TERADATA CORP /DE/
Form 10-K
March 02, 2009
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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, 2008

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.)**

2835 Miami Village Dr.

Miamisburg, 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 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, 2008, was approximately $4.1 billion.

At January 31, 2009, there were approximately 173.6 million shares of common stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Part III: Portions of the registrant s Proxy Statement, to be filed with the Securities and Exchange Commission in connection with the Company s Annual Meeting of Stockholders to be held April 28, 2009.

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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, ma 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 global economic downturn and its impact 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 other general economic and business conditions;
- the rapidly changing and intensely competitive nature of the information technology industry and the enterprise data warehousing business, including the increasing consolidation activity and pressure on achieving continued price/performance gains for data warehousing solutions;
- fluctuations in our operating results, timing of transactions, unanticipated delays or accelerations in our sales cycles and the difficulty of accurately estimating revenues; 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.

You should consider the areas of risk described above, as well as those set forth in the section entitled Risk Factors included elsewhere in this Annual Report, in connection with considering any forward-looking statements that may be made by us and our businesses generally. 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.

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Item 1. BUSINESS

Overview. Teradata Corporation (we, us, Teradata, or the Company) is a global leader in enterprise data warehousing (EDW), including enterprise analytic technologies and services. Our data warehousing solutions are comprised of software, hardware, and related business consulting and support services. Recognized as market leading by both industry analysts and customers, our solutions integrate an organization s departmental and enterprise-wide data about customers, financials, operations, and more into a single enterprise-wide data warehouse. Our enterprise analytical technologies then transform that data into actionable enterprise intelligence. This intelligence offers our customers a single view of their business, and the ability to leverage their organization s data as a strategic corporate asset to gain competitive and operational advantage. Companies today realize that they require better information derived from their data to run their business, and are seeing data volumes and data sources continue to multiply. Using Teradata solutions, they can access more timely and accurate information, obtain better insight about all aspects of their business, and make decisions with greater speed and precision to drive profitable growth. Teradata is designed to enable our customers to maximize business value while minimizing their total costs.

We serve customers across a broad set of industries from around the world ranging from small departmental and corporate implementations to many of the world s largest data warehouses. Teradata operates from three main locations in the United States: Johns Creek (Atlanta), Georgia; Miamisburg (Dayton), Ohio; and Rancho Bernardo (San Diego), California. In addition, we have sales and services offices located in approximately 40 countries. For the full year ended December 31, 2008, we had net income of $250 million and total revenues of $1.762 billion, of which approximately 56% was derived in the North America and Latin America region (the Americas), 26% in the Europe, Middle East and Africa region (EMEA), and 18% in the Asia Pacific and Japan region (APJ), demonstrating our diversified business model. For financial information about these geographic areas that are also our reportable segments, see Note 11 Segment, Other Supplemental Information and Concentrations in Notes to Consolidated Financial Statements elsewhere in this Annual Report.

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

In 1996, AT&T spun off NCR (including Teradata) to form an independent, publicly-traded company, NCR Corporation. In 1999, NCR consolidated its Teradata data warehousing operations and product offerings into a separate operating division. Since 1999, we have increased our investments and focus to extend the scope of our enterprise data warehousing solutions, including improvements to our leading database software, increasing our enterprise analytic software applications, and providing sophisticated support and professional consulting services.

The Separation. On August 27, 2007, NCR s Board of Directors approved the separation of NCR into two independent, publicly-traded companies through the distribution of 100% of its Teradata data warehousing business to shareholders of NCR (the Separation).

To effect the Separation, Teradata was formed as a separate Delaware corporation on March 27, 2007, as a wholly-owned subsidiary of NCR. Immediately prior to the Separation, the assets and liabilities of the Teradata data warehousing business of NCR were transferred to Teradata in return for 180.7 million shares of the Company s common shares. NCR accomplished the Separation through a distribution of one share of Teradata common stock for each share of NCR common stock on September 30, 2007. 100% of the Teradata shares were distributed to NCR shareholders of record as of September 14, 2007.

Our Relationship with NCR. NCR and Teradata entered into an Interim Services and Systems Replication Agreement, pursuant to which certain transitional services are provided by NCR and its subsidiaries, and vice versa. The services include the provision of administrative and other services identified by the parties. The Interim Services and Systems Replication Agreement provided for a term of up to 18 months for such services,

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which ends in March 2009, and may be extended for an additional six months by mutual agreement of the parties. The pricing was based on actual costs incurred by the party rendering the services plus a reasonable fixed percentage.

As discussed in the Company s Registration Statement on Form 10, filed on May 10, 2007, as amended on August 21, 2007 (the Form 10), NCR and the Company also entered into certain other agreements including the Separation and Distribution Agreement, Tax Sharing Agreement, Employee Benefits Agreement and several commercial agreements. The commercial agreements that were entered into included a network support agreement, service and distributor arrangements, intellectual property agreements, and various real estate arrangements.

Industry Overview

Our revenues are primarily generated in the multi-billion dollar data warehousing market. This market includes data warehouse database software; applications software; supporting hardware (servers, storage and interconnects); as well as professional, installation and maintenance services. We expect that the need for data warehousing will continue to grow as organizations increasingly rely on enterprise analytics to compete on a global basis. This need is further driven by the convergence of the following key market dynamics we have observed:

- high levels of data growth are being driven by globalization, merger and acquisition activities, alignment of information technology (IT) and business functions, and increased government regulation;

- mission-critical applications used in business operations are increasingly requiring systems to be available at all times;

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

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

Our Data Warehousing Solutions

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

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

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

- integrate analytics-based decisions into operational processes.

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

In 2008, Teradata launched a new purpose-built Teradata Platform Family adding the Data Mart Appliance 551, the Data Warehouse Appliance 2550, and the Extreme Data Appliance 1550 to the existing Active Enterprise Data Warehouse 5550 platform. The Teradata Platform Family was released to extend market reach and opportunity to new customers and to grow Teradata s share of information technology spending within our existing customer base, by providing solutions from data marts, to entry-level data warehouses, to specialized analytical solutions and our active data warehouses. Teradata s purpose-built Platform Family allows customers

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to standardize on the Teradata database system, leveraging their existing training knowledge and experience, to meet all their analytical architecture needs at various price points.

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

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

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

Teradata Platform For the hardware component of our solutions, Teradata integrates and optimizes open systems industry standard hardware components with our value-added, fault-tolerant BYNET MPP interconnect. We utilize industry standard Intel® XEON 32/64-bit servers, along with industry-standard storage offerings, to provide seamless, transparent scalability. As a result, our solutions perform in multiple operating environments, including UNIX®, LINUX and Microsoft Windows®. Our research and development efforts have sought to optimize the Teradata Platform Family as high performance, scalable, and easily supportable MPP systems, purpose-built to meet the analytical architecture needs of our customers, and to optimize the performance of the Teradata database software.

