

TERADATA CORP /DE/  
Form 10-Q  
November 06, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2017  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-33458  
TERADATA CORPORATION  
(Exact name of registrant as specified in its charter)  
Delaware 75-3236470  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
10000 Innovation Drive  
Dayton, Ohio 45342

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At October 27, 2017, the registrant had approximately 121.0 million shares of common stock outstanding.

TABLE OF CONTENTS  
PART I—FINANCIAL INFORMATION

| Description  | Page      |
|--|-----------|
| Item 1. Financial Statements   |           |
| <u>Condensed Consolidated Statements of Income (Unaudited) Three and Nine Months Ended September 30, 2017 and 2016</u>               | <u>3</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) Three and Nine Months Ended September 30, 2017 and 2016</u> | <u>4</u>  |
| <u>Condensed Consolidated Balance Sheets (Unaudited) September 30, 2017 and December 31, 2016</u>                                    | <u>5</u>  |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) Nine Months Ended September 30, 2017 and 2016</u>                     | <u>6</u>  |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>  | <u>7</u>  |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                                 | <u>16</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>28</u> |
| Item 4. <u>Controls and Procedures</u>   | <u>28</u> |

PART II—OTHER INFORMATION

| Description  | Page      |
|--|-----------|
| Item 1. <u>Legal Proceedings</u>   | <u>29</u> |
| Item 1A. <u>Risk Factors</u>   | <u>29</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>29</u> |
| Item 3. <u>Defaults Upon Senior Securities</u>                             | <u>30</u> |
| Item 4. <u>Mine Safety Disclosures</u>                                     | <u>30</u> |
| Item 5. <u>Other Information</u>   | <u>30</u> |
| Item 6. <u>Exhibits</u>  | <u>31</u> |
| <u>Signatures</u>  | <u>32</u> |

Table of Contents

## Part 1—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## Teradata Corporation

## Condensed Consolidated Statements of Income (Unaudited)

|   | Three Months  |        | Nine Months   |        |
|---|---------------|--------|---------------|--------|
|   | Ended         |        | Ended         |        |
|   | September 30, |        | September 30, |        |
| In millions, except per share amounts                         | 2017          | 2016   | 2017          | 2016   |
| Revenue   |               |        |               |        |
| Product and cloud revenue                                     | \$172         | \$210  | \$504         | \$661  |
| Service revenue   | 354           | 342    | 1,026         | 1,035  |
| Total revenue   | 526           | 552    | 1,530         | 1,696  |
| Costs and operating expenses                                  |               |        |               |        |
| Cost of product and cloud                                     | 68            | 75     | 216           | 265    |
| Cost of services  | 208           | 183    | 598           | 558    |
| Selling, general and administrative expenses                  | 161           | 159    | 481           | 505    |
| Research and development expenses                             | 82            | 46     | 230           | 154    |
| Impairment of goodwill, acquired intangibles and other assets | —             | —      | —             | 80     |
| Total costs and operating expenses                            | 519           | 463    | 1,525         | 1,562  |
| Income from operations  | 7             | 89     | 5             | 134    |
| Other (expense) income, net                                   |               |        |               |        |
| Interest expense  | (4 )          | (3 )   | (11 )         | (9 )   |
| Interest income   | 3             | 2      | 8             | 4      |
| Other income (expense)  | —             | 2      | (1 )          | 1      |
| Total other (expense) income, net                             | (1 )          | 1      | (4 )          | (4 )   |
| Income before income taxes                                    | 6             | 90     | 1             | 130    |
| Income tax (benefit) expense                                  | (7 )          | 41     | (6 )          | 63     |
| Net income  | \$13          | \$49   | \$7           | \$67   |
| Net income per weighted average common share                  |               |        |               |        |
| Basic   | \$0.11        | \$0.38 | \$0.05        | \$0.52 |
| Diluted   | \$0.10        | \$0.37 | \$0.05        | \$0.51 |
| Weighted average common shares outstanding                    |               |        |               |        |
| Basic   | 123.7         | 129.7  | 127.3         | 129.6  |
| Diluted   | 125.8         | 131.6  | 129.1         | 131.3  |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

## Teradata Corporation

## Condensed Consolidated Statements of Comprehensive Income (Unaudited)

|  | Three     |       | Nine      |       |
|--|-----------|-------|-----------|-------|
|  | Months    |       | Months    |       |
|  | Ended     |       | Ended     |       |
|  | September |       | September |       |
|  | 30,       | 30,   | 30,       | 30,   |
| In millions                                  | 2017      | 2016  | 2017      | 2016  |
| Net income                                   | \$ 13     | \$ 49 | \$ 7      | \$ 67 |
| Other comprehensive income:                  |           |       |           |       |
| Foreign currency translation adjustments     | 7         | 1     | 17        | 7     |
| Defined benefit plans:                       |           |       |           |       |
| Defined benefit plan adjustment, before tax  | 1         | 2     | 3         | 4     |
| Defined benefit plan adjustment, tax portion | —         | —     | —         | (1 )  |
| Defined benefit plan adjustment, net of tax  | 1         | 2     | 3         | 3     |
| Other comprehensive income                   | 8         | 3     | 20        | 10    |
| Comprehensive income                         | \$ 21     | \$ 52 | \$ 27     | \$ 77 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of ContentsTeradata Corporation  
Condensed Consolidated Balance Sheets (Unaudited)

| In millions, except per share amounts  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current assets   |                       |                      |
| Cash and cash equivalents  | \$ 1,025              | \$ 974               |
| Accounts receivable, net   | 366                   | 548                  |
| Inventories  | 45                    | 34                   |
| Other current assets   | 72                    | 65                   |
| Total current assets   | 1,508                 | 1,621                |
| Property and equipment, net  | 159                   | 138                  |
| Capitalized software, net  | 136                   | 187                  |
| Goodwill   | 398                   | 390                  |
| Acquired intangible assets, net  | 23                    | 11                   |
| Deferred income taxes  | 53                    | 49                   |
| Other assets   | 30                    | 17                   |
| Total assets   | \$ 2,307              | \$ 2,413             |
| Liabilities and stockholders' equity   |                       |                      |
| Current liabilities  |                       |                      |
| Current portion of long-term debt  | \$ 53                 | \$ 30                |
| Short-term borrowings  | 180                   | —                    |
| Accounts payable   | 106                   | 103                  |
| Payroll and benefits liabilities   | 139                   | 139                  |
| Deferred revenue   | 364                   | 369                  |
| Other current liabilities  | 94                    | 88                   |
| Total current liabilities  | 936                   | 729                  |
| Long-term debt   | 493                   | 538                  |
| Pension and other postemployment plan liabilities  | 107                   | 96                   |
| Long-term deferred revenue   | 17                    | 14                   |
| Deferred tax liabilities   | 12                    | 33                   |
| Other liabilities  | 23                    | 32                   |
| Total liabilities  | 1,588                 | 1,442                |
| Commitments and contingencies (Note 7)   |                       |                      |
| Stockholders' equity   |                       |                      |
| Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively | —                     | —                    |
| Common stock: par value \$0.01 per share, 500.0 shares authorized, 120.6 and 130.6 shares issued at September 30, 2017 and December 31, 2016, respectively       | 1                     | 1                    |
| Paid-in capital  | 1,292                 | 1,220                |
| Accumulated deficit  | (505                  | ) (161               |
| Accumulated other comprehensive loss   | (69                   | ) (89                |
| Total stockholders' equity   | 719                   | 971                  |
| Total liabilities and stockholders' equity   | \$ 2,307              | \$ 2,413             |
| See Notes to Condensed Consolidated Financial Statements (Unaudited).  |                       |                      |

