

2012 ANNUAL REPORT

**TERADATA<sup>®</sup>**

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## 2012 FINANCIAL REPORT

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# MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A") OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. 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.

## 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 information technology ("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 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).

## 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.

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

	2012	% of Revenue	2011	% of Revenue	2010	% of Revenue
<i>In millions</i>						
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%
Total revenue	2,665	100%	2,362	100%	1,936	100%
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%
Total gross margin	1,491	55.9%	1,293	54.7%	1,088	56.2%
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%
Total operating expenses	911	34.2%	837	35.4%	673	34.8%
Operating income	\$ 580	21.8%	\$ 456	19.3%	\$ 415	21.4%

### 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.

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.

### **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.

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

	2012	% of Revenue	2011	% of Revenue	2010	% of Revenue
<i>In millions</i>						
<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%
Total revenue	2,665	100%	2,362	100%	1,936	100%
<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%
Total gross margin	\$ 1,491	55.9%	\$ 1,293	54.7%	\$ 1,088	56.2%

**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.

## 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:

	2012	2011	2010
<i>In millions</i>			
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 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.

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:

	Total Amounts	2013	2014-2015	2016- 2017	2018 and Thereafter
<i>In millions</i>					
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.

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.

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.

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 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.

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.

### **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.

#### **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.

#### **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.

## REPORTS OF MANAGEMENT

### 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.

### 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.

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.



Michael F. Koehler  
President and  
Chief Executive Officer



Stephen M. Schepmann  
Executive Vice President and  
Chief Financial Officer

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

## TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF TERADATA CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows, and of changes in stockholders' equity 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. 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. 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

## CONSOLIDATED STATEMENTS OF INCOME

For the Year Ended December 31	2012	2011	2010
<i>In millions, except per share amounts</i>			
<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.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Year Ended December 31	2012	2011	2010
<i>In millions</i>			
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.

## CONSOLIDATED BALANCE SHEETS

At December 31	2012	2011
<i>In millions, except per share amounts</i>		
<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	–	–
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>	<b>1,779</b>	<b>1,494</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$3,066</b>	<b>\$2,616</b>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31	2012	2011	2010
<i>In millions</i>			
<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	–	(28)	–
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	–	600	–
Repayments of long-term borrowings	(11)	(300)	–
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	–	(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	\$ –

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

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Treasury Stock		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount			Income (Loss)	
<i>In millions</i>								
<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 postemployment 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 postemployment 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 postemployment 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



# 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.

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.

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 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.

*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:

	Internal-use Software			External-use Software		
	2012	2011	2010	2012	2011	2010
<i>In millions</i>						
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.

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.

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

For the year ended December 31	2012	2011	2010
<i>In millions, except earnings per share</i>			
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.

**NOTE 2: Supplemental Financial Information**

At December 31	2012	2011
<i>In millions</i>		
<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
Actuarial losses and prior service costs on employee benefit plans	(5)	(9)
Total accumulated other comprehensive income	\$ 29	\$ 16

### NOTE 3: Goodwill and Acquired Intangible Assets

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

	Balance December 31, 2011	Additions	Currency Translation Adjustments	Balance December 31, 2012
<i>In millions</i>				
<b>Goodwill</b>				
Americas	\$543	\$ 72	\$ 1	<b>\$616</b>
EMEA	120	111	8	<b>239</b>
APJ	79	—	(2)	<b>77</b>
<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:

	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 Adjustments
<i>In millions</i>					
<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	—	5	—
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:

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



#### NOTE 4: Income Taxes

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

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

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

	2012	2011	2010
<i>In millions</i>			
<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
<b>Total income tax expense</b>	<b>\$ 159</b>	<b>\$ 128</b>	<b>\$ 113</b>

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:

	2012	2011	2010
<i>In millions</i>			
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%)
<b>Total income tax expense</b>	<b>27.5%</b>	<b>26.6%</b>	<b>27.3%</b>

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.

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

	2012	2011
<i>In millions</i>		
<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)	–
<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.