Teradata Logical Data Models Our enterprise industry logical data models (LDMs) are designed to be easy-to-follow blueprints for designing an enterprise data warehouse that reflects business priorities tailored to the specific needs of a particular industry. Our LDMs are licensed to our customers as a key component of our data warehousing solutions. We also offer subscriptions that provide our customers with when-and-if-available upgrades and enhancements to our LDMs.

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

Our service offerings include:

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

Teradata Customer Support Services Our customer services organization provides an experienced, single point of contact and delivery for the deployment, support and ongoing management of Teradata data

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warehouses around the world. In addition to installation, our customer support service offers both proactive and reactive services, including maintenance, monitoring, back up, and recovery services to allow customers to maximize availability and better leverage the value of their investments in data warehousing.

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

Our Strategy. Teradata is in a leadership position to help companies manage the continual increases in data volume and complexity and gain a competitive advantage. We have four key initiatives underway to broaden our position in the market and take advantage of this opportunity. These initiatives include continuing to:

Increase our market coverage through additional sales territories (hiring sales account executives as well as technology and industry consultants),

Invest to extend Teradata s core technology and expand our family of compatible data warehouse platforms to address multiple market segments,

Differentiate Teradata technology and driving platform demand by delivering services that enable customers to achieve best-in-class analytics, and

Invest in partners to increase the number of solutions available on Teradata platforms, to provide more market coverage and to maximize customer value.

Customers. We focus the majority of our sales efforts on the global 3,000 leading companies across a broad set of industries, including banking/financial services, entertainment (including gaming and media), government, insurance and healthcare, manufacturing, retail, telecommunications, transportation, and travel. The extent to which any given customer contributes to our revenues generally varies significantly from year to year and quarter to quarter. These industries provide a good fit for our data warehouse analytic solutions, as they tend to have large and increasing sources of data, complex data management requirements or large and varied groups of users.

With more than 30 years of experience, Teradata is a leader in implementing data warehouse solutions. Our customers represent some of the best-known Global 3000 companies. Teradata solutions power: ten of the top ten global telecommunication firms, 70% of the top global airlines, 70% of the top mail package and freight firms, six of the top ten global retailers, and 50% of the top global commercial and savings banks. (Rankings are based on the July 2008 Fortune Global Rankings and Teradata customers as of 2008.) Although Teradata is a well-established vendor with strong penetration in each of these industries, our market and growth potential remains strong. In addition to new accounts, expanded data warehouse investment within existing accounts is being driven by growth in the number of users, amounts of data, and types and complexity of analytics being directed to the customers data warehouse environment.

Data warehouses are typically built one project at a time. For example, an initial data warehouse may start with a single subject area, which forms the foundation of data that is available to be leveraged for the next project, and so on. Therefore, a customer with a large order in one quarter is likely to generate additional revenue for Teradata in subsequent periods. However, due to the breadth of our customer base, no single customer of Teradata (overall or within any of our reportable segments) accounted for 10% or more of our total revenue in any of the last three fiscal years. For the year ended December 31, 2008, our top ten customers on a revenue basis collectively accounted for approximately 20% of our total revenues. Moreover, Teradata s total revenue and revenue for each reportable segment can vary considerably from period to period given the different growth patterns of our existing customers data warehouse systems and the variable timing of new customer orders. Due to the size and complexity of these transactions (purchases), the sales cycle for an enterprise data warehouse is often fairly long (typically more than a year). Each of our large sales orders typically requires substantial lead time, and 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.

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Partners, Marketing and Distribution Channels

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

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

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

Sales and Marketing. We sell and market our data warehousing solutions in our reportable segments, the Americas, EMEA, and APJ, 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, professional 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 differentiation, as well as provide a robust set of tools for use by our direct sales force. In support of growing awareness of the need for enterprise data warehousing and Teradata solutions specifically, we employ a broad range of marketing tactics including programs to inform and educate the media, industry analysts, academics and other third-party influencers, targeted direct marketing, a website, webinars, and trade shows and conferences. We annually host or participate in worldwide and regional user conferences that take place in approximately 25 locations around the globe.

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

Resellers and Distributors. Although the majority of our sales are direct, to extend our sales coverage, we market and sell our products through third-party channels, including resellers and distributors. We have a number of licensed resellers, including Accenture and BearingPoint, and have license and distribution agreements with independent distributors in many countries worldwide, including NCR. 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 exclusively by Flextronics Corporation. Our platform line is designed to leverage the best-in-class components from industry leaders such as Intel Corporation for microprocessors. In addition, our computer data storage devices (such as disk arrays) are industry-standard technologies provided by LSI Corporation and EMC Corporation, but are selected and configured by us to work optimally with our software and hardware platform. Flextronics also procures a wide variety of components used in the assembly process on our behalf. Although many of these components are available from multiple sources, the Company utilizes preferred supplier relationships to better ensure more consistent quality, cost and delivery. Typically, these preferred suppliers maintain alternative processes and/or facilities to ensure continuity of supply. Given our strategy to outsource manufacturing activities to Flextronics and to source certain components from single suppliers, a disruption in production at Flextronics or at a supplier could impact the timing of customer shipments.

Competition. The overall data warehousing market is very competitive, and we face competition for nearly every sales opportunity we pursue. Our primary competitors include IBM and Oracle for our core EDW platform and Netezza for our data warehouse appliances. Since the overall market is large and growing, we expect to see new and emerging competitors with other alternative approaches, especially in the low-end of the data warehousing market. We compete successfully in the marketplace and intend to continue to do so based on our new Teradata Platform Family, proven architecture, integrated solutions with high performing and scalable technology, deep and broad services capabilities, and our successful track record. For more information, see the section entitled Risk Factors Risks Relating to Our Business included in Item 1A of this Annual Report.

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

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

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

Seasonality. Historically our sales are 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 the section entitled Risk Factors Risks Relating to Our Business included in Item 1A of this Annual Report, make forecasting more difficult and may adversely affect our ability to accurately predict financial results.

Research and Development. We remain focused on designing and developing data warehousing products, services and solutions that anticipate our customers changing technological needs. As we seek improvements in our products and services, we also consider our customer s 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 research and development (R&D) workforce is one of our core strengths. This global R&D team is headquartered at our facility in Rancho Bernardo, California. We anticipate that we will continue to have significant R&D expenditures in the future in order to continue a flow of innovative, high-quality products and services, which is vital to our leading competitive position. For information regarding the accounting and costs included in R&D activities se Note 1 Description of Business, Separation, Basis of Presentation and Significant Accounting Policies in Notes to Consolidated Financial Statements elsewhere in this Annual Report.

Intellectual Property and Technology. The Company owns approximately 440 patents in the United States and about 45 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. In addition, the Teradata database software, as an example of a relational database management system (RDBMS), comprises more than seven million lines of computer code. The source code versions of our products are protected as trade secrets and, in all major markets, as unpublished copyright works. We also vigorously protect our rights in the Teradata database software and related intellectual property; however, there can be no assurance that these measures will be successful.

Upon the Separation, the Company assumed ownership of the Teradata® trademark, which is registered in the U.S. and in many foreign countries, as well as other tradenames, service marks, and trademarks such as BYNET.

