations may be adversely affected.

## **Table of Contents**

We must also anticipate and respond to customer demands regarding the compatibility of our current and prior offerings. These demands could hinder the pace of introducing and implementing new technology. Our future results may be affected if our products cannot effectively interface and perform well with software products of other companies and with our customers' existing IT infrastructures, or if we are unsuccessful in our efforts to enter into agreements allowing integration of third-party technology with the Teradata database and software platforms. Our efforts to develop the interoperability of our products may require significant investments of capital and employee resources. In addition, many of our principal products are used with products offered by third parties and, in the future, some vendors of non-Teradata products may become less willing to provide us with access to their products, technical information and marketing and sales support.

As a result of these and other factors, our ability to introduce new or improved solutions could be adversely impacted. There can be no assurance that our innovations will be profitable, and if we cannot successfully market and sell both existing and newly developed solutions, our business and operating results could be impacted. If we were to lose our significant technology advantage, our market share and growth could be adversely affected. In addition, if we are unable to deliver products, features, and functionality as projected, we may be unable to meet our commitments to customers, which could have an adverse effect on our reputation and business.

***Highly Advanced Products*** *Our products include highly advanced technology, and as we develop new products with greater capacity and performance capabilities, the increased difficulty and complexity associated with producing these products increases the likelihood of reliability, quality or operability problems.*

Despite rigorous testing prior to their release and superior quality processes, our software and hardware products may contain undetected errors or security flaws, which may be found after the products are introduced and shipped. This risk is enhanced when products are first introduced or when new versions are released, as well as when we develop products with more advanced technology, since the increased difficulty and complexity associated with producing these products increases the likelihood of reliability, quality or operability problems. The correction and detection of errors may cause delays, lost revenues and incremental costs. Errors in our software products could also affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products, and could adversely affect market acceptance of our products. While we attempt to remedy errors that we believe would be considered critical by our customers prior to shipment, we may not be able to detect or remedy all such errors.

Our customers who rely on our solutions for business-critical applications are more sensitive to product errors, which could expose us to product liability, performance and warranty claims, as well as harm our reputation. These and other risks associated with new product and service offerings may have a material adverse impact on our results of operations and future performance.

Product introductions and certain enhancements of existing products by us in future periods may also reduce demand for our existing products or could delay purchases by customers awaiting arrival of our new products. As new or enhanced products are introduced, we must successfully manage the transition from older products.

In the ordinary course of business, we continually evaluate opportunities for new product and service offerings, new markets and new geographic sectors, and development of such opportunities could entail certain business risks which could affect our financial condition. In addition, due to the complexity of many of our offerings, we may not be able to meet customer requirements with respect to consulting services without incurring costs greater than expected levels.

***Information Systems and Security*** *A breach of security, disruption or failure of our information systems or those of our third party providers could adversely impact our business and financial results.*

Our operations are dependent on our ability to protect our computer equipment and the information stored in our databases (and the computer equipment and database information of certain suppliers and other third parties) from damage by, among other things, earthquake, fire, natural disaster, cyber-attacks, power loss, telecommunications failures, unauthorized intrusions and other events. Despite our contingency planning, events of this nature may still result in system failures and other interruptions in our operations, which could have a material adverse effect on our business and financial condition.



## **Table of Contents**

We operate pursuant to a business-to-business model, and therefore we normally do not handle large volumes of personally identifiable information for our customers such as employee data, customer data, data that our customers collect from their customers, and information regulated by the Health Insurance Portability and Accountability Act of 1996. However, some of our services require us to have access to and/or store confidential information and certain of our software offerings rely on hosted computer services from third parties that store such information. If unauthorized access to or use of such information or systems occurs, despite data security measures and third party commitments to protect it, our results of operation, reputation, and relationship with our customers could be adversely impacted.

Additionally, experienced computer programmers, Nation State Sponsored Advanced Persistent Code ( NSSAPC ) attacks (from countries such as Iran, China and certain European Eastern Bloc countries) and hackers may be able to penetrate our network security or that of our third party providers and misappropriate or compromise our intellectual property or other confidential information or that of our customers, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. We have reason to believe that at least one attempted NSSAPC cyber-attack has occurred against our systems, although we do not believe that it was successful or that there was any adverse impact to the Company in connection with the incident. Despite the fact that our preventative and remediation tools and actions may have mitigated or preempted this attack, we have since taken additional steps designed to further improve the security of our networks and computer systems; however, there can be no assurance that our defensive measures will be adequate to prevent them in the future. Also, like many other companies, our workstations are regularly subject to penetration attempts and malicious threats by hackers and, despite our defensive measures, we may not always be able to detect, mitigate or preempt them all. Breaches of security and disruptions of our information systems have not historically had a material impact on our results of operations and we have no reason to believe that attempts by hackers such as those described above have negatively impacted our IT infrastructure, operations, confidential information or intellectual property. However, there is risk that these types of activities will recur and persist, that one or more of them may be successful in the future, that one or more of them may have been or will be successful but not detected, prevented, remediated or mitigated by us, and the costs to us to eliminate, detect, prevent, remediate, mitigate or alleviate cyber or other security problems, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could adversely impact our future results of operations.

***Reliance on Third Parties*** *Our future results depend in part on our relationships with key suppliers, strategic partners and other third parties.*

Our development, marketing and distribution strategies depend in part on our ability to form strategic alliances with third parties that have complementary products, software, services and skills. Our strategic partners include consultants and system integrators, software and technology providers, and indirect channel distributors in certain countries. These relationships create risks beyond our control of our partners changing their business focus, entering into strategic alliance with other companies, being acquired by our competitors, failing to meet performance criteria or improperly using our confidential information. If we fail to maintain or expand our relationships with strategic partners, our business may be adversely affected.

Third-party vendors provide important elements to our solutions; if we do not maintain our relationships with these vendors or if these vendors cease to be going concerns, interruptions in the supply of our products may result. There are some components of our solutions that we purchase from single sources due to price, quality, technology or other reasons. For example, we have relied on Flextronics as a key single source contract manufacturer for our hardware systems for the last several years. In addition, we buy silicon computer chips and microprocessors from Intel Corporation, and storage disk systems from NetApp, Inc. Some components supplied by third parties may be critical to our solutions, and several of our suppliers may terminate their agreements with us without cause with 180 days notice. If we were unable to purchase necessary services, parts, components or

---

## **Table of Contents**

products from a particular vendor and had to find an alternative supplier, our shipments and deliveries could be delayed. Also, disruption in our supply chain or the need to find alternative suppliers could impact the costs and/or timing associated with procuring necessary products, components and services. In either case, our operations could be adversely impacted. Similarly, our suppliers' products and services have certain dependencies with respect to their own supply chain networks, and supply issues among our suppliers' suppliers may also adversely impact our business.

In addition, smaller suppliers have operating risks that could impact our business. These risks could create product time delays, inventory and invoicing problems, staging delays, and other operational difficulties. We could also be impacted by their inability to provide high-quality products or services that conform to required specifications or contractual arrangements, which could negatively impact our business and operating results.

***Reliance on the Intellectual Property of Third Parties*** *The loss of our rights to use software licensed to us by third parties could harm our business.*

We have an active partner program that offers rights to sublicense third party software as part of a complete suite of solutions for our customers. This offering, as well as our reliance on third party software and licenses in our operating system software and business, creates risks that are not present when developing software in-house. For example, the viability, reliability and quality of such partners' businesses, as well as their ability to fulfill their obligations to us, are factors that come into play and could adversely affect our financial condition. Our operations could also be impacted if we are forced to seek alternative technology, or technology for new solutions, that may not be available on commercially reasonable terms. Also, many of our offerings are complemented by technologies developed by others, and if we are unable to continue to obtain licenses for such technologies at competitive prices, our business could be impacted.

***Intellectual Property*** *If we are unable to develop, preserve and protect our intellectual property assets, our operating results may be adversely affected.*

As a technology company, our intellectual property portfolio is crucial to our continuing ability to be a leading analytic data solutions provider. We strive to protect and enhance our proprietary intellectual property rights through patent, copyright, trademark and trade secret laws, as well as through technological safeguards. These efforts include protection of the products and application, diagnostic and other software we develop.

To the extent we are not successful, our business could be materially adversely impacted. We may be unable to prevent third parties from using our technology without our authorization or independently developing technology that is similar to ours, particularly in those countries where the laws do not protect our proprietary rights as fully as in the United States (such as Iran, China and certain European Eastern Bloc countries who may use NSSAPC to advance their own industries). With respect to our pending patent applications, we may not be successful in securing patents for these claims, and our competitors may already have applied for patents that, once issued, will prevail over our patent rights or otherwise limit our ability to sell our products.

While we take steps to provide for confidentiality obligations of employees and third parties with whom we do business (including customers, suppliers and strategic partners), there is a risk that such parties will breach such obligations and jeopardize our intellectual property rights. Many customers have outsourced the administration and management of their data warehouses to third parties, including some of our competitors, who then have access to our confidential information. Although we have agreements in place to mitigate this risk, there can be no assurance that such protections will be sufficient. In addition, our ability to capture and re-use field-based developed intellectual property is important to future business opportunities and margins.

We are actively engaged in efforts to protect the value of our intellectual property and to prevent others from infringing our intellectual property rights. However, due to the complex and technical nature of such efforts and the potentially high stakes involved, such enforcement activity can be expensive and time consuming, and there can be no assurance that we will be successful in these efforts.

## **Table of Contents**

***Research and Development*** *We make significant investments in research and development and cannot assure that these investments will be profitable.*

As part of our business strategy, we must continue to dedicate a significant amount of resources to our research and development efforts in order to maintain our competitive position. However, we may not expect to receive significant revenues from these investments for several years, if at all. Research and development expenses represent a significant portion of our discretionary fixed costs. We believe these new technologies could significantly improve our products and services over the long-term. However, if we have invested too much in these or other technologies, our results of operations could be adversely affected. In addition, as we replace our existing assets with new, higher cost assets, we expect that our depreciation expense will increase, which will contribute to our high level of fixed costs and reduce our earnings.

***Intellectual Property Infringement Claims by Third Parties*** *Claims by others that we infringe their intellectual property rights could harm our business and financial condition.*

We have seen a trend towards aggressive enforcement of intellectual property rights as the functionality of products in our industry increasingly overlaps and the volume of issued software patents continues to grow. As a result, there is a risk that we could be subject to infringement claims which, regardless of their validity, could:

Be expensive, time consuming and divert management attention away from normal business operations;

Require us to pay monetary damages or enter into non-standard royalty and licensing agreements;

Require us to modify our product sales and development plans; or

Require us to satisfy indemnification obligations to our customers.

Regardless of whether these claims have any merit, they can be burdensome to defend or settle and can harm our business and reputation.

***Open Source Software*** *The growing market acceptance of open source software presents benefits and challenges for our industry.*

We have developed a version of the Teradata database software to operate on the LINUX open source platform and have incorporated other types of open source software into our products, allowing us to enhance certain solutions without incurring substantial additional research and development costs and expand our solution offerings. Open source software is made widely available by its authors and is licensed for a nominal fee or, in some cases, at no charge. For example, LINUX is a free UNIX-type operating system, and the source code for LINUX is freely available. While we believe our contractual obligations are limited with respect to such software, no assurances can be given that unanticipated problems arising from our use of open source software will not arise in the future.

Open source licenses typically mandate that proprietary software, when combined in specific ways with open source software, become subject to the open source license. We take steps to ensure that our proprietary software is not combined with, or does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted the open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to uncertainty.

Additionally, there are certain open source software applications in the data analytics market that are being offered free of charge or for a nominal fee. Open source software offerings available in the marketplace can place additional competitive pressure on Teradata, even though we believe our offerings are unique and add value through software enhancements and services, and we may have difficulty in marketing our products to certain customers against available open source options.

## Table of Contents

*International Operations* *Generating substantial revenues from our multinational operations helps us to meet our strategic goals, but poses a number of risks.*

In 2012, the percentage of our total revenues from outside of the United States was 45%. We believe that our geographic diversity may help to mitigate some risks associated with geographic concentrations of operations (*e.g.*, adverse changes in foreign currency exchange rates and deteriorating economic environments or business disruptions due to economic or political uncertainties). However, our ability to sell our solutions internationally is subject to the following risks, among others:

General economic and political conditions in each country that could adversely affect demand for our solutions in these markets;

Currency exchange rate fluctuations that could result in lower demand for our products as well as generate currency translation losses;

The impact of civil and political unrest (relating to war, terrorist activity or other turmoil) on the economy or markets in general, or on our ability, or that of our suppliers, to meet commitments, which may occur in other countries such as Pakistan and Egypt, where we have significant operations;

Changes to and compliance with a variety of local laws and regulations that may increase our cost of doing business in these markets or otherwise prevent us from effectively competing in these markets;

Cultural and management challenges with managing new and growing consulting services and engineering functions overseas in such countries as India, China, Russia, Egypt and Pakistan;

Difficulties in staffing and managing our foreign offices and the increased travel, infrastructure and legal and compliance costs associated with multiple international locations;

Longer payment cycles for sales in foreign countries and difficulties in enforcing contracts and collecting accounts receivable;

Tariffs or other restrictions on foreign trade or investment;

Costs and delays associated with developing products in multiple languages;

The impact of catastrophic weather or other negative effects of climate change on our facilities, operations and/or workforce, as well as those of our customers, supply chains and distribution channels, throughout the world, particularly those in coastal areas; and

Changing competitive requirements and deliverables in developing and emerging markets.

Our products are subject to U.S. export controls and, when exported from the United States, or re-exported to another country, must be authorized under applicable U.S. export regulations. Changes in our products or changes in export regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export of our products to certain countries or customers altogether. Any change in export regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by these regulations could result in decreased use of our products by, or in our decreased ability to export or sell our

products to, existing or potential customers with international operations.

***Foreign Currency Our revenue and operating income are subject to variability due to the effects of foreign currency fluctuations against the U.S. dollar***

We have exposure to more than 30 functional currencies. The primary currencies to which we are exposed include the euro, British pound, Japanese yen, the Australian dollar, the Canadian dollar and other Asian and South American currencies. A significant portion of our revenue and operating income is generated outside the United States, and therefore our financial results may fluctuate due to the effects of such foreign currency fluctuations, which are difficult to predict. For example, in the event that one or more European countries were to replace the euro with another currency, Teradata sales into such countries, or into Europe generally, would likely be adversely affected until stable exchange rates are established. In addition, currency variations can affect margins on sales of our products in countries outside of the United States and margins on sales of products that include components obtained from suppliers located outside of the United States.

## **Table of Contents**

### ***Dependence on Key Employees*** *We depend on key employees and face competition in hiring and retaining qualified employees.*

Our employees are critical to our success. Our future success depends on our ability to attract and retain the services of senior management and key personnel in all functional areas of our company, including engineering and development, marketing and sales professionals, and consultants. Competition for highly skilled personnel in the IT industry is intense. No assurance can be made that key personnel will remain with us, and it may be difficult and costly to replace such employees. Our failure to hire, retain and replace our key personnel could have a material adverse impact on our business operations.

### ***Internal Controls*** *Inadequate internal control over financial reporting and accounting practices could lead to errors, which could adversely impact our ability to assure timely and accurate financial reporting.*

Internal control over financial reporting, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control objectives will be met. These inherent limitations include system errors, the potential for human error and unauthorized actions of employees or contractors, inadequacy of controls, temporary lapses in controls due to shortfalls in transition planning and oversight or resources, and other factors. Consequently, such controls may not prevent or detect misstatements in our reported financial results as required under SEC and New York Stock Exchange ( NYSE ) rules, which could increase our operating costs or impair our ability to operate our business. Controls may also become inadequate due to changes in circumstances, and it is necessary to replace, upgrade or modify our internal information systems from time to time. In addition, unforeseen risks may arise in connection with financial reporting systems due to inefficient business processes or business process reengineering projects.

If management is not successful in maintaining a strong internal control environment, material weaknesses could occur, causing investors to lose confidence in our reported financial information. This could lead to a decline in our stock price, limit our ability to access the capital markets in the future, and require us to incur additional costs to improve our internal control systems and procedures.

### ***Legal Contingencies and Regulatory Matters*** *Like other technology companies, we face uncertainties with regard to lawsuits, regulations and other related matters.*

In the normal course of business, we are subject to proceedings, lawsuits, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, intellectual property, and other regulatory compliance and general matters. See Note 8 Commitments and Contingencies in Notes to Consolidated Financial Statements elsewhere in this Annual Report. Because such matters are subject to many uncertainties, their outcomes are not predictable. While we believe that amounts provided in our consolidated financial statements are currently adequate in light of the probable and estimable liabilities, there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results.

In addition, we are subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting which are rapidly changing and subject to many possible changes in the future. From time to time, we may conduct internal investigations in connection with our efforts to ensure compliance with such laws and regulations, the costs or results of which could impact our financial results. In addition, we may be subject to unexpected costs in connection with new public disclosure or other regulatory requirements that are issued from time to time, such as those recently adopted by the SEC regarding the use of conflict minerals. Laws and regulations impacting our customers, such as those relating to privacy, data protection and digital marketing, could also impact our future business.

In addition, our facilities and operations, including former facilities and former operations for which we may have liabilities, are subject to a wide range of environmental protection laws. There have not been any known actual material effects that compliance with environmental provisions has had upon the capital expenditures, earnings or

## **Table of Contents**

competitive position of the Company or its subsidiaries, and there are no material estimated capital expenditures for environmental remediation or liabilities planned. However, we do expect to incur some costs in connection with compliance with these matters and given the uncertainties inherent in such activities, there can be no assurances that the costs required to comply with applicable environmental laws will not adversely impact future operating results.

There is an increase in enforcement activities and focus by the SEC and other governmental authorities on the Foreign Corrupt Practices Act (FCPA) as well as the U.K. Bribery Act of 2010 (the Bribery Act). Given the breadth and scope of our international operations, we may not be able to detect improper or unlawful conduct by our international partners and employees, despite our high ethics, governance and compliance standards, which could put the Company at risk regarding possible violations of laws, including the FCPA or the Bribery Act.

Management time and resources are spent to understand and comply with changing laws, regulations and standards relating to such matters as corporate governance, accounting principles, public disclosure (including the Sarbanes-Oxley Act of 2002), SEC regulations, Basel III and the rules of the NYSE where our shares are listed. Although we do not believe that recent regulatory and legal initiatives will result in significant changes to our internal practices or our operations, rapid changes in accounting standards, and federal securities laws and regulations, among others, may substantially increase costs to our organization and could have an impact on our future operating results.

### **Item 1B. UNRESOLVED STAFF COMMENTS**

None.

### **Item 2. PROPERTIES**

As of December 31, 2012, Teradata operated approximately 110 facilities consisting of approximately 1.6 million square feet throughout the world. Approximately 30% of this square footage is owned and 70% is leased. Within the total facility portfolio, Teradata operates 13 research and development facilities totaling approximately 600 thousand square feet, approximately 70% of which is owned. The remaining approximately 1.0 million square feet of space includes office, repair, warehouse and other miscellaneous sites, and is 100% leased. Teradata maintains facilities in approximately 42 countries. Teradata believes its facilities are suitable and adequate to meet its current needs. Teradata's corporate headquarters is located in Dayton, Ohio.

### **Item 3. LEGAL PROCEEDINGS**

Information regarding legal proceedings is included in Item 8 of Part II of this Annual Report as part of Note 8 Commitments and Contingencies in Notes to Consolidated Financial Statements, and is incorporated herein by reference.

