TERADATA CORP /DE/
Form 10-K
February 27, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from ______ to ______

Commission File Number 001-33458

TERADATA CORPORATION

(Exact name of registrant as specified in its charter)

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

10000 Innovation Drive

Dayton, Ohio 45342

(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $0.01 par value	**New York Stock Exchange**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2013, was approximately $8.2 billion.

At January 31, 2014, there were approximately 159.2 million shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of the registrant s Notice of Annual Meeting of Stockholders and Proxy Statement, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after registrant s fiscal year end of December 31, 2013 are incorporated herein by reference.

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

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PART I

FORWARD-LOOKING STATEMENTS

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

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

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

- our ability to successfully leverage significant acquisitions;

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

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

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

Item 1. BUSINESS

Overview. Teradata Corporation (we, us, Teradata, or the Company) is a global leader in analytic data platforms, marketing and analytic applications, and related consulting services. Our analytic data platforms are comprised of software, hardware, and related business consulting and support services for data warehousing, active intelligence, big data analytics, and data discovery. Through our Teradata Unified Data Architecture (a comprehensive enterprise approach that integrates our analytic data platforms and multiple technologies, including third-party provided products, into a cohesive data architecture), we help customers access and manage data and extract business value and insight from their data. Our applications are designed to leverage data to: improve organizations effectiveness in marketing to their customers, determine customer and product profitability, forecast consumer demand, and discover new insights. Our consulting services allow customers to maximize use and leverage the value of their analytic data and marketing investments. Our services include a broad range of offerings including consulting, cloud (software as a service), hosting, platform management, and related installation services (collectively, consulting services) and support services. We serve customers across a broad set of industries from around the world, including communications, financial services, government, healthcare, insurance, manufacturing, media and entertainment, retail, and travel and transportation with offerings ranging from small departmental implementations to many of the world s largest analytic data platforms and marketing applications. We provide our offerings on-premise or in the cloud (as a service).

Teradata operates from four main locations in the United States: Dayton, Ohio; Johns Creek (Atlanta), Georgia; Rancho Bernardo (San Diego), California; and Indianapolis, Indiana. In addition, we have sales and services offices located in approximately 43 countries.

For the full year ended December 31, 2013, we had net income of $377 million and total revenues of $2.692 billion, of which approximately 61% was derived in the Americas region (North America and Latin America) and 39% in the International region (Europe, Middle East, Africa, Asia Pacific and Japan). For financial information about these geographic areas which are also our reportable segments as of December 31, 2013, see Note 11 Segment, Other Supplemental Information and Concentrations in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

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

In 1996, AT&T spun off NCR (including Teradata) to form an independent, publicly-traded company, NCR Corporation. In 1999, NCR consolidated its Teradata data warehousing operations and product offerings into a separate operating division. On September 30, 2007, NCR was effectively separated into two independent, publicly-traded companies through the distribution of 100% of its Teradata data warehousing business to shareholders of NCR.

Since that time, we have increased our investments and focus to extend the scope of our business to include a full range of analytic data platforms. In 2011, Teradata completed its acquisitions of Aprimo, Inc. (Aprimo), a global provider of cloud-based integrated marketing software, and Aster Data Systems, Inc. (Aster Data), a technology leader in big data analytics. In 2012, Teradata completed the acquisition of eCircle Beteiligungs GmbH (eCircle), a leading cloud-based, full-service digital marketing provider in Europe.

Industry Overview

Our revenues are primarily generated in three multi-billion dollar markets: data warehousing, big data analytics and marketing and analytic applications. These markets include data warehouse database software, discovery platform software, marketing application software, supporting hardware (servers, storage and interconnects), consulting services, cloud services and maintenance services. We expect that the need for analytic data solutions and marketing and analytic application software will continue to grow as organizations increasingly rely on data and analytics to compete on a global basis. This need is further driven by the convergence of the following key market dynamics we have observed:

high levels of data growth are being driven by new data types, in particular multi-structured data, examples of which include web logs, sensor and social network data, internet text and search indexing, call detail records, genomics, biological research, medical records, seismic/exploration data, photography and video archives, and large scale e-commerce data which we also refer to as big data ;

increasing obstacles in building and managing effective analytic environments, caused by the growth and volume of new types of data and multiple data management systems;

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

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

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

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

Our Solutions

Teradata s Unified Data Architecture is a comprehensive framework that enables organizations to address all types of data and analytics. This architecture combines the complementary value of technologies from Teradata, Teradata Aster, and open source Apache Hadoop® to accelerate the time to value from all of an organization s data.

Data Warehousing. Data warehousing is the process of capturing, integrating, storing, managing, and analyzing data to answer business questions and exploit data for insight and value better than anyone else. Customers use our data warehousing software and hardware technologies and related services to acquire and integrate data from multiple sources, manage and analyze this data to gain business insights from data-driven decisions.

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

Big Data Analytics. Big data analytics describe analytic platform environments with significant data volume, variety, velocity and complexity. We help companies deal with emerging big data that typically has unknown relationships where fast analytic iteration is required to unlock new insights.

Integrated Marketing Applications. We offer fully integrated marketing management solutions to help organizations realize more effective marketing for greater results and gain more efficient marketing operations. Our integrated marketing management solutions manage marketing workflows, budget allocation, leads analytics, and digital assets from one integrated platform.

Our Products and Services. We are a single-source provider of analytic data platforms with a fully integrated business that includes market-leading technologies and customer-focused professionals. Our products are optimized and integrated specifically for data analytics and marketing and analytic applications, including our database and application software, workload-specific hardware platforms, and related consulting and support services.

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Our software and hardware products include:

Teradata Analytic Database Software Our Teradata® Database software combined with our massively parallel processing (MPP) hardware architecture provides the foundation for our unique ability to support and manage a wide range of mixed workloads and analytic data functions. Our Teradata Database software is designed to deliver near real-time intelligence for our customers with capabilities and features such as: support of short-term operational and long-term strategic workloads (mixed workloads), the ability to handle thousands of concurrent queries from thousands of concurrent users, robust and simplified system management, high system availability, event monitoring, and easy integration into the enterprise. Our database software includes Teradata Intelligent Memory, which keeps the most frequently used data in memory for rapid query processing. We also offer license subscriptions that provide our customers with when-and-if-available upgrades and enhancements to our database software. This software is available via an on-premise or a cloud delivery model.

Teradata Workload-Specific Platforms Products in this category are purpose-built to provide an analytic data platform that is used for all types of data-capturing, storing, archiving, and refining and all types of uses from fully-integrated warehouses, departmental data marts, discovery, archiving and disaster recovery. Key software products include the Teradata Database, Teradata Aster database and Hadoop (leveraging the Apache Hadoop distribution). For the hardware component of our solutions, Teradata integrates and optimizes industry standard hardware components to create highly-available, massively-scalable solution stacks. We utilize industry-standard Intel® Xeon multi-core processors, along with industry-standard storage offerings, that are designed to provide seamless, transparent scalability. Our research and development efforts have sought to optimize Teradata s platforms as high-performance, scalable, and easily manageable and supportable systems. Each platform comes ready to run for a distinct need, from basic reporting and analysis to integrated big data analytics, to data warehousing with full Active Intelligence capability. Teradata s workload-specific platforms are designed to allow customers to meet their specific workload needs at various and most appropriate price points. These platforms (appliances) are available both on-premise or via a cloud delivery model.

Teradata Aster Discovery Platform Our big data analytics discovery platform is pre-configured with our powerful Teradata Aster Database, our patented SQL-MapReduce® framework and a fully-supported Teradata hardware platform. It includes the Teradata Aster SQL-GR analytic engine, for graph analysis across big data sets. Also included is the extensible Teradata Aster SNAP Framework , which integrates multiple analytic engines and data stores that are designed to deliver an improvement in ease-of-use, analytic power, and performance. Our discovery platform is designed to provide business analysts and data scientists with an easy, reliable and powerful platform for rapid exploration and discovery from all data with next-generation analytics, which creates new, differentiated business value. With Aster, analysts can use commonly available business intelligence and reporting tools, access data in Hadoop directly, join it with data as needed in the Aster database, and leverage the analytical power of SQL-MapReduce and other business-ready analytic functions for applications such as click-stream analysis, marketing attribution, and customer churn analysis.