Employees. As of December 31, 2008, we had approximately 6,400 employees globally. We believe that our future success will depend, in part, on our ability to continue to attract, hire and retain skilled and experienced personnel.

Properties and Facilities. Our corporate headquarters is located in Miamisburg, Ohio, and we manage our business through three main locations in the United States: Johns Creek (Atlanta), Georgia; Miamisburg (Dayton), Ohio; and Rancho Bernardo (San Diego), California. As of December 31, 2008, we operated more than 90 facilities throughout the world. We own our Rancho Bernardo complex, which is the headquarters of our research and development operations. All of our other research and development facilities are leased, as well as our offices in Miamisburg and Johns Creek, technical support centers, training, and other miscellaneous sites. We maintain facilities in approximately 40 countries.

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 2009 Annual Meeting of Stockholders (the 2009 Proxy Statement), portions of which are incorporated herein by reference. Teradata will furnish the Code of Conduct and any other exhibit at cost (the Code of Conduct is also available through Teradata s website). Document requests are available by calling or writing to:

Teradata Shareholder Relations

2835 Miami Village Drive

Miamisburg, OH 45342

Phone: 937-242-4878

Website: http://www.teradata.com

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. The duration and depth of the macroeconomic downturn that is currently impacting the United States and other economies, and its impact on our current and potential customers, is unclear but could be severe. The IT industry in which we operate is susceptible to significant changes in the strength of the economy and the economic health of companies who make capital commitments for new technologies. Accordingly, downturns in the global or regional economies in which we operate or certain economic sectors (such as the retail, manufacturing or financial services industries) may adversely impact our business. For example, adverse changes to the economy could impact the timing of purchases by our current and potential customers or the ability of our customers to fulfill their obligations to us. In addition, further tightening of credit markets and difficulty in forecasting results may restrict our customers ability and willingness to make purchases, which could result in delays, decreased or more closely scrutinized capital spending in our customers businesses and in the industries we also serve, and 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, if global economic and market conditions remain uncertain or persist, spread, or deteriorate further, we may experience 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.

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

We operate in the intensely competitive information technology industry, which is characterized by rapidly changing technology, evolving industry standards, frequent new product introductions, and price and cost reductions. In general, as a participant in the data warehousing market, we face:

- Changes in customer IT spending habits and other shifts in market demands, which drive competition;
- A trend toward consolidation of companies which could adversely affect our ability to compete, including if our key partners merge or partner with our competitors;
- Continued pressure on price/performance for data warehousing solutions due to constant technology improvements in processor capacity and speed;
- Changes in pricing, marketing and product strategies, such as potential aggressive price discounting and the use of different pricing models by our competitors or other factors;
- Rapid changes in computing technology and capabilities that challenge our ability to maintain differentiation at the lower range of data warehousing analytic functions; 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. In addition, our market position depends on our ability to reduce costs without creating operating inefficiencies and to sustain competitive operating margins, while also maintaining the quality of our products and services. Reacting quickly to reduce costs and maintain margins is particularly important during economic downturns.

Our primary competitors for our EDW solutions are 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. Netezza is our primary competitor in the data warehouse appliance market, which we have recently entered. In addition, many other companies participate in specific areas of our business, such as enterprise application analytic and business intelligence software. The status of our business relationships with these companies can influence our ability to compete in data warehousing opportunities in such areas. We also expect additional competition from both established and emerging companies who have recently become active at the entry-levels of the data warehousing market and who may increase their level of competitive activities. 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 new revenues or sustain existing revenue levels.

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

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

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

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

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.

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 drop 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 data warehousing 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 revenue recognition rules;
- 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, or other factors;
- Our ability to develop and introduce on a timely basis new or enhanced versions of our products and services;
- Unexpected needs for capital expenditures or other unanticipated expenses;

Changes in the mix of revenues attributable to domestic and international sales;

Seasonal fluctuations in buying patterns; and

Future acquisitions and divestitures of technologies, products and businesses.

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

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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 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. 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 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 expenses 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 impair our business in future periods.

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. Professional consulting services margins are generally lower than the other elements of our data warehousing solutions. In addition, when we use third parties to supplement the services we provide to customers, this generally results in lower margin rates. As a result, increases in professional consulting services revenues as a percentage of our total revenues may decrease overall margins, which could materially adversely affect our operating results.

We also realize different margins on the storage components we re-sell as part of our solutions, and the mix of such third-party hardware varies from quarter to quarter depending on customer requirements. In addition, changes in the price and performance of our data warehousing hardware could negatively impact maintenance, support and subscription service revenues.

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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 information technology industry, we must continually improve and refresh our product and service offerings to include newer features, functionality or solutions, and keep pace with price-to-performance gains in the information technology industry. Shortened product life cycles due to customer demands and competitive pressures impact the pace at which we must introduce and implement new technology. This requires a high level of innovation by both our software developers and the suppliers of the third-party software components included in our systems. In addition, bringing new solutions to the market entails a costly and lengthy process, and requires us to accurately anticipate customer needs and technology trends. We must continue to respond to market demands, develop leading technologies and maintain leadership in data warehouse 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 information technology infrastructures, or if we are unsuccessful in our efforts to enter into agreements allowing integration of third-party technology with the Teradata database platform. 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 affect on our reputation and business.

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

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

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

Product introductions and certain enhancements of existing products by us in the 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.

Security Lapses The confidentiality of information we hold or the security of our computer systems could be jeopardized.

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

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 depend on Accenture for transaction processing services, and buy silicon computer chips and microprocessors from Intel Corporation, and storage disk systems from EMC Corporation and LSI Corporation. 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, and our operations could be adversely impacted.

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 would be impacted.

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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 data warehouse solutions provider. We strive to protect and enhance our proprietary intellectual property rights through patent, copyright, trademark and trade secret laws, as well as through technological safeguards. These efforts include protection of the products and application, diagnostic and other software we develop.

To the extent we are not successful, our business could be materially adversely impacted. We may be unable to prevent third parties from using our technology without our authorization or independently developing technology that is similar to ours, particularly in those countries where the laws do not protect our proprietary rights as fully as in the United States. 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 do 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.

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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.

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

In 2008, the percentage of our total revenues from outside of the United States was 49%. 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 domestically and 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 and terrorist activity on the economy or markets in general, or on our ability, or that of our suppliers, to meet commitments;

- 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 professional services consulting and engineering functions overseas in such countries as India, China 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;

- Additional withholding taxes or other taxes on our foreign income, and tariffs or other restrictions on foreign trade or investment;

- Difficulties in repatriating overseas earnings;

- Costs and delays associated with developing products in multiple languages; 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

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customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export of our products to certain countries or customers altogether. Any change in export regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by these regulations could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations.

Foreign Currency Fluctuations

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 approximately 30 functional currencies. The primary currencies to which we are exposed include the euro, British pound, Japanese yen, the Australian 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.

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.

If management is not successful in maintaining a strong internal control environment, material weaknesses could reoccur, 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.

Damage to Our Information Systems Our information systems, computer equipment and information databases are critical to our business operations, and any damage or disruptions could adversely affect our operations.