### **Item 4. MINE SAFETY DISCLOSURES**

N/A.

**Table of Contents****PART II****Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Teradata common stock trades on the New York Stock Exchange under the symbol TDC. There were approximately 79,000 registered holders of Teradata common stock as of February 7, 2013. The following table presents the high and low closing per share prices of Teradata common stock traded on the New York Stock Exchange during the calendar quarter indicated.

	Common Stock Closing Market Price	
	High	Low
<b>2012</b>		
Fourth quarter	\$ 76.06	\$ 57.94
Third quarter	\$ 80.62	\$ 62.79
Second quarter	\$ 77.14	\$ 64.64
First quarter	\$ 69.38	\$ 47.37
<b>2011</b>		
Fourth quarter	\$ 62.18	\$ 47.70
Third quarter	\$ 62.33	\$ 43.35
Second quarter	\$ 60.20	\$ 49.49
First quarter	\$ 51.14	\$ 42.00

Teradata has not paid cash dividends and does not anticipate the payment of cash dividends to shareholders of Teradata common stock in the immediate future. The declaration of dividends in the future would be subject to the discretion of Teradata's Board of Directors.

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides information as of December 31, 2012, regarding compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

**Equity Compensation Plan Information**

Plan category	Number of securities	Weighted-average	Number of securities remaining
	to be issued upon		exercise price of
	exercise of	exercise price of	available for future
	outstanding options,	outstanding options,	issuance
	warrants and	warrants and	under equity
	rights	rights	compensation
	(a) <sup>(1)</sup>	(b)	plans (excluding
			securities
			reflected in column (a)
			(c) <sup>(2)</sup>
Equity compensation plans approved by security holders	6,638,401	\$ 30.69	16,287,112
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>6,638,401</b>	<b>\$ 30.69</b>	<b>16,287,112</b>



## Edgar Filing: TERADATA CORP /DE/ - Form 10-K

- <sup>(1)</sup> Column (a) represents the number of shares of our common stock that may be issued in connection with the exercise of outstanding stock options granted under the Teradata Corporation 2007 Stock Incentive Plan and Teradata 2012 Stock Incentive Plan.
- <sup>(2)</sup> Column (c) represents the number of shares of our common stock available for issuance under the Teradata 2012 Stock Incentive Plan and the Teradata Corporation Employee Stock Purchase Plan, other than shares available for issuance in connection with the exercise of outstanding stock options.

**Table of Contents**

The following graph compares the relative performance of Teradata stock, the Standard & Poor's 500 Stock Index and the Standard & Poor's Information Technology Index. This graph covers the five-year period from December 31, 2007 to December 31, 2012.

Company/Index	31 Dec 2007	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012
Teradata Corporation	\$ 100	\$ 54	\$ 115	\$ 150	\$ 177	\$ 226
S&P 500 Index	\$ 100	\$ 63	\$ 80	\$ 92	\$ 94	\$ 109
S&P Information Technology Index	\$ 100	\$ 57	\$ 92	\$ 101	\$ 104	\$ 119

<sup>(1)</sup> In each case, assumes a \$100 investment on December 31, 2007, and reinvestment of all dividends, if any.

**Purchases of Equity Securities by the Issuer and Affiliated Purchases**

For the year ended December 31, 2012, the Company executed purchases for approximately 4.5 million shares of its common stock at an average price per share of \$62.53 under the two share repurchase programs authorized by our Board of Directors in 2008. The first program (the dilution offset program) authorizes the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan (ESPP) to offset dilution from shares issued pursuant to these plans. On February 6, 2012, the board approved a new \$300 million share repurchase authorization to replace the prior \$300 million authorization under the Company's second share repurchase program (the general share repurchase program), that was to expire on February 10, 2012. On December 10, 2012, Teradata announced that board approved an additional \$300 million increase in the share repurchase authorization under the Company's general share repurchase program. As of December 31, 2012, the Company had \$376 million of authorization remaining under the general share repurchase program to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis.

In addition to those share repurchase programs, Section 16 officers occasionally transfer vested shares of restricted stock to the Company at the current market price to cover their withholding taxes. For the year ended December 31, 2012, the total of these purchases was 36,170 shares at an average price of \$62.16 per share.

**Table of Contents**

The following table provides information relating to the Company's repurchase of common stock for the year ended December 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Dilution Offset Program	Total Number of Shares Purchased as Part of Publicly Announced General Share Repurchase Program	Maximum Dollar Value that May Yet Be Purchased Under the Dilution Offset Program	Maximum Dollar Value that May Yet Be Purchased Under the General Share Repurchase Program
<b>First quarter total</b>		N/A			\$ 27,765,950	\$ 300,000,000
<b>Second quarter total</b>	545,233	\$ 67.37	545,233		\$ 2,209,826	\$ 300,000,000
<b>Third quarter total</b>	42,909	\$ 63.99	35,000	7,909	\$ 12,374,528	\$ 299,487,588
October 2012	20,000	\$ 68.14	20,000		\$ 12,069,933	\$ 299,487,588
November 2012	3,207,454	\$ 62.48	176,100	3,031,354	\$ 2,421,736	\$ 110,170,463
December 2012	675,638	\$ 58.56	94,267	581,371	\$ 830,402	\$ 376,301,977
<b>Fourth quarter total</b>	<b>3,903,092</b>	<b>\$ 61.83</b>	<b>290,367</b>	<b>3,612,725</b>	<b>\$ 830,402</b>	<b>\$ 376,301,977</b>
<b>2012 Full year total</b>	<b>4,491,234</b>	<b>\$ 62.53</b>	<b>870,600</b>	<b>3,620,634</b>	<b>\$ 830,402</b>	<b>\$ 376,301,977</b>

**Item 6. SELECTED FINANCIAL DATA**

In millions, except per share and employee amounts	For the Year Ended December 31				
	2012 <sup>(1)</sup>	2011 <sup>(2)</sup>	2010	2009	2008
Revenue	\$ 2,665	\$ 2,362	\$ 1,936	\$ 1,709	\$ 1,762
Income from operations	\$ 580	\$ 456	\$ 415	\$ 338	\$ 333
Other (expense) income	\$ (2)	\$ 25	\$ (1)	\$ (4)	\$ 5
Income tax expense	\$ 159	\$ 128	\$ 113	\$ 80	\$ 88
Net income	\$ 419	\$ 353	\$ 301	\$ 254	\$ 250
Net income per common share					
Basic	\$ 2.49	\$ 2.10	\$ 1.80	\$ 1.48	\$ 1.40
Diluted	\$ 2.44	\$ 2.05	\$ 1.77	\$ 1.46	\$ 1.39
	At December 31				
	2012	2011	2010	2009	2008
Total assets	\$ 3,066	\$ 2,616	\$ 1,883	\$ 1,569	\$ 1,430
Debt	\$ 289	\$ 300	\$	\$	\$
Total stockholders' equity	\$ 1,779	\$ 1,494	\$ 1,189	\$ 910	\$ 777
Cash dividends	\$	\$	\$	\$	\$
Number of employees	10,200	8,600	7,400	6,600	6,400

<sup>(1)</sup> Includes \$17 million for acquisition-related transaction, integration and reorganization costs and expenses, and \$36 million for amortization of acquired intangible assets, with a cumulative offsetting tax impact of \$17 million.

- <sup>(2)</sup> Includes \$25 million for acquisition-related transaction, integration and reorganization costs and expenses, and \$24 million for amortization of acquired intangible assets, offset by a \$28 million gain on equity investments due to purchase and sale transactions, and a cumulative offsetting tax impact of \$8 million.

**Table of Contents****Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ( MD&A )**

*You should read the following discussion in conjunction with the consolidated financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K ( Annual Report ). This Annual Report 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 Annual Report. See Risk Factors and Forward-looking Statements.*

**BUSINESS OVERVIEW**

Teradata provides analytic data solutions, including integrated data warehousing, big data analytics and business applications for customers worldwide. Our data warehousing solutions combine software, hardware and related business consulting and support services. Our analytic technologies then transform that data into actionable information that help customers make the best decisions possible. These solutions can also include third-party products and services from other leading technology and service partners.

Our solutions enable customers to integrate detailed enterprise-wide data such as customer, financial and operational data and provide the analytical capabilities to transform that data into useful information, available when and where they need it to make better and faster decisions. Our analytic data solutions provide a high level of performance, scalability, availability and manageability for strategic and operational requirements. Our IT consultants combine a proven methodology, deep industry expertise and years of hands-on experience to help clients quickly capture business value while minimizing risk. Our customer services professionals provide a single source of support services to allow customers to maximize use and fully leverage the value of their investments in analytic data solutions.

Through active enterprise intelligence, Teradata is extending the use of traditional data warehousing by integrating advanced analytics into enterprise business processes, allowing companies to combine the analysis of current and historical data so operations personnel can make decisions at the point of contact or service and take action as events occur.

Additionally, Teradata offers a family of data warehouse offerings, providing customers with the ability to use Teradata for point solutions or data marts, in addition to our core integrated data warehouse technology. Teradata offers analytic data solutions to many major industries, which include financial services (including banking and insurance), media and communications (including telecommunications, e-business, media and entertainment), retail, manufacturing, healthcare, government, travel and transportation. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors, value-added resellers and distributors. We deliver our solutions to customers on a global basis, and organize our operations in the following three regions which are also our reportable segments as of December 31, 2012: North America and Latin America ( Americas ), Europe, the Middle East and Africa ( EMEA ), and Asia Pacific and Japan ( APJ ).

In 2011, Teradata completed its acquisitions of Aprimo, Inc. ( Aprimo ), a global provider of integrated marketing software solutions, as well as Aster Data Systems, Inc. ( Aster Data ), a market leader in advanced analytics and the management of diverse, multi-structured data. Both Aprimo and Aster Data have been integrated into Teradata's operations. With Aprimo, Teradata has expanded its offering of business analytics with integrated marketing solutions that enable customers to improve marketing performance with data-driven insights. Through the acquisition of Aster Data, Teradata has expanded its technologies that enable businesses to perform better analytics on large sets of multi-structured data, also known as big data analytics. In 2012, Teradata

## **Table of Contents**

completed the acquisition of Munich-based eCircle Beteiligungs GmbH ( eCircle ), a leading full service digital marketing provider in Europe. The eCircle acquisition is also being integrated into Teradata's operations, and further expands our integrated marketing management solutions to include valuable digital marketing applications.

## **2012 FINANCIAL OVERVIEW**

As more fully discussed in later sections of this MD&A, the following are the financial highlights for 2012:

Revenue increased 13% in 2012 from 2011, led by growth in the EMEA and Americas regions.

Gross margin was 55.9% in 2012, up from 54.7% in 2011, largely driven by improved product margins, as well as the impact of a greater proportion of product revenue (as compared to services revenue).

Operating income was \$580 million in 2012, up from \$456 million in 2011. Operating income in 2012 benefited from greater revenue volume and improved product margins, offset in part by higher Selling, General and Administrative ( SG&A ) expenses.

Net income of \$419 million in 2012 increased from \$353 million in 2011. Net income per common (diluted) share was \$2.44 in 2012 compared to \$2.05 in 2011. Net income for 2012 includes approximately \$41 million in after-tax impacts of acquisition-related purchase accounting adjustments, transaction, integration and reorganization expenses, and amortization of acquired intangible assets, compared to \$24 million of such costs and expenses (net of a \$22 million gain on equity investments due to purchase and sale transactions), in 2011.

## **STRATEGY OVERVIEW**

Teradata is a leader in helping companies manage, integrate, and analyze growing data volumes and complexity, and transform it into actionable business insight for competitive advantage. Teradata's strategy focuses on three large and growing markets: data warehousing, big data analytics, and integrated marketing management including digital marketing applications. Additionally, we have four key initiatives underway to broaden our position in the market and take advantage of these market opportunities. These initiatives are to:

Invest to extend Teradata's core database technology and software application offerings, and expand our family of compatible data warehouse platforms and applications to address multiple market segments and solution offerings through internal development and targeted strategic acquisitions,

Differentiate Teradata technology and drive platform and solutions demand by delivering consulting services that enable customers to achieve business value through the use of best-in-class analytics,

Invest in partnerships to increase the number of solutions available on Teradata platforms, maximize customer value and increase our market coverage, and

Continue to seek opportunities to increase our market coverage through additional sales territories (hiring incremental sales account executives as well as technology and industry consultants).

Further discussion of our business strategy is included in the section entitled "Business" included in Item 1 of this Annual Report and incorporated herein by reference.

## **FUTURE TRENDS**

We believe that demand for our solutions will continue to increase due to the continued increase in data volumes and types of data, 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.

**Table of Contents**

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 2013, Teradata does not anticipate the impact from currency translation to have a significant impact on its reported revenue and operating income, based on currency rates as of February 7, 2013.

While there were signs of continued economic recovery during the first half of 2012, we clearly encountered a change in customers' confidence levels in the economy in the second half of the year. This economic uncertainty led to U.S. companies becoming more hesitant to commit to purchases, particularly for large capital investments in the second half of 2012. As we enter 2013, we see the macroeconomic challenges from the second half of 2012 continuing, especially with respect to large IT purchases in the United States. Even in a strong economic environment, the size, timing and contracted terms of large customer orders for our products and services can impact, both positively and negatively, our operating results.

While macroeconomic risk factors in the IT environment always exist, our long-term outlook remains positive. We did not experience significant changes in 2012 due to competitive and/or pricing trends for our data warehouse or appliance solutions, although there is always a risk that pricing pressure for our solutions could occur in the future. Additionally, as companies look to reduce ongoing operating expenses, customers may choose to go to lower maintenance service level agreements which could lead to revenue and margin pressure on our maintenance services business. We continue to be committed to new product development and achieving a responsive yield from our research and development spending and resources, which are intended to drive future demand. We also continue to evaluate opportunities to increase our market coverage and are committed to continuing to increase our number of sales territories, among other things, to drive future revenue growth. Given the length of sales cycles, for new customers in the data warehouse market, new sales account territories typically take more than two years, on average, to become fully productive.

**RESULTS FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**

In millions	2012	% of Revenue	2011	% of Revenue	2010	% of Revenue
Product revenue	\$ 1,297	48.7%	\$ 1,122	47.5%	\$ 933	48.2%
Service revenue	1,368	51.3%	1,240	52.5%	1,003	51.8%
<b>Total revenue</b>	<b>2,665</b>	<b>100%</b>	<b>2,362</b>	<b>100%</b>	<b>1,936</b>	<b>100%</b>
Gross margin						
Product gross margin	881	67.9%	741	66.0%	627	67.2%
Service gross margin	610	44.6%	552	44.5%	461	46.0%
<b>Total gross margin</b>	<b>1,491</b>	<b>55.9%</b>	<b>1,293</b>	<b>54.7%</b>	<b>1,088</b>	<b>56.2%</b>
Operating expenses						
Selling, general and administrative expenses	728	27.3%	663	28.1%	526	27.2%
Research and development expenses	183	6.9%	174	7.4%	147	7.6%
<b>Total operating expenses</b>	<b>911</b>	<b>34.2%</b>	<b>837</b>	<b>35.4%</b>	<b>673</b>	<b>34.8%</b>
<b>Operating income</b>	<b>\$ 580</b>	<b>21.8%</b>	<b>\$ 456</b>	<b>19.3%</b>	<b>\$ 415</b>	<b>21.4%</b>

**Revenue**

Teradata revenue increased 13% in 2012 from 2011. The revenue increase included a negative 2% impact from foreign currency fluctuations, and approximately 1% increase from acquisitions. Product revenue increased 16% in 2012 from 2011, led by growth in the Americas region. Service revenue increased 10% in 2012 from 2011, driven primarily by increases in consulting and installation-related ( consulting ) services revenue in the EMEA region, which included revenue from the eCircle acquisition. Overall, consulting revenue increased 12% in 2012 from 2011, and maintenance services revenue increased 9% during the same period.





---

**Table of Contents**

Teradata revenue increased 22% in 2011 from 2010. The revenue increase included a positive effect of 3% from foreign currency fluctuations, and 3% from acquisitions. Product revenue increased 20% in 2011 from 2010, led by improvements in the Americas and EMEA regions. Service revenue increased 24% in 2011 from 2010, driven primarily by increases in consulting services revenue in the Americas and EMEA regions. Overall, consulting revenue increased 30% in 2011 from 2010, while maintenance services revenue increased 17%.

**Gross Margin**

Gross margin was 55.9% in 2012, up from 54.7% in 2011, driven primarily by improved product margins in the Americas region, as well as the increased proportion of product revenue (as compared to services revenue). Product gross margin increased to 67.9% in 2012 from 66.0% in 2011. The improved product margins were driven primarily by improved product revenue mix, as well as \$13 million less in acquisition-related costs. These improvements were offset in part by \$4 million in additional amortization of capitalized software development costs. Services gross margin was roughly unchanged, at 44.6% in 2012 compared to 44.5% in 2011.

Gross margin was 54.7% in 2011, down from 56.2% in 2010, due to the impact of acquisition-related costs, as well as the increased proportion of consulting services revenue, which typically carries a lower margin rate. Product gross margin decreased to 66.0% in 2011 from 67.2% in 2010. The lower product margins were driven primarily by \$15 million in acquisition-related purchase accounting adjustments for deferred revenue of Aprimo and Aster Data at the time of their respective acquisitions for which there was no further performance requirement, \$14 million in additional amortization costs of acquired intangible assets, and \$10 million in additional amortization of capitalized software development costs. Services gross margin decreased to 44.5% in 2011 from 46.0% in 2010. The lower service margins were driven primarily by a greater proportion of consulting revenue, as compared to maintenance revenue, as well as lower consulting services margins, primarily due to expanding our headcount in response to growing and driving new business opportunities. Incremental headcount can initially have a negative impact on margins, particularly while the employees are being trained and are not yet fully productive. Service gross margins in 2011 also included \$6 million in acquisition-related purchase accounting adjustments, transaction, integration and reorganization costs.

**Operating Expenses**

Total operating expenses, including SG&A and Research and Development ( R&D ) expenses, were \$911 million in 2012 compared to \$837 million in 2011. The \$65 million increase in SG&A expenses was driven by higher selling expense, due primarily to our strategic initiative to add sales headcount, in addition to the impact of additional headcount and infrastructure brought on by the acquisition of eCircle. The \$9 million increase in R&D expenses was primarily due to higher engineering headcount expenses, including new engineering headcount from the acquisition of eCircle. These increases were offset in part by \$12 million more in capitalization of software development cost as compared to the prior-year period, as well as lower incentive-based compensation expenses.

Total operating expenses were \$837 million in 2011 compared to \$673 million in 2010. The \$137 million increase in SG&A expenses was driven by higher selling expense, due primarily to our strategic initiative to add sales headcount, as well as increased revenue-driven costs for sales commissions. SG&A expenses were also impacted by transaction, integration and reorganization expenses, as well as amortization of intangible assets associated with the acquisitions of Aprimo and Aster Data, which totaled \$22 million in 2011, in addition to the impact of additional headcount and infrastructure brought on by the Aprimo and Aster Data acquisitions. The \$27 million increase in R&D expenses was primarily due to higher engineering headcount expenses, including new engineering headcount from the Aprimo and Aster Data acquisitions, as well as \$9 million in transaction and integration costs and amortization of acquired intangible assets associated with the Aprimo and Aster Data acquisitions. These increases were offset in part by \$19 million more in capitalization of software development cost as compared to the prior-year period.