Table of ContentsTeradata Corporation  
Condensed Consolidated Statements of Cash Flows (Unaudited)

|   | Nine Months<br>Ended<br>September 30, |       |
|---|---------------------------------------|-------|
|   | 2017                                  | 2016  |
| In millions   |                                       |       |
| Operating activities  |                                       |       |
| Net income  | \$7                                   | \$67  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                       |       |
| Depreciation and amortization   | 103                                   | 97    |
| Stock-based compensation expense  | 51                                    | 49    |
| Deferred income taxes   | (22)                                  | (9)   |
| Impairment of goodwill, acquired intangibles and other assets                     | —                                     | 80    |
| Changes in assets and liabilities:  |                                       |       |
| Receivables   | 182                                   | 162   |
| Inventories   | (11)                                  | 4     |
| Current payables and accrued expenses   | —                                     | (14)  |
| Deferred revenue  | (2)                                   | (7)   |
| Other assets and liabilities  | (7)                                   | (35)  |
| Net cash provided by operating activities   | 301                                   | 394   |
| Investing activities  |                                       |       |
| Expenditures for property and equipment   | (59)                                  | (32)  |
| Proceeds from sale of property and equipment                                      | —                                     | 5     |
| Additions to capitalized software   | (7)                                   | (54)  |
| Proceeds from sale of business  | —                                     | 92    |
| Business acquisitions and other investing activities, net                         | (18)                                  | (16)  |
| Net cash used in investing activities   | (84)                                  | (5)   |
| Financing activities  |                                       |       |
| Repurchases of common stock   | (351)                                 | (69)  |
| Repayments of long-term borrowings  | (23)                                  | (22)  |
| Proceeds from credit facility borrowings  | 180                                   | —     |
| Repayments of credit facility borrowings  | —                                     | (180) |
| Other financing activities, net   | 20                                    | 28    |
| Net cash used in financing activities   | (174)                                 | (243) |
| Effect of exchange rate changes on cash and cash equivalents                      | 8                                     | 3     |
| Increase in cash and cash equivalents   | 51                                    | 149   |
| Cash and cash equivalents at beginning of period                                  | 974                                   | 839   |
| Cash and cash equivalents at end of period  | \$1,025                               | \$988 |
| See Notes to Condensed Consolidated Financial Statements (Unaudited).             |                                       |       |

Table of Contents

## Notes to Condensed Consolidated Financial Statements (Unaudited)

## 1. Basis of Presentation

These statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the results of operations, financial position and cash flows of Teradata Corporation (“Teradata” or the “Company”) for the interim periods presented herein. The year-end 2016 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Teradata’s most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the “2016 Annual Report”). The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year. Prior period amounts have been restated to conform to the current year presentation. As a result of the Company's early adoption of Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting, in the fourth quarter of 2016, retroactively to January 1, 2016, the restatement of prior year results resulted in a change in net cash provided by operating activities and net cash used by financing activities of \$3 million for the nine months ended September 30, 2016.

## 2. New Accounting Pronouncements

**Revenue Recognition.** In May 2014, the Financial Accounting Standards Board ("FASB") issued new guidance that affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The new guidance will supersede the revenue recognition requirements in the current revenue recognition guidance, and most industry-specific guidance. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer are amended to be consistent with the guidance on recognition and measurement in this update. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the FASB defines a five-step process which includes the following: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

The new revenue standard will be effective for annual reporting periods beginning after December 15, 2017, with early application permitted. The standard allows entities to apply the standard retrospectively for all periods presented or alternatively an entity is permitted to recognize the cumulative effect of initially applying the guidance as an opening balance sheet adjustment to retained earnings in the period of initial application (modified retrospective method).

The Company plans to adopt the new accounting guidance effective January 1, 2018 by utilizing the modified retrospective method. The Company is currently evaluating the impact on its consolidated financial position, results of operations and cash flows.

Although the Company is still evaluating the impact on its consolidated financial statements, the Company believes the most significant impacts may include the following items:

Table of Contents

As the Company transitions to the new go-to-market offerings, such as subscription-based licenses rather than perpetual licenses, the Company could potentially see a more significant impact in the amount of revenue recognized over time under the current rules but upfront under the new rules. This impact could result in revenue that is adjusted to retained earnings in the period of adoption and therefore not recognized in future periods or restated to prior periods due to the Company applying the modified retrospective method of adoption. This potential impact may affect how transactions are structured in the fourth quarter to minimize the revenue that is adjusted to retained earnings; The Company currently expenses contract acquisition costs and believes that the requirement to defer incremental contract acquisition costs and recognize them over the term of the contract to which the costs relate could have an impact, especially as the Company transitions to longer-term, over-time revenue contracts; The amount of revenue allocated to the delivered items and recognized upfront utilizing the relative selling price model is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (i.e., the non-contingent amount) under current rules. Under the new rules, the amounts allocated to delivered items and recognized upfront could be higher if it is probable that a significant reversal in the amount of revenue recognized will not occur in future periods upon the delivery of additional items or meeting other specified performance conditions; and The new standard will impact our internal control environment, including our financial statement disclosure controls, business process controls, new systems and processes, and enhancements to existing systems and processes. The Company does not expect that the new standard will result in substantive changes in our performance obligations or the amounts of revenue allocated between multiple performance obligations, with the exception of contingent revenue discussed above. The Company is still in the process of evaluating and quantifying these impacts, and our initial assessment may change as the Company continues with implementing new systems, processes, accounting policies and internal controls.

**Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost.** In March 2017, the FASB issued accounting guidance for "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost". The amendment requires the service cost component of net periodic benefit cost be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and other components of the net periodic benefit cost be presented separately from the line item that includes the service cost and outside of any subtotal of operating income. For public entities, the amendments are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

**Stock Compensation.** In May 2017, the FASB issued accounting guidance for "Compensation—Stock Compensation (Topic 718) - Scope of Modification Accounting". The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this update. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

**Derivatives and Hedging.** In August 2017, the FASB issued amendments to hedge accounting guidance. These amendments are intended to better align a company's risk management strategies and financial reporting for hedging relationships. Under the new guidance, more hedging strategies will be eligible for hedge accounting and the application of hedge accounting is simplified. In addition, the new guidance amends presentation and disclosure requirements. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted, including the interim periods within those years. The guidance requires the use of a modified retrospective approach. The Company is currently evaluating the impact of the guidance on our consolidated financial statements.





Table of Contents

## Recently Adopted Guidance

Simplifying the measurement for goodwill. In January 2017, the FASB issued guidance to simplify the accounting for the impairment of goodwill. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance is required to be applied prospectively and is effective for periods beginning after December 15, 2019, with early adoption permitted. The Company elected to early adopt this accounting guidance effective January 1, 2017. The Company does not expect any impact from the adoption of the new accounting guidance on its consolidated financial statements.

## 3. Supplemental Financial Information

| In millions       | As of              |                   |
|-------------------|--------------------|-------------------|
|                   | September 30, 2017 | December 31, 2016 |
| Inventories       |                    |                   |
| Finished goods    | \$ 33              | \$ 20             |
| Service parts     | 12                 | 14                |
| Total inventories | \$ 45              | \$ 34             |

## Deferred revenue

|                            |        |        |
|----------------------------|--------|--------|
| Deferred revenue, current  | \$ 364 | \$ 369 |
| Long-term deferred revenue | 17     | 14     |
| Total deferred revenue     | \$ 381 | \$ 383 |

## 4. Goodwill and Acquired Intangible Assets

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

| In millions                      | Balance,          |             | Currency Translation Adjustments | Balance,           |             |
|----------------------------------|-------------------|-------------|----------------------------------|--------------------|-------------|
|                                  | December 31, 2016 | Adjustments |                                  | September 30, 2017 | Adjustments |
| Goodwill                         |                   |             |                                  |                    |             |
| Americas Data and Analytics      | \$ 251            | \$ 2        | \$ —                             | \$ 253             |             |
| International Data and Analytics | 139               | —           | 6                                | 145                |             |
| Total goodwill                   | \$ 390            | \$ 2        | \$ 6                             | \$ 398             |             |

During the first nine months of 2017, the Company recorded additional goodwill of \$2 million, for an immaterial acquisition that occurred during the period.

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

Table of Contents

| In millions                                | Amortization<br>Life (in Years) | September 30, 2017       |   | December 31, 2016        |   |
|--|---------------------------------|--------------------------|---|--------------------------|---|
|  |                                 | Gross Carrying<br>Amount | Accumulated<br>Amortization<br>Currency<br>Translation<br>Adjustments | Gross Carrying<br>Amount | Accumulated<br>Amortization<br>Currency<br>Translation<br>Adjustments |
| Acquired intangible assets                 |                                 |                          |   |                          |   |
| Intellectual property/developed technology | 3 to 5                          | \$ 41                    | \$ (18 )  | \$ 71                    | \$ (61 )  |
| Trademarks/trade names                     | 5                               | —                        | —   | 1                        | (1 )  |
| In-process research and development        | 5                               | 5                        | (5 )  | 5                        | (4 )  |
| Total acquired intangible assets           |                                 | \$ 46                    | \$ (23 )  | \$ 77                    | \$ (66 )  |

During the first nine months of 2017 2017, the Company recorded additional intangibles of \$18 million, for intellectual property related to an immaterial acquisition that occurred during the period. The gross carrying amount of acquired intangibles was reduced by certain intangible assets previously acquired that became fully amortized and were removed from the balance sheet.