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

Teradata Integrated Marketing Applications Our fully-integrated marketing applications help organizations manage marketing workflows, budget allocation, leads, analytics, and digital assets. Designed to automate the planning and creation of timely and relevant campaigns for end-user customers and prospects, the following applications are offered on-premise and in the cloud (software as a service):

Teradata Marketing Operations for efficient marketing resource management;

Teradata Campaign Management for planning and performance analysis across multiple marketing channels; and

Teradata Digital Messaging for executing relevant, personalized communications and delivering a consistent customer experience.

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Teradata Analytic Applications We offer a broad suite of applications that deliver value by analyzing data and delivering intelligence across the enterprise. The areas covered by these applications include master data management, demand and supply chain management, finance and performance management, profitability analytics, and data mining.

Our service offerings include:

Teradata Business Consulting Services Teradata offers services to identify and prioritize customer analytic needs to support corporate strategy. Our Teradata business consultants have extensive industry expertise and hands-on experience to help our customers quickly recognize business value. We employ skilled consultants who provide analytic data platform business impact modeling, analytic roadmap and maturity assessments, and solution planning. The business consultants work closely with the technology and implementation services to help plan and implement a complete project for the customer.

Teradata Technology and Implementation Services Teradata offers services to deliver a solution that meets business requirements via a disciplined analysis of conceptual, logical and physical design choices. Our skilled consultants provide analytic data platform design, architecture, migration, upgrade, implementation, optimization, and expansion services for enterprise analytics including data integration, business intelligence and Hadoop. Our consultants provide big data analytics and Hadoop consulting, enterprise analytics consulting, data management services, and business intelligence consulting. Our Global Consulting Centers around the world are staffed with professionals trained in our proven solutions methodologies, and supplement local consulting teams by accessing and utilizing the accumulated wealth of our global knowledge base. We provide both onshore and offshore consulting resources to address specific customer requirements.

Teradata Managed Services Teradata offers management services for data integration, data warehouse, discovery, Hadoop and business intelligence environments from a single source. These services encompass monitoring and managing day-to-day analytics operations to helping improve processes for greater productivity and efficiency.

Teradata Marketing and Analytic Application Services Teradata has consultants with extensive marketing and analytic applications knowledge to implement our application solutions on-premise or integrate with the marketing cloud solutions. Teradata also has media services to help customers manage their marketing communications with their customers.

Teradata Cloud Services We offer our integrated marketing applications and our analytic data platforms as a service to our customers. Our cloud services provide customers the flexibility to access Teradata solutions on demand in a secure environment with pay-as-you go pricing options.

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

Training Services To enhance the value of their investment, we also provide our customers with training to help them get the most value from their Teradata analytic data platforms and marketing and analytical applications.

Our Strategy. Teradata helps companies achieve competitive advantage and win in their markets by empowering them to become data-driven businesses capable of exploiting data for insight and value. With Teradata, companies can become more competitive by leveraging data insights to reduce costs, improve business processes, enhance customer relationships, and drive innovation. Companies can also engage in better data-driven marketing through Teradata s industry-leading analytic data platforms, marketing applications and proven consulting experience and expertise.

Our strategy focuses on three large and growing markets: data warehousing, big data analytics and marketing applications. We continue to focus on the following key initiatives to broaden our position in the market and take advantage of these market opportunities.

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Invest to expand our leading Unified Data Architecture, data warehouse software and platform family, big data discovery platforms, Hadoop-based data management platforms, and marketing applications to address multiple market segments through internal development and targeted strategic acquisitions;

Deliver our solutions via the cloud (as a service) or on premise with offerings that support applications as a service, data warehousing as a service, as well as discovery analytics as a service and data management as a service;

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

Continue to seek opportunities to strengthen our sales resources (*e.g.*, by opportunistically hiring incremental sales account executives as well as technology and industry consultants, and sales support resources).

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

With more than 30 years of experience, Teradata is a leader in implementing analytic data platforms. Our customers represent some of the best-known companies around the world. Teradata solutions support 18 of the top 20 global telecommunication firms, 17 of the top 20 global commercial and savings banks, 15 of the top 20 global retailers, and 14 of the top 20 travel and transportation companies (Rankings are based on Teradata customers and the 2012 Fortune Global 500 data released in July 2013, which ranks companies by total revenues for their respective fiscal years ended on or before March 31, 2013).

Although Teradata is a well-established vendor with strong penetration in each of these industries, our market and growth potential remain strong, as existing customers routinely increase the size and scope of their data environments due to growth in the number of users, amounts and types of data, and types and complexity of workloads, queries and analytics.

Data warehouses are typically built one project at a time. For example, an initial data warehouse may start with a single subject area, which forms the foundation of data that is available to be leveraged for the next project, and so on. In the big data discovery market, customers begin with a single platform and often increase the size or number of platforms to fully integrate and operationalize the business value via the Teradata Unified Data Architecture. Therefore, a customer with a large order in one quarter is likely to generate additional revenue for Teradata in subsequent periods. However, due to the breadth of our customer base, no single customer of Teradata (overall or within any of our reportable segments) accounted for 10% or more of our total revenue in any of the last three fiscal years. For the year ended December 31, 2013, our top ten customers collectively accounted for approximately 16% of our total revenues. Moreover, Teradata s total revenue and revenue for each reportable segment can vary considerably from period to period given the different growth patterns of our existing customers data warehouse systems, discovery platforms and data management platforms and the variable timing of new customer orders. Due to the size and complexity of these transactions (purchases), the sales cycle for a new analytic data platform is often fairly long (typically more than a year). Our results in any particular quarter have generally been dependent on our ability to generate a relatively small number of large orders for that quarter.

Partners, Marketing and Distribution Channels

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

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

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

Sales and Marketing. We sell and market our analytic data platforms in our reportable segments (which include the Americas and International regions) primarily through a direct sales force. We believe our quota-carrying sales force increases our visibility and penetration in the marketplace and fosters long-term customer relationships and additional product sales. We have approximately 80% of our employees in customer-facing and/or revenue driving roles (including sales, consulting and customer service, and product engineering).

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

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

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

Sources of Materials. Our hardware components are assembled and configured by Flextronics International Ltd. (Flextronics). Our platform line is designed to leverage the best-in-class components from industry leaders. Our data storage devices and memory components utilize industry-standard technologies, but are selected and configured to work optimally with our software and hardware platform. Flextronics also procures a wide variety of components used in the assembly process on our behalf. Although many of these components are available from multiple sources, Teradata utilizes preferred supplier relationships to better ensure more consistent quality, cost and delivery. Typically, these preferred suppliers maintain alternative processes and/or facilities to ensure business continuity of supply. Given our strategy to outsource product assembly activities to Flextronics and to source certain components from single suppliers, a disruption in production at Flextronics or at a supplier, or a global shortage of components, could impact the timing or profitability of customer shipments.

Competition. The analytic data platforms market is highly competitive, and we face a number of large traditional competitors, such as IBM and Oracle. We also expect to continue to see new and emerging competitors, as large and growing markets attract more market participants. We compete successfully in the marketplace and are bolstered by our expanded Teradata workload-specific platform family, which includes the: Active Enterprise Data Warehouse, Data Warehouse Appliance, Data Mart Appliance, Integrated Big Data Platform, all of which run on the Teradata Database; the Teradata Aster Discovery platform, and Teradata Appliance for Hadoop (leveraging the Apache Hadoop distribution); a powerful suite of software tools; and related services. These solutions are tied together within our Unified Data Architecture. We believe our proven architecture for both structured and unstructured data, integrated solutions with high-performing and scalable technology, deep and broad consulting and support services capabilities, strong customer relationships, and our successful track record will collectively enable us to continue to compete successfully. For more information, see Item 1A, Risk Factors, elsewhere in this Annual Report.

Competitors take different technical and integration approaches to addressing enterprise analytics needs, and therefore they often recommend a different architecture than we do. We believe that our customers recognize the advantages of our technologies and our approach as described above.

Our Active Enterprise Data Warehouse platform technology is designed to scale with customer growth needs and support the coexistence of multiple generations of nodes in a single environment, thus protecting the customer s prior investments. Because our Teradata workload-specific platform family also includes data warehousing and big data discovery appliances, we believe we have the right platform for any analytical architecture need and any data type, both structured and unstructured, which makes our analytic data platforms particularly attractive to customers and enable us to successfully compete in the marketplace.