## **Table of Contents**

### **Other Income (Expense)**

Other income and expense was \$2 million of net other expense in 2012, compared to \$25 million of net other income in 2011. The net other income in 2011 resulted primarily from \$28 million in gains on equity investments. On May 24, 2011, the Company completed the sale of an equity investment in Pliant Technology, Inc. The Company received proceeds of \$30 million and recognized a net gain of \$17 million in respect of the transaction. Additionally, as part of the required accounting for the acquisition of Aster Data on April 5, 2011, Teradata's existing 11.2% equity investment in Aster Data was valued at \$36 million, triggering the recognition of an \$11 million gain.

Other income and expense was \$1 million of net other expense in 2010.

### **Income Taxes**

The effective income tax rate was 27.5%, 26.6% and 27.3% for the years ended December 31, 2012, 2011 and 2010, respectively. The tax rate for 2012 included no net material discrete tax items. The effective tax rate for 2011 was impacted by a \$4 million discrete tax benefit related to the book gain recorded on the Company's previous equity investment in Aster Data, which was reflected as a permanent non-taxable item in the second quarter of 2011. The effective tax rate for the year ended December 31, 2010 included a \$5 million tax benefit associated with the recognition of certain foreign net operating loss carryforwards resulting from an audit settlement in the first quarter of 2010.

We currently estimate our full-year effective tax rate for 2013 to be approximately 26%. This estimate takes into consideration, among other things, the forecasted earnings mix by jurisdiction for 2013, and includes the income tax benefit related to the 2012 U.S. Research & Development Tax Credit, which was retroactively reinstated by the Americas Taxpayer Relief Act of 2012, upon its enactment in January of 2013. The tax benefit associated with the 2012 U.S. R&D Credit will be recognized by the Company in the first quarter of 2013 as a discrete item for a change in tax law; the Company estimates the impact of this subsequent event to be approximately \$4 million of income tax benefit. The provision for income taxes is based on the pre-tax earnings mix by jurisdiction of Teradata and its subsidiaries under the Company's current structure. For additional information, see Note 4 Income Taxes in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

### **Revenue and Gross Margin by Operating Segment**

As described in Note 11 Segment, Other Supplemental Information and Concentrations in Notes to Consolidated Financial Statements, Teradata manages its business in three geographic regions, which are also the Company's operating segments as of December 31, 2012: (1) the Americas region; (2) the EMEA region; and (3) the APJ region. Teradata believes this format is useful to investors because it allows analysis and comparability of operating trends by operating segment. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess our financial performance. The discussion of our segment results describes the changes in results as compared to the prior-year period.

Effective January 1, 2013, Teradata implemented an organizational change whereby the EMEA and APJ regions are being combined into a new International region. This larger International region will have greater critical mass and leverage of resources for deployment of the Company's integrated marketing management, big data analytics, and data warehouse solutions, as well as possess more knowledge and depth for our numerous consulting and support services offers.

**Table of Contents**

The following table presents revenue and operating performance by segment for the years ended December 31:

In millions	2012	% of Revenue	2011	% of Revenue	2010	% of Revenue
<b>Revenue</b>						
Americas	\$ 1,619	61%	\$ 1,436	61%	\$ 1,166	60%
EMEA	636	24%	548	23%	442	23%
APJ	410	15%	378	16%	328	17%
<b>Total revenue</b>	<b>2,665</b>	<b>100%</b>	<b>2,362</b>	<b>100%</b>	<b>1,936</b>	<b>100%</b>
<b>Gross margin</b>						
Americas	967	59.7%	837	58.3%	702	60.2%
EMEA	331	52.0%	281	51.3%	232	52.5%
APJ	193	47.1%	175	46.3%	154	47.0%
<b>Total gross margin</b>	<b>\$ 1,491</b>	<b>55.9%</b>	<b>\$ 1,293</b>	<b>54.7%</b>	<b>\$ 1,088</b>	<b>56.2%</b>

**Americas** Revenue increased 13% in 2012 from 2011, led by a 17% increase in product revenue. The revenue increase was not significantly impacted by foreign currency fluctuations. Gross margin increased to 59.7% in 2012, from 58.3% in 2011, driven primarily by improved product margins and the greater proportion of product revenue (versus services revenue), as compared to the prior-year period.

Revenue increased 23% in 2011 from 2010, led by a 33% increase in consulting services revenue. The revenue increase was not significantly impacted by foreign currency fluctuations. Gross margin decreased to 58.3% in 2011, from 60.2% in 2010, driven primarily by lower product margins which were impacted by acquisition-related purchase accounting adjustments, additional amortization costs of acquired intangible assets from Aprimo and Aster Data, and additional amortization of capitalized internal software development costs, as well as by the greater proportion of consulting services revenue (versus product revenue), as compared to the prior-year period.

**EMEA** Revenue increased 16% in 2012 from 2011, led by a 26% increase in consulting services revenue. The increase in consulting revenue was largely driven by revenue from the acquisition of eCircle, which was completed in 2012. The revenue increase included a negative 7% impact from foreign currency fluctuations. Gross margin increased to 52.0% in 2012, from 51.3% in 2011, driven by improvements in both product and services margins, offset in part by a greater proportion of consulting services revenue (compared to product revenue), as compared to the prior-year period.

Revenue increased 24% in 2011 from 2010, led by a 32% increase in consulting services revenue. The revenue increase included 6% of benefit from foreign currency fluctuations. Gross margin decreased to 51.3% in 2011, from 52.5% in 2010, driven primarily by the greater proportion of consulting services revenue (compared to product revenue), as compared to the prior-year period.

**APJ** Revenue increased 8% in 2012 from 2011, led by a 13% increase in product revenue. The revenue increase included a negative 1% impact from foreign currency fluctuations. Gross margin increased to 47.1% in 2012, from 46.3% in 2011. The gross margin increase was driven by improvements in both product and services margins.

Revenue increased 15% in 2011 from 2010, led by a 19% increase in consulting services revenue. The revenue increase included 7% of benefit from foreign currency fluctuations. Gross margin decreased to 46.3% in 2011, from 47.0% in 2010. The gross margin decline was driven primarily by lower product margins, which were impacted by higher amortization costs from acquired intangible assets and capitalized internal software development costs, as well as by the greater proportion of consulting services revenue, as compared to 2010.

**Table of Contents****FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Teradata ended 2012 with \$729 million in cash and cash equivalents, a \$43 million decrease from the December 31, 2011 balance of cash and cash equivalents, after using approximately \$277 million for repurchases of Company common stock, and approximately \$274 for acquisitions and investment activities which were completed during the year. Cash provided by operating activities increased by \$62 million to \$575 million in 2012. The increase in cash provided by operating activities was primarily due to increased net income (net of non-cash items such as depreciation and amortization, stock-based compensation expense and deferred income taxes) and a larger increase in payables and accrued expenses, which was partially offset by a larger increase in receivables, as compared to 2011.

Teradata's management uses a non-GAAP measure called free cash flow, which is not a measure defined under accounting principles generally accepted in the United States of America (GAAP). We define free cash flow as net cash provided by operating activities less capital expenditures for property and equipment, and additions to capitalized software, as one measure of assessing the financial performance of the Company, and this may differ from the definition used by other companies. The components that are used to calculate free cash flow are GAAP measures taken directly from the Consolidated Statements of Cash Flows. We believe that free cash flow information is useful for investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash available after capital expenditures for, among other things, investments in the Company's existing businesses, strategic acquisitions and repurchase of Teradata common stock. Free cash flow does not represent the residual cash flow available for discretionary expenditures since there may be other non-discretionary expenditures that are not deducted from the measure. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP.

The table below shows net cash provided by operating activities and capital expenditures for the following periods:

<b>In millions</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net income	\$ 419	\$ 353	\$ 301
Net cash provided by operating activities	\$ 575	\$ 513	\$ 413
Less:			
Expenditures for property and equipment	(67)	(42)	(34)
Additions to capitalized software	(81)	(68)	(49)
Free cash flow	\$ 427	\$ 403	\$ 330

Financing activities and certain other investing activities are not included in our calculation of free cash flow. Other investing activities in 2012 primarily consisted of Teradata's acquisition of eCircle, as well as other smaller investment activities. Other investing activities in 2011 primarily consisted of Teradata's acquisitions of Aprimo and Aster Data as discussed further below. In 2010, these other investing activities primarily consisted of two immaterial business acquisitions and an immaterial cost-method equity investment. Teradata's short-term investments consisted of bank time deposits with original maturities between three months and one year.

Teradata's financing activities for the year ended December 31, 2012 primarily consisted of cash outflows for share repurchases. Teradata's financing activities for the year ended December 31, 2011 primarily consisted of \$300 million in proceeds from a new 5 year term loan, as discussed below, as well as repurchases of the Company's common stock. Teradata's financing activities for the years ended December 31, 2010 consisted primarily of cash outflows from our share repurchase activities. The Company purchased 4.5 million shares of its common stock at an average price per share of \$62.53 in 2012, 2.5 million shares at an average price per share of \$50.78 in 2011, and 2.9 million shares at an average price per share of \$29.57 in 2010. Share repurchases were made under two share repurchase programs initially authorized by our Board of Directors in 2008. The first program (the dilution offset program) authorizes the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan (ESPP) to offset dilution from shares issued pursuant to these plans. On February 6, 2012, the board approved a new \$300 million share repurchase

---

**Table of Contents**

authorization to replace the prior \$300 million authorization under the Company's second share repurchase program (the "general share repurchase program") that was to expire on February 10, 2012. On December 10, 2012, Teradata announced that the board approved an additional \$300 million increase in the share repurchase authorization under the Company's general share repurchase program. As of December 31, 2012, the Company had \$376 million of authorization remaining under the general share repurchase program to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis. Our share repurchase activity depends on factors such as our working capital needs, our cash requirements for capital investments, our stock price, and economic and market conditions. Proceeds from the ESPP and the exercise of stock options were \$55 million in 2012, \$25 million in 2011 and \$31 million in 2010. These proceeds are included in Other Financing Activities, Net in the Consolidated Statement of Cash Flows.

Our total in cash and cash equivalents held outside the United States in various foreign subsidiaries was \$497 million as of December 31, 2012 and \$594 million as of December 31, 2011. The remaining balance held in the United States was \$232 million as of December 31, 2012 and \$178 million as of December 31, 2011. Under current tax laws and regulations, if cash and cash equivalents and short-term investments held outside the United States are distributed to the United States in the form of dividends or otherwise, we may be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. As of December 31, 2012, we have not provided for the U.S. federal tax liability on approximately \$881 million of foreign earnings that are considered permanently reinvested outside of the United States.

On June 15, 2012, Teradata entered into a new five-year revolving credit agreement (the "Credit Facility"), under which the Company may borrow up to \$300 million. The Credit Facility replaces a similar revolving credit agreement in the same maximum principal amount entered into by Teradata in 2007, which was terminated as of June 15, 2012. The new Credit Facility ends on June 15, 2017, at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. The interest rate charged on borrowings pursuant to the Credit Facility can vary depending on the interest rate option the Company chooses to utilize and the Company's leverage ratio at the time of the borrowing. In the near term, Teradata would anticipate choosing a floating rate based on the London Interbank Offered Rate ("LIBOR"). If the facility had been fully drawn at December 31, 2012, the spread over the LIBOR would have been 98 basis points (for an interest rate of 1.49%, assuming a 6 month borrowing term) given Teradata's leverage ratio at that date. The Credit Facility is unsecured and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. As of December 31, 2012, the Company had no outstanding borrowings from the Credit Facility, and was in compliance with all covenants.

On January 21, 2011, Teradata completed the acquisition of Aprimo. The \$525 million purchase price of this all-cash acquisition was funded in part by using \$225 million of existing U.S. cash (offset by \$26 million of cash held on Aprimo's balance sheet at the time it was acquired), and in part by drawing down the full \$300 million borrowing capacity from the Company's prior credit facility. The \$300 million in credit facility borrowings were repaid in full during the second quarter of 2011.

On April 5, 2011, Teradata completed the acquisition of Aster Data. The aggregate consideration payable by Teradata for all of the outstanding equity interests of Aster Data was \$259 million. The aggregate consideration payable excluded the value of Teradata's pre-existing 11.2% equity investment in Aster Data. Also on April 5, 2011, Teradata entered into a new \$300 million five-year, unsecured term loan, and used a portion of these funds to finance the Aster Data acquisition. The outstanding principal amount of the term loan agreement bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate plus in each case a margin based on the leverage ratio of the Company. As of December 31, 2012, the term loan principal outstanding was \$289 million, and carried an interest rate of 1.25%.

Management believes current cash and short-term investment resources, Company cash flows from operations and its \$300 million Credit Facility will be sufficient to satisfy future working capital, research and development activities, capital expenditures, pension contributions, and other financing requirements for at least the next twelve months. The Company principally holds its cash, cash equivalents and short-term investments in bank deposits and highly-rated money market funds.

**Table of Contents**

The Company's ability to generate positive cash flows from operations is dependent on general economic conditions, competitive pressures, and other business and risk factors described elsewhere in this Annual Report. If the Company is unable to generate sufficient cash flows from operations, or otherwise to comply with the terms of the credit facility and term loan agreement, the Company may be required to seek additional financing alternatives.

**Contractual and Other Commercial Commitments.** In the normal course of business, we enter into various contractual obligations that impact, or could impact, our liquidity. The following table and discussion outlines our material obligations at December 31, 2012, with projected cash payments in the periods shown:

In millions	Total Amounts	2013	2014- 2015	2016- 2017	2018 and Thereafter
Principal payments on long-term debt	\$ 289	\$ 15	\$ 79	\$ 195	\$
Interest payments on long-term debt	10	3	6	1	
Lease obligations	84	21	34	17	12
Purchase obligations	12	5	7		
<b>Total debt, lease and purchase obligations</b>	<b>\$ 395</b>	<b>\$ 44</b>	<b>\$ 126</b>	<b>\$ 213</b>	<b>\$ 12</b>

Our principal payments on long-term debt represent the expected cash payments on our \$300 million term loan and do not include any fair value adjustments or discounts and premiums. Our interest payments on long-term debt represent the estimated cash interest payments based on the prevailing interest rate on our \$300 million term loan as of December 31, 2012. Our lease obligations in the above table include Company facilities in various domestic and international locations. Purchase obligations are committed purchase orders and other contractual commitments for goods and services, and include contractual payments in relation to service agreements with various vendors for ongoing telecommunications, and other services.

Additionally, the Company has \$11 million in total uncertain tax positions recorded as noncurrent liabilities on its balance sheet as of December 31, 2012. These items are not included in the table of obligations shown above. The settlement period for these income tax liabilities cannot be reasonably estimated as the timing and the amount of the payments, if any, will depend on possible future tax examinations with the various tax authorities; however, it is not expected that any payments will be due within the next 12 months.

We also have product warranties and guarantees to third parties, as well as postemployment and international pension obligations that may affect future cash flow. These items are not included in the table of obligations shown above. Product warranties and third-party guarantees are described in detail in Note 8 Commitments and Contingencies in Notes to Consolidated Financial Statements. Postemployment and pension obligations are described in detail in Note 6 Employee Benefit Plans in Notes to Consolidated Financial Statements.

**Off-Balance Sheet Arrangements.** We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPE), which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our financial statements are prepared in accordance with GAAP. In connection with the preparation of these financial statements, we are required to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the time. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgment. Our critical accounting policies are those that require assumptions to be made about matters that are highly uncertain. Different estimates could have a material impact on our financial results. Judgments and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions or circumstances. Our management periodically reviews these estimates and assumptions to ensure that our financial statements are presented fairly and are materially correct.

## **Table of Contents**

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require significant management judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. The significant accounting policies and estimates that we believe are the most critical to aid in fully understanding and evaluating our reported financial results are discussed in the paragraphs below. Teradata's senior management has reviewed these critical accounting policies and related disclosures with the Audit Committee of Teradata's Board of Directors. For additional information regarding our accounting policies and other disclosures required by GAAP, see Note 1 Description of Business, Basis of Presentation and Significant Accounting Policies in Notes to Consolidated Financial Statements.

### **Revenue Recognition**

Teradata's solution offerings typically include software, software subscriptions (unspecified when-and-if-available upgrades), hardware, maintenance support services, and other consulting, implementation and installation-related (consulting) services. Teradata records revenue when it is realized, or realizable, and earned. Teradata considers these requirements met when:

Persuasive evidence of an arrangement exists

The products or services have been delivered to the customer

The sales price is fixed or determinable and free of contingencies or significant uncertainties

Collectibility is reasonably assured

Teradata reports revenue net of any taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. The Company assesses whether fees are fixed or determinable at the time of sale. Standard payment terms may vary based on the country in which the agreement is executed, but are generally between 30 and 90 days. Payments that are due within six months are generally deemed to be fixed or determinable based on a successful collection history on such arrangements, and thereby satisfy the required criteria for revenue recognition. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors and distributors, and value-added resellers (collectively referred to as resellers). In assessing whether the sales price to a reseller is fixed or determinable, the Company considers, among other things, past business practices with the reseller, the reseller's operating history, payment terms, return rights and the financial wherewithal of the reseller. When Teradata determines that the contract fee to a reseller is not fixed or determinable, that transaction is deferred and recognized upon sell-through to the end customer.

The Company's deliverables often involve delivery or performance at different periods of time. Revenue for software is generally recognized upon delivery with the hardware once title and risk of loss have been transferred. Revenue for software subscriptions, which provide for unspecified upgrades or enhancements on a when-and-if-available basis, is recognized straight-line over the term of the subscription arrangement. Revenue for maintenance support services is also recognized on a straight-line basis over the term of the contract. Revenue for other consulting, implementation and installation services is recognized as services are provided. In certain instances, acceptance of the product or service is specified by the customer. In such cases, revenue is deferred until the acceptance criteria have been met. Delivery and acceptance generally occur in the same reporting period. The Company's arrangements generally do not include any customer negotiated provisions for cancellation, termination or refunds that would significantly impact recognized revenue.



## Table of Contents

In October 2009, the Financial Accounting Standards Board ( FASB ) amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product s essential functionality from the scope of the industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

Provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

Require an entity to allocate revenue in an arrangement using its best estimate of selling prices ( BESP ) for deliverables if a vendor does not have vendor-specific objective evidence of selling price ( VSOE ) or third-party evidence of selling price ( TPE ); and

Eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Teradata adopted these standards on a prospective basis as of the beginning of fiscal 2011 for new and materially modified arrangements originating on or after January 1, 2011.

The Company evaluates all deliverables in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value, and if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered items is considered probable and substantially in the control of Teradata. This new guidance does not generally change the units of accounting for the Company s revenue transactions. Most of the Company s products and services qualify as separate units of accounting and are recognized upon meeting the criteria as described above.

For multiple deliverable arrangements that contain non-software related deliverables, the Company allocates revenue to each deliverable based upon the relative selling price hierarchy and if software and software-related deliverables are also included in the arrangement, to those deliverables as a group based on the BESP for the group. The selling price for a deliverable is based on its VSOE if available, TPE if VSOE is not available, or BESP if neither VSOE nor TPE is available. The Company then recognizes revenue when the remaining revenue recognition criteria are met for each deliverable. For the software group or arrangements that contain only software and software-related deliverables, the revenue recognition criteria utilizing the residual method remains unchanged as further described below.