The aggregate amortization expense (actual and estimated) for acquired intangible assets is as follows:

| In millions          | Three Months<br>Ended<br>September<br>30, |      | Nine Months<br>Ended<br>September<br>30, |      |
|----------------------|---|------|--|------|
|                      | 2017                                      | 2016 | 2017                                     | 2016 |
| Amortization expense | \$ 3                                      | \$ 2 | \$ 6                                     | \$ 9 |

| In millions          | Actual For the years ended (estimated) |      |      |      |      |      |      |
|----------------------|--|------|------|------|------|------|------|
|                      | 2016                                   | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Amortization expense | \$ 10                                  | \$ 8 | \$ 7 | \$ 5 | \$ 4 | \$ 4 | \$ 1 |

### 5. Income Taxes

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

The effective tax rate is as follows:

| In millions        | Three Months<br>Ended<br>September 30, |       | Nine Months<br>Ended<br>September 30, |       |
|--------------------|--|-------|---------------------------------------|-------|
|                    | 2017                                   | 2016  | 2017                                  | 2016  |
| Effective tax rate | (116.7)%                               | 45.6% | (600.0)%                              | 48.5% |

For the three and nine months ended September 30, 2017, a net \$6 million discrete tax benefit was recognized from the reversal of uncertain tax positions on acquired tax attributes from previous acquisitions. This resulted in income tax benefit for the respective periods.

For the three months ended September 30, 2016, there was a \$22 million discrete tax expense related to the sale of the marketing applications business that occurred on July 1, 2016. For the nine months ended September 30, 2016,

Table of Contents

there were discrete tax items resulting from the \$76 million intangible asset impairment recorded in the first quarter of 2016, of which \$57 million was related to non-deductible goodwill and \$19 million was related to intangible assets for which \$6 million of deferred tax benefit had been recorded, as well as the \$22 million discrete tax impact from the sale of the marketing applications business recognized in the third quarter. In addition, there was a \$2 million favorable tax benefit recognized due to the release of a reserve taken for a previously uncertain tax position.

#### 6. Derivative Instruments and Hedging Activities

As a portion of Teradata's operations is conducted outside the U.S. 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 sheets 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 following table identifies the contract notional amount of the Company's foreign exchange forward contracts:

| In millions  | As of              |                   |
|--|--------------------|-------------------|
|  | September 30, 2017 | December 31, 2016 |
| Contract notional amount of foreign exchange forward contracts     | \$ 110             | \$ 156            |
| Net contract notional amount of foreign exchange forward contracts | \$ 16              | \$ 16             |

The fair value of derivative assets and liabilities recorded in other current assets and accrued liabilities at September 30, 2017 and December 31, 2016, 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 three and nine months ended September 30, 2017 and September 30, 2016. 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 (expense), depending on the nature of the related hedged item.

#### 7. Commitments and Contingencies

In the normal course of business, the Company is subject to proceedings, lawsuits, governmental investigations, 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.

As disclosed last quarter, through internal processes, the Company discovered certain questionable expenditures for travel, gifts and other expenses at one of its international subsidiaries doing business in a single foreign country, Turkey. Teradata promptly initiated an internal investigation into the matter, with the assistance of outside counsel



Table of Contents

and forensic accountants, to determine whether the expenditures may have violated the U.S. Foreign Corrupt Practices Act (“FCPA”) or other potentially applicable anti-corruption laws. In late February 2017, the Company voluntarily contacted the SEC and the U.S. Department of Justice (“DOJ”) to alert them to the relevant events and the Company’s internal investigation. Teradata has been updating the government on a regular basis regarding the status of the Company’s internal investigation and findings, including remedial actions and terminations, and plans to continue to cooperate fully.

The Company continues to believe that the questionable expenditures were limited to a single subsidiary’s business operations in Turkey and involved specific individuals who are no longer with the Company. Teradata’s operations in Turkey have constituted less than one half of one percent of consolidated revenues each year as reported by the Company since 2012. Under the circumstances, Teradata currently does not anticipate a material adverse effect on its business or financial condition as a result of this matter; however, the ultimate resolution of this matter with the DOJ and SEC cannot be predicted. Any determination that the Company’s operations or activities are not in compliance with existing laws or regulations could result in the imposition of fines, civil and criminal penalties, and equitable remedies, including disgorgement or injunctive relief.

**Guarantees and Product Warranties.** Guarantees associated with the Company’s business activities are reviewed for appropriateness and impact to the Company’s financial statements. Periodically, the Company’s customers enter into various leasing arrangements coordinated with a leasing company. In some instances, the Company guarantees the leasing company a minimum value at the end of the lease term on the leased equipment. As of September 30, 2017, 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 under other current liabilities in the balance sheet using pre-established warranty percentages for that product class.

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

| In millions                      | 2017 | 2016 |
|----------------------------------|------|------|
| Warranty reserve liability       |      |      |
| Beginning balance at January 1   | \$ 5 | \$ 6 |
| Provisions for warranties issued | 4    | 6    |
| Settlements (in cash or in kind) | (6 ) | (7 ) |
| Balance at September 30          | \$ 3 | \$ 5 |

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

In addition, the Company provides its customers with certain indemnification rights. In general, the Company agrees to indemnify the customer if a third-party asserts patent or other infringement on the part of the customer for its use of the Company’s products. The Company has entered into indemnification agreements with the officers and directors of its subsidiaries. From time to time, the Company also enters into agreements in connection with its acquisition and 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.



Table of Contents

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 September 30, 2017 and December 31, 2016.

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 behalf of the Company. Although many of these components are available from multiple sources, Teradata utilizes preferred supplier relationships to provide more consistent and optimal 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. In addition, a significant change in the forecasts to any of these preferred suppliers could result in purchase obligations for components that may be in excess of demand.

#### 8. Fair Value Measurements

Fair value measurements are established utilizing 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, foreign exchange forward 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 September 30, 2017 and December 31, 2016, were not material. Any realized gains or losses would be mitigated by corresponding gains or losses on the underlying exposures.



Table of Contents

The Company's assets measured at fair value on a recurring basis and subject to fair value disclosure requirements at September 30, 2017 and December 31, 2016 were as follows:

| In millions                            | Total | Fair Value Measurements at Reporting Date Using                            |   |  |
|--|-------|--|---|--|
|  |       | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets                                 |       |  |   |  |
| Money market funds, September 30, 2017 | \$483 | \$ 483   | \$ —  | \$ —   |
| Money market funds, December 31, 2016  | \$473 | \$ 473   | \$ —  | \$ —   |

## 9. Earnings per Share

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

| In millions, except per share amounts  | Three<br>Months<br>Ended<br>September<br>30, |        | Nine<br>Months<br>Ended<br>September<br>30, |        |
|--|--|--------|---|--------|
|  | 2017   | 2016   | 2017  | 2016   |
| Net income attributable to common stockholders                                     | \$13   | \$49   | \$7   | \$67   |
| Weighted average outstanding shares of common stock                                | 123.7  | 129.7  | 127.3                                       | 129.6  |
| Dilutive effect of employee stock options, restricted stock and other stock awards | 2.1  | 1.9    | 1.8   | 1.7    |
| Common stock and common stock equivalents  | 125.8  | 131.6  | 129.1                                       | 131.3  |
| Net income per share:  |  |        |   |        |
| Basic  | \$0.11                                       | \$0.38 | \$0.05                                      | \$0.52 |
| Diluted  | \$0.10                                       | \$0.37 | \$0.05                                      | \$0.51 |

Options to purchase 2.7 million and 3.6 million shares of common stock for the three and nine months ended September 30, 2017 and 4.7 million and 4.9 million shares of common stock for the three and nine months ended September 30, 2016 were not included in the computation of diluted earnings per share. The exercise prices of these options were greater than the average market price of the common shares for the period, and therefore would have been anti-dilutive.

## 10. Segment and Other Supplemental Information

Effective July 1, 2016, following the sale of the marketing applications business, Teradata is managing its business in two operating segments: (1) Americas region (North America and Latin America); and (2) International region (Europe, Middle East, Africa, Asia Pacific and Japan). For purposes of discussing results by segment, management excludes the impact of certain items, consistent with the manner by which management evaluates the performance of each segment. This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess financial performance. The chief operating decision maker evaluates the performance of the segments based on revenue and multiple profit measures, including segment gross profit. For management reporting purposes assets are not allocated to the segments.