Our operations are dependent on our ability to protect our computer equipment and the information stored in our databases from damage by, among other things, earthquake, fire, natural disaster, power loss, telecommunications failures, unauthorized intrusions and other catastrophic events. A significant part of our operations is based in an area of California that has experienced power outages and earthquakes and is considered seismically active. Despite our best efforts at planning for such contingencies, catastrophic events of this nature may still result in system failures and other interruptions in our operations, which could have a material adverse effect on our business and financial condition.

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In addition, it is periodically necessary to replace, upgrade or modify our internal information systems. If we are unable to do this in a timely and cost-effective manner, especially in light of demands on our information technology resources, our ability to capture and process financial transactions and therefore our financial condition or results of operations may be adversely impacted.

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

From time to time, we may make investments in companies, products, service capabilities and technologies through acquisitions, equity investments, joint ventures or strategic alliances. Such transactions entail various risks, including risks associated with:

- Assimilating and integrating different business operations, corporate cultures, personnel, infrastructure and technologies or products acquired or licensed;
- The potential for unknown liabilities and quality issues within the acquired or combined business;
- 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; and
- Additional costs not anticipated at the time of acquisition.

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

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, tax matters, and other regulatory compliance and general matters. See Note 9 Commitments and Contingencies in Notes to Consolidated Financial Statements elsewhere in this Annual Report. Because such matters are subject to many uncertainties, their outcomes are not predictable. While we believe that amounts provided in our consolidated financial statements are currently adequate in light of the probable and estimable liabilities, there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results.

In addition, we are subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting which are rapidly changing and subject to many possible changes in the future. From time to time, we may conduct internal investigations in connection with our efforts to ensure compliance with such laws and regulations, the costs or results of which could impact our results. Laws and regulations impacting our customers, such as those relating to privacy and data protection, could also impact our future business.

In addition, our facilities and operations, including former facilities and former operations for which we may have liabilities, are subject to a wide range of environmental protection laws. There have not been any known actual material effects that compliance with environmental provisions has had upon the capital expenditures, earnings or 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 increased focus by the SEC on Foreign Corrupt Practices Act (FCPA) enforcement activities. Given the breadth and scope of our international operations, we may not be able to detect improper or unlawful conduct by our international partners and employees, despite our high ethics, governance and compliance standards, which could put the Company at risk regarding possible violations of laws, including the FCPA.

Considerable management time and resources will be spent to understand and comply with changing laws, regulations and standards relating to corporate governance, public disclosure (including the Sarbanes-Oxley Act of 2002), SEC regulations, Basel II 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, taxation requirements, 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.

Other Factors There are a number of other factors that could cause our operating results to fluctuate and could have a material adverse impact on our financial condition.

Our revenue and operating results could fluctuate for a number of reasons, including, among other things:

Contractual Obligations of Consulting Services: We maintain a professional services consulting workforce to fulfill contracts that we enter into with our customers that may extend to multiple periods. Our profitability is largely a function of performing to customer contractual arrangements within the estimated costs to perform these obligations. If we exceed these estimated costs, our profitability related to these contracts may be negatively impacted. In addition, if we are unable to maintain appropriate utilization rates for our consultants, we may not be able to sustain profitability on these contracts.

Management Assumptions, Estimates and Judgments: In connection with the preparation of the Company s 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. For additional information regarding the Company s use of assumptions, estimates and judgments, see Critical Accounting Policies and Estimates in Item 7 of Part II of this Annual Report.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

As of January 1, 2008, Teradata operated more than 90 facilities consisting of just over 1.1 million square feet throughout the world. On a square footage basis, 40% of these facilities are owned and 60% are leased. Within the total facility portfolio, Teradata operates 9 research and development facilities totaling approximately 570 thousand square feet, 81% of which are owned. The remaining approximately 570 thousand square feet of space includes office, repair, warehouse and other miscellaneous sites, and is 100% leased. Teradata maintains facilities in approximately 40 countries. Teradata believes its facilities are suitable and adequate to meet its current needs. Teradata s corporate headquarters are located in Miamisburg, 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 9 of Notes to Consolidated Financial Statements, Commitments and Contingencies, and is incorporated herein by reference.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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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 began trading on the New York Stock Exchange under the symbol TDC on October 1, 2007. There were approximately 115,000 registered holders of Teradata common stock as of February 19, 2009. 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**
2008		
Fourth quarter	$ 18.85	$ 11.46
Third quarter	$ 25.18	$ 18.41
Second quarter	$ 27.01	$ 20.61
First quarter	$ 26.99	$ 21.75
2007		
Fourth quarter	$ 29.08	$ 23.13

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.

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 fifteen-month period from October 1, 2007 (immediately following the Separation), through December 31, 2008.

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Company/Index	1 Oct 2007	31 Dec 2007	31 Mar 2008	30 Jun 2008	30 Sep 2008	31 Dec 2008
Teradata Corporation	$ 100	$ 104	$ 83	$ 87	$ 74	$ 56
S&P 500 Index	$ 100	$ 95	$ 86	$ 84	$ 77	$ 60
S&P Information Technology Index	$ 100	$ 99	$ 84	$ 86	$ 76	$ 56

(1) In each case, assumes a $100 investment immediately following the Separation on October 1, 2007, and reinvestment of all dividends, if any.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

For the year ended December 31, 2008, the Company purchased approximately 8.5 million shares of its common stock at an average price per share of $20.67 under the two share repurchase programs authorized by our Board of Directors on February 11, 2008. The first program (the dilution offset program) authorized the Company to purchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan (ESPP). The second program (the general share repurchase program) authorizes the Company to repurchase an additional $250 million over a two-year period of the Company s outstanding shares of common stock. As of December 31, 2008, the Company had $82 million of authorization remaining on the $250 million general share repurchase program to repurchase outstanding shares of Teradata common stock.

In addition to those share purchase programs, Section 16 officers occasionally sell vested shares of restricted stock to the Company at the current market price to cover their withholding taxes. For the year ended December 31, 2008, the total of these purchases was 56,279 shares at an average price of $16.63 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, 2008:

Month	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	**1,564,100**	**$ 24.53**	**50,000**	**1,514,100**	**$ 1,137,142**	**$ 212,912,054**
Second quarter total	**1,362,800**	**$ 24.79**	**50,000**	**1,312,800**	**$ 2,501,180**	**$ 180,433,920**
Third quarter total	**2,662,900**	**$ 24.38**	**175,000**	**2,487,900**	**$ 588,398**	**$ 119,739,011**
October 2008		N/A			$ 1,192,816	$ 119,739,011
November 2008	1,532,000	$ 12.59		1,532,000	$ 1,654,902	$ 100,447,876
December 2008	1,379,000	$ 14.05	50,000	1,329,000	$ 2,522,583	$ 81,745,283
Fourth quarter total	**2,911,000**	**$ 13.28**	**50,000**	**2,861,000**	**$ 2,522,583**	**$ 81,745,283**
Full year total	**8,500,800**	**$ 20.67**	**325,000**	**8,175,800**	**$ 2,522,583**	**$ 81,745,283**