Teradata s data warehousing software and hardware products are sold and delivered together in the form of a Node of capacity as an integrated technology solution. Because both the database software and hardware platform are necessary to deliver the data warehouse s essential functionality, the database software and hardware (Node) are excluded from the software rules and considered a non-software related deliverable. Teradata software applications and related support are considered software-related deliverables. Additionally, the amount of revenue allocated to the delivered items utilizing the relative selling price method is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount).

VSOE is based upon the normal pricing and discounting practices for those products and services when sold separately. Teradata uses the stated renewal rate approach in establishing VSOE for maintenance and subscriptions (collectively referred to as postcontract customer support PCS ). Under this approach, the Company assesses whether the contractually stated renewal rates are substantive and consistent with the Company s normal pricing practices. Renewal rates greater than the lower level of our targeted pricing ranges are considered to be substantive and, therefore, meet the requirements to support VSOE. In instances where there is not a substantive renewal rate in the arrangement, the Company allocates revenue based upon BESP, using the minimum established pricing targets as supported by the renewal rates for similar customers utilizing the bell-curve method. Teradata also offers consulting and installation-related services to its customers, which are considered non-software deliverables if they relate to the nodes. These services are rarely considered essential to the functionality of the data warehouse solution deliverable and there is never software customization of the proprietary database software. VSOE for consulting services is based on the hourly rates for standalone consulting services projects by geographic region and are indicative of the Company s customary pricing practices. Pricing in each market is structured to obtain a reasonable margin based on input costs.

---

**Table of Contents**

In nearly all multiple-deliverable arrangements, the Company is unable to establish VSOE for all deliverables in the arrangement. This is due to infrequently selling each deliverable separately (such is the case with our nodes), not pricing products or services within a narrow range, or only having limited sales history. When VSOE cannot be established, attempts are made to establish TPE of the selling price for each deliverable. TPE is determined based on competitor prices for similar deliverables when sold separately. However, Teradata's offerings contain significant differentiation such that the comparable pricing of products with similar functionality cannot be obtained. This is because Teradata's products contain a significant amount of proprietary technology and its solutions offer substantially different features and functionality than other available products. As Teradata's products are significantly different from those of its competitors, the Company is unable to establish TPE for the vast majority of its products.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service was sold on a standalone basis. The Company determines BESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, product life cycles, competitive landscape, internal costs, gross margin objectives, purchase volumes and pricing practices.

The primary consideration in developing BESP for the Company's nodes is the bell-curve method based on historical transactions. The BESP analysis is at the geography level in order to align it with the way in which the Company goes to market and establishes pricing for its products. The Company has established discount ranges off of published list prices for different geographies based on strategy and maturity of Teradata's presence in the respective geography. There are distinctions in each geography and product group which support the use of geographies and markets for the determination of BESP. For example, the Company's U.S. market is relatively mature and most of the large transactions are captured in this market, whereas EMEA and APJ are less mature markets with generally smaller deal size. Additionally, the prices and margins for the Company's products vary by geography and by product class. BESP is analyzed on a quarterly basis using a rolling previous 4-quarters of data, which the Company believes best reflects most recent pricing practices in a changing marketplace.

The Company reviews VSOE, TPE and its determination of BESP on a periodic basis and updates it, when appropriate, to ensure that the practices employed reflect the Company's recent pricing experience. The Company maintains internal controls over the establishment and updates of these estimates, which includes review and approval by the Company's management. For the twelve months ended December 31, 2012 there was no material impact to revenue resulting from changes in VSOE, TPE or BESP, nor does the Company expect a material impact from such changes in the near term. Additionally, the adoption of the amended revenue recognition guidelines had no material net impact on the Company's results of operations for the twelve months ended December 31, 2011 (the year of adoption).

Revenue recognition for complex contractual arrangements requires a greater degree of judgment, including a review of specific contracts, past experience, creditworthiness of customers, international laws and other factors. We must also apply judgment in determining all deliverables of the arrangement, and in determining the relative selling price of each deliverable, considering the price charged for each product when sold on a standalone basis, and applicable renewal rates for services. Changes in judgments about these factors could impact the timing and amount of revenue recognized between periods.

*Term licenses, hosting arrangements and software-as-a-service ( SaaS ).* As a result of the Company's recent acquisitions, Teradata's application offerings were expanded to include term licenses, hosting arrangements and SaaS. Teradata previously offered its software applications primarily through a perpetual licensing arrangement. In cases where the contract requires the software to be hosted by the Company and provided via an on-demand arrangement, the software is considered a subscription, and revenue is recognized over the term of the agreement. If the license is of limited life and does not require the Company to host the software for the customer, the software is considered a term license. Teradata's term licenses are typically offered for application software and include a right-to-use license, PCS and consulting services. Our term licenses are not sold separately. The term of these

**Table of Contents**

arrangements varies between one and five years and may or may not include hosting services. In most arrangements the pricing is bundled to the customer. If the term license is hosted, the customer has the right to take possession of the software at any time during the hosting period. The customer's rights to the software in these circumstances are not dependent on additional software payments or significant penalties, and the customer can feasibly run the software on its own hardware or contract with another party to host the software. The Company has not established VSOE for PCS for its term licenses because the Company does not price or renew the PCS without the inclusion of the right to use the software application license over the term. As a result of not having VSOE for the PCS, new arrangements along with renewals or extensions are determined to be subscriptions and revenue is recognized over the term of the agreement. If hosting is a component of the customer subscription arrangement, revenue is recognized over the term as part of the subscription as described above.

*Accounting for arrangements prior to January 1, 2011.* For transactions entered into prior to January 1, 2011, the Company allocates revenue for multiple deliverable arrangements for which VSOE exists for undelivered elements but not for the delivered elements, using the residual method. Teradata does not typically have VSOE for its hardware and software products. Therefore, in a substantial majority of Teradata arrangements entered into prior to January 1, 2011, the residual method is used to allocate the arrangement consideration. Under the residual method, the VSOE of the undelivered elements is deferred and accounted for under the applicable revenue recognition guidance, and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue. For arrangements in which VSOE does not exist for each undelivered element, revenue for the entire arrangement is deferred and not recognized until delivery of all the elements without VSOE has occurred, unless the only undelivered element is PCS in which case the entire contract is recognized ratably over the PCS period.

*Contract accounting.* If an arrangement involves significant production, modification or customization of the application software or the undelivered services are essential to the functionality of the delivered software then the Company uses the percentage-of-completion or completed-contract method of accounting. The percentage-of-completion method is used when estimates of costs to complete and extent of progress toward completion are reasonably dependable. The Company typically uses labor hours or costs incurred to date as a percentage of the total estimated labor hours or costs to fulfill the contract as the most reliable and meaningful measure that is available for determining a project's progress toward completion. In circumstances when reasonable and reliable cost estimates for a project cannot be made, the completed-contract method is used whereas no revenue is recognized until the project is complete. When total cost estimates exceed revenues, the Company accrues the estimated losses immediately. For purposes of allocation of the arrangement consideration, any products for which the services are not essential are separated utilizing the relative selling price method discussed above. PCS is also separated and allocated based on VSOE and then recognized ratably over the term. The remaining contract value, which typically includes application software and essential services, is then recognized utilizing the percentage-of-completion or completed-contract methods discussed above.

**Capitalized Software**

Under GAAP, costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established. Technological feasibility is established when planning, designing and initial coding activities that are necessary to establish the product can be produced to meet its design specifications are complete. In the absence of a detailed program design, a working model is used to establish technological feasibility. Once technological feasibility is established, all development costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. The timing of when various research and development projects become technologically feasible or ready for release can cause fluctuation in the amount of research and development costs that are expensed or capitalized in any given period, thus impacting our reported profitability for that period.

**Income Taxes**

In accounting for income taxes, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are expected to be settled or realized.

---

**Table of Contents**

The Company's intention is to permanently reinvest its foreign earnings outside of the United States. As a result, the effective tax rates 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. These jurisdictions apply a broad range of statutory income tax rates; the U.S. statutory corporate income tax rate is currently 35% as compared to the overall statutory effective tax rate of our various foreign jurisdictions of approximately 12%. As of December 31, 2012, the Company has not provided for federal income taxes on earnings of approximately \$881 million from its foreign subsidiaries.

We account for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under GAAP, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We record any interest and/or penalties related to uncertain tax positions in the income tax expense line on our Consolidated Statements of Income. As of December 31, 2012, the Company has a total of \$31 million of unrecognized tax benefits, of which \$11 million is included in the Other liabilities section of the Company's consolidated balance sheet. The remaining balance of \$20 million of unrecognized tax benefits relates to certain tax attribute carryforwards which were both generated by the Company and acquired in various acquisitions, which are netted against the underlying deferred tax assets recorded on the balance sheet.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. We had \$9 million and \$0 million recorded in valuation allowances as of December 31, 2012 and 2011, respectively. Due to a change in tax law enacted in the state of California in the fourth quarter of 2012, the Company established a valuation allowance to partially offset its California Research & Development tax credit carryforward deferred tax asset, as the Company expects to continue to generate excess California R&D tax credits into the foreseeable future. However, the discrete tax impact of establishing the valuation allowance was fully offset with a favorable discrete tax impact resulting from a decrease in the Company's effective state tax rate resulting from the California change in tax law, resulting in no material net impact to the Company's overall effective tax rate for the fourth quarter and full year ended December 31, 2012.

**Stock-based Compensation**

We measure compensation cost for stock awards at fair value and recognize compensation expense over the service period for which awards are expected to vest. We utilize pricing models, including the Black-Scholes option pricing model and Monte Carlo simulation model, to estimate the fair value of stock-based compensation at the date of grant. These valuation models require the input of subjective assumptions, including expected volatility and expected term. Further, we estimate forfeitures for options granted which are not expected to vest. The estimation of stock awards that will ultimately vest requires judgment, and to the extent that actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period in which estimates are revised. We consider many factors when estimating expected forfeitures including types of awards and historical experience. Actual results and future changes in estimates may differ substantially from our current estimates.

In addition, we issue performance-based awards that vest only if specific performance conditions are satisfied. The number of shares that will be earned can vary based on actual performance. No shares will vest if the threshold objectives are not met. In the event the objectives are exceeded additional shares will vest up to a maximum payout. The cost of these awards is expensed over the performance period based upon management's estimate and analysis of the probability of meeting the performance criteria. Because the actual number of shares to be awarded is not known until the end of the performance period, the actual compensation expense related to these awards could differ from our current expectations.

---

**Table of Contents****Goodwill and Other Intangible Assets**

The company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The guidance on goodwill impairment requires the company to perform a two-step impairment test. In the first step, the company compares the fair value of each reporting unit to its carrying value. The company determines the fair value of its reporting units based on the income approach. Under the income approach, the company calculates the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the second step of the impairment test is performed in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the company records an impairment loss equal to the difference. Teradata reviewed six reporting units in its 2012 goodwill impairment assessment, as each geographic operating segment consisted of separate reporting units for data warehouse and application software activities.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, discount rates and future economic and market conditions. The company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur.

Additionally, the acquisition method of accounting for business combinations requires the company to estimate the fair value of assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Impairment testing for assets, other than goodwill, requires the allocation of cash flows to those assets or group of assets and if required, an estimate of fair value for the assets or group of assets. The company's estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur.

The annual goodwill impairment analysis, which the company performed during the fourth quarter of 2012, did not result in an impairment charge. There were also no impairment charges recognized in 2012 as a result of assessments of intangible assets acquired as a result of business combinations (or otherwise purchased from other companies). As of December 31, 2012, Teradata had \$932 million in goodwill and \$186 million in acquired intangible assets on its consolidated balance sheet.

**Pension and Postemployment Benefits**

We have pension and postemployment benefit costs and credits, which are developed from actuarial valuations. Actuarial assumptions attempt to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions we make about interest rates, expected investment return on plan assets, total and involuntary turnover rates, and rates of future compensation increases. In addition, our actuarial consultants also use subjective factors such as withdrawal rates and mortality rates to develop our valuations. We review and update these assumptions on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact to the measurement of our pension and postemployment benefit obligations, and to the amount of pension and postemployment benefits expense we have recorded or may record. For example, as of December 31, 2012, a one-half percent increase/decrease in the discount rate would change the projected benefit obligation of our pension plans by approximately \$3 million, and a one-half percent increase/decrease in our involuntary turnover assumption would change our postemployment benefit obligation by approximately \$12 million.

**Table of Contents**

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

A discussion of recently issued accounting pronouncements is described in Note 1 Description of Business, Basis of Presentation and Significant Accounting Policies in Notes to Consolidated Financial Statements elsewhere in this Annual Report, and we incorporate such discussion by reference.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company employs a foreign currency hedging strategy to limit potential losses in earnings or cash flows from adverse foreign currency exchange rate movements. Foreign currency exposures arise from transactions denominated in a currency other than the Company's functional currency and from foreign denominated revenue and profit translated into U.S. dollars. The primary currencies to which the Company is exposed include the euro, the British pound, the Japanese yen, the Australian dollar, the Canadian dollar and other Asian and South American currencies. Exposures are hedged with foreign currency forward contracts with maturity dates of twelve months or less. The potential loss in fair value at December 31, 2012, for such contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates is approximately \$5 million. This loss would be mitigated by corresponding gains on the underlying exposures. For additional information regarding the Company's foreign currency hedging strategy, see Note 7 Derivative Instruments and Hedging Activities in Notes to Consolidated Financial Statements elsewhere in this Annual Report.

**Table of Contents**

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**Management's Responsibility for Financial Statements**

We are responsible for the preparation, integrity and objectivity of our consolidated financial statements and other financial information presented in this Annual Report. The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and include certain amounts based on currently available information and our judgment of current conditions and circumstances.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, is engaged to perform audits of our consolidated financial statements and the effectiveness of the internal control over financial reporting. These audits are performed in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our independent registered public accounting firm was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the Board of Directors, and committees of the board.

The Audit Committee of the Board of Directors, consisting entirely of independent directors who are not employees of Teradata, monitors our accounting, reporting, and internal control structure. Our independent registered public accounting firm, internal auditors, and management have complete and free access to the Audit Committee, which periodically meets directly with each group to ensure that their respective duties are being properly discharged.

/s/ Michael F. Koehler  
Michael F. Koehler  
President and Chief Executive Officer

/s/ Stephen M. Scheppmann  
Stephen M. Scheppmann  
Executive Vice President and Chief Financial Officer

---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Teradata Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Teradata Corporation and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing in Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

February 28, 2013

Atlanta, Georgia



**Table of Contents****TERADATA CORPORATION****Consolidated Statements of Income**

In millions, except per share amounts

	<b>For the Year Ended December 31</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Revenue</b>			
Product revenue	\$ 1,297	\$ 1,122	\$ 933
Service revenue	1,368	1,240	1,003
<b>Total revenue</b>	<b>2,665</b>	<b>2,362</b>	<b>1,936</b>
<b>Costs and operating expenses</b>			
Cost of products	416	381	306
Cost of services	758	688	542
Selling, general and administrative expenses	728	663	526
Research and development expenses	183	174	147
<b>Total costs and operating expenses</b>	<b>2,085</b>	<b>1,906</b>	<b>1,521</b>
<b>Income from operations</b>	<b>580</b>	<b>456</b>	<b>415</b>
Other (expense) income, net	(2)	25	(1)
<b>Income before income taxes</b>	<b>578</b>	<b>481</b>	<b>414</b>
Income tax expense	159	128	113
<b>Net income</b>	<b>\$ 419</b>	<b>\$ 353</b>	<b>\$ 301</b>
<b>Net income per common share</b>			
Basic	\$ 2.49	\$ 2.10	\$ 1.80
Diluted	\$ 2.44	\$ 2.05	\$ 1.77
<b>Weighted average common shares outstanding</b>			
Basic	168.2	168.1	167.4
Diluted	171.7	171.9	170.4

The accompanying notes are an integral part of the consolidated financial statements.

**Table of Contents****TERADATA CORPORATION****Consolidated Statements of Comprehensive Income****In millions**

	<b>For the Year Ended December 31</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net income	\$ 419	\$ 353	\$ 301
Other comprehensive income:			
Foreign currency translation adjustments	9	(6)	(3)
Defined benefit plans:			
Defined benefit plan adjustment, before tax	7	12	(2)
Defined benefit plan adjustment, tax portion	(3)	(2)	3
Defined benefit plan adjustment, net of tax	4	10	1
Other comprehensive income (loss)	13	4	(2)
Comprehensive income	\$ 432	\$ 357	\$ 299

The accompanying notes are an integral part of the consolidated financial statements.

**Table of Contents****TERADATA CORPORATION****Consolidated Balance Sheets****In millions, except per share amounts**

	<b>At December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 729	\$ 772
Accounts receivable, net	668	494
Inventories	47	61
Other current assets	90	85
<b>Total current assets</b>	<b>1,534</b>	<b>1,412</b>
Property and equipment, net	150	120
Capitalized software, net	173	140
Goodwill	932	742
Acquired intangible assets, net	186	163
Deferred income taxes	29	28
Other assets	62	11
<b>Total assets</b>	<b>\$ 3,066</b>	<b>\$ 2,616</b>
<b>Liabilities and stockholders equity</b>		
Current liabilities		
Accounts payable	\$ 141	\$ 97
Payroll and benefits liabilities	158	169
Deferred revenue	375	339
Other current liabilities	132	90
<b>Total current liabilities</b>	<b>806</b>	<b>695</b>
Long-term debt	274	290
Pension and other postemployment plan liabilities	73	77
Long-term deferred revenue	30	24
Deferred tax liabilities	83	20
Other liabilities	21	16
<b>Total liabilities</b>	<b>1,287</b>	<b>1,122</b>
<b>Commitments and contingencies (Note 8)</b>		
<b>Stockholders equity</b>		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at December 31, 2012 and 2011, respectively	0	0
Common stock: par value \$0.01 per share, 500.0 shares authorized, 189.5 and 186.6 shares issued at December 31, 2012 and 2011, respectively	2	2
Paid-in capital	898	765
Treasury stock: 23.8 and 19.3 shares at December 31, 2012 and 2011, respectively	(806)	(526)
Retained earnings	1,656	1,237

Accumulated other comprehensive income	29	16
<b>Total stockholders' equity</b>	1,779	1,494
<b>Total liabilities and stockholders' equity</b>	\$ 3,066	\$ 2,616

The accompanying notes are an integral part of the consolidated financial statements

**Table of Contents****TERADATA CORPORATION****Consolidated Statements of Cash Flows**

In millions

	<b>For the Year Ended December 31</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>			
Net income	\$ 419	\$ 353	\$ 301
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	126	102	60
Stock-based compensation expense	43	35	26
Excess tax benefit from stock-based compensation	(37)	(14)	(10)
Deferred income taxes	77	71	41
Gain on investments	0	(28)	0
Changes in assets and liabilities:			
Receivables	(165)	(65)	(15)
Inventories	14	3	(18)
Current payables and accrued expenses	105	28	9
Deferred revenue	42	45	10
Other assets and liabilities	(49)	(17)	9
<b>Net cash provided by operating activities</b>	<b>575</b>	<b>513</b>	<b>413</b>
<b>Investing activities</b>			
Expenditures for property and equipment	(67)	(42)	(34)
Additions to capitalized software	(81)	(68)	(49)
Business acquisitions and other investing activities, net	(274)	(722)	(62)
<b>Net cash used in investing activities</b>	<b>(422)</b>	<b>(832)</b>	<b>(145)</b>
<b>Financing activities</b>			
Proceeds from long-term borrowings	0	600	0
Repayments of long-term borrowings	(11)	(300)	0
Repurchases of common stock	(277)	(127)	(88)
Excess tax benefit from stock-based compensation	37	14	10
Other financing activities, net	55	25	31
<b>Net cash (used in) provided by financing activities</b>	<b>(196)</b>	<b>212</b>	<b>(47)</b>
Effect of exchange rate changes on cash and cash equivalents	0	(4)	1
(Decrease) increase in cash and cash equivalents	(43)	(111)	222
Cash and cash equivalents at beginning of year	772	883	661
<b>Cash and cash equivalents at end of year</b>	<b>\$ 729</b>	<b>\$ 772</b>	<b>\$ 883</b>
<b>Supplemental data</b>			
Cash paid during the year for:			
Income taxes	\$ 54	\$ 56	\$ 89

