

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2020

OR

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

For the transition period from _____ to _____

Commission File Number 001-33458

TERADATA CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-3236470
(I.R.S. Employer
Identification No.)

17095 Via Del Campo
San Diego, California 92127
(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:	Trading Symbol	Name of Each Exchange on which Registered:
Common Stock, \$0.01 par value	TDC	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

At July 31, 2020, the registrant had approximately 109.0 million shares of common stock outstanding.

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Part 1—FINANCIAL INFORMATION

Item 1. Financial Statements.

Teradata Corporation

Condensed Consolidated Statements of (Loss) Income (Unaudited)

In millions, except per share amounts	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue				
Recurring	\$ 358	\$ 338	\$ 703	\$ 669
Perpetual software licenses and hardware	17	29	31	60
Consulting services	82	111	157	217
Total revenue	457	478	891	946
Cost of revenue				
Cost of recurring	116	107	236	213
Cost of perpetual software licenses and hardware	11	26	20	51
Cost of consulting services	74	109	154	222
Total cost of revenue	201	242	410	486
Gross profit	256	236	481	460
Operating expenses				
Selling, general and administrative expenses	165	145	323	296
Research and development expenses	83	81	156	159
Total operating expenses	248	226	479	455
Income from operations	8	10	2	5
Other expense, net				
Interest expense	(7)	(8)	(14)	(17)
Interest income	1	6	3	12
Other expense	(5)	(3)	(8)	(5)
Total other expense, net	(11)	(5)	(19)	(10)
(Loss) income before income taxes	(3)	5	(17)	(5)
Income tax expense (benefit)	40	6	(142)	6
Net (loss) income	\$ (43)	\$ (1)	\$ 125	\$ (11)
Net (loss) income per common share				
Basic	\$ (0.40)	\$ (0.01)	\$ 1.14	\$ (0.09)
Diluted	\$ (0.40)	\$ (0.01)	\$ 1.13	\$ (0.09)
Weighted average common shares outstanding				
Basic	108.5	115.5	109.4	116.3
Diluted	108.5	115.5	110.6	116.3

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

In millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (43)	\$ (1)	\$ 125	\$ (11)
Other comprehensive income (loss):				
Foreign currency translation adjustments	2	(1)	(17)	(7)
Derivatives:				
Unrealized gain (loss) on derivatives, before tax	1	(9)	(13)	(13)
Unrealized gain (loss) on derivatives, tax portion	—	2	3	3
Unrealized gain (loss) on derivatives, net of tax	1	(7)	(10)	(10)
Defined benefit plans:				
Defined benefit plan adjustment, before tax	1	1	4	2
Defined benefit plan adjustment, tax portion	—	—	(1)	—
Defined benefit plan adjustment, net of tax	1	1	3	2
Other comprehensive income (loss)	4	(7)	(24)	(15)
Comprehensive (loss) income	<u>\$ (39)</u>	<u>\$ (8)</u>	<u>\$ 101</u>	<u>\$ (26)</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	June 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 494	\$ 494
Accounts receivable, net	339	398
Inventories	26	31
Other current assets	89	91
Total current assets	948	1,014
Property and equipment, net	337	350
Capitalized software, net	25	36
Right of use assets - operating lease, net	46	51
Goodwill	395	396
Capitalized contract costs, net	88	91
Deferred income taxes	236	87
Other assets	27	32
Total assets	\$ 2,102	\$ 2,057
Liabilities and stockholders' equity		
Current liabilities		
Current portion of long-term debt	\$ 31	\$ 25
Current portion of finance lease liability	69	55
Current portion of operating lease liability	18	20
Accounts payable	62	66
Payroll and benefits liabilities	119	157
Deferred revenue	518	472
Other current liabilities	76	91
Total current liabilities	893	886
Long-term debt	436	454
Finance lease liability	75	75
Operating lease liability	33	38
Pension and other postemployment plan liabilities	135	137
Long-term deferred revenue	41	61
Deferred tax liabilities	6	6
Other liabilities	137	138
Total liabilities	1,756	1,795
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 108.9 and 110.9 shares issued at June 30, 2020 and December 31, 2019, respectively	1	1
Paid-in capital	1,603	1,545
Accumulated deficit	(1,093)	(1,143)
Accumulated other comprehensive loss	(165)	(141)
Total stockholders' equity	346	262
Total liabilities and stockholders' equity	\$ 2,102	\$ 2,057