Item 6. TERADATA CORPORATION SELECTED FINANCIAL DATA

	For the Year Ended December 31				
In millions, except per share and employee amounts	**2008**	**2007 (1)**	**2006**	**2005 (2)**	**2004 (3)**
Revenue	$ 1,762	$ 1,702	$ 1,547	$ 1,467	$ 1,349
Income from operations	$ 333	$ 320	$ 302	$ 284	$ 199
Other income	$ 5	$ 2	$	$	$
Income tax expense	$ 88	$ 122	$ 110	$ 78	$ 61
Net income	$ 250	$ 200	$ 192	$ 206	$ 138
Net income per common share					
Basic	$ 1.40	$ 1.11	$ 1.06	$ 1.14	$ 0.76
Diluted	$ 1.39	$ 1.10	$ 1.06	$ 1.14	$ 0.76

	At December 31				
	2008	**2007**	**2006**	**2005**	**2004**
Total assets	$ 1,430	$ 1,294	$ 1,003	$ 911	$ 871
Debt	$	$	$	$	$
Total stockholders equity/parent company equity	$ 777	$ 631	$ 591	$ 517	$ 444
Cash dividends	$	$	$	$	$
Number of employees	6,400	5,900	5,100	4,500	4,100

(1)

Includes $17 million ($15 million after-tax) for expenses related to the Separation from NCR; a $10 million charge related to a tax rate change in Germany; an out-of-period income tax expense adjustment of $7 million relating to prior years; and $6 million for a tax benefit related to the Separation from NCR.

(2) Includes income tax benefits totaling $33 million from the favorable settlement of tax audit issues relating to the tax years 1997 1999 and 2000 2002.

(3) Includes $14 million income tax benefit resulting from the favorable settlement of tax audit issues relating to the period when NCR was a subsidiary of AT&T Corp.

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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 provides data warehousing solutions for customers worldwide that combine software (including the Teradata database software and tools, data mining and analytical applications), hardware and related consulting and support services. These solutions can also include third-party products and services from other leading technology and service partners.

Our solutions enable customers to integrate detailed enterprise-wide data such as customer, financial and operational data into a single data warehouse and provide the analytical capabilities to transform that data into useful information. As a result, customers have a consistent, accurate view of their data and businesses, which gives them more accurate, insightful and timely information when and where they need it so they can make better and faster decisions. This approach provides customers with better insight, faster access to new analytics and less redundancy within their information technology infrastructure so they can maximize business value while minimizing their total cost of ownership.

Our data warehousing technologies provide a high level of performance, scalability, availability and manageability for strategic and operational analytic requirements. Our professional service consultants combine a proven methodology, deep industry expertise and years of hands-on experience to help clients quickly capture business value while minimizing risk. Our customer services professionals provide a single source of support services to allow customers to maximize use and fully leverage the value of their investments in data warehousing.

Through active enterprise intelligence, Teradata is extending the use of traditional enterprise data warehousing (EDW) 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.

On August 27, 2007, the Board of Directors of NCR Corporation, the Company s former parent, approved the separation of NCR into two independent, publicly traded companies through the distribution of 100% of its Teradata data warehousing business to shareholders of NCR (the Separation).

In 2008, Teradata launched a new family of data warehouse offerings, now also providing customers with the ability to use Teradata for point solutions or data marts, in addition to our core EDW technology. Teradata offers data warehousing solutions to many major industries, including banking/financial services, entertainment (including gaming and media), government, insurance and healthcare, manufacturing, retail, telecommunications, transportation and travel. Teradata delivers its solutions primarily through direct sales channels, as well as through alliances with system integrators, other independent software vendors, value-added resellers and distributors. We deliver our solutions to customers on a global basis, and organize our operations in the following three regions which are also our reportable segments: North America and Latin America (Americas), Europe, the Middle East and Africa (EMEA), and Asia Pacific and Japan (APJ).

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2008 FINANCIAL OVERVIEW

As more fully discussed in later sections of this MD&A, the following are the financial highlights for 2008:

- Revenue increased 4% in 2008 from 2007, with growth in our services businesses offset somewhat by lower product revenue.

- Gross margin was 53.9% in 2008, relatively unchanged from 2007.

- Operating income was $333 million in 2008, up from $320 million in 2007. Operating income in 2008 included incremental costs of $29 million associated with Teradata operating as an independent, publicly-traded company as well as $10 million of investment in new sales territories, while the operating income for 2007 included $17 million of Separation-related expenses and $8 million of recurring, incremental independent company costs.

- Net income of $250 million in 2008 increased from $200 million in 2007. Net income per common share (diluted) of $1.39 in 2008 compared to $1.10 in 2007. Net income for 2008 benefited from a lower tax rate of 26.0% in 2008, compared to 37.9% in 2007.

STRATEGY OVERVIEW

Teradata is in a leadership position to help companies manage the continual increases in data volume and complexity and gain a competitive advantage. We have four key initiatives underway to broaden our position in the market and take advantage of this opportunity. These initiatives include continuing to:

- Increase our market coverage through additional sales territories (hiring sales account executives as well as technology and industry consultants),

- Invest to extend Teradata s core technology and expand our family of compatible data warehouse platforms to address multiple market segments,

- Differentiate Teradata technology and driving platform demand by delivering services that enable customers to achieve best-in-class analytics, and

- Invest in partners to increase the number of solutions available on Teradata platforms, to provide more market coverage and to maximize customer value.

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

FUTURE TRENDS

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

Recently, the U.S. and global economies have experienced a significant downturn driven by a financial and credit crisis that could continue to challenge such economies for some period of time, and may have a negative effect on our business. We have seen a lengthening of the sales cycle for enterprise data warehousing solutions as a result of closer scrutiny and tighter review processes for larger capital expenditures during 2008; however, we anticipate an opportunity for shorter sales cycles for our new purpose-built data warehouse appliance platforms. The size, timing and contracted terms of large customer orders for our products and services can impact, both positively and negatively, our long-term operating results. In addition to the uncertainty created by the economic environment,

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Teradata expects approximately 4 percentage points of negative impact from currency translation on its reported revenue and a corresponding currency impact on operating income, based on currency rates as of February 9, 2009.

While macroeconomic challenges and fluctuations in the information technology environment do occur, our long-term outlook remains positive. We did not experience significant changes in 2008 to competitive and/or technological pricing trends, although there is a risk that pricing pressure could occur in the future. We continue to be committed to new product development and achieving maximum yield from our research and development spending and resources, which are intended to drive revenue growth, as evidenced by the recent expansion of our purpose-built Teradata Platform Family. We also continue to evaluate opportunities to increase our market coverage and are committed to continuing to expand our sales territories, among other things, to drive future revenue growth. Given the length of sales cycles in the data warehouse market, new sales account territories typically take a year or more, on average, to become productive. During 2009, we plan to actively scrutinize our overall selling expense, including monitoring the pace of adding new sales territories as well as tightly managing our professional services costs structure in an effort to keep such cost in line with revenue trends.