Key factors used to evaluate competitors in these markets include: data analytics experience; customer references; technology leadership; product quality; performance, scalability, availability and manageability; support and consulting services capabilities; industry knowledge; and total cost of ownership. We believe we have a competitive advantage in providing complete, integrated, and optimized analytic data platforms that address customers business, technical and architecture requirements.

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

In the marketing applications space we also see competition from companies like IBM, Oracle, and Adobe, along with a variety of niche providers whose offerings overlap to a greater or lesser degree with our own. The marketing application space is growing rapidly and, as with many large growing markets, continues to attract new competitors, either through acquisition or new development. We believe we compete successfully in this market, supported by the integration of our marketing applications with the Teradata data analytic solutions and other leading data solutions providers. Our ability to compete is further enhanced by the integration between our marketing operations, campaign management, and digital messaging solution components which make up our marketing application suite. Our competitive differentiators also include high-level performance at scale, robust and flexible functionality, and a complete product set for online and offline marketing.

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

Research and Development (R&D). We remain focused on designing and developing products, services and solutions for analytic data platforms and marketing and analytic applications that anticipate our customers changing technological needs. As we seek improvements in our products and services, we also consider our customers current needs as we design our new technology so that new generations of the Teradata database software and operating platforms are compatible with prior generations of our technology. We believe our extensive R&D workforce is one of our core strengths. The global R&D team for analytic data platforms is headquartered at our facility in Rancho Bernardo (San Diego), California. R&D for marketing and analytic applications is headquartered in Raleigh, North Carolina. We anticipate that we will continue to have significant R&D expenditures, which may include strategic acquisitions, in order to help support the flow of innovative, high-quality products, services and applications, which is vital to our leading competitive position. For information regarding the accounting and costs included in R&D activities see Note 1 Description of Business, Basis of Presentation and Significant Accounting Policies in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

Intellectual Property and Technology. The Company owns approximately 661 patents in the United States and about 46 patents in foreign countries. The foreign patents are generally counterparts of the Company s U.S. patents. Many of the patents that we own are licensed to others, and we are licensed to use certain patents owned by others. While our portfolio of patents and patent applications in aggregate is of significant value to our Company, we do not believe that any particular individual patent is by itself of material importance to our business as a whole.

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

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

Employees. As of December 31, 2013, we had approximately 10,800 employees globally. We believe that our future success will depend, in part, on our ability to continue to attract, hire and retain skilled and experienced personnel.

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Properties and Facilities. Our corporate headquarters is located in Dayton, Ohio, and we manage our business through four main locations in the United States: Dayton, Ohio; Johns Creek (Atlanta), Georgia; Rancho Bernardo (San Diego), California; and Indianapolis, Indiana. As of December 31, 2013, we operated approximately 108 facilities throughout the world. We own our Rancho Bernardo complex. All of our other research and development facilities are leased, as well as our offices in Dayton, Johns Creek and Indianapolis, technical support centers, training, and other miscellaneous sites. We maintain facilities in approximately 43 countries.

Executive Officers of the Registrant. The following table sets forth the information as of January 31, 2014 regarding the individuals who are serving as our executive officers.

Name	Age	Position(s)
Michael Koehler	61	President and Chief Executive Officer
Stephen Scheppmann	58	Executive Vice President and Chief Financial Officer
Rocky Blanton	53	Executive Vice President, Americas
Saundra Davis	50	Chief Human Resource Officer
Robert Fair	51	Executive Vice President and Chief Marketing and Information Officer
Scott Gnau	48	Executive Vice President, Teradata Labs
Daniel Harrington	50	Executive Vice President, Global Consulting and Support Services
Bruce Langos	60	Chief Operations Officer
Darryl McDonald	55	Executive Vice President, Applications
Laura Nyquist	60	General Counsel and Secretary
Hermann Wimmer	50	Executive Vice President, International

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

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

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

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

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

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

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

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

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

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

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

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

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

Information. Teradata makes available through its website, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and all amendments to such reports, as soon as reasonably practicable after these reports are electronically filed or furnished to the U.S. Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports and other information are also available, free of charge, at www.sec.gov. Alternatively, the public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. Teradata will furnish, without charge to a security holder upon written request, the Notice of Meeting and Proxy Statement for the 2014 Annual Meeting of Stockholders. Teradata will furnish the Code of Conduct and any other exhibit at cost (the Code of Conduct is also available through Teradata s website at http://www.teradata.com/code-of-conduct/). Document requests are available by calling or writing to:

Teradata Shareholder Relations

10000 Innovation Drive

Dayton, OH 45342

Phone: 937-242-4878

Website: http://www.teradata.com

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Item 1A. RISK FACTORS

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

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

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

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

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

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

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

- Changes in customer IT spending habits and other shifts in market demands, which drive competition;
- A continuing trend toward consolidation of companies which could adversely affect our ability to compete, including if our key partners merge or partner with our competitors;
- Continued pressure on price/performance for analytic data platform solutions due to constant technology improvements in processor capacity and speed;
- Changes in pricing, marketing and product strategies, such as potential aggressive price discounting and the use of different pricing models by our competitors or other factors;
- Rapid changes in computing technology and capabilities that challenge our ability to maintain differentiation at the lower range of business intelligence analytic functions;

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

Continued emergence of open source software that often attempt to rival current technology offerings at a much lower cost despite its limited functionality;

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Rapid changes in product delivery models, such as in-house solutions versus cloud solutions, and

Changing competitive requirements and deliverables in developing and emerging markets.

To compete successfully in this environment, we must rapidly and continually design, develop and market solutions and related products and services that are valued in the marketplace. To do this, we must react on a timely basis to shifts in market demands. Our market position depends on our ability to continually improve the price/performance of our solutions, while maintaining efficient operations to sustain our competitive operating margins. We must also maintain the quality of our products and services throughout these shifts in market demand. If we are unable to react quickly when and as needed to improve the value of our product offerings our operating results could be negatively impacted.

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

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

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

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

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

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

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

Additionally, as a result of past acquisitions and changes in customer demand, Teradata s software application offerings have been expanded to include term licenses, hosting arrangements and software as a service. As a result, future revenue streams could be adversely affected if customers do not renew their term and software as a service arrangement.

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

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

- Downturns in our customers businesses, in the domestic economy or in international economies where our customers do substantial business;
- Changes in demand for our products and services, including changes in growth rates in the analytic data solutions market;
- The size, timing and contractual terms of large orders for our products and services, which may impact in particular our quarterly operating results (either positively or negatively);
- Possible delays in our ability to recognize revenue as the result of contract terms;
- The budgeting cycles of our customers and potential customers;
- Changes in pricing policies resulting from competitive pressures, such as aggressive price discounting by our competitors, new pricing strategies, or other factors;
- Our ability to develop and introduce on a timely basis new or enhanced versions of our products and services;
- Changes in the mix of pre-tax earnings attributable to domestic versus international sales;
- Seasonal fluctuations in buying patterns;

Future acquisitions and divestitures of technologies, products and businesses;

Unexpected needs for capital expenditures or other unanticipated expenses; and

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

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

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

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

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

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

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

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

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

Failure to realize all the economic benefits from these acquisitions, equity investments or joint ventures could result in an impairment of goodwill, intangible assets or other assets, which could result in a significant charge to our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

To succeed in the intensely competitive IT industry, we must continually improve, refresh and expand our product and service offerings to include newer features, functionality or solutions, and keep pace with price-to-performance gains in the IT industry. Shortened product life cycles due to customer demands and competitive pressures impact the pace at which we must introduce and implement new technology. This requires a high level

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of innovation by both our software developers and the suppliers of the third-party software components included in our systems. In addition, bringing new solutions to the market entails a costly and lengthy process, and requires us to accurately anticipate customer needs and technology trends. We must continue to respond to market demands, develop leading technologies and maintain leadership in analytic data solutions performance and scalability, or our business operations may be adversely affected.