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Six Months Ended June 30,	
	2020	2019
Operating activities		
Net income (loss)	\$ 125	\$ (11)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	85	77
Stock-based compensation expense	52	37
Deferred income taxes	(149)	—
Changes in assets and liabilities:		
Receivables	59	211
Inventories	5	(7)
Current payables and accrued expenses	(32)	(155)
Deferred revenue	26	(15)
Other assets and liabilities	(31)	(33)
Net cash provided by operating activities	140	104
Investing activities		
Expenditures for property and equipment	(23)	(27)
Additions to capitalized software	(4)	(2)
Net cash used in investing activities	(27)	(29)
Financing activities		
Repurchases of common stock	(75)	(175)
Repayments of long-term borrowings	(13)	(6)
Payments of finance leases	(25)	(9)
Other financing activities, net	6	36
Net cash used in financing activities	(107)	(154)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(7)	—
Decrease in cash, cash equivalents and restricted cash	(1)	(79)
Cash, cash equivalents and restricted cash at beginning of period	496	716
Cash, cash equivalents and restricted cash at end of period	\$ 495	\$ 637
Supplemental cash flow disclosure:		
Assets acquired under operating lease	\$ 5	\$ 4
Assets acquired under finance lease	\$ 39	\$ 48

Reconciliation of cash, cash equivalents and restricted cash to the Condensed Consolidated Balance Sheets:

	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 494	\$ 494
Restricted cash	1	2
Total cash, cash equivalents and restricted cash	\$ 495	\$ 496

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

In millions	Common Stock		Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
December 31, 2019	111	\$ 1	\$ 1,545	\$ (1,143)	\$ (141)	\$ 262
Net income	—	—	—	168	—	168
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	1	—	22	—	—	22
Repurchases of common stock, retired	(4)	—	—	(75)	—	(75)
Pension and postemployment benefit plans, net of tax	—	—	—	—	2	2
Unrealized loss on derivatives, net of tax	—	—	—	—	(11)	(11)
Currency translation adjustment	—	—	—	—	(19)	(19)
March 31, 2020	108	\$ 1	\$ 1,567	\$ (1,050)	\$ (169)	\$ 349
Net loss	—	—	—	(43)	—	(43)
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	1	—	36	—	—	36
Pension and postemployment benefit plans, net of tax	—	—	—	—	1	1
Unrealized gain on derivatives, net of tax	—	—	—	—	1	1
Currency translation adjustment	—	—	—	—	2	2
June 30, 2020	109	\$ 1	\$ 1,603	\$ (1,093)	\$ (165)	\$ 346

In millions	Common Stock		Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
December 31, 2018	117	\$ 1	\$ 1,418	\$ (823)	\$ (101)	\$ 495
Net loss	—	—	—	(10)	—	(10)
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	1	—	48	—	—	48
Repurchases of common stock, retired	(1)	—	—	(58)	—	(58)
Pension and postemployment benefit plans, net of tax	—	—	—	—	1	1
Unrealized loss on derivatives, net of tax	—	—	—	—	(3)	(3)
Currency translation adjustment	—	—	—	—	(6)	(6)
March 31, 2019	117	\$ 1	\$ 1,466	\$ (891)	\$ (109)	\$ 467
Net loss	—	—	—	(1)	—	(1)
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	—	—	25	—	—	25
Repurchases of common stock, retired	(3)	—	—	(117)	—	(117)
Pension and postemployment benefit plans, net of tax	—	—	—	—	1	1
Unrealized loss on derivatives, net of tax	—	—	—	—	(7)	(7)
Currency translation adjustment	—	—	—	—	(1)	(1)
June 30, 2019	114	\$ 1	\$ 1,491	\$ (1,009)	\$ (116)	\$ 367

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

These statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the results of operations, financial position and cash flows of Teradata Corporation ("Teradata" or the "Company") for the interim periods presented herein. The year-end 2019 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates.