Interest	\$	4	\$	3	\$	0
----------	----	---	----	---	----	---

The accompanying notes are an integral part of the consolidated financial statements

**Table of Contents****TERADATA CORPORATION****Consolidated Statements of Changes in Stockholders' Equity**

In millions

	Common Stock		Treasury Stock		Paid-in	Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	
<b>December 31, 2009</b>	<b>183</b>	<b>\$ 2</b>	<b>(14)</b>	<b>(\$ 311)</b>	<b>\$ 622</b>	<b>\$ 583</b>	<b>\$ 14</b>	<b>\$ 910</b>
Net income						301		301
Employee stock compensation, employee stock purchase programs and option exercises	2				58			58
Income tax benefit from stock compensation plans					10			10
Purchases of treasury stock, not retired			(3)	(88)				(88)
Pension and post-employment benefit plans, net of tax							1	1
Currency translation adjustment							(3)	(3)
<b>December 31, 2010</b>	<b>185</b>	<b>\$ 2</b>	<b>(17)</b>	<b>(\$ 399)</b>	<b>\$ 690</b>	<b>\$ 884</b>	<b>\$ 12</b>	<b>\$ 1,189</b>
Net income						353		353
Employee stock compensation, employee stock purchase programs and option exercises	2				60			60
Income tax benefit from stock compensation plans					15			15
Purchases of treasury stock, not retired			(2)	(127)				(127)
Pension and post-employment benefit plans, net of tax							10	10
Currency translation adjustment							(6)	(6)
<b>December 31, 2011</b>	<b>187</b>	<b>\$ 2</b>	<b>(19)</b>	<b>(\$ 526)</b>	<b>\$ 765</b>	<b>\$ 1,237</b>	<b>\$ 16</b>	<b>\$ 1,494</b>
Net income						419		419
Employee stock compensation, employee stock purchase programs and option exercises	3				95			95
Income tax benefit from stock compensation plans					38			38
Purchases of treasury stock, not retired			(5)	(280)				(280)
Pension and post-employment benefit plans, net of tax							4	4
Currency translation adjustment							9	9
<b>December 31, 2012</b>	<b>190</b>	<b>\$ 2</b>	<b>(24)</b>	<b>(\$ 806)</b>	<b>\$ 898</b>	<b>\$ 1,656</b>	<b>\$ 29</b>	<b>\$ 1,779</b>

The accompanying notes are an integral part of the consolidated financial statements

---

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Description of Business, Basis of Presentation and Significant Accounting Policies**

**Description of the Business.** Teradata Corporation ( Teradata or the Company ) is a global leader in analytic data solutions, including integrated data warehousing, big data analytics and business applications. The Company s data warehousing solutions are comprised of software, hardware, and related business consulting and support services.

**Basis of Presentation.** The financial statements are presented on a consolidated basis and include the accounts of the Company and its wholly-owned subsidiaries in accordance with accounting principles generally accepted in the United States of America ( GAAP ).

**Use of Estimates.** The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. On an ongoing basis, management evaluates these estimates and judgments, including those related to allowances for doubtful accounts, the valuation of inventory to net realizable value, stock-based compensation, pension and other postemployment benefits, and income taxes and any changes will be accounted for on a prospective basis. Actual results could differ from those estimates.

**Revenue Recognition.** Teradata s solution offerings typically include software, software subscriptions (unspecified when-and-if-available upgrades), hardware, maintenance support services, and other consulting, implementation and installation-related ( consulting ) services. Teradata records revenue when it is realized, or realizable, and earned. Teradata considers these requirements met when:

Persuasive evidence of an arrangement exists

The products or services have been delivered to the customer

The sales price is fixed or determinable and free of contingencies or significant uncertainties

Collectibility is reasonably assured

Teradata reports revenue net of any taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. The Company assesses whether fees are fixed or determinable at the time of sale. Standard payment terms may vary based on the country in which the agreement is executed, but are generally between 30 and 90 days. Payments that are due within six months are generally deemed to be fixed or determinable based on a successful collection history on such arrangements, and thereby satisfy the required criteria for revenue recognition. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors and distributors, and value-added resellers (collectively referred to as resellers ). In assessing whether the sales price to a reseller is fixed or determinable, the Company considers, among other things, past business practices with the reseller, the reseller s operating history, payment terms, return rights and the financial wherewithal of the reseller. When Teradata determines that the contract fee to a reseller is not fixed or determinable, that transaction is deferred and recognized upon sell-through to the end customer.

The Company s deliverables often involve delivery or performance at different periods of time. Revenue for software is generally recognized upon delivery with the hardware once title and risk of loss have been transferred. Revenue for software subscriptions, which provide for unspecified upgrades or enhancements on a when-and-if-available basis, is recognized straight-line over the term of the subscription arrangement. Revenue for maintenance support services is also recognized on a straight-line basis over the term of the contract. Revenue for other consulting, implementation and installation services is recognized as services are provided. In certain instances, acceptance of the product or service is specified by the customer. In such cases, revenue is deferred until the acceptance criteria have been met. Delivery and acceptance generally occur in the same reporting period. The Company s arrangements generally do not include any customer negotiated provisions for cancellation, termination or refunds that would significantly impact recognized revenue.





## Table of Contents

In October 2009, the Financial Accounting Standards Board ( FASB ) amended the accounting standards for revenue recognition to remove tangible products containing software components and non-software components that function together to deliver the product s essential functionality from the scope of the industry-specific software revenue recognition guidance. In October 2009, the FASB also amended the accounting standards for multiple deliverable revenue arrangements to:

Provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

Require an entity to allocate revenue in an arrangement using its best estimate of selling prices ( BESP ) for deliverables if a vendor does not have vendor-specific objective evidence of selling price ( VSOE ) or third-party evidence of selling price ( TPE ); and

Eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The standard is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Teradata adopted these standards on a prospective basis as of the beginning of fiscal 2011 for new and materially modified arrangements originating on or after January 1, 2011.

The Company evaluates all deliverables in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value, and if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered items is considered probable and substantially in the control of Teradata. This new guidance does not generally change the units of accounting for the Company s revenue transactions. Most of the Company s products and services qualify as separate units of accounting and are recognized upon meeting the criteria as described above.

For multiple deliverable arrangements that contain non-software related deliverables, the Company allocates revenue to each deliverable based upon the relative selling price hierarchy and if software and software-related deliverables are also included in the arrangement, to those deliverables as a group based on the BESP for the group. The selling price for a deliverable is based on its VSOE if available, TPE if VSOE is not available, or BESP if neither VSOE nor TPE is available. The Company then recognizes revenue when the remaining revenue recognition criteria are met for each deliverable. For the software group or arrangements that contain only software and software-related deliverables, the revenue recognition criteria utilizing the residual method remains unchanged as further described below.

Teradata s data warehousing software and hardware products are sold and delivered together in the form of a Node of capacity as an integrated technology solution. Because both the database software and hardware platform are necessary to deliver the data warehouse s essential functionality, the database software and hardware (Node) are excluded from the software rules and considered a non-software related deliverable. Teradata software applications and related support are considered software-related deliverables. Additionally, the amount of revenue allocated to the delivered items utilizing the relative selling price method is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (the non-contingent amount).

VSOE is based upon the normal pricing and discounting practices for those products and services when sold separately. Teradata uses the stated renewal rate approach in establishing VSOE for maintenance and subscriptions (collectively referred to as postcontract customer support PCS ). Under this approach, the Company assesses whether the contractually stated renewal rates are substantive and consistent with the Company s normal pricing practices. Renewal rates greater than the lower level of our targeted pricing ranges are considered to be substantive and, therefore, meet the requirements to support VSOE. In instances where there is not a substantive renewal rate in the arrangement, the Company allocates revenue based upon BESP, using the minimum established pricing targets as supported by the renewal rates for similar customers utilizing the bell-curve method. Teradata also offers

**Table of Contents**

consulting and installation-related services to its customers, which are considered non-software deliverables if they relate to the nodes. These services are rarely considered essential to the functionality of the data warehouse solution deliverable and there is never software customization of the proprietary database software. VSOE for consulting services is based on the hourly rates for standalone consulting services projects by geographic region and are indicative of the Company's customary pricing practices. Pricing in each market is structured to obtain a reasonable margin based on input costs.

In nearly all multiple-deliverable arrangements, the Company is unable to establish VSOE for all deliverables in the arrangement. This is due to infrequently selling each deliverable separately (such is the case with our nodes), not pricing products or services within a narrow range, or only having limited sales history. When VSOE cannot be established, attempts are made to establish TPE of the selling price for each deliverable. TPE is determined based on competitor prices for similar deliverables when sold separately. However, Teradata's offerings contain significant differentiation such that the comparable pricing of products with similar functionality cannot be obtained. This is because Teradata's products contain a significant amount of proprietary technology and its solutions offer substantially different features and functionality than other available products. As Teradata's products are significantly different from those of its competitors, the Company is unable to establish TPE for the vast majority of its products.

When the Company is unable to establish selling price using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service was sold on a standalone basis. The Company determines BESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, product life cycles, competitive landscape, internal costs, gross margin objectives, purchase volumes and pricing practices.

The primary consideration in developing BESP for the Company's nodes is the bell-curve method based on historical transactions. The BESP analysis is at the geography level in order to align it with the way in which the Company goes to market and establishes pricing for its products. The Company has established discount ranges off of published list prices for different geographies based on strategy and maturity of Teradata's presence in the respective geography. There are distinctions in each geography and product group which support the use of geographies and markets for the determination of BESP. For example, the Company's U.S. market is relatively mature and most of the large transactions are captured in this market, whereas EMEA and APJ are less mature markets with generally smaller deal size. Additionally, the prices and margins for the Company's products vary by geography and by product class. BESP is analyzed on a quarterly basis using a rolling previous 4-quarters of data, which the Company believes best reflects most recent pricing practices in a changing marketplace.

The Company reviews VSOE, TPE and its determination of BESP on a periodic basis and updates it, when appropriate, to ensure that the practices employed reflect the Company's recent pricing experience. The Company maintains internal controls over the establishment and updates of these estimates, which includes review and approval by the Company's management. For the twelve months ended December 31, 2012 there was no material impact to revenue resulting from changes in VSOE, TPE or BESP, nor does the Company expect a material impact from such changes in the near term. Additionally, the adoption of the amended revenue recognition guidelines had no material net impact on the Company's results of operations for the twelve months ended December 31, 2011 (the year of adoption).

*Term licenses, hosting arrangements and software-as-a-service ( SaaS ).* As a result of the Company's recent acquisitions, Teradata's application offerings were expanded to include term licenses, hosting arrangements and SaaS. Teradata previously offered its software applications primarily through a perpetual licensing arrangement. In cases where the contract requires the software to be hosted by the Company and provided via an on-demand arrangement, the software is considered a subscription, and revenue is recognized over the term of the agreement. If the license is of limited life and does not require the Company to host the software for the customer, the software is considered a term license. Teradata's term licenses are typically offered for application software and include a right-to-use license, PCS and consulting services. Our term licenses are not sold separately. The term of these arrangements varies between one and five years and may or may not include hosting services. In most arrangements

**Table of Contents**

the pricing is bundled to the customer. If the term license is hosted, the customer has the right to take possession of the software at any time during the hosting period. The customer's rights to the software in these circumstances are not dependent on additional software payments or significant penalties, and the customer can feasibly run the software on its own hardware or contract with another party to host the software. The Company has not established VSOE for PCS for its term licenses because the Company does not price or renew the PCS without the inclusion of the right to use the software application license over the term. As a result of not having VSOE for the PCS, new arrangements along with renewals or extensions are determined to be subscriptions and revenue is recognized over the term of the agreement. If hosting is a component of the customer subscription arrangement, revenue is recognized over the term as part of the subscription as described above.

*Accounting for arrangements prior to January 1, 2011.* For transactions entered into prior to January 1, 2011, the Company allocates revenue for multiple deliverable arrangements for which VSOE exists for undelivered elements but not for the delivered elements, using the residual method. Teradata does not typically have VSOE for its hardware and software products. Therefore, in a substantial majority of Teradata arrangements entered into prior to January 1, 2011, the residual method is used to allocate the arrangement consideration. Under the residual method, the VSOE of the undelivered elements is deferred and accounted for under the applicable revenue recognition guidance, and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue. For arrangements in which VSOE does not exist for each undelivered element, revenue for the entire arrangement is deferred and not recognized until delivery of all the elements without VSOE has occurred, unless the only undelivered element is PCS in which case the entire contract is recognized ratably over the PCS period.

*Contract accounting.* If an arrangement involves significant production, modification or customization of the application software or the undelivered services are essential to the functionality of the delivered software then the Company uses the percentage-of-completion or completed-contract method of accounting. The percentage-of-completion method is used when estimates of costs to complete and extent of progress toward completion are reasonably dependable. The Company typically uses labor hours or costs incurred to date as a percentage of the total estimated labor hours or costs to fulfill the contract as the most reliable and meaningful measure that is available for determining a project's progress toward completion. In circumstances when reasonable and reliable cost estimates for a project cannot be made, the completed-contract method is used whereas no revenue is recognized until the project is complete. When total cost estimates exceed revenues, the Company accrues the estimated losses immediately. For purposes of allocation of the arrangement consideration, any products for which the services are not essential are separated utilizing the relative selling price method discussed above. PCS is also separated and allocated based on VSOE and then recognized ratably over the term. The remaining contract value, which typically includes application software and essential services, is then recognized utilizing the percentage-of-completion or completed-contract methods discussed above.

**Shipping and Handling.** Product shipping and handling costs are included in cost of products in the Consolidated Statements of Income.

**Cash and Cash Equivalents.** All short-term, highly-liquid investments having original maturities of three months or less are considered to be cash equivalents.

**Allowance for Doubtful Accounts.** Teradata establishes provisions for doubtful accounts using both percentages of accounts receivable balances to reflect historical average credit losses and specific provisions for known issues.

**Inventories.** Inventories are stated at the lower of cost or market. Cost of service parts is determined using the average cost method. Finished goods inventory is determined using actual cost.

**Long-Lived Assets**

*Property and Equipment.* Property and equipment, leasehold improvements and rental equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the related assets primarily on a straight-line basis. Equipment is depreciated over three to twenty years and buildings over 25 to 45 years. Leasehold improvements are depreciated over the life of the lease or the asset, whichever is shorter. Total depreciation expense on the Company's property and equipment for the years ended December 31, 2012, 2011 and 2010 was \$41 million, \$33 million and \$25 million, respectively.

**Table of Contents**

**Capitalized Software.** Direct development costs associated with internal-use software are capitalized and amortized over the estimated useful lives of the resulting software. The costs are capitalized when both the preliminary project stage is completed and it is probable that computer software being developed will be completed and placed in service. Teradata typically amortizes capitalized internal-use software on a straight-line basis over three years beginning when the asset is substantially ready for use.

Costs incurred for the development of data warehousing software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. Technological feasibility is established when planning, designing and initial coding activities that are necessary to establish the product can be produced to meet its design specifications. In the absence of a program design, a working model is used to establish technological feasibility. These costs are included within capitalized software and are amortized over the estimated useful lives of the resulting software. The Company amortizes capitalized software over four years using the greater of the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or the straight-line method over the remaining estimated economic life of the product beginning when the product is available for general release. Costs capitalized include direct labor and related overhead costs. Costs incurred prior to technological feasibility and after general release are expensed as incurred. The following table identifies the activity relating to capitalized software:

In millions	Internal-use Software			External-use Software		
	2012	2011	2010	2012	2011	2010
Beginning balance at January 1	\$ 11	\$ 11	\$ 12	\$ 129	\$ 105	\$ 90
Capitalized	6	5	5	75	63	44
Amortization	(5)	(5)	(6)	(43)	(39)	(29)
Ending balance at December 31	\$ 12	\$ 11	\$ 11	\$ 161	\$ 129	\$ 105

**Valuation of Long-Lived Assets.** Long-lived assets such as property and equipment, acquired intangible assets and internal capitalized software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss would be recognized when estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than the carrying amount.

**Goodwill.** Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather are tested for impairment annually or upon occurrence of an event or change in circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company did not recognize any goodwill impairment charges in 2012, 2011 or 2010.

**Warranty.** Provisions for product warranties are recorded in the period in which the related revenue is recognized. The Company accrues warranty reserves using percentages of revenue to reflect the Company's historical average warranty claims.

**Research and Development Costs.** Research and development costs are expensed as incurred (with the exception of the capitalized software development costs discussed above). Research and development costs primarily include payroll and headcount-related costs, contractor fees, facilities, infrastructure costs, and administrative expenses directly related to research and development support.

**Pension and Postemployment Benefits.** The Company accounts for its pension and postemployment benefit obligations using actuarial models. The measurement of plan obligations was made as of December 31, 2012. Liabilities are computed using the projected unit credit method. The objective under this method is to expense each participant's benefits under the plan as they accrue, taking into consideration salary increases and the plan's benefit allocation formula. Thus, the total pension or postemployment benefit to which each participant is expected to become entitled is broken down into units, each associated with a year of past or future credited service.

## **Table of Contents**

The Company recognizes the funded status of its pension and postemployment plan obligations in its consolidated balance sheet and records in other comprehensive income certain gains and losses that arise during the period, but are deferred under pension accounting rules.

**Foreign Currency.** Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated into U.S. dollars at period-end exchange rates. Income and expense accounts are translated at average exchange rates prevailing during the period. Adjustments arising from the translation are included in accumulated other comprehensive income (loss), a separate component of stockholders' equity. Gains and losses resulting from foreign currency transactions are included in determining net income.

**Income Taxes.** Income tax expense is provided based on income before income taxes in the various jurisdictions in which the Company conducts its business. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are determined based on the enacted tax rates expected to apply in the periods in which the deferred assets or liabilities are expected to be settled or realized. Teradata recognizes tax benefits from uncertain tax positions only if it is more likely than not the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The Company records valuation allowances related to its deferred income tax assets when it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

**Stock-based Compensation.** Stock-based payments to employees, including grants of stock options, restricted stock and restricted stock units, are recognized in the financial statements based on their fair value.

The fair value of each stock option award on the grant date is estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield, expected stock price volatility, weighted-average risk-free interest rate and weighted average expected term of the options. As of October 2011, the Company's expected volatility assumption used in the Black-Scholes option-pricing model is based on a blend of peer group volatility and Teradata volatility. Prior to that date, because the Company did not have a sufficient trading history as a stand-alone public company, the volatility was purely based on the peer group volatility. The expected term assumption is based on the simplified method under GAAP, which is based on the vesting period and contractual term for each vesting tranche of awards. The mid-point between the vesting date and the expiration date is used as the expected term under this method. The risk-free interest rate used in the Black-Scholes model is based on the implied yield curve available on U.S. Treasury zero-coupon issues at the date of grant with a remaining term equal to the Company's expected term assumption. The Company has never declared or paid a cash dividend.