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

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

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

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

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

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

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

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

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

We generally operate pursuant to a business-to-business model, such that our customers buy or lease hardware systems used in connection with our solutions and the customers deploy and operate those solutions. With respect to these kinds of customer on-premises solutions, the customer, directly or through its selected services providers, manages all aspects of the data controls and security with respect to any confidential, private or otherwise sensitive information stored or processed through these solutions, including any personally identifiable data or information such as non-public data regarding our customers employees, customer s customers, consumers, data subjects, individuals identities, individual financial accounts and health information regulated by the Health Insurance Portability and Accountability Act of 1996. However, some of our services, including our software as a service or cloud offerings, may require us to deploy or operate solutions for our customers, directly or through the use of third party services providers, either on-premises at customer-selected data center facilities or at third-party-hosted data center facilities selected by us. With respect to these kinds of cloud and non-traditional solution deployments and operations, we and such service providers have increased roles, responsibilities and risk exposures regarding some or all aspects of the data controls and security with respect to any confidential, private or otherwise sensitive information stored or processed through these solutions on our systems or those of selected third-party providers. If unauthorized access to or use of such information or systems occurs, despite data security measures and third party commitments to protect them, our results of operation, reputation, and relationships with our customers could be adversely impacted.

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

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

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

Third-party vendors provide important elements to our solutions; if we do not maintain our relationships with these vendors or if these vendors cease to be going concerns, interruptions in the supply of our products may result. There are some components of our solutions that we purchase from single sources due to price, quality, technology or other reasons. For example, we have relied on Flextronics as a key single source contract manufacturer for our hardware systems for the last several years. In addition, we buy silicon computer chips and microprocessors from Intel Corporation, and storage disk systems from NetApp, Inc. Some components supplied by third parties may be critical to our solutions, and several of our suppliers may terminate their agreements with us without cause with 180 days notice. If we were unable to purchase necessary services, parts, components or products from a particular vendor and had to find an alternative supplier, our shipments and deliveries could be delayed. Also, disruption in our supply chain or the need to find alternative suppliers could impact the costs and/or timing associated with procuring necessary products, components and services. In either case, our operations could be adversely impacted. Similarly, our suppliers products and services have certain dependencies with respect to their own supply chain networks, and supply issues among our suppliers suppliers may also adversely impact our business.

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

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

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

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

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

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

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

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

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

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

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

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

- Be expensive, time consuming and divert management attention away from normal business operations;
- Require us to pay monetary damages or enter into non-standard royalty and licensing agreements;
- Require us to modify our product sales and development plans; or
- Require us to satisfy indemnification obligations to our customers.

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

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

We have developed a version of the Teradata database software to operate on the LINUX open source platform and have incorporated other types of open source software into our products, allowing us to enhance certain solutions without incurring substantial additional research and development costs and expand our solution offerings.   Open source   software is made widely available by its authors and is licensed for a nominal fee or, in

some cases, at no charge. For example, LINUX is a free UNIX-type operating system, and the source code for LINUX is freely available. While we believe our contractual obligations are limited with respect to such software, no assurances can be given that unanticipated problems arising from our use of open source software will not arise in the future.

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

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

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

In 2013, the percentage of our total revenues from outside of the United States was 44%. We believe that our geographic diversity may help to mitigate some risks associated with geographic concentrations of operations (*e.g.*, adverse changes in foreign currency exchange rates and deteriorating economic environments or business disruptions due to economic or political uncertainties). However, our ability to sell our solutions internationally is subject to the following risks, among others:

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

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

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

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

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

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

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

Tariffs or other restrictions on foreign trade or investment;

Costs and delays associated with developing products in multiple languages;

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

Changing competitive requirements and deliverables in developing and emerging markets.

Our products are subject to U.S. export controls and, when exported from the United States, or re-exported to another country, must be authorized under applicable U.S. export regulations. Changes in our products or changes in export regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export of our products to certain countries or customers altogether. Any change in export

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regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by these regulations could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations.

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

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

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

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

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

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

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

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

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

In addition, we are subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting which are rapidly changing and subject to many possible changes in the future. From time to time, we may conduct internal investigations in connection with our efforts to ensure compliance with such laws and regulations, the costs or results of which could impact our financial results. In addition, we may be subject to unexpected costs in connection with new public disclosure or other regulatory requirements that are issued from time to time, such as those recently adopted by the SEC regarding the use of conflict minerals. Laws and regulations impacting our customers, such as those relating to privacy, data protection and digital marketing, could also impact our future business. Because we do business in the government sector, we are generally subject to audits and investigations which could result in various civil or criminal fines, penalties or administrative sanctions, including debarment from future government business, which could negatively impact the Company s results of operations or financial condition.

In addition, our facilities and operations, including former facilities and former operations for which we may have liabilities, are subject to a wide range of environmental protection laws. There have not been any known actual material effects that compliance with environmental provisions has had upon the capital expenditures, earnings or competitive position of the Company or its subsidiaries, and there are no material estimated capital expenditures for environmental remediation or liabilities planned. However, we do expect to incur some costs in connection with compliance with these matters and given the uncertainties inherent in such activities, there can be no assurances that the costs required to comply with applicable environmental laws will not adversely impact future operating results.

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

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

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

As of December 31, 2013, Teradata operated approximately 108 facilities consisting of approximately 1.5 million square feet throughout the world. Approximately 30% of this square footage is owned and 70% is leased. Within the total facility portfolio, Teradata operates 13 research and development facilities totaling approximately 500 thousand square feet, approximately 80% of which is owned. The remaining approximately one million square feet of space includes office, repair, warehouse and other miscellaneous sites, and is 100% leased. Teradata maintains facilities in approximately 43 countries. Teradata believes its facilities are suitable and adequate to meet its current needs. Teradata s corporate headquarters is located in Dayton, Ohio.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

N/A.

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PART II

Item 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Teradata common stock trades on the New York Stock Exchange under the symbol TDC. There were approximately 73,000 registered holders of Teradata common stock as of February 7, 2014. The following table presents the high and low closing per share prices of Teradata common stock traded on the New York Stock Exchange during the calendar quarter indicated.

	Common Stock Closing Market Price	
	High	Low
2013		
Fourth quarter	$ 55.37	$ 39.52
Third quarter	$ 64.77	$ 50.02
Second quarter	$ 58.24	$ 48.34
First quarter	$ 69.34	$ 56.28
2012		
Fourth quarter	$ 76.06	$ 57.94
Third quarter	$ 80.62	$ 62.79
Second quarter	$ 77.14	$ 64.64
First quarter	$ 69.38	$ 47.37

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

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2013, regarding compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)[1]	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)[2]
Equity compensation plans approved by security holders	7,011,761	$ 33.27	14,015,986
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	7,011,761	$ 33.27	14,015,986

(1) Column (a) represents the number of shares of our common stock that may be issued in connection with the exercise of outstanding stock options granted under the Teradata Corporation 2007 Stock Incentive Plan and Teradata 2012 Stock Incentive Plan.

(2) Column (c) represents the number of shares of our common stock available for issuance under the Teradata 2012 Stock Incentive Plan and the Teradata Corporation Employee Stock Purchase Plan, other than shares available for issuance in connection with the exercise of outstanding stock options.

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The following graph compares the relative performance of Teradata stock, the Standard & Poor s 500 Stock Index and the Standard & Poor s Information Technology Index. This graph covers the five-year period from December 31, 2008 to December 31, 2013.

Company/Index	31 Dec 2008	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012	31 Dec 2013
Teradata Corporation	$ 100	$ 212	$ 278	$ 327	$ 417	$ 307
S&P 500 Index	$ 100	$ 126	$ 146	$ 149	$ 172	$ 228
S&P Information Technology Index	$ 100	$ 162	$ 178	$ 183	$ 210	$ 269

(1) In each case, assumes a $100 investment on December 31, 2008, and reinvestment of all dividends, if any.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

For the year ended December 31, 2013, the Company executed purchases for approximately 7.8 million shares of its common stock at an average price per share of $48.53 under the two share repurchase programs authorized by our Board of Directors in 2008. The first program (the dilution offset program) authorizes the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan (ESPP) to offset dilution from shares issued pursuant to these plans. On February 6, 2012, the board approved a new $300 million share repurchase authorization to replace a prior $300 million authorization under the Company s second share repurchase program (the general share repurchase program), that was to expire on February 10, 2012. On December 10, 2012, Teradata announced that board approved an additional $300 million increase in the share repurchase authorization under the Company s general share repurchase program. On October 14, 2013, the board approved an additional $300 million increase in the share repurchase authorization. As of December 31, 2013, the Company had $323 million of authorization remaining under the general share repurchase program to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis.