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

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

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:

	2012	2011	2010
<i>In millions</i>			
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)
Total stock-based compensation, net of tax	\$ 29	\$ 22	\$ 16

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.

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	—	—	—
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 Under Option	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
<i>Shares in thousands</i>				
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 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:

	Number of Shares	Weighted- Average Grant Date Fair Value per Share
<i>Shares in thousands</i>		
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:

	Number of Shares	Weighted- Average Grant Date Fair Value
<i>Shares in thousands</i>		
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.

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:

	2012
Grant date fair value per share of Company common stock	\$58.63
Expected volatility	36.44%
Risk-free interest rate	0.47%
Dividend yield	—
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.

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

	2012		2011		2010	
	Pension	Postemployment	Pension	Postemployment	Pension	Postemployment
<i>In millions</i>						
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:

	Pension		Postemployment	
	2012	2011	2012	2011
<i>In millions</i>				
<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	—	—
Actuarial loss (gain)	9	(5)	(11)	(8)
Benefits paid	(7)	(12)	(2)	(6)
Currency translation adjustments	(1)	1	—	1
Benefit obligation at December 31	122	108	25	33
<b>Change in plan assets</b>				
Fair value of plan assets at January 1	59	59	—	—
Actual return on plan assets	5	(2)	—	—
Company contributions	12	12	—	—
Benefits paid	(7)	(12)	—	—
Currency translation adjustments	(1)	1	—	—
Plan participant contribution	1	1	—	—
Fair value of plan assets at December 31	69	59	—	—
Funded status (underfunded)	\$(53)	\$(49)	\$(25)	\$(33)
<b>Amounts Recognized in the Balance Sheet</b>				
Current liabilities	\$ (1)	\$ —	\$ (4)	\$ (5)
Noncurrent liabilities	(52)	(49)	(21)	(28)
Net amounts recognized	\$(53)	\$(49)	\$(25)	\$(33)
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>				
Net actuarial loss (gain)	\$ 32	\$ 28	\$(16)	\$ (4)
Prior service credit	(2)	(3)	—	—
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.

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

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

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

	Pension	Postemployment
<i>In millions</i>		
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.

**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:

	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)
<i>In millions</i>				
Cash/cash equivalents/money market funds	\$ 2	\$—	\$ 2	\$—
Equity funds	27	—	27	—
Bond/fixed-income funds	25	—	25	—
Real-estate indirect investment	4	—	4	—
Commodities/Other	3	—	3	—
Insurance contracts	8	—	—	8
<b>Total Assets at fair value</b>	<b>\$69</b>	<b>\$—</b>	<b>\$61</b>	<b>\$8</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, 2012:

	Insurance Contracts
<i>In millions</i>	
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:

	December 31, 2011	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)
<i>In millions</i>				
Cash/cash equivalents/money market funds	\$ 5	\$—	\$ 5	\$—
Equity funds	23	—	23	—
Bond/fixed-income funds	19	—	19	—
Real-estate indirect investment	3	—	3	—
Commodities/Other	2	—	2	—
Insurance contracts	7	—	—	7
<b>Total Assets at fair value</b>	<b>\$59</b>	<b>\$—</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:

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

**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.

#### 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:

	Pension Benefits	Postemployment Benefits
<i>In millions</i>		
<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.

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:

	2012	2011	2010
<i>In millions</i>			
<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)
Balance at end of period	<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.

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:

	Total Amounts	2013	2014	2015	2016	2017
<i>In millions</i>						
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 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:

	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)
<i>In millions</i>				
<b>Assets</b>				
Money market funds, December 31, 2012	\$260	\$260	\$—	\$—
Money market funds, December 31, 2011	\$471	\$471	\$—	\$—

#### NOTE 10: Debt

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 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:

	2012	2011	2010
<i>In millions</i>			
<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>	<b>\$ 578</b>	<b>\$ 481</b>	<b>\$ 414</b>

<sup>(1)</sup> 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.

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

	2012	2011	2010
<i>In millions</i>			
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:

	2012	2011
<i>In millions</i>		
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.”