These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Teradata's most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Annual Report"). The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

2. New Accounting Pronouncements

Compensation-Retirement Benefits-Defined Benefit Plans-General. In August 2018, the Financial Accounting Standards Board ("FASB") issued new guidance that modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. For public companies, the amendments in this update are effective for fiscal years beginning after December 15, 2020, with early adoption permitted, and is to be applied on a retrospective basis to all periods presented. The Company is currently evaluating this guidance to determine the impact it may have on its disclosures.

Accounting for Income Taxes. In December 2019, the FASB issued new guidance to simplify the accounting for income taxes. The new guidance changes various subtopics of accounting for income taxes including, but not limited to, accounting for "hybrid" tax regimes, tax basis step-up in goodwill obtained in a transaction that is not a business combination, intraperiod tax allocation exception to incremental approach, ownership changes in investments, interim-period accounting for enacted changes in tax law, and year-to-date loss limitation in interim-period tax accounting. The guidance is effective for fiscal years beginning after December 15, 2020 with early adoption permitted, including interim periods within those years. The Company is currently evaluating this new guidance to determine the impact it may have on our financial position, results of operations or cash flows.

Reference rate reform. In March 2020, the FASB issued new guidance to provide relief to companies that will be impacted by the expected change in benchmark interest rates at the end of 2021, when participating banks will no longer be required to submit London Interbank Offered Rate ("LIBOR") quotes by the UK Financial Conduct Authority. The new guidance allows companies to, provided the only change to existing contracts are a change to an approved benchmark interest rate, account for modifications as a continuance of the existing contract without additional analysis. For new and existing contracts, companies may elect to apply the amendments as of March 12, 2020 through December 31, 2022. The Company is currently evaluating this new guidance to determine the impact it may have on our financial statements and disclosures.

Recently Adopted Guidance

Fair Value Measurement. In August 2018, the FASB issued new guidance that modifies disclosure requirements related to fair value measurement. The Company adopted this guidance on January 1, 2020, which did not have a material impact on our condensed consolidated financial statements.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. In August 2018, the FASB issued new guidance that reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing

implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company adopted this guidance on January 1, 2020, which did not have a material impact on our condensed consolidated financial statements.

Codification Improvements to Financial Instruments-Credit Losses, Derivatives and Hedging, and Financial Instruments. In June 2016, the FASB issued Accounting Standards, Measurement of Credit Losses on Financial Instruments, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. Since the issuance of this accounting standard, the FASB has identified certain areas that require clarification and improvement. In May 2019, the FASB issued guidance that allows entities to make an irrevocable one-time election upon adoption of the new credit losses standard to measure financial assets measured at amortized cost (except held-to-maturity securities) using the fair value option. The election is to be applied on an instrument-by-instrument basis. The Company adopted this guidance on January 1, 2020, which did not have a material impact on our condensed consolidated financial statements.

3. Revenue from Contracts with Customers

Disaggregation of Revenue from Contracts with Customers

The following table presents a disaggregation of revenue:

	Three Months Ended June 30,		Six months ended June 30,	
in millions	2020	2019	2020	2019
Americas				
Recurring	\$ 221	\$ 217	\$ 435	\$ 430
Perpetual software licenses and hardware	10	12	14	31
Consulting services	28	40	54	77
Total Americas	259	269	503	538
EMEA				
Recurring	87	75	171	148
Perpetual software licenses and hardware	4	10	13	17
Consulting services	27	37	52	70
Total EMEA	118	122	236	235
APJ				
Recurring	50	46	97	91
Perpetual software licenses and hardware	3	7	4	12
Consulting services	27	34	51	70
Total APJ	80	87	152	173
Total Revenue	<u>\$ 457</u>	<u>\$ 478</u>	<u>\$ 891</u>	<u>\$ 946</u>