In addition to the share repurchase programs, Section 16 officers occasionally transfer vested shares of restricted stock to the Company at the current market price to cover their withholding taxes. For the year ended December 31, 2013, the total of these purchases was 167,037 shares at an average price of $53.83 per share.

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The following table provides information relating to the Company s repurchase of common stock for the year ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Dilution Offset Program	Total Number of Shares Purchased as Part of Publicly Announced General Share Repurchase Program	Maximum Dollar Value that May Yet Be Purchased Under the Dilution Offset Program	Maximum Dollar Value that May Yet Be Purchased Under the General Share Repurchase Program
First quarter total	**1,611,253**	**$ 58.43**	**113,822**	**1,497,431**	**$ 3,101,443**	**`$ 288,814,961**
Second quarter total	**1,631,780**	**$ 53.73**	**155,320**	**1,476,460**	**$ 1,577,840**	**$ 209,264,703**
Third quarter total	**25,700**	**$ 49.90**	**25,700**		**$ 8,255,811**	**$ 209,264,703**
October 2013		$			$ 9,845,776	$ 509,264,703
November 2013	2,600,000	$ 44.20	200,000	2,400,000	$ 3,175,438	$ 402,931,992
December 2013	1,916,449	$ 41.63	2,600	1,913,849	$ 4,909,158	$ 323,254,475
Fourth quarter total	**4,516,449**	**$ 43.11**	**202,600**	**4,313,849**	**$ 4,909,158**	**$ 323,254,475**
2013 Full year total	**7,785,182**	**$ 48.53**	**497,442**	**7,287,740**	**$ 4,909,158**	**$ 323,254,475**

In addition, from January 1, 2014 through February 26, 2014, the Company purchased approximately 1.9 million shares for approximately $78 million.

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Item 6. SELECTED FINANCIAL DATA

In millions, except per share and employee amounts	For the Year Ended December 31 2013 [1]	2012 [2]	2011 [3]	2010	2009
Revenue	$ 2,692	$ 2,665	$ 2,362	$ 1,936	$ 1,709
Income from operations	$ 532	$ 580	$ 456	$ 415	$ 338
Other (expense) income, net	$ (24)	$ (2)	$ 25	$ (1)	$ (4)
Income tax expense	$ 131	$ 159	$ 128	$ 113	$ 80
Net income	$ 377	$ 419	$ 353	$ 301	$ 254
Net income per common share					
Basic	$ 2.31	$ 2.49	$ 2.10	$ 1.80	$ 1.48
Diluted	$ 2.27	$ 2.44	$ 2.05	$ 1.77	$ 1.46

	At December 31 2013	2012	2011	2010	2009
Total assets	$ 3,096	$ 3,066	$ 2,616	$ 1,883	$ 1,569
Debt	$ 274	$ 289	$ 300	$	$
Total stockholders equity	$ 1,857	$ 1,779	$ 1,494	$ 1,189	$ 910
Cash dividends	$	$	$	$	$
Number of employees	10,800	10,200	8,600	7,400	6,600

(1) Includes $17 million for acquisition-related transaction, integration and reorganization costs and expenses, and $43 million for amortization of acquired intangible assets, $22 million for expenses related to a net loss on equity investments, with a cumulative offsetting tax impact of $33 million.

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

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

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

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

BUSINESS OVERVIEW

Teradata is a leading provider of analytic data platforms, marketing and analytic applications, and consulting services. Our analytic data platforms are comprised of software, hardware, and related business consulting and support services for data warehousing, active intelligence, big data analytics, and data discovery. Through our Teradata Unified Data Architecture (a comprehensive enterprise approach that integrates our analytic data platforms and multiple technologies, including third-party provided products, into a cohesive data architecture), we help customers access and manage data and extract ever greater business value and insight from their data. Our applications are designed to leverage data to: improve organizations effectiveness in marketing to their customers, determine customer and product profitability, forecast consumer demand, and discover new insights. Our consulting services help customers maximize use and leverage the value of their analytic data and marketing investments. Our services include a broad range of offerings including consulting, cloud (software as a service), hosting, platform management, and related installation services (collectively, consulting services) and support services.

Our analytic data platforms are designed to integrate an organization s departmental and enterprise-wide data about customers, financials, operations, and more into a unified and cohesive view of the business. Through active intelligence, we extend the use of traditional data warehousing by integrating advanced analytics into enterprise business processes, allowing companies to combine the analysis of current and historical data so operations personnel can make decisions at the point of contact or service and take action as events occur. Our big data analytic platforms provide data collection and data discovery from ever increasing volumes of diverse, multi-structured data. Our range of analytic applications, the Teradata and Teradata Aster databases, workload-specific platforms, big data analytics and cloud-based solutions, help customers drive more complete and complex analytics to enhance both top- and bottom-line performance and extend their competitive advantage in today s global marketplace. Our marketing applications leverage data to help organizations manage their marketing operations, plan and execute campaigns, and communicate with their customers across all channels. The explosion of data has created opportunities for our customers to significantly improve their effectiveness in marketing to their customers. Our consulting services are an important part of our business, with our consultants offering a combination of proven methodologies, deep industry expertise and years of hands-on experience. In addition, our customer services professionals provide a single source of support services for our analytic data platforms that allow customers to maximize use and leverage the value of their analytic data and marketing investments.

We serve customers across a broad set of industries from around the world, ranging from small departmental and corporate implementations to many of the world s largest analytic data platforms and marketing applications. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors, value-added resellers and distributors. We provide our offerings on-premise or in the cloud (as a service).

Effective January 1, 2013, Teradata combined the management of the Europe, Middle East, Africa, Asia Pacific and Japan regions into a new International region. This larger International region has greater critical mass and leverage of resources for deployment of the Company s integrated marketing management, big data analytics, and data

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warehouse solutions, and also possesses more knowledge depth for our numerous consulting and support services offers. As a result, Teradata now manages its business in two geographic regions, which are also the Company s operating segments: (1) the Americas region (North America and Latin America); and (2) the International region (Europe, Middle East, Africa, Asia Pacific and Japan). Management evaluates the performance of its segments based on revenue and segment margin. Corporate-related costs are fully allocated to the segments, but for management reporting purposes assets are not allocated to the segments.

In 2011, Teradata completed its acquisitions of Aprimo, Inc. (Aprimo), a global provider of integrated marketing management software solutions, as well as Aster Data Systems, Inc. (Aster Data), a market leader in big data analytics, and the management of diverse, multi-structured data. In 2012, Teradata completed the acquisition of eCircle Beteiligungs GmbH (eCircle), a leading full-service digital marketing provider in Europe.

2013 FINANCIAL OVERVIEW

As more fully discussed in later sections of this MD&A, the following are the financial highlights for 2013:

Revenue increased 1% in 2013 from 2012, primarily due to increased services revenue offset by lower product revenue, due to macro-economic conditions in certain geographical territories throughout the world, extended sales cycles and a reduction in large customer orders in the current year.

Gross margin was 54.7% in 2013, down from 55.9% in 2012, which was largely a result of less favorable product mix as services revenue increased while product revenue decreased.

Operating income was $532 million in 2013, down from $580 million in 2012. The reduction was driven by lower overall gross margins against the prior-year period, as well as an increase in operating expenses, largely due to the addition of more sales territories partially offset by decreased variable incentive based compensation.

Net income of $377 million in 2013 decreased from $419 million in 2012. Net income per common (diluted) share was $2.27 in 2013 compared to $2.44 in 2012. Net income for 2013 includes approximately $35 million in after-tax impacts of acquisition-related purchase accounting adjustments, transaction, integration and reorganization expenses, and amortization of acquired intangible assets, compared to $41 million of such costs and expenses, in 2012. Additionally, 2013 net income includes a $14 million after-tax net loss on equity investments.

STRATEGY OVERVIEW

Teradata helps companies achieve competitive advantage and win in their markets by empowering them to become data-driven businesses capable of exploiting data for insight and value. With Teradata, companies can become more competitive by leveraging data insights to reduce costs, improve business processes, enhance customer relationships, and drive innovation. Companies can also engage in better data-driven marketing through Teradata s industry-leading analytic data platforms, marketing applications and proven consulting experience and expertise.

Teradata s strategy focuses on three large and growing markets: data warehousing, big data analytics, and marketing applications. We continue to focus on the following key initiatives to broaden our position in the market and take advantage of these market opportunities.