RESULTS FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

In millions	2008	% of Revenue	2007	% of Revenue	2006	% of Revenue
Product revenue	$ 849	48.2%	$ 884	51.9%	$ 807	52.2%
Service revenue	913	51.8%	818	48.1%	740	47.8%
Total revenue	1,762	100%	1,702	100%	1,547	100%
Gross margin						
Product gross margin	547	64.4%	572	64.7%	518	64.2%
Service gross margin	402	44.0%	344	42.1%	311	42.0%
Total gross margin	949	53.9%	916	53.8%	829	53.6%
Expenses						
Selling, general and administrative expenses	508	28.8%	470	27.6%	410	26.5%
Research and development expenses	108	6.1%	126	7.4%	117	7.6%
Total expenses	616	35.0%	596	35.0%	527	34.1%
Operating income	$ 333	18.9%	$ 320	18.8%	$ 302	19.5%

Revenue

Teradata revenue increased 4% in 2008 from 2007. The revenue growth included a net benefit of 2% from foreign currency fluctuations. Product revenue decreased 4% in 2008 from 2007, due to a lengthening of sales cycles and the general downturn in the global economy. Service revenue increased 12% in 2008 from 2007, driven by a 17% increase in maintenance revenue and an 8% increase in professional and installation services revenue, as compared to 2007. Maintenance revenues benefited from product expansion, including the full-year impact of the increase in product revenues from 2006 to 2007.

Teradata s total revenue increased 10% in 2007 from 2006. The total revenue increase included a net benefit of 2% from foreign currency fluctuations. Product revenue increased 10% in 2007 from 2006, led by a 36% increase in the APJ region and a 14% increase in the EMEA region. Service revenue increased 11% in 2007 from 2006, driven by strong growth in both professional services and maintenance services.

Gross Margin

Gross margin was 53.9% in 2008, relatively unchanged from 2007. Product gross margin decreased slightly to 64.4% in 2008 from 64.7% in 2007 with an adverse deal mix offset in part by the positive impact of currency translation on international product revenue. The term deal mix refers to the revenue mix of our product sales consummated in a particular period, including both software versus hardware content, and amount and mix of third-party products re-sold. Services gross margin increased to 44.0% in 2008 from 42.1% in 2007, due largely to

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operating leverage arising from lower headcount growth of customer service technicians when compared to revenue growth.

Gross margin for 2007 was slightly higher at 53.8% compared to 53.6% in 2006. Product gross margin increased to 64.7% in 2007, compared to 64.2% in 2006. Service gross margin was 42.1% in 2007, comparable to the 42.0% in 2006. The increase in product gross margins was driven primarily in the EMEA and APJ regions, which benefited from the impact of currency translation. Total gross margin improved despite the adverse revenue mix effect of having a higher growth rate of the lower-margin service revenue (as compared to product revenue) in 2007.

Operating Expenses

Total operating expenses, characterized as selling, general and administrative (SG&A) and research and development (R&D) expenses, were $616 million in 2008 compared to $596 million in 2007. The $38 million increase in SG&A expenses included $10 million of increased sales territory expense, as well as the negative impact from foreign currency fluctuations. The SG&A expenses for 2007 included $17 million related to the Separation from NCR. R&D expenses were lower by $18 million in 2008, compared to 2007, primarily as a result of $11 million more in capitalization of software development cost as well as reduced variable compensation programs. Operating expenses for 2008 included $19 million of recurring incremental costs associated with Teradata operating as an independent, publicly-traded company.

Total operating expenses were $596 million in 2007 compared to $527 million in 2006. The increase in SG&A expenses of $60 million included $17 million in Separation-related expenses as well as increased selling and marketing expense (consisting of compensation expense, marketing, partnering and pre-sale activities), foreign currency impact and stock-based compensation. R&D expenses were $9 million higher in 2007 compared to 2006, reflecting increased investment in product development. Capitalizations of software development cost were lower by $3 million in 2007 from 2006. Operating expenses for 2007 included $6 million of recurring incremental costs subsequent to the Separation as Teradata began operating as an independent, publicly-traded company.

Effects of Pension and Postemployment Benefit Plans

Teradata s pension and postemployment benefit expense for the years ended December 31, 2008, 2007 and 2006 is shown below. Pension and postemployment benefit expenses incurred prior to the Separation were allocated to Teradata by NCR.

In millions	2008	2007	2006
Pension expense	$ 8	$ 9	$ 23
Postemployment expense	11	15	16
Total expense	$ 19	$ 24	$ 39

The decrease in postemployment expense from 2007 to 2008 was primarily driven by a decrease in the Company s involuntary turnover rate assumption. The decrease in pension expense from 2006 to 2007 was due primarily to NCR s action to freeze its U.S. defined pension plans and cease the accrual of additional benefits for all participants in the U.S. plans after December 31, 2006. For additional information on pension and postemployment benefit obligations, see Note 7 Employee Benefit Plans in Notes to Consolidated Financial Statements elsewhere in this Annual Report.

Income Taxes

The income tax rate was 26.0%, 37.9% and 36.4% for the years ended December 31, 2008, 2007 and 2006, respectively. The tax rate for the year ended December 31, 2008 included a $3 million charge to reflect a change in estimate identified in conjunction with filing the Company s 2007 U.S. federal tax return. The provision for income taxes for the year ended December 31, 2008 is based on the pre-tax earnings mix by jurisdiction of Teradata and its subsidiaries under the Company s current structure. For periods prior to the Separation, while the Company was

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operated as part of NCR, Teradata s provision for income taxes in certain tax jurisdictions reflected only a portion of the tax benefits related to certain foreign operations tax net operating losses due to the uncertainty of the ultimate realization of future benefits from those losses under NCR s tax structure. The 2007 tax rate included a discrete $10 million charge, or 3.1%, related to a tax rate change in Germany, as well as a $7 million charge, or 2.2%, to correct prior period errors in the calculation of the income tax provision related to intercompany profit eliminations. As the impact of this error was not material to the then current, or any prior period, it was recorded in the second quarter of 2007. The 2007 tax rate also included a $6 million tax benefit, or 1.9%, related to the utilization of certain tax attributes associated with foreign sourced income. We currently estimate our full year effective tax rate for 2009 will be approximately 26% to 27%. For additional information on these prior-year tax items, see Note 5 Income Taxes in Notes to Consolidated Financial Statements elsewhere in this Annual Report.

Revenue and Gross Margin by Operating Segment

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

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

In millions	2008	% of Revenue	2007	% of Revenue	2006	% of Revenue
Revenue						
Americas	$ 984	56%	$ 964	57%	$ 920	60%
EMEA	451	26%	424	25%	360	23%
APJ	327	18%	314	18%	267	17%
Total revenue	1,762	100%	1,702	100%	1,547	100%
Segment gross margin						
Americas	557	56.6%	554	57.5%	539	58.6%
EMEA	234	51.9%	205	48.3%	166	46.1%
APJ	158	48.3%	157	50.0%	124	46.4%
Total segment gross margin	$ 949	53.9%	$ 916	53.8%	$ 829	53.6%

Americas Revenue increased 2% in 2008 from 2007, with increases in services revenue offset somewhat by lower product revenue. Gross margin decreased to 56.6% for 2008, from 57.5% in 2007, primarily driven by lower product margins as a result of the deal mix as compared to the prior period.