Certain awards of restricted stock units include market-based performance components which are valued using a Monte Carlo simulation model. The fair value of each restricted stock unit was estimated using the following assumptions: expected stock price volatility, expected dividend yield, risk-free interest rate, and performance vesting hurdles tied to share price. The expected volatility assumption is based on Teradata's volatility over a historical period equal to the performance period of the market-based vesting condition. The risk-free interest rate is based on the yield for separate trading of registered interest and principle securities with maturities equal to the performance period of the market-based vesting condition. The dividend yield was assumed to be zero based on Teradata's dividend history and management's expectations of future dividend policy.

**Treasury Stock.** Shares of the Company's common stock repurchased through the share repurchase programs is held as treasury stock. Treasury stock is accounted for using the cost method.

**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 added from stock options, restricted stock awards and other stock awards. Refer to Note 5 for share information on the Company's stock compensation plans.

**Table of Contents**

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

In millions, except earnings per share	For the year ended December 31		
	2012	2011	2010
Net income available for common stockholders	\$ 419	\$ 353	\$ 301
Weighted average outstanding shares of common stock	168.2	168.1	167.4
Dilutive effect of employee stock options and restricted stock	3.5	3.8	3.0
Common stock and common stock equivalents	171.7	171.9	170.4
Earnings per share:			
Basic	\$ 2.49	\$ 2.10	\$ 1.80
Diluted	\$ 2.44	\$ 2.05	\$ 1.77

No stock options were excluded from the computation of diluted earnings per share for the twelve months ended December 31, 2012 and 2011. Options to purchase 0.6 million shares of common stock for 2010 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 and, therefore, the effect would have been anti-dilutive.

**Recently Issued Accounting Pronouncements**

**Comprehensive Income.** In February 2013, the FASB issued new guidance regarding the disclosure of comprehensive income. Under the new guidance, entities will be required to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity will be required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This new guidance will be effective prospectively for reporting periods beginning after December 15, 2012. The Company is currently evaluating the impact of this new guidance on its future disclosures.

**Table of Contents****Note 2 Supplemental Financial Information**

In millions	At December 31	
	2012	2011
<b>Accounts receivable</b>		
Trade	\$ 683	\$ 499
Other	3	8
Accounts receivable, gross	686	507
Less: allowance for doubtful accounts	(18)	(13)
Total accounts receivable, net	\$ 668	\$ 494
<b>Inventories</b>		
Finished goods	\$ 26	\$ 41
Service parts	21	20
Total inventories	\$ 47	\$ 61
<b>Other current assets</b>		
Current deferred tax assets	\$ 36	\$ 34
Other	54	51
Total other current assets	\$ 90	\$ 85
<b>Property and equipment</b>		
Land	\$ 8	\$ 8
Buildings and improvements	67	64
Machinery and other equipment	280	230
Property and equipment, gross	355	302
Less: accumulated depreciation	(205)	(182)
Total property and equipment, net	\$ 150	\$ 120
<b>Other current liabilities</b>		
Sales and value-added taxes	\$ 28	\$ 23
Other	104	67
Total other current liabilities	\$ 132	\$ 90
<b>Deferred revenue</b>		
Deferred revenue, current	\$ 375	\$ 339
Long-term deferred revenue	30	24
Total deferred revenue	\$ 405	\$ 363
<b>Accumulated other comprehensive income, net of tax</b>		
Currency translation adjustments	\$ 34	\$ 25



Edgar Filing: TERADATA CORP /DE/ - Form 10-K

Actuarial losses and prior service costs on employee benefit plans	(5)	(9)
Total accumulated other comprehensive income	\$ 29	\$ 16

**Table of Contents****Note 3 Goodwill and Acquired Intangible Assets**

The following table identifies the activity relating to goodwill by operating segment:

In millions	Balance December 31, 2011	Additions	Currency Translation Adjustments	Balance December 31, 2012
<b>Goodwill</b>				
Americas	\$ 543	\$ 72	\$ 1	\$ 616
EMEA	120	111	8	239
APJ	79	0	(2)	77
<b>Total goodwill</b>	<b>\$ 742</b>	<b>\$ 183</b>	<b>\$ 7</b>	<b>\$ 932</b>

The change in goodwill for the twelve months ended December 31, 2012 was primarily due to the acquisition of eCircle Beteiligungs GmbH ( eCircle ) which was completed during the period. In the fourth quarter of 2012, the Company performed its annual test of goodwill impairment and determined that no impairment to the carrying value of goodwill was necessary, as the fair value of each reporting unit exceeded their respective carrying amounts, including goodwill. Teradata reviewed six reporting units in its 2012 goodwill impairment assessment, as each geographic operating segment consisted of separate reporting units for data warehouse and application software activities.

Acquired intangible assets were specifically identified when acquired, and are deemed to have finite lives. The gross carrying amount and accumulated amortization for Teradata's acquired intangible assets were as follows:

In millions	Original Amortization Life (in Years)	December 31, 2012		December 31, 2011	
		Gross Carrying Amount	Accumulated Amortization and Currency Translation Adjustments	Gross Carrying Amount	Accumulated Amortization and Currency Translation Amortization
<b>Acquired intangible assets</b>					
Intellectual property/developed technology	1 to 7	153	(48)	122	(23)
Customer relationships	3 to 10	77	(14)	55	(6)
Trademarks/trade names	5 to 10	15	(2)	11	(1)
In-process research and development	5	5	0	5	0
Non-compete agreements	2 to 2.5	1	(1)	1	(1)
<b>Total</b>	<b>1 to 10</b>	<b>251</b>	<b>(65)</b>	<b>194</b>	<b>(31)</b>

The increase in acquired intangible assets for the twelve months ended December 31, 2012 was primarily due to developed technology, trademark/trade name, customer relationship, and non-compete agreement assets added through the acquisition of eCircle which was closed during the period. The amortization of the in-process research and development ( IPR&D ) intangible asset acquired as part of the Aster Data Systems, Inc. ( Aster Data ) acquisition will not begin until the associated product development has been completed, which is currently estimated to be in 2013.

The aggregate amortization expense (actual and estimated) for acquired intangible assets for the following periods is:

In millions	Actual	For the year ended (estimated)				
	2012	2013	2014	2015	2016	2017
Amortization expense	\$ 37	\$ 43	\$ 40	\$ 38	\$ 26	\$ 18



**Table of Contents****Note 4 Income Taxes**

For the years ended December 31, income before income taxes consisted of the following:

In millions	2012	2011	2010
<b>Income before income taxes</b>			
United States	\$ 388	\$ 309	\$ 272
Foreign	190	172	142
Total income before income taxes	\$ 578	\$ 481	\$ 414

For the years ended December 31, income tax expense consisted of the following:

In millions	2012	2011	2010
<b>Income tax expense</b>			
<b>Current</b>			
Federal	\$ 50	\$ 26	\$ 53
State and local	9	3	5
Foreign	23	29	14
<b>Deferred</b>			
Federal	72	64	35
State and local	7	8	4
Foreign	(2)	(2)	2
Total income tax expense	\$ 159	\$ 128	\$ 113

The following table presents the principal components of the difference between the effective tax rate and the U.S. federal statutory income tax rate for the years ended December 31:

In millions	2012	2011	2010
Income tax expense at the U.S. federal tax rate	35.0%	35.0%	35.0%
Foreign income tax differential	(8.1%)	(7.4%)	(8.1%)
State and local income taxes	0.7%	1.3%	1.5%
U.S. permanent book/tax differences	(0.5%)	(1.8%)	(0.9%)
Other, net	0.4%	(0.5%)	(0.2%)
Total income tax expense	27.5%	26.6%	27.3%

The tax rate for the twelve months ended December 31, 2012 included no net material discrete tax items. The tax rate for the twelve months ended December 31, 2011 included a \$4 million tax benefit recorded in the second quarter of 2011 related to the book gain recorded on the Company's previous equity investment in Aster Data, which was reflected as a permanent non-taxable item. The effective tax rate for the year ended December 31, 2010 included a \$5 million tax benefit associated with the recognition of certain foreign net operating loss carryforwards resulting from an audit settlement in the first quarter of 2010. The provision for income taxes is based on the pre-tax earnings mix by jurisdiction of Teradata and its subsidiaries under the Company's current structure.

**Table of Contents**

Deferred income tax assets and liabilities included in the balance sheets at December 31 were as follows:

In millions	2012	2011
<b>Deferred income tax assets</b>		
Employee pensions and other liabilities	\$ 54	\$ 47
Other balance sheet reserves and allowances	27	28
Deferred revenue	4	4
Tax loss and credit carryforwards	41	71
Capitalized research and development	16	28
<b>Total deferred income tax assets</b>	<b>142</b>	<b>178</b>
Valuation allowance	(9)	0
<b>Net deferred income tax assets</b>	<b>133</b>	<b>178</b>
<b>Deferred income tax liabilities</b>		
Intangibles and capitalized software	123	109
Property and equipment	26	23
Other	5	7
<b>Total deferred income tax liabilities</b>	<b>154</b>	<b>139</b>
<b>Total net deferred income tax assets</b>	<b>(\$ 21)</b>	<b>\$ 39</b>

As of December 31, 2012, Teradata had total net operating loss carryforwards in the United States and certain foreign jurisdictions of approximately \$39 million (tax effected), which begin to expire in 2014. In addition, Teradata has Research and Development Tax Credit carryforwards of \$25 million, which begin to expire in 2029. As of December 31, 2012, the Company has recorded \$32 million of these tax attributes on its balance sheet as deferred tax assets (net of a \$9 million valuation allowance related to California Research and Development tax credits); the remaining \$23 million of deferred tax assets are associated with certain tax attributes which were both generated by the Company and acquired from various acquisitions, which do not meet the recognition criteria for uncertain tax positions and therefore are not recorded for financial reporting purposes.

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 pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business; these jurisdictions apply a broad range of statutory income tax rates. At December 31, 2012 the Company had not provided for federal income taxes on earnings of approximately \$881 million from its foreign subsidiaries. Should these earnings be distributed in the form of dividends or otherwise, the Company would be subject to U.S. income taxes and potential withholding taxes in various international jurisdictions. The U.S. taxes would potentially be partially offset by U.S. foreign tax credits. Determination of the amount of unrecognized deferred U.S. tax liability is not practical because of the complexities associated with this hypothetical calculation.

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company reflects any interest and penalties recorded in connection with its uncertain tax positions as a component of income tax expense.

As of December 31, 2012, the Company's uncertain tax positions totaled approximately \$31 million, of which \$11 million is reflected in the Other liabilities section of the Company's balance sheet as a non-current liability. The remaining balance of \$20 million of uncertain tax positions relates to certain tax attributes which were both generated by the Company and acquired in various acquisitions, which are netted against the underlying deferred tax assets recorded on the balance sheet. The entire balance of \$31 million in uncertain tax positions would cause a decrease in the effective income tax rate upon recognition. Teradata has recorded \$1 million of interest accruals related to its uncertain tax liabilities as of December 31, 2012.



**Table of Contents**

Below is a rollforward of the Company's liability related to uncertain tax positions at December 31:

In millions	2012	2011
Balance at January 1	\$ 28	\$ 8
Gross increases for prior period tax positions	0	1
Gross decreases for prior period tax positions	(1)	0
Gross increases for current period tax positions	4	4
Increases from acquired businesses	0	16
Decreases relating to settlements with taxing authorities	0	(1)
<b>Balance at December 31</b>	<b>\$ 31</b>	<b>\$ 28</b>

The Company and its subsidiaries file income tax returns in the U.S. federal and various state jurisdictions, as well as numerous foreign jurisdictions. As of December 31, 2012, the examination of the Company's U.S. federal tax returns for the 2007 and 2008 tax years was completed with no changes to the income tax liability as originally reported in those periods, as well as tax examinations in a limited number of foreign jurisdictions with no material tax assessments. As of December 31, 2012, the Company has ongoing tax audits in a limited number of state and foreign jurisdictions; however, no material adjustments have been made in any of these examinations.

In January of 2013 the American Taxpayer Relief Act of 2012 was enacted, which retroactively reinstated the U.S. Federal Research and Development Tax Credit as of January 1, 2012. As a result, the tax benefit associated with the 2012 U.S. R&D Credit will be recognized by the Company in the first quarter of 2013 as a discrete item for a change in tax law; the Company estimates the impact of this subsequent event to be approximately \$4 million of income tax benefit.

**Note 5 Employee Stock-based Compensation Plans**

The Company recorded stock-based compensation expense for the years ended December 31 as follows:

In millions	2012	2011	2010
Stock options	\$ 15	\$ 14	\$ 12
Restricted stock	28	21	14
Total stock-based compensation before income taxes	43	35	26
Tax benefit	(14)	(13)	(10)
<b>Total stock-based compensation, net of tax</b>	<b>\$ 29</b>	<b>\$ 22</b>	<b>\$ 16</b>

The Teradata Corporation 2007 Stock Incentive Plan (the "2007 SIP"), as amended, and the Teradata 2012 Stock Incentive Plan (the "2012 SIP") provide for the grant of several different forms of stock-based compensation. The 2012 SIP was adopted and approved by stockholders in April 2012 and no further awards may be made under the 2007 SIP after that time. As of December 31, 2012, the Company's primary types of stock-based compensation were stock options, restricted stock and restricted stock units. A total of approximately 16.4 million shares were authorized to be issued under the 2012 SIP. New shares of the Company's common stock are issued as a result of the vesting of restricted stock units and stock option exercises, and at the time of grant for restricted stock, for awards under both plans.

**Stock Options**

The Compensation and Human Resource Committee of Teradata's Board of Directors had discretion to determine the material terms and conditions of option awards under both the 2007 SIP and the 2012 SIP (collectively, the "Teradata SIP"), provided that (i) the exercise price must be no less than the fair market value of Teradata common stock (as defined in both plans) on the date of grant, and (ii) the term must be no longer than ten years. Option grants generally have a four-year vesting period.





**Table of Contents**

For the years ended December 31, 2012, 2011 and 2010, the weighted-average fair value of options granted for Teradata equity awards was \$22.31, \$18.12 and \$13.97, respectively. The fair value of each option award on the grant date was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2012	2011	2010
Dividend yield	0	0	0
Risk-free interest rate	0.87%	1.63%	1.88%
Expected volatility	35.7%	39.5%	31.4%
Expected term (years)	6.3	6.3	6.3

The expected volatility assumption was based on a blend of peer group volatility and Teradata volatility (see Note 1), and the expected term assumption is determined using the simplified method under GAAP, which is based on the vesting period and contractual term for each vesting tranche of awards. The mid-point between the vesting date and the expiration date is used as the expected term under this method. The risk-free interest rate for periods within the contractual life of the option is based on an average of the five-year and seven-year U.S. Treasury yield curve in effect at the time of grant.

The following table summarizes the Company's stock option activity for the year ended December 31, 2012:

Shares in thousands	Shares Under Option	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2012	8,282	\$ 24.71	6.8	\$ 199
Granted	702	\$ 61.54		
Exercised	(2,304)	\$ 18.64		
Canceled	(11)	\$ 9.94		
Forfeited	(31)	\$ 35.10		
Outstanding at December 31, 2012	6,638	\$ 30.69	6.7	\$ 207
Fully vested and expected to vest at December 31, 2012	6,605	\$ 30.57	6.7	\$ 207
Exercisable at December 31, 2012	4,603	\$ 22.69	5.8	\$ 180

The total intrinsic value of options exercised was \$113 million in 2012, \$38 million in 2011 and \$34 million in 2010. Cash received by the Company from option exercises under all share-based payment arrangements was \$43 million in 2012, \$16 million in 2011 and \$25 million in 2010. The tax benefit realized from these exercises was \$38 million in 2012, \$14 million in 2011 and \$9 million in 2010. As of December 31, 2012, there was \$34 million of total unrecognized compensation cost related to unvested stock option grants. That cost is expected to be recognized over a weighted-average period of 3.0 years.

**Restricted Stock and Restricted Stock Units**

The Teradata SIP provides for the issuance of restricted stock, as well as restricted stock units. Grants under the Teradata SIP consist of both service-based and performance-based awards. Service-based awards typically vest over a three- to four-year period beginning on the effective date of grant. These grants are not subject to future performance measures. The cost of these awards, determined to be the fair market value at the date of grant, is expensed ratably over the vesting period. For substantially all restricted stock grants, at the date of grant, the recipient has all rights of a stockholder, subject to certain restrictions on transferability and a risk of forfeiture. A recipient of restricted stock units does not have the rights of a stockholder and is subject to restrictions on transferability and risk of forfeiture. For both restricted stock grants and restricted stock units, any potential dividend rights would be subject to the same vesting requirements as the underlying equity award. As a result, such rights are considered a contingent transfer of value and consequently these equity awards are not considered participating securities. Performance-based grants are subject to future performance measurements over a one- to

**Table of Contents**

four-year period. All performance-based shares that are earned in respect of an award will become vested at the end of the performance and/or service period provided the employee is continuously employed by the Company and applicable performance measures are met. The fair value of each performance-based award is determined on the grant date, based on the Company's stock price, and assumes that performance targets will be achieved. Over the performance period, the number of shares of stock that will be issued is adjusted upward or downward based upon management's assessment of the probability of achievement of performance targets. The ultimate number of shares issued and the related compensation cost recognized as expense will be based on a comparison of the final achievement of performance metrics to the specified targets.

The following table reports restricted stock and restricted stock unit activity during the year ended December 31, 2012:

Shares in thousands	Number of Shares	Weighted-Average Grant Date Fair Value per Share
Unvested shares at January 1, 2012	1,836	\$ 39.71
Granted	1,101	\$ 60.71
Vested	(483)	\$ 30.94
Forfeited/canceled	(81)	\$ 38.15
Unvested shares at December 31, 2012	2,373	\$ 51.37

For the years ended December 31, 2012, 2011 and 2010, the weighted-average fair value of restricted stock units granted for Teradata equity awards was \$60.71, \$45.19 and \$34.32, respectively.

The total fair value of shares vested was \$15 million in 2012, \$11 million in 2011 and \$14 million in 2010. As of December 31, 2012, there was \$81 million of unrecognized compensation cost related to unvested restricted stock grants. The unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 2.8 years.

The following table represents the composition of Teradata restricted stock unit grants in 2012:

Shares in thousands	Number of Shares	Weighted-Average Grant Date Fair Value
Service-based shares	614	\$ 62.41
Performance-based shares	487	\$ 58.56
Total stock grants	1,101	\$ 60.71

Approximately 0.3 million shares of the performance awards issued in December of 2012, which are included in the above tables, also included a market-based component for certain key executives in connection with the restructuring of the Company's management team. The opportunity to earn the special performance awards is based on the extent that the Company achieves two equally-weighted financial performance metrics during 2016: GAAP revenue and non-GAAP earnings per share. The payout opportunity ranges from 50% to 200% of the units subject to the award; although no payout can be earned if performance is below the threshold level. Moreover, payout in excess of target cannot occur unless the Company achieves certain non-GAAP earnings per share and stock price goals.