Table of Contents

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

|   | Three Months Ended September 30, |       | Nine Months Ended September 30, |       |
|---|----------------------------------|-------|---------------------------------|-------|
| In millions   | 2017                             | 2016  | 2017                            | 2016  |
| Segment revenue   |                                  |       |                                 |       |
| Americas Data and Analytics   | \$292                            | \$317 | \$830                           | \$937 |
| International Data and Analytics  | 234                              | 235   | 700                             | 690   |
| Total Data and Analytics  | 526                              | 552   | 1,530                           | 1,627 |
| Marketing Applications  | —                                | —     | —                               | 69    |
| Total revenue   | 526                              | 552   | 1,530                           | 1,696 |
| Segment gross profit  |                                  |       |                                 |       |
| Americas Data and Analytics   | 173                              | 195   | 482                             | 564   |
| International Data and Analytics  | 97                               | 118   | 304                             | 341   |
| Total Data and Analytics  | 270                              | 313   | 786                             | 905   |
| Marketing Applications  | —                                | —     | —                               | 34    |
| Total segment gross profit  | 270                              | 313   | 786                             | 939   |
| Stock-based compensation costs  | 3                                | 3     | 10                              | 11    |
| Amortization of acquisition-related intangible asset costs                | —                                | —     | —                               | 2     |
| Acquisition, integration, reorganization and transformation-related costs | 2                                | 1     | 6                               | 6     |
| Amortization of capitalized software costs                                | 15                               | 15    | 54                              | 47    |
| Selling, general and administrative expenses                              | 161                              | 159   | 481                             | 505   |
| Research and development expenses   | 82                               | 46    | 230                             | 154   |
| Impairment of goodwill, acquired intangibles and other assets             | —                                | —     | —                               | 80    |
| Income from operations  | \$7                              | \$89  | \$5                             | \$134 |

Prior period segment information has been reclassified to conform to the current period presentation. Certain items, including amortization of certain capitalized software costs, were excluded from segment gross profit to conform to the way the Company manages and reviews the results by segment.

The following table presents a further disaggregation of revenue for the Company:

|  | Three Months Ended September 30, |       | Nine Months Ended September 30, |         |
|--|----------------------------------|-------|---------------------------------|---------|
| In millions  | 2017                             | 2016  | 2017                            | 2016    |
| Product - rights to upgrades, subscription and cloud | \$82                             | \$72  | \$233                           | \$211   |
| Maintenance - software and hardware                  | 185                              | 175   | 543                             | 517     |
| Total recurring revenue                              | 267                              | 247   | 776                             | 728     |
| Product - perpetual licenses and hardware            | 90                               | 137   | 271                             | 411     |
| Consulting services                                  | 169                              | 168   | 483                             | 488     |
| Marketing applications                               | —                                | —     | —                               | 69      |
| Total revenue  | \$526                            | \$552 | \$1,530                         | \$1,696 |



Table of Contents

## 11. Reorganization and Business Transformation

In the fourth quarter of 2015, the Company announced a plan to realign Teradata's business by reducing its cost structure and focusing on the Company's core data and analytics business. This business transformation included exiting the marketing applications business, rationalizing costs, and modifying the Company's go-to-market approach. The Company incurred the following costs for the nine months ended September 30:

|   | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 2016 |        |
|---|--|--------|
| In millions   |  |        |
| Employee severance and other employee related cost          | \$ 2   | \$ 12  |
| Asset write-downs   | 1  | 80     |
| Professional services, legal and other transformation costs | 24   | 27     |
| Total reorganization and business transformation cost       | \$ 27  | \$ 119 |

For the nine months ended September 30, 2017, costs incurred above includes \$3 million for an inventory charge and other associated transformation costs related to the discontinuation of Teradata's prior hardware platforms. In addition to the costs and charges incurred above, the Company made cash payments of less than \$1 million for the nine months ended September 30, 2017 and \$18 million for the nine months ended September 30, 2016 for employee severance related to this business transformation that did not have a material impact on its Statement of Operations due to Teradata's accounting for its postemployment benefits under Accounting Standards Codification 712, Compensation - Nonretirement Postemployment Benefits ("ASC 712"), which uses actuarial estimates and defers the immediate recognition of gains or losses.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&amp;A").

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Quarterly Report on Form 10-Q and in the 2016 Annual Report on Form 10-K. The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Third Quarter Financial Overview

As more fully discussed in later sections of this MD&A, the following were significant financial items for the third quarter of 2017:

Total revenue was \$526 million for the third quarter of 2017, down 5% from the third quarter of 2016, with an underlying 18% decrease in product and cloud revenue and a 4% increase in services revenue.

Gross margin decreased to 47.5% in the third quarter of 2017 from 53.3% in the third quarter of 2016, driven by a decrease in both product and cloud and services gross margin.

Operating expenses increased by 19% in the third quarter of 2017 due to the Company no longer capitalizing certain software development costs as well as additional spend for strategic initiatives.

Operating income was \$7 million in the third quarter of 2017, compared to \$89 million in the third quarter of 2016.

Net income in the third quarter of 2017 was \$13 million, compared to \$49 million in the third quarter of 2016

## Table of Contents

### Strategic Overview

Teradata's strategy is based around our core belief that analytics and data unleash the potential of great companies allowing them to make better and faster decisions and attain competitive advantage. We empower companies to achieve high-impact business outcomes through scalable analytics on an agile data foundation. Through our focus on leading with business outcomes and a consultative approach, our goal is to serve as a trusted advisor to both the business and technical leaders in our customers' organizations. Our business analytics solutions and technology are ideally suited for the world's largest companies as they have the largest and most complex analytics challenges, and therefore provide the largest revenue opportunities for Teradata.

Our strategy is to provide a differentiated set of offerings to this target market through a portfolio of data and analytics solutions, including the following:

**Hybrid Cloud:** leading technology and services to deliver an analytical ecosystem deployed in a hybrid cloud architecture, providing analytic processing across flexible deployment options, including the Teradata Cloud and public clouds, as well as on-premises on Teradata hardware or commodity hardware;

**Teradata Analytics Platform:** evolution of our market-leading integrated data warehouse engine to include access to the best analytic functions and leading analytic engines, leveraging preferred tools and languages against multiple data types integrated at scale;

**Business Analytics Consulting and Solutions:** high-value business outcomes realized by engaging with business users through solution-based selling that leverages analytic consulting and repeatable analytical intellectual property ("IP"); and

**Ecosystem Architecture Consulting:** best-in-class architecture consulting expertise to help customers build optimized analytical ecosystems, leveraging both open source and commercial solutions.

We deliver our solutions on-premises and via the cloud, including our "as a service" IntelliCloud™ offering. This provides our customers choice in how they deploy a Teradata analytics environment and leverage the power of our solutions. These flexible delivery options are designed to meet the evolving needs of our customers, and in turn, extend our market opportunity.

In support of our strategy, we are continuing to optimize our go-to-market and sales approach to improve effectiveness in demand creation and address new and expanded market opportunities, such as with our consultative business solutions and cloud offerings. We will continue investing in partnerships to increase the number of solutions available on Teradata software, maximize customer value, and increase our market coverage.

We believe our more consultative, business outcome led approach and our portfolio of offerings that provide customers choice in how they procure and deploy analytics will best position us to be our customers' trusted advisor and partner of choice for architecting, implementing, and managing their analytic solutions.

Our long-term strategic objectives are to:

- deliver business outcomes for our customers through technology-enabled analytics at scale,
- by focusing on companies with the largest analytic opportunities,
- by offering market-leading hybrid cloud technology,
- that is enabled by a world class go-to-market sales and support team,
- with the ultimate goal of generating revenue, earnings, and cash flow growth.

### Future Trends

We believe that future demand for our analytic solutions will increase based on the growth of new, high volume data sources such as sensor and machine-generated data, and based on data and analytics enabled use cases in areas such as the following:

- patient service experience insights,
- pharmacy analytics for healthcare companies,
- raw materials and yield optimization for manufacturers,

Table of Contents

natural language processing for better speech recognition, and  
document classification to improve process automation banks.

Analytic environments are becoming more complex to design and manage due to increasing types of analytic tools and techniques, multiple data management systems both on premises and in the cloud, commercial and open source technologies that need to be integrated, varying service-level requirements, and the escalating growth in the volume of data. This complexity drives the need for an overall architecture to manage such environments. Demand for value-added consulting and services is increasing as customers seek help with evolving their analytic architectures and rapidly deploying their analytic architectural solutions. Companies are increasingly purchasing analytic capabilities “as a service” and strive to get value out of all their data.

Overall, analytics are growing in importance as global businesses seek new means to drive business value from the ever-increasing amounts and types of data. As a result, we expect that Teradata’s leadership status and investments in our strategic areas of focus will position us for future growth.