Rental revenue, which is included in recurring revenue in the above table, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
in millions	2020	2019	2020	2019
Rental revenue*	\$ 25	\$ 16	\$ 44	\$ 30

*Rental revenue includes hardware maintenance.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, contract assets, and customer advances and deposits (deferred revenue or contract liabilities) on the condensed consolidated balance sheet. Accounts receivable include amounts due from customers that are unconditional. Contract assets relate to the Company's rights to consideration for goods delivered or services completed and recognized as revenue but billing and the right to receive payment is conditional upon the completion of other performance obligations. Contract assets are included in Other current assets on the balance sheet and are transferred to accounts receivable when the rights become unconditional. Deferred revenue consists of advance payments and billings in excess of revenue recognized. Deferred revenue is classified as either current or noncurrent based on the timing of when the Company expects to recognize revenue. These assets and liabilities are reported on a contract-by-contract basis at the end of each reporting period. The following table provides information about receivables, contract assets and deferred revenue from contracts with customers:

in millions	As of	
	June 30, 2020	December 31, 2019
Accounts receivable, net	\$ 339	\$ 398
Contract assets	\$ 12	\$ 8
Current deferred revenue	\$ 518	\$ 472
Long-term deferred revenue	\$ 41	\$ 61

Revenue recognized during the six months ended June 30, 2020 from amounts included in deferred revenue at the beginning of the period was \$306 million.

Transaction Price Allocated to Unsatisfied Obligations

The following table includes estimated revenue expected to be recognized in the future related to the Company's unsatisfied (or partially satisfied) obligations at June 30, 2020:

in millions	Total at June 30, 2020	Year 1	Year 2 and Thereafter
Remaining unsatisfied obligations	\$ 2,595	\$ 1,382	\$ 1,213

The amounts above represent the price of firm orders for which work has not been performed or goods have not been delivered and exclude unexercised contract options outside the stated contractual term that do not represent material rights to the customer. Although the Company believes that the contract value in the above table is firm, approximately \$1,783 million of the amount is under contracts that are subject to customer-only general cancellation for convenience terms that the Company is contractually obligated to perform unless the customer notifies us of cancellation. The Company expects to recognize revenue of approximately \$374 million in the next year from contracts that are non-cancelable. Customers typically do not cancel before the end of the contractual term and historically the Company has seen little churn in its customer base. The Company believes the inclusion of this information is important to understanding the obligations that the Company is contractually required to perform and provides useful information regarding the remaining obligations related to these executed contracts.

4. Contract Costs

The Company capitalizes sales commissions and other contract costs that are incremental direct costs of obtaining customer contracts if the expected amortization period of the asset is greater than one year. These costs are recorded in Capitalized contract costs, net on the Company's balance sheet. The capitalized amounts are calculated based on the annual recurring revenue and total contract value for individual multi-term contracts. The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract. Costs to obtain a contract are amortized as selling, general and administrative expenses on a straight-line basis over the expected period of benefit, which is typically around four years. These costs are periodically reviewed for impairment. The following table identifies the activity relating to capitalized contract costs:

in millions	December 31, 2019	Capitalized	Amortization	June 30, 2020
Capitalized contract costs	\$ 91	\$ 14	\$ (17)	\$ 88

in millions	December 31, 2018	Capitalized	Amortization	June 30, 2019
Capitalized contract costs	\$ 54	\$ 17	\$ (8)	\$ 63

5. Supplemental Financial Information

In millions	As of	
	June 30, 2020	December 31, 2019
Inventories		
Finished goods	\$ 14	\$ 19
Service parts	12	12
Total inventories	<u>\$ 26</u>	<u>\$ 31</u>
Deferred revenue		
Deferred revenue, current	\$ 518	\$ 472
Long-term deferred revenue	41	61
Total deferred revenue	<u>\$ 559</u>	<u>\$ 533</u>

6. Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant infrequent or unusual items which are required to be discretely recognized within the current interim period. As a result of the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act"), the Company changed its indefinite reversal assertion related to its undistributed earnings of its foreign subsidiaries and no longer considers a majority of its foreign earnings permanently reinvested outside of the United States ("U.S."). As a result, the effective tax rates in the periods presented are largely based upon the forecasted pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business.