**NOTE 13: Quarterly Information (unaudited)**

	First	Second	Third	Fourth
<i>In millions, except per share amounts</i>				
<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



## COMMON STOCK INFORMATION

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.

<b>Common Stock Closing Market Price</b>	<b>High</b>	<b>Low</b>
<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.

## SELECTED FINANCIAL DATA

Shown in millions, except per share and employee data

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

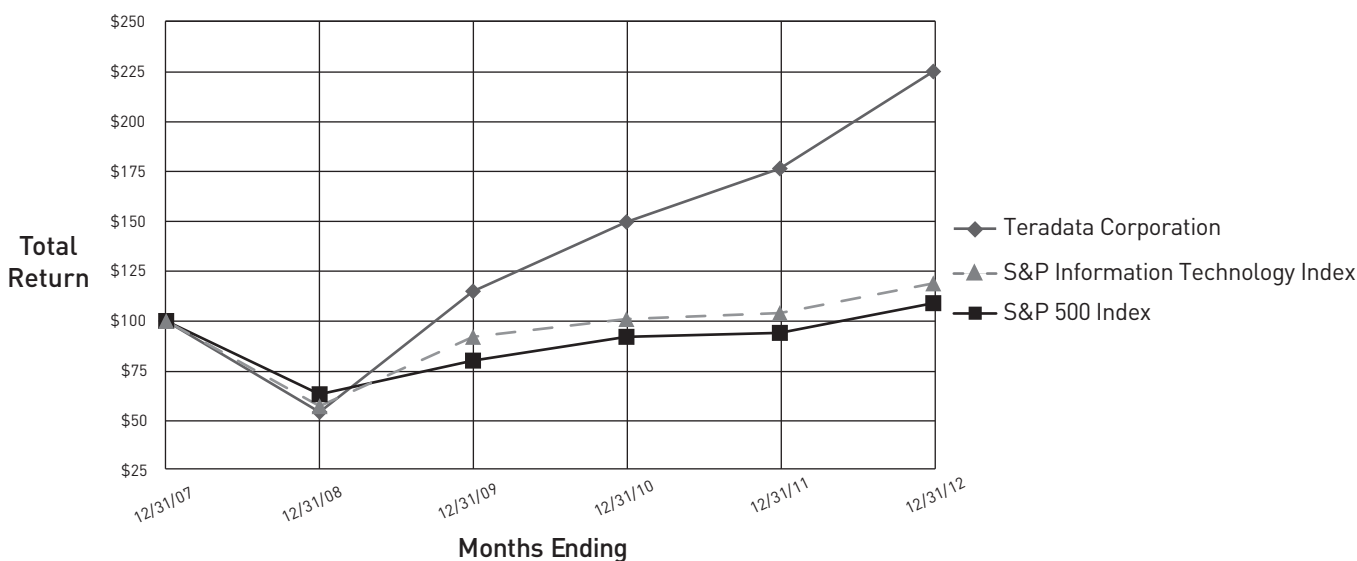
At December 31	2012	2011	2010	2009	2008
Total assets	\$ 3,066	\$ 2,616	\$ 1,883	\$ 1,569	\$ 1,430
Debt	\$ 289	\$ 300	\$ —	\$ —	\$ —
Total stockholders' equity	\$ 1,779	\$ 1,494	\$ 1,189	\$ 910	\$ 777
Cash dividends	\$ —	\$ —	\$ —	\$ —	\$ —
Number of employees	10,200	8,600	7,400	6,600	6,400

<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.

## TOTAL RETURN TO SHAREHOLDERS

The following graph compares the relative performance of Teradata stock with the cumulative total return of certain Standard & Poor's ("S&P") indices from December 31, 2007 through December 31, 2012, assuming an initial investment of \$100 and the reinvestment of dividends, if any. The comparisons are based upon historical data and are not indicative of, or intended to forecast, future performance of our common stock.