This anticipated growth, however, is not expected to be without its challenges from general economic conditions, competitive pressures, alternative technologies and deployment options, and other risks and uncertainties. Over the past few years, we have seen a shift in the market that included a reduction in customers’ large capital investments in traditional data analytic systems and related services. Specifically, customers have been focusing investments in their analytical ecosystems on products which have lower average selling prices than traditional analytic platforms, and changing their buying behavior with decisions shifting from IT to business users who typically want operating expense purchasing options. As a result, our revenue has been impacted by our customers’ focus on less capital-intensive options like cloud, subscription-based licenses, rental and usage-based models. In addition, an increasing percentage of our customers want to buy easy-to-use, vendor managed, on-line delivery “as-a-service” analytics rather than traditional on-premises analytic systems. One of the greatest challenges for predicting future revenue growth is forecasting the rate at which customers adopt and change the way they purchase and deploy Teradata’s analytic technologies. In the short term, we expect revenue to decline as customers shift to these new recurring revenue models where revenue is recognized over multiple years. Longer term, we expect the year-over-year mix of revenues to normalize and increase as more customers transition to these new purchasing models.

Overall, we believe that Teradata’s technology is highly differentiated with our ability to handle the concurrency and service-level agreements of hundreds to thousands of mission-critical users and applications. Teradata is continuing to expand our core analytics technology into the Teradata Analytics Platform. The first step on this journey is to integrate Teradata and Aster technology, which increases the breadth of analytic use cases that can be performed by Teradata. Further, we believe the Company has the opportunity for future revenue growth from both the expansion of our existing customers’ analytical ecosystems (from both business as well as IT users), and from the addition of new customers. We have expanded our offerings as well as our pricing options to make it easier for customers to buy and expand with Teradata including flexible offerings such as availability in the cloud and subscription-based licensing programs. Our approach offers subscription-based licensing to provide more flexible and easier purchasing options for customers. Our subscription-based license is portable across deployment options. In other words, as business or operating needs change, that license can be originally deployed on-premises on Teradata hardware or as ‘software only’ on commodity hardware that customers procure, in our Teradata Cloud, or in the public cloud; and this license can be moved at a future date to a different deployment option without additional payment. This flexibility allows our customers to deploy anywhere.

There is risk that pricing and competitive pressures on our solutions could increase in the future as major customers evaluate and rationalize their analytics infrastructure, particularly to the extent that cost becomes the top focus and lower-cost/lower performing alternatives are more seriously and frequently considered. However, such alternatives generally do not enable companies to perform mission-critical, complex analytic workloads to address customer’s

needed business outcomes from large-scale analytics, discovery analytics, and data management such as those enabled by Teradata's portfolio of offerings. As the market continues to evolve, we may be challenged to generate revenue growth shorter term as customers purchase in smaller deal sizes, and more of our customers shift from upfront perpetual licenses to over-time subscription licenses at a pace which is difficult to predict.



Table of Contents

We continue to believe that analytics will remain a high priority for companies and longer term will drive growth for Teradata's leading solutions. Moreover, we continue to be committed to new product development and achieving a positive yield from our research and development spending and resources, which are intended to drive future demand. As described above, we continue to transform our go-to-market approach to better position Teradata with both business buyers and IT buyers, and to expand with our existing customers as well as add new customers. In addition, we will continue to optimize our go-to-market structure to focus on the largest analytic opportunities, and to manage our cost structure as we broaden our product and consulting services portfolio and market penetration.

As a portion of the Company's operations and revenue occur outside the U.S. and in currencies other than the U.S. dollar, the Company is exposed to fluctuations in foreign currency exchange rates. Based on currency rates as of October 31, 2017, Teradata is currently not expecting any material impact from currency translation on our full-year projected revenue.

**Business Transformation**

Teradata continues to execute on our business transformation plan. As described above, we are strengthening our consultative approach to selling data analytics that enable high-impact business outcomes for our customers and are extending our portfolio of hybrid cloud solutions. We have realigned and continue to optimize our go-to-market approach to improve sales effectiveness and achieve better financial results from our targeted customers. We will continue to invest in and prioritize initiatives that strengthen our ability to be our customers' trusted advisor for data and analytics.

A foundational element of the Teradata strategy is Teradata Everywhere which brings together our expanded offerings across cloud and on-premises with a flexible pricing and licensing model to de-risk customer purchase decisions.

Through Teradata Everywhere, customers can:

- **Analyze Anything:** enables analytic users throughout the organization to use their preferred analytic tools and engines across data sources, at scale;
- **Deploy Anywhere:** provides analytic processing in the Teradata Cloud and public clouds, as well as on-premises on Teradata hardware or commodity hardware;
- **Buy Any Way:** allows companies to purchase our software on a subscription-basis as well as on a perpetual basis at different price points; and
- **Move Anytime:** includes software license portability that provides flexibility to run analytics across deployment options.

Our shift toward subscription-based licenses is beginning to move our revenues away from traditional, upfront revenue sales and deployment models to a model where revenue is recognized over time. This has had an impact on Teradata's reported revenue year-to-date in 2017, and we expect this trend to continue to impact reported revenue in a meaningful way in the fourth quarter of 2017. We expect the mix of our revenues to shift toward subscription-based licenses, cloud deployments, analytical ecosystems, and analytic consulting services over time, as these are faster growing revenue streams, which we believe will help increase our recurring revenue over time.

Progress on our transformation is evident through new and expanded market offerings, such as IntelliCloud and Teradata IntelliSphere™ that help future-proof and de-risk customer investments in Teradata technology. As a result, we are making it easier to buy and grow with Teradata.

Another element that is critical to Teradata's successful transformation plan is modifying our go-to-market efforts to a more consultative business outcome led approach to better address the increasing relevance of business buyers and to help customers build analytical ecosystems that include our own technologies as well as open source and other commercial solutions. We have adjusted our go-to-market efforts to address these items and to align with the way we believe that our customers want to buy data analytics solutions.

In 2017, we have continued to reinvest in the business after significantly reducing our cost structure in 2016. We have rationalized the Company's expense structure and are continuing to invest for Teradata's future, including



Table of Contents

investments to support our cloud-based initiatives, analytical consulting and solutions, realignment of our go-to-market approach, and modernizing our infrastructure.

Teradata has introduced additional financial and performance measures to allow for greater transparency regarding the progress we are making toward achieving our strategic objectives, which will continue to evolve as our business transformation progresses. These financial and performance measures currently include the following:

• **TCore** - is a metric that tracks a consistent unit of consumption across all of Teradata's products over the wide variety of configuration and deployment options, both on-premises and in the cloud. It is determined from the number of physical central processing unit ("CPU") cores in a system and adjusted/reduced by the underlying hardware platform's input/output ("I/O") throughput performance capabilities.

• **Annual Recurring Revenue ("ARR")** - is the annual value at a point in time of all of our recurring contracts, including maintenance, software upgrade rights, subscription licenses, rental and cloud and excludes managed services.

• **Product ARR** - is the annual value at a point in time of all product related and cloud recurring contracts, including software upgrade rights, subscription licenses, rental and cloud.

• **Recurring Revenue as a Percentage of Total Revenue** - revenue from all recurring contracts, including maintenance/support, software upgrade rights, subscription licenses, rental and cloud divided by total Company revenue.

• **Perpetual Equivalent Value** - represents the estimated value the Company would have recognized as revenue if the customer had purchased certain subscription licenses, rental or cloud under historical purchasing practices (i.e., under perpetual license purchasing options) and is calculated as follows:

• The value is based only on new incremental contracts with a minimum 1-year commitment that are executed during the period.

• For software subscription license and rental agreements, we apply the calculated discount for each transaction to the perpetual list prices for software and hardware.

• For cloud offerings, we apply the calculated discount for the transaction to the perpetual list prices for software only, excluding charges for hosting, infrastructure and support services.

• For all transactions, we exclude maintenance, software upgrades and recognized revenue in the period.

• In all instances, the perpetual equivalent value cannot exceed the contract value of the applicable transaction.

• **Business Consulting Revenue Growth** - revenue growth from our strategic service offerings around analytics consulting and business consulting. Although the revenue from Business Consulting represents a small percent of total Company revenue, it is a leading indicator of future TCore (consumption) growth and measures our effectiveness of becoming a trusted advisor within our customers and targeted prospects.