The effective tax rate is as follows:

In millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Effective tax rate	(1,333.3)%	120.0 %	835.3 %	(120.0)%

For the three months ended June 30, 2020, the Company recorded \$39 million of discrete tax expense, a majority of which related to the adjustment of the marginal tax rate from the first quarter based on revised full-year forecasted earnings. As a result, the Company recorded income tax expense of \$40 million on a pre-tax net loss of \$3 million for the three months ended June 30, 2020, resulting in an effective income tax rate of (1,333.3)%.

For the six months ended June 30, 2020, the Company recorded \$113 million of discrete tax benefit. The discrete tax expense of \$39 million recorded in the second quarter described above was offset by \$152 million of discrete tax benefit recorded in the first quarter, a majority of which related to an intra-entity asset transfer of certain of the Company's intellectual property ("IP") to one of its Irish subsidiaries, which occurred on January 1, 2020. As a result, the Company recorded income tax benefit of \$142 million on a pre-tax net loss of \$17 million for the six months ended June 30, 2020, resulting in an effective income tax rate of 835.3%.

For the three months ended June 30, 2019, the Company recorded \$5 million of discrete tax expense, of which \$4 million related to an uncertain tax position resulting from the reversal of the United States Tax Court's decision in the Altera Corp v. Commissioner case (the "Altera Case") by the Ninth Circuit Court of Appeals in June 2019. The Altera Case focused on whether current U.S. Treasury Regulations requiring the inclusion of stock-based compensation expense in a taxpayer's cost-sharing calculations are valid. As a result, the Company recorded income tax expense of \$6 million on a pre-tax net income of \$5 million for the three months ended June 30, 2019, resulting in an effective income tax rate of 120.0%.

For the six months ended June 30, 2019, the Company recorded \$7 million of discrete tax expense, a majority of which related to the uncertain tax position resulting from the reversal of the Tax Court's decision in the Altera Case.

As a result, the Company recorded income tax expense of \$6 million on a pre-tax net loss of \$5 million for the six months ended June 30, 2019, resulting in an effective income tax rate of (120.0)%.

The Company estimates its annual effective tax rate for 2020 to be approximately 1,000%, which takes into consideration, among other things, the forecasted earnings mix by jurisdiction, and the impact of discrete tax items to be recognized in 2020, which includes the \$157 million of discrete tax benefit recognized in the first quarter of 2020 related to the intra-entity IP transfer described above. The 2017 Tax Act subjects U.S. shareholders to a tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The Company has elected to provide for the tax expense related to GILTI in the year in which the tax is incurred. The Company does not expect a material amount of tax expense related to GILTI based on our forecasted marginal effective tax rate for 2020.

7. Derivative Instruments and Hedging Activities

As a portion of Teradata's operations is conducted outside the U.S. and in currencies other than the U.S. dollar, the Company is exposed to potential gains and losses from changes in foreign currency exchange rates. In an attempt to mitigate the impact of currency fluctuations, the Company uses foreign exchange forward contracts to hedge transactional exposures resulting predominantly from foreign currency denominated inter-company receivables and payables. The forward contracts are designated as fair value hedges of specified foreign currency denominated inter-company receivables and payables and generally mature in three months or less. The fair values of foreign exchange contracts are based on market spot and forward exchange rates and represent estimates of possible value that may not be realized in the future. Across its portfolio of contracts, Teradata has both long and short positions relative to the U.S. dollar. As a result, Teradata's net involvement is less than the total contract notional amount of the Company's foreign exchange forward contracts.