Revenue increased 5% in 2007 from 2006, largely driven by a 9% growth in service revenue. The revenue growth included 1% of benefit from foreign currency fluctuations. Gross margin decreased to 57.5% for 2007, from 58.6% for 2006, driven primarily by reduced professional services margins.

EMEA Revenue increased 6% in 2008 from 2007, driven by a 17% increase in maintenance revenue. The revenue growth included 3% of benefit from foreign currency fluctuations. Gross margin increased to 51.9% for 2008, from 48.3% in 2007, primarily driven by increased product margins. Product margins benefited from an improved deal mix and the benefit of foreign currency translation.

Revenue increased 18% in 2007 from 2006, with double-digit growth in both product and service revenue. The revenue growth included 7% of benefit from foreign currency fluctuations. Gross margin increased to 48.3% in 2007, from 46.1% in 2006, with improvements in both product and service margin. The improvement in gross margin rates was offset somewhat by the increased mix of lower-margin services revenue.

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APJ Revenue increased 4% in 2008 from 2007, with double-digit increases in service revenue largely offset by lower product revenue as compared to a very strong performance in 2007. The revenue growth included 6% of benefit from foreign currency fluctuations. Gross margin decreased to 48.3% in 2008, from 50.0% in 2007. Lower gross margins were driven by the higher proportion of services revenue compared to the prior-year period. This impact was partially offset by improved maintenance services margins.

Revenue increased 18% in 2007 from 2006, led predominantly by a 36% growth in product revenue. The revenue growth included 3% of benefit from foreign currency fluctuations. Gross margin was 50.0% in 2007, up from 46.4% in 2006, driven by the greater mix of product revenue, as well as improved product margins.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Teradata ended 2008 with $442 million in cash and short-term investments, a $172 million increase from December 31, 2007, even after using $176 million for repurchases of Company common stock during the year. Cash provided by operating activities increased by $53 million to $440 million in 2008. The increase in cash provided by operating activities was primarily due to increased collections on accounts receivables and higher net income in 2008. These improvements were partially offset by decreased payables and accrued expenses due to the timing of related payments, decreased deferred income taxes, and a smaller increase in deferred revenue as compared to 2007.

Teradata s management uses a non-GAAP measure called free cash flow, which we define 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. Free cash flow does not have a uniform definition under GAAP; and therefore, Teradata s definition of this measure 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	**2008**	**2007**	**2006**
Net income	$ 250	$ 200	$ 192
Net cash provided by operating activities	$ 440	$ 387	$ 219
Less:			
Expenditures for property and equipment	(19)	(50)	(20)
Additions to capitalized software	(52)	(45)	(46)
Free cash flow	$ 369	$ 292	$ 153
Free cash flow as a percentage of net income	148%	146%	80%

Financing activities and certain other investing activities are not included in our calculation of free cash flow. These other investing activities primarily consisted of purchases and sales of short-term investments and an immaterial acquisition consummated during the first quarter of 2008. Teradata s short-term investments consist of bank time deposits with original maturities between three months and one year. Teradata s financing activities for the year ended December 31, 2008 consisted primarily of cash outflows from our share repurchase activities. During 2008 the Company purchased 8.5 million shares of its common stock at an average price per share of $20.67 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 purchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan (ESPP). The second program (the general share repurchase program) authorizes the Company to repurchase an additional $250 million of the Company s outstanding shares of common stock. As of December 31, 2008, the Company had $82 million of authorization remaining under the $250 million general share repurchase program to repurchase outstanding shares of Teradata common stock. 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 $8 million in 2008. These proceeds are included in Other Financing Activities, Net in the Consolidated Statement of Cash Flows.

Prior to the second quarter of 2008, stock repurchased through the share repurchase programs was retired. Beginning in the second quarter of 2008, stock repurchased through the share repurchase programs was held as treasury stock.

On October 1, 2007, the Company entered into a five-year, $300 million unsecured revolving credit facility. This credit facility contains certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such facilities. For most borrowings, 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, 2008, the spread over the LIBOR would have been 32 basis points (for an interest rate of 2.13%, assuming a 6 month borrowing term) given Teradata s leverage ratio at that date. As of December 31, 2008, the Company had no borrowings outstanding under this revolving credit facility and was in compliance with all covenants.

Management believes current cash and short-term investment resources, 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 the foreseeable future. The Company uses a number of financial instruments to hold its cash, cash equivalents and short-term investments, including bank deposits, money market funds and government treasury instruments.

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 its credit facility, 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, 2008, with projected cash payments in the periods shown:

In millions	**Total Amounts**	**2009**	**2010-2011**	**2012-2013**	**2014 and Thereafter**
Lease obligations	$ 58	$ 16	$ 23	$ 13	$ 6
Purchase obligations	11	5	5	1	
Total lease and purchase obligations	$ 69	$ 21	$ 28	$ 14	$ 6

Our lease obligations in the above table include Company-only 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 service parts logistics, payroll and tax services. Unrecognized tax benefits under FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* are not included in the table above as such amounts are not material.

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 9 Commitments and Contingencies in Notes to Consolidated Financial Statements. Postemployment and pension obligations are described in detail in Note 7 Employee Benefit Plans in Notes to Consolidated Financial Statements.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue Recognition

Teradata s solution offerings typically include hardware, software, software subscriptions, maintenance support services and other professional consulting, implementation and installation services. Teradata records revenue when it is realized, or realizable, and earned. Teradata considers these requirements met when: (a) persuasive evidence of an arrangement exists; (b) the products or services have been delivered to the customer; (c) the sales price is fixed or determinable and free of contingencies or significant uncertainties; and (d) collectibility is reasonably assured. Our judgment is required in assessing the probability of collection and that fees are fixed or determinable, which is generally based on evaluation of customer-specific information, historical collection experience and economic market conditions. If Teradata cannot conclude that a fee is fixed or determinable at the outset of an arrangement, revenue is deferred until the determination is made that the arrangement fee is fixed or determinable. If market conditions decline, or if the financial condition of our customers deteriorates, we may be unable to determine that collectibility is probable, and we could be required to defer the recognition of revenue until we receive customer payments. Teradata reports revenue net of any taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. 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 we determine that the contract fee to a reseller is not fixed or determinable, we account for that transaction upon sell-through to the end customer.