Results of Operations for the Three Months Ended September 30, 2017

Compared to the Three Months Ended September 30, 2016

Revenue

| In millions               |       | % of    |       | % of    |  |
|---------------------------|-------|---------|-------|---------|--|
|                           | 2017  | Revenue | 2016  | Revenue |  |
| Product and cloud revenue | \$172 | 32.7 %  | \$210 | 38.0 %  |  |
| Service revenue           | 354   | 67.3 %  | 342   | 62.0 %  |  |
| Total revenue             | \$526 | 100 %   | \$552 | 100 %   |  |

Teradata revenue decreased \$26 million or 5% in the third quarter of 2017 compared to the third quarter of 2016, primarily due to a decline in product and cloud revenue, which decreased 18% in the third quarter of 2017 from the prior-year period. As discussed under the future trends section of this MD&A, our revenue has been impacted by our customers' focus on less capital intensive buying options like cloud, subscription-based licenses, rental and usage-based models. This shift is being addressed by our business transformation strategy and continues to impact our quarterly revenue comparisons as some revenue that we would normally recognize in a given quarter may now

Table of Contents

be spread over a number of periods. Services revenue increased 4% in the third quarter of 2017 compared to the prior-year period. The increase was primarily driven by a 6% increase in maintenance revenue. Consulting revenue was up 1%.

Included below are financial and performance growth metrics for the third quarter of 2017 that Teradata is tracking as part of its business transformation strategy:

We had \$267 million (51% of total revenue) of recurring revenue in the third quarter of 2017, which is 8% growth from \$247 million (45% of total revenue) in the third quarter of 2016. We expect recurring revenue to grow high single digits in 2017.

Recurring product revenue increased 14% from the third quarter of 2016. We expect recurring product revenue to grow more than 10% in 2017.

Total Business Consulting revenue increased 23% from the third quarter of 2016. We expect Business Consulting revenue to grow approximately 20% in 2017.

We expect approximately \$225 million to \$250 million of perpetual equivalent contract value during 2017.

We expect ARR of \$1.1 billion by the end of the year with approximately one third of that being product ARR. We expect total ARR to grow more than 10% and product ARR to grow approximately 25% for 2017.

We expect TCore growth in the high teens from our 2016 year-end installed base.

## Gross Profit

| In millions                    | % of<br>2017 Revenue |        | % of<br>2016 Revenue |        |
|--------------------------------|----------------------|--------|----------------------|--------|
| Product and cloud gross profit | \$104                | 60.5 % | \$135                | 64.3 % |
| Service gross profit           | 146                  | 41.2 % | 159                  | 46.5 % |
| Total gross profit             | \$250                | 47.5 % | \$294                | 53.3 % |

The product and cloud gross profit variance was driven by the impact of deal mix, which was driven by a higher overall mix of hardware revenue.

Service gross profit was negatively impacted by investments that we are making in our consulting business to drive increased consumption of Teradata's products. Service gross profit was also impacted by a decrease in maintenance margin due to higher support and parts costs.

## Operating Expenses

| In millions                                  | % of<br>2017 Revenue |        | % of<br>2016 Revenue |        |
|--|----------------------|--------|----------------------|--------|
| Selling, general and administrative expenses | \$161                | 30.6 % | \$159                | 28.8 % |
| Research and development expenses            | 82                   | 15.6 % | 46                   | 8.3 %  |
| Total operating expenses                     | \$243                | 46.2 % | \$205                | 37.1 % |

The increase in Selling, General and Administrative ("SG&A") expense was primarily driven by an increase in regional selling expense due to investments in demand creation, primarily in the Americas region, as well as additional spend to support our new strategy. This was partially offset by the release of a prior period transformation charge related to the discontinuation of our prior hardware platforms.

Research and Development ("R&D") expenses increased primarily due to strategic investments in managed and public cloud in addition to the impact from the Company no longer capitalizing certain software development costs as a result of a movement to agile development methodologies. The Company did not capitalize any R&D costs in the third quarter of 2017 compared to \$16 million in the third quarter of 2016. These development costs are now expensed as incurred as R&D expense.

Table of Contents

## Other (Expense) Income, net

| In millions          | 2017  | 2016 |
|----------------------|-------|------|
| Interest income      | \$ 3  | \$ 2 |
| Interest expense     | (4 )  | (3 ) |
| Other                | —     | 2    |
| Other (expense), net | \$(1) | \$ 1 |

Other (expense) income in the third quarter of 2017 and 2016 is comprised of interest expense on long-term debt partially offset by interest income earned on our cash and cash equivalents.

## Provision for Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant infrequent or unusual items which are required to be discretely recognized within the current interim period. The Company's intention is to permanently reinvest its foreign earnings outside of the U.S. As a result, the effective tax rates in the periods presented are largely based upon the forecasted pre-tax earnings mix between the U.S. and other foreign taxing jurisdictions where the Company conducts its business under its current structure. The Company estimates its full-year effective tax rate for 2017 to be approximately (7)%, which takes into consideration, among other things, the forecasted earnings mix by jurisdiction for 2017 and the discrete items that will be recognized in 2017. The forecasted tax rate is based on the overseas profits being taxed at an overall effective tax rate of approximately 21%, as compared to the federal statutory tax rate of 35% in the U.S.

The effective tax rate for the three months ended September 30, 2017 and September 30, 2016 were as follows:

|                    | 2017     | 2016  |
|--------------------|----------|-------|
| Effective tax rate | (116.7)% | 45.6% |

For the three months ended September 30, 2017, net discrete tax benefits of \$6 million were recognized primarily related to a reversal of uncertain tax positions from acquired tax attributes in previous acquisitions, which resulted in a negative tax rate in the period.

For the three months ended September 30, 2016, there was a \$22 million discrete tax expense related to the sale of the marketing applications business that occurred on July 1, 2016.

## Revenue and Gross Profit by Operating Segment

Effective July 1, 2016, following the sale of the marketing applications business, Teradata is managing its business in two operating segments: (1) Americas region (North America and Latin America); and (2) International region (Europe, Middle East, Africa, Asia Pacific and Japan). For purposes of discussing results by segment, management excludes the impact of certain items, consistent with the manner by which management evaluates the performance of each segment. This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess financial performance. The chief operating decision maker evaluates the performance of the segments based on revenue and multiple profit measures, including segment gross profit. For management reporting purposes assets are not allocated to the segments. Our segment results are reconciled to total company results reported under U.S. generally accepted accounting principles ("GAAP") in Note 10 of Notes to Condensed Consolidated Financial Statements (Unaudited).

The following table presents revenue and operating performance by segment for the three months ended September 30:

Table of Contents

| In millions                      |       | % of    |       | % of    |  |
|----------------------------------|-------|---------|-------|---------|--|
|                                  | 2017  | Revenue | 2016  | Revenue |  |
| Segment revenue                  |       |         |       |         |  |
| Americas Data and Analytics      | \$292 | 55.5 %  | \$317 | 57.4 %  |  |
| International Data and Analytics | 234   | 44.5 %  | 235   | 42.6 %  |  |
| Total segment revenue            | \$526 | 100 %   | \$552 | 100 %   |  |
| Segment gross profit             |       |         |       |         |  |
| Americas Data and Analytics      | \$173 | 59.2 %  | \$195 | 61.5 %  |  |
| International Data and Analytics | 97    | 41.5 %  | 118   | 50.2 %  |  |
| Total segment gross profit       | \$270 | 51.3 %  | \$313 | 56.7 %  |  |

Americas Data and Analytics: Revenue decreased 8% in the third quarter of 2017 from the third quarter of 2016. As discussed in the future trends section of this MD&A, the revenue decline was driven by our customers' focus on less capital-intensive buying options such as customers moving to our cloud, subscription licenses, rental and usage-based options. Segment gross profit as a percentage of revenues was lower driven by a higher mix of services versus product revenue and a lower services margin rate. Service margins were impacted by investments that we are making in our consulting business to drive increased consumption of Teradata's products. In addition, service gross profit was also impacted by a decrease in maintenance margin due to higher support and parts costs.

International Data and Analytics: Revenue was flat in the third quarter of 2017 as compared the third quarter of 2016, and included a 1% positive impact from foreign currency fluctuations. Revenue variances were driven by a decline in revenues in Europe, Middle East and Africa. Revenues were relatively flat in the Asia Pacific region in the third quarter of 2017 as compared to third quarter of 2016. Segment gross profit as a percentage of revenues was down in the third quarter of 2017 driven by a higher mix of services versus product revenue and investments that we are making in our consulting business to drive increased consumption of Teradata's products.