Gains and losses from foreign exchange forward contracts are fully recognized each period and reported along with the offsetting gain or loss of the related hedged item, either in cost of revenues, operating expenses or in other income (expense), depending on the nature of the related hedged item.

In June 2018, Teradata executed a five-year interest rate swap with a \$500 million initial notional amount to hedge the floating interest rate of its term loan, as more fully described in Note 10. The Company uses interest rate swaps to manage interest rate risks on future interest payments caused by interest rate changes on its variable rate term loan. The notional amount of the hedge will step-down according to the amortization schedule of the term loan. The notional amount of the hedge was \$469 million as of June 30, 2020.

The Company performed an initial effectiveness assessment in the third quarter of 2018 on the interest rate swap, and the hedge was determined to be effective. The hedge is being evaluated qualitatively on a quarterly basis for effectiveness. Changes in fair value are recorded in Accumulated Other Comprehensive Loss and periodic settlements of the swap will be recorded in interest expense along with the interest on amounts outstanding under the term loan.

The following table identifies the contract notional amount of the Company's derivative financial instruments:

In millions	As of	
	June 30, 2020	December 31, 2019
Contract notional amount of foreign exchange forward contracts	\$ 147	\$ 150
Net contract notional amount of foreign exchange forward contracts	\$ 61	\$ 41
Contract notional amount of interest rate swap	\$ 469	\$ 482

All derivatives are recognized in the condensed consolidated balance sheets at their fair value. The notional amounts represent agreed-upon amounts on which calculations of dollars to be exchanged are based and are an indication of the extent of Teradata's involvement in such instruments. These notional amounts do not represent amounts exchanged by the parties and, therefore, are not a measure of the instruments. Refer to Note 9 for disclosures related to the fair value of all derivative assets and liabilities.

The Company does not hold or issue derivative financial instruments for trading purposes, nor does it hold or issue leveraged derivative instruments. By using derivative financial instruments to hedge exposures to changes in foreign

exchange and interest rates, the Company exposes itself to credit risk. The Company manages exposure to counterparty credit risk by entering into derivative financial instruments with highly rated institutions that can be expected to fully perform under the terms of the applicable contracts.

8. Commitments and Contingencies

From time to time in the ordinary course of business, the Company is subject to legal proceedings, governmental investigations, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, IP, tax matters and other regulatory compliance and general matters. We are not currently a party to any legal proceeding, nor are we aware of any threatened legal proceeding against us, that we believe would materially adversely affect our business, operating results, financial condition or cash flows.

Guarantees and Product Warranties. Guarantees associated with the Company's business activities are reviewed for appropriateness and impact to the Company's financial statements. Periodically, the Company's customers enter into various leasing arrangements with a third-party leasing company as part of a revenue transaction, whereby the leasing company purchases equipment from Teradata and leases it to the customer. In some instances, the Company guarantees the leasing company a minimum value at the end of the lease term on the leased equipment. As of June 30, 2020, the maximum future payment obligation of this guaranteed value and the associated liability balance was \$1 million.

For customers that purchase hardware, the Company provides a standard manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. The estimated liabilities for warranty costs are not material, given that most customers do not purchase hardware under the perpetual model. The Company also offers extended and/or enhanced coverage to its customers in the form of maintenance contracts. Teradata accounts for these contracts by deferring the related maintenance revenue over the extended and/or enhanced coverage period. Costs associated with maintenance support are expensed as incurred.

In addition, the Company provides its customers with certain indemnification rights. In general, the Company agrees to indemnify the customer if a third party asserts a patent or other IP infringement claim against the customer for its use of the Company's offerings. The Company has indemnification obligations under its charter and bylaws to its officers and directors, and has entered into indemnification agreements with the officers and directors of its subsidiaries. From time to time, the Company also enters into agreements in connection with its acquisition and divestiture activities that include indemnification obligations by the Company. The fair value of these indemnification obligations is typically not readily determinable due to the conditional nature of the Company's potential obligations and the specific facts and circumstances involved with each particular agreement. As such, the Company has generally not recorded a liability in connection with these indemnification arrangements. Historically, payments made by the Company under these types of agreements have not had a material effect on the Company's consolidated financial condition, results of operations or cash flows

Concentrations of Risk. The Company is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments, and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Teradata's business often involves large transactions with customers, and if one or more of those customers were to default in its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses were adequate at June 30, 2020 and December 31, 2019.