Invest to expand our leading Unified Data Architecture, data warehouse software and platform family, big data discovery platforms, Hadoop-based data management platforms, and marketing applications to address multiple market segments through internal development and targeted strategic acquisitions;

Deliver our solutions via the cloud (as a service) or on premise with offerings that support applications as a service, data warehousing as a service, as well as discovery analytics as a service and data management as a service;

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

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- Continue to seek opportunities to strengthen our sales resources (*e.g.*, by opportunistically hiring incremental sales account executives as well as technology and industry consultants, and sales support resources).

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

FUTURE TRENDS

We believe that demand for our analytic data platforms will continue to increase due to the continued growth of data volumes and types of data, the scale and complexity of business requirements, and the growing use of new data elements and more analytics over time. The adoption by customers of a broader set of analytics including predictive analytics, path analysis, network analysis/graph, and many others is driving more applications, usage and capacity. This increased breath of analytics also drives the need for an overall architecture to manage an increasingly complex analytics environment. As a result, we expect that Teradata s leadership in analytic data platforms and Unified Data Architecture positions us well for future growth. In addition, we believe that our strong competitive position in integrated marketing management, including our marketing operations, campaign management and digital messaging offerings, will contribute to our growth and be increasingly synergistic with the Company s big data analytics business as companies gain competitive advantage through data-driven marketing with their customers.

This growth, however, is not expected to be without its challenges from general economic conditions, competitive pressures, alternative technologies and other risks and uncertainties as outlined elsewhere in this Annual Report.

As a portion of the Company s operations and revenue occur outside the United States, and in currencies other than the U.S. dollar, the Company is exposed to fluctuations in foreign currency exchange rates. In 2014, Teradata is expecting approximately one percentage point of adverse impact from currency translation on our reported revenue growth rate and a corresponding currency impact on operating income, based on currency rates as of February 7, 2014.

Since mid-2012, Teradata has seen a change in customers buying patterns, particularly in the U.S. market, with respect to large capital investments and related services due to a more budget-conscious environment in which such purchases are delayed, deferred or modified. While we believe that these macro-economic challenges, and the resulting effect on customer purchases, are likely to continue in 2014, customers continue to have a strategic focus and pent up need for analytics business intelligence and management of their growing data volumes. As described above, we believe that Teradata s leading product and service offerings position us well to take advantage of market opportunities as economic conditions improve and companies expand their investments in these mission-critical analytical technologies.

Although we did not experience significant changes for the year ended December 31, 2013 due to competitive and/or pricing trends for our analytic data platforms, there is some risk that pricing and competitive pressures on our solutions could occur in the future, particularly to the extent that cost becomes a top priority in companies and lower cost alternatives are more seriously and frequently considered. However, such alternatives generally do not enable companies to perform mission-critical, complex business analytic workloads or provide a Unified Data Architecture to address mission-critical analytics, discovery analytics, and data management such as those enabled by Teradata s offerings. We believe that analytics will remain a high priority for companies and will continue to drive growth for Teradata s leading solutions. Moreover, we will continue to be committed to new product development and achieving a responsive yield from our research and development spending and resources, which are intended to drive future demand.

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RESULTS FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

In millions	2013	% of Revenue	2012	% of Revenue	2011	% of Revenue
Product revenue	$ 1,230	45.7%	$ 1,297	48.7%	$ 1,122	47.5%
Service revenue	1,462	54.3%	1,368	51.3%	1,240	52.5%
Total revenue	2,692	100%	2,665	100%	2,362	100%
Gross margin						
Product gross margin	797	64.8%	881	67.9%	741	66.0%
Service gross margin	676	46.2%	610	44.6%	552	44.5%
Total gross margin	1,473	54.7%	1,491	55.9%	1,293	54.7%
Operating expenses						
Selling, general and administrative expenses	757	28.1%	728	27.3%	663	28.1%
Research and development expenses	184	6.8%	183	6.9%	174	7.4%
Total operating expenses	941	35.0%	911	34.2%	837	35.4%
Operating income	$ 532	19.8%	$ 580	21.8%	$ 456	19.3%

Revenue

Total revenue increased 1% in 2013 compared to 2012. The revenue increase included a 1% adverse impact from foreign currency fluctuations. Product revenue decreased 5% in 2013 from 2012, due primarily to macro-economic conditions in certain geographical territories throughout the world, extended sales cycles and a reduction in large customer orders. Additionally, service revenue in 2013 increased 7% from 2012, with an underlying 9% increase in maintenance services revenue, as compared to 2012. Consulting services revenue increased 5% in 2013 compared to 2012.

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

Gross Margin

Gross margin was 54.7% in 2013 down from 55.9% in 2012, as a result of a shift in the product mix. Product gross margin decreased to 64.8% in 2013, compared to 67.9% 2012, primarily the result of lower product revenue volume, product mix, and higher capitalized software amortization. Service gross margin increased to 46.2% in 2013 compared to 44.6% in 2012, driven by higher maintenance revenues and improved consulting margins.

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

Operating Expenses

Total operating expenses, including Selling, General and Administrative (SG&A) and Research and Development (R&D) expenses, totaled $941 million in 2013 compared to $911 million in 2012. SG&A increased by $29 million, and was primarily driven by higher selling expense, resulting from our strategic initiative to add sales territories and related headcount, which was offset in part by lower variable incentive based compensation expense. R&D expenses increased $1 million and included $3 million less in capitalization of software development costs, which were offset by lower variable incentive based compensation expense.

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

Other (Expense) Income, net

Other expense was $24 million in 2013 compared to $2 million in 2012. The increase in other expense is due to a $22 million net loss on equity investments in 2013 arising from an impairment of carrying value, partially offset by a gain on sale.

In 2012, other expense was $2 million compared to $25 million of other income in 2011. Other income in 2011 resulted primarily from $28 million in gains on the sales of equity investments.

Income Taxes

The effective income tax rate was 25.8%, 27.5% and 26.6% for the years ended December 31, 2013, 2012 and 2011, respectively. The tax rate for 2013 included a $4 million discrete tax benefit for the 2012 U.S. Federal Research and Development Tax Credit (the R&D tax credit), that was recognized in January of 2013 when the tax credit was retroactively reinstated. Due to a change in tax law enacted in the state of California in the fourth quarter of 2012, the Company established a valuation allowance to partially offset its California Research & Development tax credit carryforward deferred tax asset, as the Company expects to continue to generate excess California Research & Development tax credits into the foreseeable future. However, the discrete tax impact of establishing the valuation allowance was fully offset with a favorable discrete tax impact resulting from a decrease in the Company s effective state tax rate resulting from the California change in tax law, resulting in no material net impact to the Company s overall effective tax rate for the fourth quarter and full year ended December 31, 2012. The effective tax rate for 2011 was impacted by a $4 million discrete tax benefit related to the book gain recorded on the Company s previous equity investment in Aster Data, which was reflected as a permanent non-taxable item in the second quarter of 2011.

We currently estimate our full-year effective tax rate for 2014 to be approximately 26.5%. This estimate takes into consideration, among other things, the forecasted earnings mix by jurisdiction for 2014, and assumes that the R&D tax credit, which expired as of December 31, 2013, will be retroactively reinstated sometime during 2014. If the credit is not reinstated during 2014, we estimate our effective tax rate will be negatively impacted by approximately 60 basis points. The provision for income taxes is based on the pre-tax earnings mix by jurisdiction of Teradata and its subsidiaries under the Company s current structure. For additional information, see Note 4 Income Taxes in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

Revenue and Gross Margin by Operating Segment

Teradata manages its business in two geographic regions, which are also the Company s operating segments: the Americas and International regions. Teradata believes this format is useful to investors because it allows analysis and comparability of operating trends by operating segment. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess our financial performance. The discussion of our segment results describes the changes in results as compared to the prior-year period.