Substantially all of Teradata s solutions contain software that is more than incidental to the hardware and services. The typical solution requires no significant production, modification or customization of the software or hardware, and the software is not essential to the functionality of the hardware. Revenue related to software and software-related elements are recognized under Statement of Position 97-2, *Software Revenue Recognition*. Revenue for hardware and related installation services is recognized under Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition*. For software and software-related elements, Teradata allocates revenue to each software element based upon its fair value as determined by vendor-specific objective evidence (VSOE) using the residual method as discussed below. VSOE of fair value is based upon the normal pricing and discounting practices for those products and services when sold separately. For non-software related elements, fair value is based upon Verifiable Objective Evidence (VOE). VOE is based on the price when products or services are sold separately or the price other companies charge when selling a similar product separately. These elements often involve delivery or performance at different periods of time. Revenue for software is generally recognized upon delivery with the hardware using the residual method described below. 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 professional consulting, implementation and installation services is recognized as services are provided. In certain instances, customer acceptance is required prior to the passage of title and risk of loss of the delivered products. In such cases, no revenue is recognized until the customer acceptance is obtained. Delivery and acceptance generally occur in the same reporting period.

For arrangements involving multiple deliverables, where the deliverables include software and non-software products and services, Teradata applies the provisions of Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, to separate the deliverables and allocate the total arrangement consideration. Accordingly, Teradata evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (a) whether the delivered item has value to the customer on a stand-alone basis; (b) whether there is objective and reliable evidence of the fair value of the undelivered items; and (c) 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. If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting based on relative fair values. Each unit of accounting is then accounted for under the applicable revenue recognition guidance. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the arrangement s consideration. Teradata does not typically have VSOE of fair value for its software products. Therefore, in a substantial majority of Teradata arrangements, the residual method is used to allocate arrangement consideration. Under the residual method, the fair value of the undelivered elements is deferred and accounted for under the applicable revenue recognition guidance, and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue. If we cannot determine or maintain VSOE for an undelivered element, it could impact the timing of revenues as all or a portion of the revenue from the multiple-element arrangement may need to be deferred.

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 elements of the arrangement, and in determining the fair value of each element, considering the price charged for each product, and applicable renewal rates for services. Changes in judgments about these factors could impact the timing and amount of revenue recognized between periods.

Capitalized Software

We account for research and development costs in accordance with applicable accounting pronouncements, including Statement of Financial Accounting Standards No. 2 (SFAS 2), *Accounting for Research and Development Costs*, and Statement of Financial Accounting Standards No. 86 (SFAS 86), *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. SFAS 86 specifies that costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established. Technological feasibility is established when planning, designing and initial coding and testing 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

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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

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), *Accounting for Income Taxes*, which recognizes 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. Teradata s operating results were included in NCR s income tax returns for periods prior to the Separation. The provision for income tax in Teradata s consolidated financial statements prior to the Separation was determined on a separate-return basis.

The Company s intention is to permanently reinvest its foreign earnings outside of the United States. As a result, the effective tax rates in the periods presented after Separation are largely based upon the forecasted pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business that apply a broad range of statutory income tax rates. The Company has not provided federal income taxes on earnings of approximately $266 million from its foreign subsidiaries.

We adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under FIN 48, 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 FIN 48 in the income tax expense line on our Consolidated Statements of Income. The adoption of FIN 48 did not impact our results of operations or net assets. In accordance with the Tax Sharing Agreement between NCR and Teradata, NCR is responsible for all taxes reported on any separate or joint return of NCR, which may also include Teradata for periods prior to the Separation. As of December 31, 2008, the Company has recorded $1 million of unrecognized tax benefits.

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 zero and $5 million of valuation allowances as of December 31, 2008 and 2007, respectively.

Share-based Compensation

We account for employee share-based compensation costs in accordance with Statements of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment*, which requires us to 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 the Black-Scholes option pricing model to estimate the fair value of stock-based compensation at the date of grant, which requires the input of subjective assumptions, including expected volatility and expected term. Further, as required under SFAS 123R, 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 have performance-based awards that vest only if specific performance conditions are satisfied, typically at the end of an award s three-year performance period. 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.

Pension and Postemployment Benefits

We account for defined benefit pension plans in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), *Employers Accounting for Pensions*, which requires that amounts recognized in financial statements be determined on an actuarial basis. Our postemployment plans are accounted for in accordance with Statement of Financial Accounting Standards No. 112 (SFAS 112), *Employers Accounting for Postemployment Benefits*. Beginning December 31, 2006, we also apply Statement of Financial Accounting Standards No. 158 (SFAS 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends each of these two standards, primarily relative to balance sheet presentation and disclosure requirements. Prior to the Separation, we accounted for pension and postemployment benefit costs under the multiemployer plan approach.

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, 2008, a one-half percent increase/decrease in the discount rate would change the projected benefit obligation of our pension plans by $3 million, and a one percent increase/decrease in our involuntary turnover assumption would change our postemployment benefit obligation by $18 million.

At December 31, 2008, we reduced the involuntary turnover assumption used in calculating our postemployment benefit obligation from 3% to 2%, to reflect the Company s prior experience. This change in assumption reduced our postemployment benefit obligation recognized on our balance sheet by $18 million and is expected to reduce 2009 postemployment expense by approximately $5 million.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company employs a foreign currency hedging strategy to limit potential losses in earnings or cash flows from adverse foreign currency exchange rate movements. Foreign currency exposures arise from transactions denominated in a currency other than the Company s functional currency and from foreign denominated revenue and profit translated into U.S. dollars. The primary currencies to which the Company is exposed include the euro, the British pound, the Japanese yen, the Australian dollar, 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, 2008, for such contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates is approximately $5 million. This loss would be mitigated by corresponding gains on the underlying exposures. For additional information regarding the Company s foreign currency hedging strategy, see Note 8 Derivative Instruments and Hedging Activities in 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	/s/ Stephen M. Scheppmann
Michael F. Koehler	Stephen M. Scheppmann
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Teradata Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)1 present fairly, in all material respects, the financial position of Teradata Corporation and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 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, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our audits (which was an integrated audit in 2008). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

Cincinnati, Ohio

March 2, 2009

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TERADATA CORPORATION

Consolidated Statements of Income

In millions, except per share amounts

	For the Year Ended December 31		
	2008	**2007**	**2006**
Revenue			
Product revenue	$ 849	$ 884	$ 807
Service revenue	913	818	740
Total revenue	1,762	1,702	1,547
Operating expenses			
Cost of products	302	312	289
Cost of services	511	474	429
Selling, general and administrative expenses	508	470	410
Research and development expenses	108	126	117
Total operating expenses	1,429	1,382	1,245
Income from operations	333	320	302
Other income, net	5	2	
Income before income taxes	338	322	302
Income tax expense	88	122	110
Net income	$ 250	$ 200	$ 192
Net income per common share			
Basic	$ 1.40	$ 1.11	$ 1.06
Diluted	$ 1.39	$ 1.10	$ 1.06
Weighted average common shares outstanding			
Basic	178.1	180.8	180.7
Diluted	179.8	181.3	180.7

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

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TERADATA CORPORATION

Consolidated Balance Sheets

In millions, except share amounts

	At December 31 2008	2007
Assets		
Current Assets		
Cash and cash equivalents	$ 402	$ 270
Short-term investments	40	
Accounts receivable, net	451	507
Inventories	44	51
Other current assets	78	45
Total current assets	1,015	873
Property and equipment, net	88	94
Capitalized software, net	80	61
Goodwill	&	