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

Teradata's operating results. In addition, a significant change in the forecasts to any of these preferred suppliers could result in purchase obligations for components that may be in excess of demand.

9. Fair Value Measurements

Fair value measurements are established utilizing a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as significant other observable inputs, such as quoted prices in active markets for similar assets or liabilities, or quoted prices in less-active markets for identical assets; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company's assets and liabilities measured at fair value on a recurring basis include money market funds, interest rate swaps and foreign currency exchange contracts. A portion of the Company's excess cash reserves are held in money market funds which generate interest income based on the prevailing market rates. Money market funds are included in cash and cash equivalents in the Company's balance sheet. Money market fund holdings are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy.

When deemed appropriate, the Company minimizes its exposure to changes in foreign currency exchange rates through the use of derivative financial instruments, specifically, foreign exchange forward contracts. Additionally, in June 2018, Teradata executed a five-year interest rate swap with a \$500 million initial notional amount in order to hedge the floating interest rate on its term loan. The fair value of these contracts and swaps are measured at the end of each interim reporting period using observable inputs other than quoted prices, specifically market spot and forward exchange rates. As such, these derivative instruments are classified within Level 2 of the valuation hierarchy. Fair value of unrealized gains for open contracts are recorded in other assets and the fair value of unrealized losses are recorded in other liabilities in the Company's balance sheet. The fair value of foreign exchange forward contracts recorded in other assets and liabilities at June 30, 2020 and December 31, 2019 was not material. Realized gains and losses from the Company's fair value hedges net of corresponding gains or losses on the underlying exposures were immaterial for the three months ended June 30, 2020 and 2019.

The Company's other assets and liabilities measured at fair value on a recurring basis and subject to fair value disclosure requirements at June 30, 2020 and December 31, 2019 were as follows:

		Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
In millions	Total				
Assets					
Money market funds at June 30, 2020	\$ 134	\$ 134	\$ —	\$ —	
Money market funds at December 31, 2019	\$ 141	\$ 141	\$ —	\$ —	
Liabilities					
Interest rate swap at June 30, 2020	\$ 32	\$ —	\$ 32	\$ —	
Interest rate swap at December 31, 2019	\$ 19	\$ —	\$ 19	\$ —	

10. Debt

In June 2018, Teradata replaced an existing 5 years, \$400 million revolving credit facility with a new \$400 million revolving credit facility (the "Credit Facility"). The Credit Facility expires in June 2023, at which point any remaining outstanding borrowings would be due for repayment unless extended by agreement of the parties for up to two additional one-year periods. In addition, under the terms of the Credit Facility, Teradata from time to time and subject to certain conditions may increase the lending commitments under the Credit Facility in an aggregate principal amount up to an additional \$200 million, to the extent that existing or new lenders agree to provide such additional commitments. The outstanding principal amount of the Credit Facility bears interest at a floating rate

based upon, at Teradata's option, a negotiated base rate or a Eurodollar rate plus, in each case, a margin based on Teradata's leverage ratio. In the near term, Teradata would anticipate choosing a floating rate based on LIBOR. The Credit Facility is unsecured but is guaranteed by certain of Teradata's material domestic subsidiaries and contains certain representations and warranties, conditions, affirmative, negative and financial covenants, and events of default customary for such facilities. As of June 30, 2020, the Company had no borrowings outstanding under the Credit Facility, leaving \$400 million in additional borrowing capacity available under the Credit Facility. The Company was in compliance with all covenants under the Credit Facility as of June 30, 2020.