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

In millions	2013	% of Revenue	2012	% of Revenue	2011	% of Revenue
Revenue						
Americas	$ 1,633	61%	$ 1,619	61%	$ 1,436	61%
International	1,059	39%	1,046	39%	926	39%
Total revenue	$ 2,692	100%	$ 2,665	100%	$ 2,362	100%
Gross margin						
Americas	$ 947	58.0%	$ 967	59.7%	$ 837	58.3%
International	526	49.7%	524	50.1%	456	49.2%
Total gross margin	$ 1,473	54.7%	$ 1,491	55.9%	$ 1,293	54.7%

Americas: Revenue increased $14 million or 1%, in 2013 from 2012, with an underlying 7% increase in services revenue offset in part by a 4% decrease in product revenue. The revenue increase was not materially impacted by foreign currency fluctuations. Gross margins were 58.0% for 2013, down from 59.7% in 2012, as higher maintenance services margins and improved consulting services margins were more than offset by a greater proportion of services revenue (in relation to product revenue), compared to the prior-year period.

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

International: Revenue increased $13 million or 1%, in 2013 from 2012, as a 7% increase in services revenue was largely offset by a 7% reduction in product revenue. The increase in services revenue was largely driven by revenue from the acquisition of eCircle. The revenue increase includes a 3% adverse impact from foreign currency fluctuations. Gross margins decreased slightly to 49.7% in 2013, down from 50.1% in 2012, as improved consulting services and maintenance services margins were more than offset by a greater proportion of services (in relation to product revenue), compared to the prior-year period.

In 2012, revenue increased 13% from 2011, led by an 18% increase in consulting services revenue. The increase in consulting revenue was largely driven by revenue from the acquisition of eCircle, which was completed in 2012. The revenue increase included a negative 5% impact from foreign currency fluctuations. Gross margin increased to 50.1% in 2012, from 49.2% in 2011, driven by improvements in both product and services margins, offset in part by a greater proportion of consulting services revenue (compared to product revenue), as compared to the prior-year period.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Teradata ended 2013 with $695 million in cash and cash equivalents, a $34 million decrease from the December 31, 2012 balance, after using approximately $382 million for repurchases of Company common stock, and approximately $36 million for acquisitions and investment activities which were completed during the year. Cash provided by operating activities decreased by $65 million to $510 million in 2013. The decrease in cash provided by operating activities was primarily due to lower net income and timing of working capital transactions.

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

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

In millions	**2013**	**2012**	**2011**
Net income	$ 377	$ 419	$ 353
Net cash provided by operating activities	$ 510	$ 575	$ 513
Less:			
Expenditures for property and equipment	(60)	(67)	(42)
Additions to capitalized software	(78)	(81)	(68)
Free cash flow	$ 372	$ 427	$ 403

Financing activities and certain other investing activities are not included in our calculation of free cash flow. In 2013, these other investing activities primarily consisted of immaterial business acquisitions and investment activities that were closed during the year. Other investing activities in 2012 primarily consisted of Teradata s acquisition of eCircle, as well as other smaller investment activities. Other investing activities in 2011 primarily consisted of Teradata s acquisitions of Aprimo and Aster Data as discussed further below.

Teradata s financing activities for the years ended December 31, 2013 and 2012 primarily consisted of cash outflows for share repurchases. Teradata s financing activities for the year ended December 31, 2011 primarily consisted of $300 million in proceeds from a new 5 year term loan, as discussed below, as well as repurchases of the Company s common stock. The Company purchased 7.8 million shares of its common stock at an average price per share of $48.53 in 2013, 4.5 million shares at an average price per share of $62.53 in 2012 and 2.5 million shares at an average price per share of $50.78 in 2011. Share repurchases were made under two share repurchase programs initially authorized by our Board of Directors in 2008. The first program (the dilution offset program) authorizes the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan (ESPP) to offset dilution from shares issued pursuant to these plans. On February 6, 2012, the board approved a new $300 million share repurchase authorization to replace a prior $300 million authorization under the Company s second share repurchase program (the general share repurchase program) that was to expire on February 10, 2012. On December 10, 2012, Teradata announced that the board approved an additional $300 million increase in the share repurchase authorization under the Company s general share repurchase program. On October 14, 2013, the board approved an additional $300 million increase in the share repurchase authorization. As of December 31, 2013, the Company had $323 million of authorization remaining under the general share repurchase program to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis. Our share repurchase activity depends on factors such as our working capital needs, our cash requirements for capital investments, our stock price, and economic and market conditions. Proceeds from the ESPP and the exercise of stock options were $28 million in 2013, $55 million in 2012 and $25 million in 2011. These proceeds are included in Other Financing Activities, Net in the Consolidated Statements of Cash Flows.

Our total cash and cash equivalents held outside the United States in various foreign subsidiaries was $615 million as of December 31, 2013 and $497 million as of December 31, 2012. The remaining balance held in the United States was $80 million as of December 31, 2013 and $232 million as of December 31, 2012. Under current tax laws and regulations, if cash and cash equivalents held outside the United States are distributed to the United States 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 potential foreign withholding taxes. As of December 31, 2013, we have not provided for the U.S. federal tax liability on approximately $1 billion of foreign earnings that are considered permanently reinvested outside of the United States.

In June 2012, Teradata entered into a new five-year revolving credit agreement (the Credit Facility), under which the Company may borrow up to $300 million. The Credit Facility replaces a similar revolving credit agreement in the same maximum principal amount entered into by Teradata in 2007. The new Credit Facility expires on June 15, 2017, at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. The interest rate charged on borrowings pursuant to the Credit Facility can vary depending on the interest rate option the Company chooses to utilize and the Company s leverage ratio at the time of the borrowing. In the near term, Teradata would anticipate choosing a floating rate based on the London Interbank Offered Rate (LIBOR). If the facility had been fully drawn at December 31, 2013, the spread over the LIBOR would have been 98 basis points (for an interest rate of 1.324%, assuming a 6 month borrowing term) given Teradata s leverage ratio at that date. The Credit Facility is unsecured and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. As of December 31, 2013, the Company had no outstanding borrowings from the Credit Facility, and was in compliance with all covenants.

In January 2011, Teradata in connection with the acquisition of Aprimo, funded part of purchase price of this all-cash acquisition by drawing down the full $300 million borrowing capacity from the Company s prior credit facility. The $300 million in credit facility borrowings were repaid in full during the second quarter of 2011.

In April 2011, Teradata in connection with the acquisition of Aster Data, entered into a new $300 million five-year, unsecured term loan, and used a portion of these funds to finance the Aster Data acquisition. The outstanding principal amount of the term loan agreement bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate plus in each case a margin based on the leverage ratio of the Company. As of December 31, 2013, the term loan principal outstanding was $274 million, and carried an interest rate of 1.1875%.

Management believes current cash, Company cash flows from operations and its $300 million Credit Facility will be sufficient to satisfy future working capital, research and development activities, capital expenditures, pension contributions, and other financing requirements for at least the next twelve months. The Company principally holds its cash 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 elsewhere in this Annual Report. If the Company is unable to generate sufficient cash flows from operations, or otherwise to comply with the terms of the credit facility and term loan agreement, the Company may be required to seek additional financing alternatives.

Contractual and Other Commercial Commitments. In the normal course of business, we enter into various contractual obligations that impact, or could impact, our liquidity. The following table and discussion outlines our material obligations at December 31, 2013, with projected cash payments in the periods shown:

In millions	Total Amounts	2014	2015-2016	2017-2018	2019 and Thereafter
Principal payments on long-term debt	$ 274	$ 26	$ 248	$	$
Interest payments on long-term debt	7	3	4		
Lease obligations	81	22	33	18	8
Purchase obligations	9	5	4		
Total debt, lease and purchase obligations	$ 371	$ 56	$ 289	$ 18	$ 8

Our principal payments on long-term debt represent the expected cash payments on our $300 million term loan and do not include any fair value adjustments or discounts and premiums. Our interest payments on long-term debt represent the estimated cash interest payments based on the prevailing interest rate on our $300 million term loan as of December 31, 2013. Our lease obligations in the above table include Company facilities in various domestic and international locations. Purchase obligations are committed purchase orders and other contractual commitments for goods and services, and include contractual payments in relation to service agreements with various vendors for ongoing telecommunications, and other services.

Additionally, the Company has $34 million in total uncertain tax positions recorded as noncurrent liabilities on its balance sheet as of December 31, 2013. These items are not included in the table of obligations shown above. The settlement period for these income tax liabilities cannot be reasonably estimated as the timing and the amount of the payments, if any, will depend on possible future tax examinations with the various tax authorities; however, it is not expected that any payments will be due within the next 12 months.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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Revenue Recognition

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

- Persuasive evidence of an arrangement exists
- The products or services have been delivered to the customer
- The sales price is fixed or determinable and free of contingencies or significant uncertainties
- Collectibility is reasonably assured

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

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

The Company evaluates all deliverables in an arrangement to determine whether they represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value, and if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered items is considered probable and substantially in the control of Teradata. Most of the Company s products and services qualify as separate units of accounting and are recognized upon meeting the criteria as described above.