**Table of Contents**

In evaluating the fair value of the special performance-based awards, the Company used a Monte Carlo simulation on the grant date and determined the fair value to be \$26.78 per unit for the market component of the award. Compensation expense related to the performance-based restricted unit is valued based on the grant date stock price and is only recorded in a period when it is probable that the performance metrics will be met. Compensation expense related to the market portion is only recorded when it is probable that the performance metrics will be above target, regardless of the stock price. There was no compensation expense related to the market portion of these awards in 2012. The primary assumptions used in the valuation of the market component of the awards were as follows:

	<b>2012</b>
Grant date fair value per share of Company common stock	\$ 58.63
Expected volatility	36.44%
Risk-free interest rate	0.47%
Dividend yield	0
Performance vesting hurdle - future fair value per share of Company common stock	\$ 85.00

**Other Stock-based Plans**

The Company's employee stock purchase program, effective on October 1, 2007, and as amended effective as of January 1, 2013 (the ESPP), provides eligible employees of Teradata and its designated subsidiaries an opportunity to purchase the Company's common stock at a discount to the average of the highest and lowest sale prices on the last trading day of each month. As of December 31, 2012, the ESPP discount was 5% of the average market price. As a result, this plan was considered non-compensatory under GAAP. As of January 1, 2013, the ESPP discount was increased to 15% of the average market price, and going forward the ESPP will be considered compensatory under GAAP.

Employees may authorize payroll deductions of up to 10% of eligible compensation for common stock purchases. A total of 4 million shares were authorized to be issued under the ESPP, with approximately 2.8 million shares remaining under that authorization at December 31, 2012. The shares of Teradata common stock purchased by a participant on an exercise date (the last day of each month), for all purposes, are deemed to have been issued and sold at the close of business on such exercise date. Prior to that time, none of the rights or privileges of a stockholder exists with respect to such shares. Employees purchased approximately 0.2 million shares in 2012, 0.2 million shares in 2011 and 0.2 million shares in 2010, for approximately \$12 million, \$9 million and \$7 million, respectively.

**Note 6 Employee Benefit Plans**

**Pension and Postemployment Plans.** Teradata currently sponsors defined benefit pension plans for certain of its international employees. For those international pension plans for which the Company holds asset balances, those assets are primarily invested in common/collective trust funds (which include publicly traded common stocks, corporate and government debt securities, real estate indirect investments, cash or cash equivalents) and insurance contracts.

Postemployment obligations relate to benefits provided to involuntarily terminated employees and certain inactive employees after employment but before retirement. These benefits are paid in accordance with various foreign statutory laws and regulations, and Teradata's established postemployment benefit practices and policies. Postemployment benefits may include disability benefits, supplemental unemployment benefits, severance, workers' compensation benefits, continuation of health care benefits and life insurance coverage, and are funded on a pay-as-you-go basis.

**Table of Contents**

Pension and postemployment benefit costs for the years ended December 31 were as follows:

In millions	2012		2011		2010	
	Pension	Postemployment	Pension	Postemployment	Pension	Postemployment
Service cost	\$ 9	\$ 4	\$ 9	\$ 4	\$ 8	\$ 4
Interest cost	4	1	4	2	4	2
Expected return on plan assets	(3)	0	(3)	0	(3)	0
Settlement charge	1	0	3	0	0	0
Employee contributions	(1)	0	(1)	0	(1)	0
Amortization of actuarial loss	1	0	1	0	1	0
<b>Total costs</b>	<b>\$ 11</b>	<b>\$ 5</b>	<b>\$ 13</b>	<b>\$ 6</b>	<b>\$ 9</b>	<b>\$ 6</b>

The underfunded amount of pension and postemployment obligations is recorded as a liability in the Company's consolidated balance sheet. The following tables present the changes in benefit obligations, plan assets, funded status and the reconciliation of the funded status to amounts recognized in the consolidated balance sheets and in accumulated other comprehensive income at December 31:

In millions	Pension		Postemployment	
	2012	2011	2012	2011
<b>Change in benefit obligation</b>				
Benefit obligation at January 1	\$ 108	\$ 111	\$ 33	\$ 40
Service cost	8	8	4	4
Interest cost	4	4	1	2
Plan participant contributions	1	1	0	0
Actuarial loss (gain)	9	(5)	(11)	(8)
Benefits paid	(7)	(12)	(2)	(6)
Currency translation adjustments	(1)	1	0	1
<b>Benefit obligation at December 31</b>	<b>122</b>	<b>108</b>	<b>25</b>	<b>33</b>
<b>Change in plan assets</b>				
Fair value of plan assets at January 1	59	59	0	0
Actual return on plan assets	5	(2)	0	0
Company contributions	12	12	0	0
Benefits paid	(7)	(12)	0	0
Currency translation adjustments	(1)	1	0	0
Plan participant contribution	1	1	0	0
<b>Fair value of plan assets at December 31</b>	<b>69</b>	<b>59</b>	<b>0</b>	<b>0</b>
<b>Funded status (underfunded)</b>	<b>(\$ 53)</b>	<b>(\$ 49)</b>	<b>(\$ 25)</b>	<b>(\$ 33)</b>
<b>Amounts Recognized in the Balance Sheet</b>				
Current liabilities	(\$ 1)	\$ 0	(\$ 4)	(\$ 5)
Noncurrent liabilities	(52)	(49)	(21)	(28)
<b>Net amounts recognized</b>	<b>(\$ 53)</b>	<b>(\$ 49)</b>	<b>(\$ 25)</b>	<b>(\$ 33)</b>
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>				

Edgar Filing: TERADATA CORP /DE/ - Form 10-K

Net actuarial loss (gain)	\$ 32	\$ 28	(\$ 16)	(\$ 4)
Prior service credit	(2)	(3)	0	0
Total	\$ 30	\$ 25	(\$ 16)	(\$ 4)

The accumulated pension benefit obligation was \$113 million at December 31, 2012 and \$100 million at December 31, 2011. For pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of assets were \$116 million, \$108 million and \$63 million, respectively, at December 31, 2012, and \$84 million, \$78 million and \$35 million, respectively, at December 31, 2011.

**Table of Contents**

The following table presents the pre-tax net changes in projected benefit obligations recognized in other comprehensive income during 2012 and 2011:

In millions	Pension		Postemployment	
	2012	2011	2012	2011
Actuarial loss (gain) arising during the year	\$ 7	(\$ 1)	(\$ 12)	(\$ 7)
Amortization of (gain) loss included in net periodic benefit cost	(1)	(1)	0	0
Recognition of loss due to settlement	(1)	(3)	0	0
Foreign currency exchange	0	1	0	0
<b>Total recognized in other comprehensive expense (income)</b>	<b>\$ 5</b>	<b>(\$ 4)</b>	<b>(\$ 12)</b>	<b>(\$ 7)</b>

The following table presents the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during 2013:

In millions	Pension	Postemployment
Net loss (gain) to be recognized in other comprehensive loss (income)	\$ 2	(\$ 2)

The weighted-average rates and assumptions used to determine benefit obligations at December 31, 2012 and 2011, and net periodic benefit cost for the year ended December 31, 2012 and 2011, were as follows:

	Pension Benefit Obligations		Pension Benefit Cost	
	2012	2011	2012	2011
Discount rate	3.0%	3.7%	3.7%	3.9%
Rate of compensation increase	3.3%	3.3%	3.3%	3.3%
Expected return on plan assets	N/A	N/A	4.0%	4.3%

  

	Postemployment Benefit Obligations		Postemployment Benefit Cost	
	2012	2011	2012	2011
Discount rate	3.4%	4.1%	4.1%	4.4%
Rate of compensation increase	3.8%	3.7%	3.7%	3.7%
Involuntary turnover rate	1.0%	1.5%	1.5%	2.0%

The Company determines the expected return on assets based on individual plan asset allocations, historical capital market returns, and long-run interest rate assumptions, with input from its actuaries, investment managers, and independent investment advisors. The company emphasizes long-term expectations in its evaluation of return factors, discounting or ignoring short-term market fluctuations. Expected asset returns are reviewed annually, but are generally modified only when asset allocation strategies change or long-term economic trends are identified.

The discount rate used to determine year-end 2012 U.S. benefit obligations was derived by matching the plans' expected future cash flows to the corresponding yields from the Citigroup Pension Liability Index. This yield curve has been constructed to represent the available yields on high-quality fixed-income investments across a broad range of future maturities. International discount rates were determined by examining interest rate levels and trends within each country, particularly yields on high-quality long-term corporate bonds, relative to our future expected cash flows.

Gains and losses have resulted from changes in actuarial assumptions and from differences between assumed and actual experience, including, among other items, changes in discount rates and differences between actual and assumed asset returns. These gains and losses (except those differences being amortized to the market-related value) are only amortized to the extent that they exceed 10% of the higher of the market-related value or the projected benefit obligation of each respective plan.



**Table of Contents**

**Plan Assets.** The weighted-average asset allocations at December 31, 2012 and 2011, by asset category are as follows:

	Actual Asset Allocation As of December 31		Target Asset Allocation
	2012	2011	
Equity securities	39%	39%	38%
Debt securities	36%	33%	40%
Insurance (annuity) contracts	11%	11%	11%
Real estate	5%	5%	3%
Other	9%	12%	8%
Total	100%	100%	100%

**Fair Value.** GAAP has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers are more fully described in Note 9.

The following is a description of the valuation methodologies used for pension assets as of December 31, 2012.

*Common/collective trust funds (which include money market funds, equity funds, bond funds, real-estate indirect investment, etc):* Valued at the net asset value ( NAV ) of shares held by the Plan at year end, as reported to the Plan by the trustee, which represents the fair value of shares held by the Plan. Because the NAV of the shares held in the common/collective trust funds are derived by the value of the underlying investments, which are detailed in the table below, the Company has classified these underlying investments as Level 2 fair value measurements.

*Insurance contracts:* Valued by discounting the related future benefit payments using a current year-end market discount rate, which represents the fair value of the insurance contract. The Company has classified these contracts as Level 3 assets for fair value measurement purposes.

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2012:

In Millions	December 31, 2012	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash/cash equivalents/money market funds	\$ 2	\$ 0	\$ 2	\$ 0
Equity funds	27	0	27	0
Bond/fixed-income funds	25	0	25	0
Real-estate indirect investment	4	0	4	0
Commodities/Other	3	0	3	0
Insurance contracts	8	0	0	8
Total Assets at fair value	\$ 69	\$ 0	\$ 61	\$ 8



**Table of Contents**

The table below sets forth a summary of changes in the fair value of the pension plan level 3 assets for the year ended December 31, 2012:

<b>In Millions</b>	<b>Insurance Contracts</b>
Balance as of January 1, 2012	\$ 7
Purchases, sales and settlements, net	1
<b>Balance as of December 31, 2012</b>	<b>\$ 8</b>

The following table sets forth by level, within the fair value hierarchy, the pension plan assets at fair value as of December 31, 2011:

<b>In Millions</b>	<b>December 31, 2011</b>	<b>Fair Value Measurements at Reporting Date Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash/cash equivalents/money market funds	\$ 5	\$ 0	\$ 5	\$ 0
Equity funds	23	0	23	0
Bond/fixed-income funds	19	0	19	0
Real-estate indirect investment	3	0	3	0
Commodities/Other	2	0	2	0
Insurance contracts	7	0	0	7
<b>Total Assets at fair value</b>	<b>\$ 59</b>	<b>\$ 0</b>	<b>\$ 52</b>	<b>\$ 7</b>

The table below sets forth a summary of changes in the fair value of the pension plan level 3 assets for the year ended December 31, 2011:

<b>In Millions</b>	<b>Insurance Contracts</b>
Balance as of January 1, 2011	\$ 6
Purchases, sales and settlements, net	1
<b>Balance as of December 31, 2011</b>	<b>\$ 7</b>

**Investment Strategy.** Teradata employs a number of investment strategies across its various international pension plans. In some countries, particularly where Teradata does not have a large employee base, the Company may use insurance (annuity) contracts to satisfy its future pension payment obligations, whereby the Company makes pension plan contributions to an insurance company in exchange for which the pension plan benefits will be paid when the members reach a specified retirement age or on earlier exit of members from the plan. In other countries, the Company may employ local asset managers to manage investment portfolios according to the investment policies and guidelines established by the Company, and with consideration to individual plan liability structure and local market environment and risk tolerances. The Company's investment policies and guidelines primarily emphasize diversification across and within asset classes to maximize long-term returns subject to prudent levels of risk, with the overall objective of enabling the plans to meet their future obligations. The investment portfolios contain a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across domestic and international stocks, small and large capitalization stocks, and growth and value stocks. Fixed-income assets are diversified across government and corporate bonds. Where applicable, real estate investments are made through real estate securities, partnership interests or direct investment, and are diversified by property type and location.



**Table of Contents****Cash Flows Related to Employee Benefit Plans**

**Cash Contributions.** The Company expects to contribute approximately \$11 million to the international pension plans and \$4 million to postemployment benefit obligations in 2013.

**Estimated Future Benefit Payments.** The Company expects to make the following benefit payments reflecting past and future service from its pension and postemployment plans:

In millions	Pension Benefits	Postemployment Benefits
<b>Year</b>		
2013	\$ 7	\$ 4
2014	\$ 6	\$ 3
2015	\$ 7	\$ 3
2016	\$ 8	\$ 3
2017	\$ 8	\$ 3
2018-2022	\$ 42	\$ 14

**Savings Plans.** U.S. employees and many international employees participate in defined contribution savings plans. These plans generally provide either a specified percent of pay or a matching contribution on participating employees' voluntary elections. The Company's matching contributions typically are subject to a maximum percentage or level of compensation. Employee contributions can be made pre-tax, after-tax or a combination thereof. The expense for the U.S. savings plan was \$21 million in 2012, \$19 million in 2011 and \$15 million in 2010. The expense for international subsidiary savings plans was \$18 million in 2012, \$14 million in 2011 and \$11 million in 2010.

**Note 7 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. In an attempt to mitigate the impact of currency fluctuations, the Company uses foreign exchange forward contracts to hedge transactional exposures resulting predominantly 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 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 Consolidated Balance Sheet at their fair value. The fair values of foreign exchange contracts are based on market spot and forward exchange rates and represent estimates of possible value 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 instruments. Across its portfolio of contracts, Teradata has both long and short positions relative to the U.S. dollar. As a result, Teradata's net involvement is less than the total contract notional amount of the Company's foreign exchange forward contracts.

The contract notional amount of the Company's foreign exchange forward contracts was \$140 million (\$53 million on a net basis) at December 31, 2012, and \$102 million (\$19 million on a net basis) at December 31, 2011. The fair value derivative assets and liabilities recorded in other current assets and accrued liabilities at December 31, 2012 and 2011, were not material.

**Table of Contents**

Gains and losses from the Company's fair value hedges (foreign currency forward contracts and related hedged items) were immaterial for the years ended December 31, 2012, 2011 and 2010. 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.

**Note 8 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.

The Company is also subject to governmental investigations and requests for information from time to time. As previously reported, the United States Department of Justice conducted an investigation regarding the propriety of the Company's arrangements or understandings with others in connection with certain federal contracts entered into prior to Teradata's separation from NCR Corporation, and the adequacy of certain disclosures related to such contracts. The investigation arose 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. In January 2013, the Company settled this civil litigation for the \$3 million previously accrued on the balance sheet as of December 31, 2012, and the court dismissed the action.

**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 December 31, 2012, 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 years ended December 31:

In millions	2012	2011	2010
<b>Warranty reserve liability</b>			
Beginning balance at January 1	\$ 6	\$ 6	\$ 5
Accruals for warranties issued	17	13	14
Settlements (in cash or kind)	(15)	(13)	(13)
<b>Balance at end of period</b>	<b>\$ 8</b>	<b>\$ 6</b>	<b>\$ 6</b>

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.

**Table of Contents**

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 indemnification obligations under its charter and bylaws to its officers and directors, and 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 divestiture 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.

**Leases.** Teradata conducts certain of its sales and administrative operations using leased facilities, the initial lease terms of which vary in length. Many of the leases contain renewal options and escalation clauses that are not material to the overall lease portfolio. Future minimum operating lease payments and committed subleases under non-cancelable leases as of December 31, 2012, for the following fiscal years were:

In millions	Total Amounts	2013	2014	2015	2016	2017
Operating lease obligations	\$ 72	\$ 21	\$ 18	\$ 16	\$ 10	\$ 7
Sublease rentals	(14)	(3)	(3)	(3)	(3)	(2)
<b>Total committed operating leases less sublease rentals</b>	<b>\$ 58</b>	<b>\$ 18</b>	<b>\$ 15</b>	<b>\$ 13</b>	<b>\$ 7</b>	<b>\$ 5</b>

The Company's actual rental expense was \$25 million, \$23 million and \$17 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Company had no contingent rentals for these periods, but received sublease rental income of \$3 million, \$3 million and \$4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

**Concentrations of Risk.** The Company is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Teradata's business often involves large transactions with customers, and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses were adequate at December 31, 2012 and 2011.

The Company is also potentially subject to concentrations of supplier risk. Our hardware components are assembled exclusively by Flextronics International Ltd. ( Flextronics ). Flextronics procures a wide variety of components used in the manufacturing process on our behalf. Although many of these components are available from multiple sources, Teradata utilizes preferred supplier relationships to better ensure more consistent quality, cost and delivery. Typically, these preferred suppliers maintain alternative processes and/or facilities to ensure continuity of supply. Given the Company's strategy to outsource its manufacturing activities to Flextronics and to source certain components from single suppliers, a disruption in production at Flextronics or at a supplier could impact the timing of customer shipments and/or Teradata's operating results.

**Note 9 Fair Value Measurements**

GAAP has established a three-tier fair value hierarchy, which 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 significant other observable inputs, such as quoted prices in active markets for

**Table of Contents**

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. Fair value gains for open contracts are recognized as assets and fair value losses are recognized as liabilities. The fair value derivative assets and liabilities recorded in other current assets and accrued liabilities at December 31, 2012 and 2011, were not material. Any realized gains or losses would be mitigated by corresponding gains or losses on the underlying exposures. Further information on the Company's use of forward foreign exchange contracts is included in Note 7.

The Company's assets measured at fair value on a recurring basis and subject to fair value disclosure requirements at December 31, 2012 and 2011 were as follows:

In millions	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Money market funds, December 31, 2012	\$ 260	\$ 260	\$ 0	\$ 0
Money market funds, December 31, 2011	\$ 471	\$ 471	\$ 0	\$ 0
<b>Note 10 Debt</b>				

On June 15, 2012, Teradata entered into a new five-year revolving credit agreement (the Credit Facility), under which the Company may borrow up to \$300 million. The Credit Facility replaces a similar revolving credit agreement in the same maximum principal amount entered into by Teradata in 2007. The new Credit Facility expires June 15, 2017, at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. The interest rate charged on borrowings pursuant to the Credit Facility can vary depending on the interest rate option the Company chooses to utilize and the Company's leverage ratio at the time of the borrowing. In the near term, Teradata would anticipate choosing a floating rate based on the London Interbank Offered Rate (LIBOR). The Credit Facility is unsecured and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities.

As of December 31, 2012, the Company had no borrowings outstanding under the Credit Facility, leaving \$300 million in additional borrowing capacity available under the Credit Facility.

On April 5, 2011, Teradata obtained a new senior unsecured \$300 million five-year term loan. The term loan is payable in quarterly installments, commencing on June 30, 2012, with all remaining principal due on April 5, 2016. The outstanding principal amount of the term loan agreement bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate plus in each case a margin based on the leverage ratio of the Company. As of

**Table of Contents**

December 31, 2012, the term loan principal outstanding was \$289 million, and carried an interest rate of 1.25%. Teradata's term loan is recognized on the Company's balance sheet at its unpaid principal balance, and is not subject to fair value measurement. However, given that the loan carries a variable rate, the Company estimates that the unpaid principal balance of the term loan would approximate its fair value.