## Results of Operations for the Nine months ended September 30, 2017

Compared to the Nine months ended September 30, 2016

## Revenue

| In millions               |         | % of    |         | % of    |  |
|---------------------------|---------|---------|---------|---------|--|
|                           | 2017    | Revenue | 2016    | Revenue |  |
| Product and cloud revenue | \$504   | 32.9 %  | \$661   | 39.0 %  |  |
| Service revenue           | 1,026   | 67.1 %  | 1,035   | 61.0 %  |  |
| Total revenue             | \$1,530 | 100 %   | \$1,696 | 100 %   |  |

Teradata revenue decreased \$166 million or 10% during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, in part due to the sale of the marketing applications business on July 1, 2016. Product and cloud revenue decreased 24% in the first nine months of 2017 from the prior-year period. In addition to the sale of the marketing applications business on July 1, 2016, as discussed under the future trends section of this MD&A, our revenue has been impacted by our customers' focus on less capital intensive buying options such as customers moving to our cloud, subscription-based licenses, rental and usage-based options. This shift is being addressed by our business transformation strategy and continues to impact our prior period revenue comparisons as some revenue that we would normally recognize in a given period may now be spread over a number of periods. Services revenue decreased 1% in the first nine months of 2017 compared to the prior-year period. The decrease in services was in large part due to the sale of the marketing applications business.

Table of Contents

## Gross Profit

|                                | % of  |         | % of  |         |
|--------------------------------|-------|---------|-------|---------|
| In millions                    | 2017  | Revenue | 2016  | Revenue |
| Product and cloud gross profit | \$288 | 57.1 %  | \$396 | 59.9 %  |
| Service gross profit           | 428   | 41.7 %  | 477   | 46.1 %  |
| Total gross profit             | \$716 | 46.8 %  | \$873 | 51.5 %  |

The product and cloud gross profit variance was driven by incremental amortization of \$7 million of previously capitalized software development costs partially offset by favorable product and deal mix. During the first nine months of 2017 we had more customers purchasing our IntelliFlex offering rather than our prior 2000 Series appliance, resulting in increased margins. The prior period included a significant low margin hardware only deal. Service gross profit was negatively impacted by investments that we are making in our consulting business to drive increased consumption of Teradata's products. Service gross profit was also impacted by routine consulting projects where we incurred and expensed certain consulting services costs before we will recognize the corresponding revenue and by lower utilization in the Americas region. Additionally, there was a decrease in maintenance revenue margin due to higher support and parts costs.

## Operating Expenses

|   | % of  |         | % of  |         |
|---|-------|---------|-------|---------|
| In millions   | 2017  | Revenue | 2016  | Revenue |
| Selling, general and administrative expenses                  | \$481 | 31.4 %  | \$505 | 29.8 %  |
| Research and development expenses                             | 230   | 15.0 %  | 154   | 9.1 %   |
| Impairment of goodwill, acquired intangibles and other assets | —     | — %     | 80    | 4.7 %   |
| Total operating expenses                                      | \$711 | 46.5 %  | \$739 | 43.5 %  |

The decrease in SG&A expense was primarily due to the exit of the marketing applications business. This was partially offset by transformation associated costs related to the discontinuation of our prior hardware platforms as well as an increase in marketing spend and regional selling expense due to investments in demand creation, primarily in the Americas region. R&D expenses were higher primarily due to the impact from the Company no longer capitalizing certain software development costs as a result of a movement to agile development methodologies. The Company did not capitalize any R&D costs in the first nine months of 2017 compared to \$49 million in the prior period. These development costs are now expensed as incurred as R&D expense. The increase in R&D expense is also due to new strategic initiatives around managed and public cloud in the current period.

During the first quarter of 2016, the Company recognized an impairment of goodwill of \$57 million and acquired intangible assets of \$19 million related to the sale of the marketing applications business. The Company also recorded a \$4 million impairment charge related to its corporate plane that was classified as held for sale.

## Other Expense, net

| In millions        | 2017  | 2016  |
|--------------------|-------|-------|
| Interest income    | \$8   | \$4   |
| Interest expense   | (11)  | (9)   |
| Other              | (1)   | 1     |
| Other expense, net | \$(4) | \$(4) |

Other expense in the first nine months of 2017 and 2016 is comprised of interest expense on long-term debt partially offset by interest income earned on our cash and cash equivalents.

Table of Contents

## Provision for Income Taxes

The effective tax rate for the nine months ended September 30, 2017 and 2016 were as follows:

|                             | 2017 | 2016   |
|-----------------------------|------|--------|
| Effective tax rate (600.0)% |      | 48.5 % |

For the nine months ended September 30, 2017, a net \$6 million discrete tax benefit was recognized related to a reversal of uncertain tax positions recorded in the third quarter from acquired tax attributes in previous acquisitions, which resulted in a negative tax rate in the period.

For the nine months ended September 30, 2016, the effective tax rate included a discrete tax impact resulting from the \$76 million impairment of goodwill and acquired intangibles, of which \$57 million is related to non-deductible goodwill and \$19 million is related to the impairment of intangibles, for which a tax benefit of \$6 million was recorded, as well as a \$22 million discrete tax impact from the sale of the marketing applications business recognized in the period. In addition, there was a \$2 million favorable tax benefit recognized due to the release of a reserve taken for a previously uncertain tax position.

## Revenue and Gross Profit by Operating Segment

The following table presents revenue and operating performance by segment for the nine months ended September 30:

| In millions                      | 2017    | % of<br>Revenue | 2016    | % of<br>Revenue |
|----------------------------------|---------|-----------------|---------|-----------------|
| Segment revenue                  |         |                 |         |                 |
| Americas Data and Analytics      | \$830   | 54.2 %          | \$937   | 55.2 %          |
| International Data and Analytics | 700     | 45.8 %          | 690     | 40.7 %          |
| Total Data and Analytics         | 1,530   | 100.0 %         | 1,627   | 95.9 %          |
| Marketing Applications           | —       | — %             | 69      | 4.1 %           |
| Total segment revenue            | \$1,530 | 100 %           | \$1,696 | 100 %           |
| Segment gross profit             |         |                 |         |                 |
| Americas Data and Analytics      | \$482   | 58.1 %          | \$564   | 60.2 %          |
| International Data and Analytics | 304     | 43.4 %          | 341     | 49.4 %          |
| Total Data and Analytics         | 786     | 51.4 %          | 905     | 55.6 %          |
| Marketing Applications           | —       | — %             | 34      | 49.3 %          |
| Total segment gross profit       | \$786   | 51.4 %          | \$939   | 55.4 %          |

Americas Data and Analytics: Revenue decreased 11% in the first nine months of 2017 as compared to the first nine months of 2016. As discussed in the future trends section of this MD&A, the revenue decline was driven by our customers' focus on less capital-intensive options like cloud, subscription licenses, rental and usage-based models. The majority of subscription-based transactions signed in the first nine months of 2017 were in the Americas region. Segment gross profit as a percentage of revenues was lower driven by a higher mix of services versus product revenue and a lower services margin rate. Service margins were impacted by investments that we are making in our consulting business to drive increased consumption of Teradata's products and by lower utilization. In addition, service gross profit was also impacted by a decrease in maintenance margin due to higher support and parts costs

International Data and Analytics: Revenue increased 1% in the first nine months of 2017 from the first nine months of 2016, which included a 2% adverse revenue impact from foreign currency fluctuations. The revenue increase was driven by improved revenues in Europe, Middle East and Africa as well as the Asia Pacific region in the first nine months of 2017 as compared to first nine months of 2016. Segment gross profit as a percentage of revenues was down in the first nine months of 2017 driven by investments that we are making in our consulting business to drive increased consumption of Teradata's products as well as an increase in consulting projects where we incurred and expensed certain consulting services costs before we will recognize the corresponding revenue.



Table of Contents

Marketing Applications: The marketing applications business was sold on July 1, 2016.

## Financial Condition, Liquidity and Capital Resources

Cash provided by operating activities decreased by \$93 million in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease in cash provided by operating activities was primarily due to lower net income (adjusted for non-cash items such as depreciation and impairment of goodwill and other assets), which was partially offset by collections of receivables.

Teradata's management uses a non-GAAP measure called "free cash flow," which is not a measure defined under 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 Condensed Consolidated Statements of Cash Flows (Unaudited). 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:

|   | Nine Months<br>Ended<br>September<br>30, |       |
|---|--|-------|
| In millions                               | 2017                                     | 2016  |
| Net cash provided by operating activities | \$301                                    | \$394 |
| Less:                                     |  |       |
| Expenditures for property and equipment   | (59 )                                    | (32 ) |
| Additions to capitalized software         | (7 )                                     | (54 ) |
| Free cash flow                            | \$235                                    | \$308 |

In the fourth quarter of 2016, the Company began moving towards more frequent releases of its products, which significantly shortens the opportunity to capitalize software development costs. Due to the shorter development cycle and focus on rapid production associated with agile development, the Company does not anticipate capitalizing significant amounts of external use software development costs in future periods due to the relatively short duration between the completion of the working model and the point at which a product is ready for general release. These costs are currently expensed as research and development costs and are included as a component of cash provided by operating activities. This change does not impact the methodology of the free cash flow calculation. Also, during the third quarter of 2017, the Company incurred cash outflows of \$9 million due to the payments for the workforce optimization that occurred during the period.