For multiple deliverable arrangements that contain non-software related deliverables, the Company allocates revenue to each deliverable based upon the relative selling price hierarchy and if software and software-related deliverables are also included in the arrangement, to those deliverables as a group based on the best estimate of selling price (BESP) for the group. The selling price for a deliverable is based on its vendor-specific objective evidence of selling price (VSOE) if available, third-party evidence of selling price (TPE) if VSOE is not available, or BESP if neither VSOE nor TPE is available. The Company then recognizes revenue when the remaining revenue recognition criteria are met for each deliverable. For the software group or arrangements that contain only software

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and software-related deliverables, the revenue is allocated utilizing the residual or fair value method. Under the residual method, the VSOE of the undelivered elements is deferred and accounted for under the applicable revenue recognition guidance, and the remaining portion of the software arrangement fee is allocated to the delivered elements and is recognized as revenue. The fair value method is similar to the relative selling price method used for non-software deliverables except that the allocation of each deliverable is based on VSOE. For software groups or arrangements that contain only software and software-related deliverables in which VSOE does not exist for each deliverable (fair value method) or does not exist for each undelivered element (residual method), revenue for the entire software arrangement or group is deferred and not recognized until delivery of all elements without VSOE has occurred, unless the only undelivered element is postcontract customer support (PCS) in which case the entire software arrangement or group is recognized ratably over the PCS period.

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

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

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

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

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

The Company reviews VSOE, TPE and its determination of BESP on a periodic basis and updates it, when appropriate, to ensure that the practices employed reflect the Company s recent pricing experience. The Company maintains internal controls over the establishment and updates of these estimates, which includes review and approval by the Company s management. For the twelve months ended December 31, 2013 there was no material impact to revenue resulting from changes in VSOE, TPE or BESP, nor does the Company expect a material impact from such changes in the near term.

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

Perpetual licenses, term licenses, hosting arrangements and software as a service. Teradata s application offerings include perpetual licenses, term licenses, hosting arrangements and software as a service. For software arrangements that include a perpetual license, the residual method is typically used because the Company does not have VSOE for its perpetual licenses. This is because the perpetual license is never sold standalone. If the license is of limited life and does not require the Company to host the software for the customer, the software is considered a term license. Teradata s term licenses are typically offered for application software and include a right-to-use license, PCS and consulting services. The revenue for these arrangements are typically recognized ratably over the contract term. The term of these arrangements varies between one and five years and may or may not include hosting services. In most arrangements the pricing is bundled to the customer. If the term license is hosted, the customer has the right to take possession of the software at any time during the hosting period. The customer s rights to the software in these circumstances are not dependent on additional software payments or significant penalties, and the customer can feasibly run the software on its own hardware or contract with another party to host the software. If these criteria are not met, the hosting arrangement is accounted for outside the software rules as a software as a service arrangement. Under a software as a service arrangement, the license, PCS and hosting fee are recognized ratably over the term of the contract.

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

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Capitalized Software

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

Income Taxes

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

The Company s intention is to permanently reinvest its foreign earnings outside of the United States. As a result, the effective tax rates are largely based upon the forecasted pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business. These jurisdictions apply a broad range of statutory income tax rates; the U.S. statutory corporate income tax rate is currently 35% as compared to the overall statutory effective tax rate of our various foreign jurisdictions of approximately 12%. As of December 31, 2013, the Company has not provided for federal income taxes on earnings of approximately $1 billion from its foreign subsidiaries.

We account for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We record any interest and/or penalties related to uncertain tax positions in the income tax expense line on our Consolidated Statements of Income. As of December 31, 2013, the Company has a total of $34 million of unrecognized tax benefits, of which $20 million is included in the Other liabilities section of the Company s consolidated balance sheet. The remaining balance of $14 million of unrecognized tax benefits relates to certain tax attribute carryforwards which were both generated by the Company and acquired in various acquisitions, which are netted against the underlying deferred tax assets recorded on the balance sheet.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. We had $11 million and $9 million recorded in valuation allowances as of December 31, 2013 and 2012, respectively. Due to a change in tax law enacted in the state of California in the fourth quarter of 2012, the Company established a valuation allowance to partially offset its California Research & Development tax credit carryforward deferred tax asset, as the Company expects to continue to generate excess California Research & Development tax credits into the foreseeable future. However, the discrete tax impact of establishing the valuation allowance was fully offset with a favorable discrete tax impact resulting from a decrease in the Company s effective state tax rate resulting from the California change in tax law, resulting in no material net impact to the Company s overall effective tax rate for the fourth quarter and full year ended December 31, 2012.

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Stock-based Compensation

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

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

Goodwill and Other Intangible Assets

The company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The guidance on goodwill impairment requires the company to perform a two-step impairment test. In the first step, the company compares the fair value of each reporting unit to its carrying value. The company determines the fair value of its reporting units based on the income approach. Under the income approach, the company calculates the fair value of a reporting unit based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the second step of the impairment test is performed in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then the company records an impairment loss equal to the difference. Teradata reviewed four reporting units in its 2013 goodwill impairment assessment, as each geographic operating segment consisted of separate reporting units for data warehouse and application software activities.

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

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

The annual goodwill impairment analysis, which the company performed during the fourth quarter of 2013, did not result in an impairment charge. There were also no impairment charges recognized in 2013 as a result of assessments of intangible assets acquired as a result of business combinations (or otherwise purchased from other companies). As of December 31, 2013, Teradata had $946 million in goodwill and $149 million in acquired intangible assets on its consolidated balance sheet.

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Pension and Postemployment Benefits

We have pension and postemployment benefit costs and credits, which are developed from actuarial valuations. Actuarial assumptions attempt to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions we make about interest rates, expected investment return on plan assets, total and involuntary turnover rates, and rates of future compensation increases. In addition, our actuarial consultants also use subjective factors such as withdrawal rates and mortality rates to develop our valuations. We review and update these assumptions on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact to the measurement of our pension and postemployment benefit obligations, and to the amount of pension and postemployment benefits expense we have recorded or may record. For example, as of December 31, 2013, a one-half percent increase/decrease in the discount rate would change the projected benefit obligation of our pension plans by approximately $6 million, and a one-half percent increase/decrease in our involuntary turnover assumption would change our postemployment benefit obligation by approximately $13 million.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company employs a foreign currency hedging strategy to limit potential losses in earnings or cash flows from adverse foreign currency exchange rate movements. Foreign currency exposures arise from transactions denominated in a currency other than the Company s functional currency and from foreign denominated revenue and profit translated into U.S. dollars. The primary currencies to which the Company is exposed include the euro, the British pound, the Japanese yen, the Australian dollar, the Canadian dollar and other Asian and South American currencies. Exposures are hedged with foreign currency forward contracts with maturity dates of twelve months or less. The potential loss in fair value at December 31, 2013, for such contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates is approximately $2 million. This loss would be mitigated by corresponding gains on the underlying exposures. For additional information regarding the Company s foreign currency hedging strategy, see Note 7 Derivative Instruments and Hedging Activities in the Notes to Consolidated Financial Statements elsewhere in this Annual Report.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management s Responsibility for Financial Statements

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

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

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

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

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Teradata Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows present fairly, in all material respects, the financial position of Teradata Corporation and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing in Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control over Financial Reporting appearing under item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Atlanta, GA
February 27, 2014

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TERADATA CORPORATION

Consolidated Statements of Income

In millions, except per share amounts

	For the Year Ended December 31		
	2013	**2012**	**2011**
Revenue			
Product revenue	$ 1,230	$ 1,297	$ 1,122
Service revenue	1,462	1,368	1,240
Total revenue	2,692	2,665	2,362
Costs and operating expenses			
Cost of products	433	416	381
Cost of services	786	758	688
Selling, general and administrative expenses	757	728	663
Research and development expenses	184	183	174
Total costs and operating expenses	2,160	2,085	1,906
Income from operations	532	580	456
Other (expense) income, net	(24)	(2)	25