Annual contractual maturities of principal on debt outstanding at December 31, 2012, are as follows:

In millions	
2013	\$ 15
2014	26
2015	53
2016	195
<b>Total</b>	<b>\$ 289</b>

Interest expense on borrowings was \$4 million for each of the twelve months ended December 31, 2012 and 2011.

**Note 11 Segment, Other Supplemental Information and Concentrations**

Through December 31, 2012, Teradata managed 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.

Effective January 1, 2013, Teradata implemented an organizational change whereby the EMEA and APJ regions are being combined into a new International region. This larger International region will have greater critical mass and leverage of resources for deployment of the Company's integrated marketing management, big data analytics, and data warehouse solutions, as well as possess more knowledge and depth for our numerous consulting and support services offers.

The following table presents regional segment revenue and segment gross margin for the Company for the years ended December 31:

In millions	2012	2011	2010
<b>Segment revenue</b>			
Americas <sup>(1)</sup>	\$ 1,619	\$ 1,436	\$ 1,166
EMEA	636	548	442
APJ	410	378	328
<b>Total revenue</b>	<b>2,665</b>	<b>2,362</b>	<b>1,936</b>
<b>Segment gross margin</b>			
Americas	967	837	702
EMEA	331	281	232
APJ	193	175	154
<b>Total gross margin</b>	<b>1,491</b>	<b>1,293</b>	<b>1,088</b>
Selling, general and administrative expenses	728	663	526
Research and development expenses	183	174	147
<b>Total income from operations</b>	<b>580</b>	<b>456</b>	<b>415</b>
Other (expense) income, net	(2)	25	(1)

<b>Income before income taxes</b>	\$ 578	\$ 481	\$ 414
-----------------------------------	--------	--------	--------

- (1) The Americas region includes revenue from the United States of \$1,478 million in 2012, \$1,315 million in 2011 and \$1,059 million in 2010.



**Table of Contents**

The following table presents revenue by product and services revenue for the Company for the years ended December 31:

<b>In millions</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Products (software and hardware) <sup>(1)</sup>	\$ 1,297	\$ 1,122	\$ 933
Consulting services	776	695	536
Maintenance services	592	545	467
Total services	1,368	1,240	1,003
<b>Total revenue</b>	<b>\$ 2,665</b>	<b>\$ 2,362</b>	<b>\$ 1,936</b>

<sup>(1)</sup> 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.

The following table presents property and equipment by geographic area at December 31:

<b>In millions</b>	<b>2012</b>	<b>2011</b>
United States	\$ 121	\$ 100
Americas (excluding United States)	3	3
EMEA	9	4
APJ	17	13
<b>Property and equipment, net</b>	<b>\$ 150</b>	<b>\$ 120</b>

**Concentrations.** No single customer accounts for more than 10% of the Company's revenue. As of December 31, 2012, the Company is not aware of any significant concentration of business transacted with a particular customer that could, if suddenly eliminated, have a material adverse effect on the Company's operations. The Company also has no concentration of available sources of labor, services, licenses or other rights that could, if suddenly eliminated, have a material adverse effect on its operations.

**Note 12 Business Combinations**

During 2012, the Company completed an immaterial business acquisition and other investing activities, including the all-cash acquisition of 100 percent of the equity of eCircle, a leading full service digital marketing provider in Europe.

In January 2011, Teradata completed its acquisition of 100 percent of the stock of Aprimo, Inc. ( Aprimo ). Aprimo is a global provider of cloud-based integrated marketing management software solutions. The Aprimo organization now supports Teradata's applications strategy, including development, marketing, sales and services.

In April 2011, Teradata completed its acquisition of all remaining equity of Aster Data. Prior to the acquisition Teradata held an 11.2% equity interest in Aster Data. Aster Data is a market leader in advanced analytics and the management of diverse, multi-structured data. The combination of Teradata and Aster Data technologies enables businesses to perform better analytics on large sets of multi-structured data, also known as big data analytics.

**Table of Contents****Note 13 Quarterly Information (unaudited)**

In millions, except per share amounts	First	Second	Third	Fourth
<b>2012</b>				
Total revenues	\$ 613	\$ 665	\$ 647	\$ 740
Gross margin	\$ 338	\$ 382	\$ 361	\$ 410
Operating income	\$ 127	\$ 160	\$ 143	\$ 150
Net income	\$ 91	\$ 112	\$ 104	\$ 112
Net income per share:				
Basic	\$ 0.54	\$ 0.66	\$ 0.62	\$ 0.67
Diluted	\$ 0.53	\$ 0.65	\$ 0.60	\$ 0.66
<b>2011</b>				
Total revenues	\$ 506	\$ 581	\$ 602	\$ 673
Gross margin	\$ 275	\$ 316	\$ 328	\$ 374
Operating income	\$ 91	\$ 110	\$ 122	\$ 133
Net income	\$ 65	\$ 103	\$ 87	\$ 98
Net income per share:				
Basic	\$ 0.39	\$ 0.61	\$ 0.52	\$ 0.59
Diluted	\$ 0.38	\$ 0.60	\$ 0.51	\$ 0.57

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**  
None.

**Item 9A. CONTROLS AND PROCEDURES**  
**Evaluation of Disclosure Controls and Procedures**

Teradata maintains a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) that are designed to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including, as appropriate, the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to provide reasonable assurance as of December 31, 2012.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. Teradata's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



## **Table of Contents**

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Teradata's internal control over financial reporting as of the end of the period covered by this report. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on our assessment and those criteria, management concluded that Teradata's internal control over financial reporting was effective as of December 31, 2012.

Teradata's independent registered public accounting firm has issued their report on the effectiveness of Teradata's internal control over financial reporting, which appears in this Annual Report.

## **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Item 9B. OTHER INFORMATION**

None.

## **PART III**

## **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required to be included in Part III Item 10 is set forth under the captions "Election of Directors" and "Additional Information Concerning the Board of Directors" in Teradata's Notice of Annual Meeting of Stockholders and Proxy Statement to be filed with the SEC within 120 days after the end of our fiscal 2012 year (the "2013 Proxy Statement") and is incorporated herein by reference. The information under the heading "Executive Officers of the Registrant" in Part I Item 1 of this Annual Report on Form 10-K is also incorporated by reference in this section.

## **Item 11. EXECUTIVE COMPENSATION**

Information required to be included in Part III Item 11 is set forth under the captions "Director Compensation," "Compensation Discussion and Analysis," "Compensation Tables," "Potential Payments Upon Termination or Change in Control," "Compensation and Human Resource Committee" and "Board Compensation and Human Resource Committee Report on Executive Compensation" in Teradata's 2013 Proxy Statement and incorporated herein by reference.

## **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required to be included in Part III Item 12 is set forth under the captions "Stock Ownership" in Teradata's 2013 Proxy Statement and incorporated herein by reference. The information under the heading "Current Equity Compensation Plan Information" in Part II Item 5 of this Annual Report on Form 10-K is also incorporated by reference in this section.

**Table of Contents**

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required to be included in Part III Item 13 is set forth under the captions Related Person Transactions and Board Independence and Related Transactions in Teradata's 2013 Proxy Statement and incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information required to be included in Part III Item 14 is set forth under the caption Fees Paid to Independent Registered Public Accounting Firm in Teradata's 2013 Proxy Statement and incorporated herein by reference.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Index

1. Financial Statements: The consolidated financial statements of the Company and the Report of Independent Registered Public Accounting Firm as set forth in Part II, Item 8 of this Annual Report:

<u>Report of Independent Registered Public Accounting Firm</u>	46
<u>Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010</u>	47
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010</u>	48
<u>Consolidated Balance Sheets at December 31, 2012 and 2011</u>	49
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010</u>	50
<u>Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2012, 2011 and 2010</u>	51
<u>Notes to Consolidated Financial Statements</u>	52
2. Financial Statement Schedule: Financial Statement Schedule II Valuation and Qualifying Accounts is included in this Annual Report on page 84. All other schedules are not required under the related instructions or are not applicable.	

3. Exhibits: See Index of Exhibits below for a listing of all exhibits to this Annual Report.

(b) Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto.

**Reference Number**

per Item 601 of

**Regulation S-K**

**Description**

2.1	Form of Separation and Distribution Agreement between Teradata Corporation and NCR Corporation (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated September 11, 2007).
3.1	Amended and Restated Certificate of Incorporation of Teradata Corporation as amended and restated on September 24, 2007 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated September 25, 2007).
3.2	Amended and Restated By-Laws of Teradata Corporation, as amended and restated on April 20, 2012 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated April 26, 2012).



**Table of Contents**

4.1	Common Stock Certificate of Teradata Corporation (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q dated November 13, 2007).
10.1	Form of Tax Sharing Agreement between Teradata Corporation and NCR Corporation (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by NCR Corporation on September 25, 2007).
10.2	Form of Employee Benefits Agreement between Teradata Corporation and NCR Corporation (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by NCR Corporation on September 25, 2007).
10.3	Form of Exclusive Patent Agreement (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form 10).
10.4	Form of Patent License Agreement (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form 10).
10.5	Form of Technology Agreement (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form 10).
10.6*	Teradata Corporation Employee Stock Purchase Plan, as amended and restated on January 31, 2012 (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q dated August 3, 2012).
10.7*	Teradata Corporation Management Incentive Plan (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form 10).
10.8*	Teradata Change in Control Severance Plan, as amended and restated on July 24, 2012 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated July 27, 2012).
10.9*	Amended and Restated Teradata Corporation 2007 Stock Incentive Plan, dated February 3, 2009 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated February 9, 2009).
10.10*	Form of Stock Option Agreement under the Teradata Corporation 2007 Stock Incentive Plan for awards granted in 2007 (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form 10).
10.10.1*	Form of 2008 Stock Option Agreement under the Teradata Corporation 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated November 30, 2007).
10.10.2*	Form of 2007 Restricted Stock Unit Agreement under the Teradata Corporation 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.11.2 to the Annual Report on Form 10-K dated March 3, 2008).
10.10.3*	Form of 2008 Restricted Stock Unit Agreement under the Teradata Corporation 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated November 30, 2007).
10.10.4*	Form of 2007 Performance Based Restricted Stock Unit Agreement under the Teradata 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.11.4 to the Annual Report on Form 10-K dated March 3, 2008).
10.10.5*	Form of Performance-Based Restricted Stock Agreement under the Teradata 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.15 to the Registration Statement on Form 10).

**Table of Contents**

10.10.6*	Form of 2008 Performance-Based Restricted Stock Unit Agreement under the Teradata Corporation 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K dated November 30, 2007).
10.10.7*	Amendment to form of Restricted Stock Unit and Performance-Based Restricted Stock Unit Agreements under the Amended and Restated Teradata Corporation 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K dated October 13, 2008).
10.10.8*	Form of 2011 Performance-Based Restricted Stock Unit Agreement under the Teradata Corporation 2007 Stock Incentive Plan, approved on November 29, 2010 (incorporated by reference to Exhibit 10.11.8 to the Annual Report on Form 10-K dated March 1, 2011).
10.10.9*	Form of 2012 Performance-Based Restricted Stock Unit Agreement under the Teradata Corporation 2007 Stock Incentive Plan, approved on November 28, 2011 (incorporated by reference to Exhibit 10.11.9 to the Annual Report on Form 10-K dated February 29, 2012).
10.10.10*	Form of Stock Option Agreement Under the Teradata Corporation 2007 Stock Incentive Plan (Non-Statutory Stock Option), approved on December 2, 2008 (incorporated by reference to Exhibit 10.11.8 to the Annual Report on Form 10-K dated March 2, 2009).
10.10.11*	Form of Stock Option Agreement Under the Teradata Corporation 2007 Stock Incentive Plan (Non-Statutory Stock Option), approved on November 29, 2010 (incorporated by reference to Exhibit 10.11.10 to the Annual Report on Form 10-K dated March 1, 2011).
10.10.12*	Form of Restricted Stock Unit Agreement Under the Teradata Corporation 2007 Stock Incentive Plan, approved on December 2, 2008 (incorporated by reference to Exhibit 10.11.9 to the Annual Report on Form 10-K dated March 2, 2009).
10.10.13*	Form of Restricted Stock Unit Agreement Under the Teradata Corporation 2007 Stock Incentive Plan, approved on November 29, 2010 (incorporated by reference to Exhibit 10.11.12 to the Annual Report on Form 10-K dated March 1, 2011).
10.10.14*	Form of 2007 Director Option Grant Statement (Non-Statutory Stock Option) (incorporated by reference to Exhibit 10.11.6 to the Annual Report on Form 10-K dated March 3, 2008).
10.10.15*	Form of 2007 Director Restricted Stock Unit Grant Statement (incorporated by reference to Exhibit 10.11.7 to the Annual Report on Form 10-K dated March 3, 2008).
10.10.16*	Form of 2008 Director Option Grant Statement (Non-Statutory Stock Option) under the Teradata Corporation 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q dated May 15, 2008).
10.10.17*	Form of 2008 Director Restricted Stock Unit Grant Statement under the Teradata Corporation 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q dated May 15, 2008).
10.10.18*	Teradata Corporation Director Compensation Program, Amended and Restated effective April 26, 2011 (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q dated August 8, 2011).
10.11*	Teradata 2012 Stock Incentive Plan, dated April 20, 2012 (incorporated by reference to Appendix A to the Proxy Statement of Teradata Corporation dated March 1, 2012).
10.12*	Form of Stock Option Agreement Under the Teradata 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated April 26, 2012).



**Table of Contents**

10.12.1*	Form of Restricted Share Unit Agreement Under the Teradata 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K dated April 26, 2012).
10.12.2*	Form of Performance-Based Restricted Share Unit Agreement Under the Teradata 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K dated April 26, 2012).
10.12.3*	Form of Director Restricted Share Unit Grant Statement under the Teradata 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q dated August 3, 2012).
10.12.4*	Form of Special 2016 Performance-Based Restricted Share Unit Agreement under the Teradata 2012 Stock Incentive Plan.
10.12.5*	Form of Special Long-Term Strategic Performance-Based Restricted Share Unit Agreement under the Teradata 2012 Stock Incentive Plan.
10.13	Form of Master Agreement between Teradata Corporation and NCR Corporation for enterprise data warehousing sales and support (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form 10).
10.14	Form of Service Provider Agreement between Teradata Corporation and NCR Corporation (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form 10).
10.15	Form of Master Reseller Agreement between Teradata Corporation and NCR Corporation for Middle East and Africa (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form 10).
10.16	Purchase and Manufacturing Services Agreement, effective April 27, 1998, by and between NCR Corporation and Soletron Corporation, now known as Flextronics International Ltd. (filed as Exhibit 10.1 to NCR Corporation's Form 10-Q (SEC File No. 001-00395) for the fiscal quarter ended June 30, 1998 and incorporated herein by reference).
10.16.1	Amendment No. 1 to Purchase and Manufacturing Services Agreement, dated January 29, 2000, between NCR Corporation and Soletron Corporation, now known as Flextronics International Ltd. (incorporated by reference to Exhibit 10.22 to the Registration Statement on Form 10).
10.17*	Offer Letter to Michael Koehler (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form 10).
10.17.1*	Amendment to the Offer Letter from Teradata Corporation to Michael Koehler, dated October 7, 2008 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated October 13, 2008).
10.18*	Offer Letter to Stephen Scheppmann (incorporated by reference to Exhibit 10.23 to the Registration Statement on Form 10).
10.18.1*	Amendment to the Offer Letter from Teradata Corporation to Stephen Scheppmann, dated October 7, 2008 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated October 13, 2008).
10.19*	Offer Letter from Teradata Corporation to Robert Fair dated September 20, 2007 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated February 9, 2009).

**Table of Contents**

10.19.1*	Amendment to the Offer Letter from Teradata Corporation to Robert Fair effective December 31, 2008 (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K dated February 9, 2009).
10.20*	Offer Letter from Teradata Corporation to Daniel Harrington dated September 20, 2007 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K dated February 9, 2009).
10.20.1*	Amendment to the Offer Letter from Teradata Corporation to Daniel Harrington effective December 31, 2008 (incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K dated February 9, 2009).
10.21*	Offer Letter from Teradata Corporation to Darryl McDonald dated September 20, 2007.
10.21.1*	Amendment to the Offer Letter from Teradata Corporation to Darryl McDonald effective December 31, 2008.
10.22*	Employment contract with Hermann Wimmer, effective as of January 1.
10.23	Term Loan Agreement dated April 5, 2011 among Teradata Corporation, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and the other lenders party thereto (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K filed on April 6, 2011), including Exhibits A-F thereto (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed on May 6, 2011).
10.24	Revolving Credit Agreement, dated June 15, 2012 between Teradata Corporation, Bank of America, N.A., as Administrative Agent, JPMorgan Chase Bank, N.A., as Syndication Agent, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Citibank, N.A., as Co-Documentation Agents, and the lenders party thereto (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K dated June 20, 2012).
21	Subsidiaries of Teradata Corporation.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification pursuant to Rule 13a-14(a) dated February 28, 2013.
31.2	Certification pursuant to Rule 13a-14(a) dated February 28, 2013.
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated February, 28, 2013.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statement of Income for the twelve month periods ended December 31, 2012, 2011 and 2010, (ii) the Consolidated Statement of Comprehensive Income for the twelve month periods ended December 31, 2012, 2011 and 2010, (iii) the Consolidated Balance Sheet at December 31, 2012 and 2011, (iv) the Consolidated Statement of Cash Flows for the twelve month periods ended December 31, 2012, 2011 and 2010, (v) the Consolidated Statement of Changes in Stockholders Equity for the twelve month periods ended December 31, 2012, 2011 and 2010, (vi) Financial Statement Schedule II, and (vii) the notes to the Condensed Consolidated Financial Statements.

\* Management contracts or compensatory plans, contracts or arrangements.

**Table of Contents****TERADATA CORPORATION****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS****(In millions)**

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs & Expenses	Charged to Other Accounts*	Deductions	Balance at End of Period
Allowance for doubtful accounts					
Year ended December 31, 2012	\$ 13	\$ 2	\$ 3	\$ 0	\$ 18
Year ended December 31, 2011	\$ 9	\$ 5	\$ 0	\$ 1	\$ 13
Year ended December 31, 2010	\$ 9	\$ 0	\$ 0	\$ 0	\$ 9

\* The allowance for doubtful accounts increased by \$3 million for the year ended December 31, 2012 due to reserves from acquired entities which were closed during the period.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TERADATA CORPORATION

Date: February 28, 2013

By: /s/ Stephen M. Scheppmann  
Stephen M. Scheppmann  
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<b>Signature</b>	<b>Title</b>
/s/ Michael F. Koehler Michael F. Koehler	Director, President and Chief Executive Officer
/s/ Stephen M. Scheppmann Stephen M. Scheppmann	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ James M. Ringler James M. Ringler	Chairman of the Board of Directors
/s/ Edward P. Boykin Edward P. Boykin	Director
/s/ Nancy E. Cooper Nancy E. Cooper	Director
/s/ Cary T. Fu Cary T. Fu	Director
/s/ David E. Kepler David E. Kepler	Director
/s/ Victor L. Lund Victor L. Lund	Director
/s/ John G. Schwarz John G. Schwarz	Director
/s/ William S. Stavropoulos William S. Stavropoulos Date: February 28, 2013	Director