Company/Index	Dec 31 2007	Dec 31 2008	Dec 31 2009	Dec 31 2010	Dec 31 2011	Dec 31 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

## CORPORATE INFORMATION

### Annual Meeting of Stockholders

Stockholders are invited to attend Teradata's Annual Meeting of Stockholders at 8 a.m. on Tuesday, April 30, 2013, to be held at the:

Terry Executive Education Center  
3475 Lenox Road NE  
Atlanta, GA 30326

### Stockholder Account Inquiries

Information regarding "registered" stockholder accounts is available from Teradata's stock transfer agent, Computershare Shareholder Services, at [www.computershare.com/investor](http://www.computershare.com/investor) or by contacting:

Teradata Corporation  
c/o Computershare Shareholder Services  
P.O. Box 43078  
Providence, RI 02940-3078

Email: [www.computershare.com/investor](http://www.computershare.com/investor)

Phone: 888-730-8825 (U.S.)  
781-575-4592 (International)

TDD for the hearing impaired:  
800-952-9245 (U.S.)  
781-575-4592 (International)

### Company Information

Information regarding Teradata's filings with the U.S. Securities and Exchange Commission ("SEC"), annual report on Form 10-K, quarterly reports, and other financial information can be accessed at [www.teradata.com/investor](http://www.teradata.com/investor), or obtained without charge by contacting:

Teradata Investor Relations  
10000 Innovation Drive  
Dayton, OH 45342  
Phone: 937-242-4878  
E-mail: [investor.relations@teradata.com](mailto:investor.relations@teradata.com)

### CEO and CFO Certifications

In 2012, the company's CEO provided the New York Stock Exchange ("NYSE") with the annual CEO certification regarding Teradata's compliance with the NYSE's corporate governance listing standards. In addition, the company's CEO and CFO filed with the SEC all required certifications regarding the quality of Teradata's public disclosures in its fiscal 2012 periodic reports.

### Leadership

**Michael F. Koehler**  
President and Chief Executive Officer

**Rocky J. Blanton**  
Executive Vice President, Americas

**Stephen A. Brobst**  
Chief Technology Officer

**Todd B. Carver**  
Chief Ethics and Compliance Officer

**Alan C. Chow**  
Chief Customer Officer

**Sandra D. Davis**  
Chief Human Resource Officer

**Robert E. Fair, Jr.**  
Executive Vice President and Chief Marketing and Information Officer

**Scott E. Gnau**  
Executive Vice President, Teradata Labs

**Daniel L. Harrington**  
Executive Vice President, Services

**Bruce A. Langos**  
Chief Operations Officer

**Darryl D. McDonald**  
Executive Vice President, Applications

**Laura K. Nyquist**  
General Counsel and Secretary

**Stephen M. Scheppmann**  
Executive Vice President and Chief Financial Officer

**Hermann Wimmer**  
Executive Vice President, International

**Robert A. Young**  
Vice President,  
Financial Planning and Operations

### Board of Directors

**James M. Ringler**  
Chairman of the Board  
Teradata Corporation

**Edward P. Boykin**  
Retired President and Chief Operating Officer  
Computer Sciences Corporation

**Nancy E. Cooper**  
Retired Executive Vice President and Chief Financial Officer  
CA Technologies

**Cary T. Fu**  
Chairman Emeritus  
Benchmark Electronics, Inc.

**David E. Kepler**  
Executive Vice President, Business Services,  
Chief Sustainability Officer, and  
Chief Information Officer  
The Dow Chemical Company

**Michael F. Koehler**  
President and Chief Executive Officer  
Teradata Corporation

**Victor L. Lund**  
Former Non-Executive Chairman  
DemandTec, Inc.

**John G. Schwarz**  
Founder and Chief Executive Officer  
Visier Inc.

**William S. Stavropoulos**  
Chairman Emeritus  
The Dow Chemical Company

The logo for Teradata, featuring the word "TERADATA" in a bold, black, sans-serif font. The letter "T" is significantly larger and more stylized than the other letters, with a horizontal bar extending to the right. A registered trademark symbol (®) is located at the end of the word.

**TERADATA CORPORATION**

10000 Innovation Drive  
Dayton, OH 45342  
[www.teradata.com](http://www.teradata.com)



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