Financing activities and certain other investing activities are not included in our calculation of free cash flow. For the first nine months ended September 30, 2017, other investing activities included \$17 million for an immaterial acquisition and \$1 million for a release of funds from a previous acquisition. For the first nine months ended September 30, 2016, other investing activities included \$16 million for immaterial acquisitions.

Table of Contents

Teradata's financing activities for the nine months ended September 30, 2017 primarily consisted of cash outflows for share repurchases and payments on long-term debt. The prior period also included payments on credit facility borrowings. At September 30, 2017, the Company had \$180 million outstanding on the revolving credit facility. The Company purchased 11.5 million shares of its common stock at an average price per share of \$30.59 in the nine months ended September 30, 2017 and 2.9 million shares at an average price per share of \$23.83 in the nine months ended September 30, 2016 under the two share repurchase programs that were authorized by our Board of Directors. The first program (the "dilution offset program"), allows 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. As of September 30, 2017, under the Company's second share repurchase program (the "general share repurchase program"), the Company had \$190 million of authorization remaining 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. During the second quarter of 2017, the Company announced its intention to repurchase up to \$300 million additional shares of its stock under the general share repurchase program in the second half of the year. Shares are being purchased with cash from U.S. operations as well as funds provided through Teradata's revolving credit facility.

Proceeds from the ESPP and the exercise of stock options were \$20 million for the nine months ended September 30, 2017 and \$28 million for the nine months ended September 30, 2016. These proceeds are included in other financing activities, net in the Condensed Consolidated Statements of Cash Flows (Unaudited).

Our total in cash and cash equivalents held outside the U.S. in various foreign subsidiaries was \$1 billion as of September 30, 2017 and \$957 million as of December 31, 2016. The remaining balance held in the U.S. was \$17 million as of September 30, 2017 and \$17 million as of December 31, 2016. Under current tax laws and regulations, if cash and cash equivalents held outside the U.S. are distributed to the U.S. in the form of dividends or otherwise, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and possible foreign withholding taxes. As of September 30, 2017, we have not provided for the U.S. federal tax liability on approximately \$1.4 billion of foreign earnings that are considered permanently reinvested outside of the U.S.

Management believes current cash, cash generated from operations and the \$220 million available under the 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 and cash equivalents 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 in the Company's 2016 Annual Report on Form 10-K (the "2016 Annual Report"), and elsewhere in this Quarterly 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.

**Long-term Debt.** Teradata's term loan is payable in quarterly installments, which commenced on March 31, 2016, with all remaining principal due in March 2020. The outstanding principal amount under the term loan agreement bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate plus a margin based on the leverage ratio of the Company. As of September 30, 2017, the term loan principal outstanding was \$548 million and carried an interest rate of 2.625%. Unamortized deferred issuance costs of approximately \$1 million are being amortized over the five-year term of the loan.

Teradata's Credit Facility has a borrowing capacity of \$400 million. The Credit Facility ends on March 25, 2020 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. 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.



Table of Contents

As of September 30, 2017, the Company had \$180 million outstanding under the Credit Facility and carried an interest rate of 4.450%, leaving \$220 million in additional borrowing capacity available. Unamortized deferred costs on the original credit facility and new lender fees of approximately \$1 million are being amortized over the five-year term of the credit facility. The Company was in compliance with all covenants as of September 30, 2017.

**Contractual and Other Commercial Commitments.** There has been no significant change in our contractual and other commercial commitments as described in the 2016 Annual Report. Our guarantees and product warranties are discussed in Note 7 of Notes to Condensed Consolidated Financial Statements (Unaudited).

**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 2016 Annual Report. Teradata's senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies in the nine months ended September 30, 2017.

**New Accounting Pronouncements**

See discussion in Note 2 of Notes to Condensed Consolidated Financial Statements (Unaudited) for new accounting pronouncements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have not been any material changes to the market risk factors previously disclosed in Part II, Item 7A of the Company's 2016 Annual Report on Form 10-K.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

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

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to provide reasonable assurance as of September 30, 2017.

Table of Contents

## Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II—OTHER INFORMATION

## Item 1. Legal Proceedings.

The information required by this item is included in the material under Note 7 of Notes to Condensed Consolidated Financial Statements (Unaudited) of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

## Item 1A. Risk Factors.

There have not been any material changes to the risk factors previously disclosed in Part I, Item IA of the Company's Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## Purchase of Company Common Stock

During the third quarter of 2017, the Company executed purchases of 6,346,980 shares of its common stock at an average price per share of \$31.55 under the two share repurchase programs that were authorized by our Board of Directors. The first program (the “dilution offset program”), allows 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. As of September 30, 2017, under the Company’s second share repurchase program (the “general share repurchase program”), the Company had \$190 million of authorization remaining to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis.

On July 27, 2017, the Company announced its intention to repurchase up to \$300 million additional shares of its stock under the general share repurchase program, in the second half of the year. From July 1, 2017 through November 6, 2017, the Company repurchased \$200 million in shares. As of November 6, 2017 the Company had approximately \$190 million of share repurchase authorization remaining.

Section 16 officers occasionally sell vested shares of restricted stock to the Company at the current market price to cover their withholding taxes. For the nine months ended September 30, 2017, the total of these purchases was 30,880 shares at an average price of \$32.04 per share.

The following table provides information relating to the Company’s share repurchase programs for the nine months ended September 30, 2017:

| Month                | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Announced Dilution Offset Program | Total Number of Shares Purchased as Part of Announced General Share Repurchase Program | Maximum Dollar Value that May Yet Be Purchased Under the Dilution Offset Program | Maximum Dollar Value that May Yet Be Purchased Under the General Share Repurchase Program |
|----------------------|----------------------------------|------------------------------|---|--|--|---|
| First Quarter Total  | 1,386,710                        | \$ 31.21                     | 536,710   | 850,000  | \$4,285,712  | \$485,012,249   |
| Second Quarter Total | 3,747,388                        | \$ 28.74                     | 150,000   | 3,597,388  | \$4,143,214  | \$381,678,537   |
| July 2017            | 550,000                          | \$ 31.54                     | —   | 550,000  | \$8,233,812  | \$364,330,122   |
| August 2017          | 3,890,295                        | \$ 31.32                     | 281,500   | 3,608,795  | \$1,564,954  | \$251,175,809   |
| September 2017       | 1,906,685                        | \$ 32.03                     | —   | 1,906,685  | \$6,717,747  | \$190,109,377   |
| Third Quarter Total  | 6,346,980                        | \$ 31.55                     | 281,500   | 6,065,480  | \$6,717,747  | \$190,109,377   |



Table of Contents

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

None

Item 5. Other Information.

None

30

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Table of Contents

Item 6. Exhibits.

Reference Number  
per  
Item 601  
of  
Regulation  
S-K

- 2.1 Form of Separation and Distribution Agreement between Teradata Corporation and NCR Corporation (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated September 11, 2007 (SEC file number 001-33458)).
  - 3.1 Amended and Restated Certificate of Incorporation of Teradata Corporation as amended and restated on September 24, 2007 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated September 25, 2007 (SEC file number 001-33458)).
  - 3.2 Amended and Restated By-Laws of Teradata Corporation, as amended and restated on July 26, 2016 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated August 1, 2016).
  - 4.1 Common Stock Certificate of Teradata Corporation (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q dated November 13, 2007 (SEC file number 001-33458)).
  - 10.1 Fourth Amendment to Revolving Credit Agreement dated as of July 25, 2017 (incorporated by reference to Exhibit 10.3 to the Quarterly report on Form 10-Q dated August 4, 2017).
  - 10.2 Fourth Amendment to Term Loan Agreement dated as of July 25, 2017 (incorporated by reference to Exhibit 10.4 to the Quarterly report on Form 10-Q dated August 4, 2017).
  - 31.1 Certification pursuant to Rule 13a-14(a), dated November 6, 2017.
  - 31.2 Certification pursuant to Rule 13a-14(a), dated November 6, 2017.
  - 32 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 6, 2017.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Income for the three and nine month period ended September 30, 2017 and 2016, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine month period ended September 30, 2017 and 2016, (iii) the Condensed Consolidated Balance Sheets at September 30, 2017 and December 31, 2016, (iv) the Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2017 and 2016 and (v) the notes to the Condensed Consolidated Financial Statements.

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



Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TERADATA CORPORATION

Date: November 6, 2017 By: /s/ Stephen M. Scheppmann  
Stephen M. Scheppmann  
Executive Vice President and Chief Financial Officer