Also, in June 2018, Teradata closed on a new senior unsecured \$500 million five-year term loan, the proceeds of which plus additional cash-on-hand were used to pay off the remaining \$525 million of principal on its previous term loan. The term loan is payable in quarterly installments, which commenced on June 30, 2019, with 1.25% of the initial principal amount due on each of the first eight payment dates; 2.50% of the initial principal amount due on each of the next four payment dates; 5.0% of the initial principal amount due on each of the next three payment dates; and all remaining principal due in June 2023. The outstanding principal amount of the term loan bears interest at a floating rate based upon a negotiated base rate or a Eurodollar rate, plus in each case, a margin based on the leverage ratio of the Company. As of June 30, 2020, the term loan principal outstanding was \$469 million. As disclosed in Note 7, Teradata entered into an interest rate swap to hedge the floating interest rate of the term loan. As a result of the swap, Teradata's fixed rate on the term loan equals 2.86% plus the applicable leverage-based margin as defined in the term loan agreement. As of June 30, 2020, the all-in fixed rate is 4.36%. The Company was in compliance with all covenants under the term loan as of June 30, 2020.

Teradata's term loan is recognized on the Company's balance sheet at its unpaid principal balance, net of deferred issuance costs, and is not subject to fair value measurement. However, given that the loan carries a variable rate, the Company estimates that the unpaid principal balance of the term loan would approximate its fair value. If measured at fair value in the financial statements, the Company's term loan would be classified as Level 2 in the fair value hierarchy.

11. Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
In millions, except per share amounts				
Net (loss) income attributable to common stockholders	\$ (43)	\$ (1)	\$ 125	\$ (11)
Weighted average outstanding shares of common stock	108.5	115.5	109.4	116.3
Dilutive effect of employee stock options, restricted stock and other stock awards	—	—	1.2	—
Common stock and common stock equivalents	108.5	115.5	110.6	116.3
Net income (loss) per share:				
Basic	\$ (0.40)	\$ (0.01)	\$ 1.14	\$ (0.09)
Diluted	\$ (0.40)	\$ (0.01)	\$ 1.13	\$ (0.09)

For the three months ended June 30, 2020, and 2019 and six months ended June 30, 2019, due to the net loss attributable to Teradata common stockholders, potential common shares that would cause dilution, such as employee stock options, restricted shares and other stock awards, have been excluded from the diluted share count because their effect would have been anti-dilutive. The fully diluted shares would have been 109.7 million and 116.7 million for the three months ended June 30, 2020 and 2019, respectively, and 117.7 million for the six months ended June 30, 2019.

Options to purchase 2.1 million and 2.2 million shares of common stock for the three and six months ended June 30, 2020 and 1.6 million and 1.8 million shares of common stock for the three and six months ended June 30, 2019 were not included in the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of the common shares for the period, and therefore would have been anti-dilutive.

12. Segment and Other Supplemental Information

Teradata manages its business under three geographic regions, which are also the Company's operating segments: (1) Americas region (North America and Latin America); (2) EMEA region (Europe, Middle East and Africa) and (3) APJ region (Asia Pacific and Japan). For purposes of discussing results by segment, management excludes the impact of certain items, consistent with the manner by which management evaluates the performance of each segment. This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess financial performance. The chief operating decision maker, who is our President and Chief Executive Officer, evaluates the performance of the segments based on revenue and multiple profit measures, including segment gross profit. For management reporting purposes assets are not allocated to the segments.

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

In millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Segment revenue				
Americas	\$ 259	\$ 269	\$ 503	\$ 538
EMEA	118	122	236	235
APJ	80	87	152	173
Total revenue	457	478	891	946
Segment gross profit				
Americas	161	158	305	315
EMEA	67	57	128	107
APJ	41	37	71	71
Total segment gross profit	269	252	504	493
Stock-based compensation costs	4	4	8	7
Acquisition, integration, reorganization and transformation-related costs	4	2	4	5
Amortization of capitalized software costs	5	10	11	21
Total gross profit	256	236	481	460
Selling, general and administrative expenses	165	145	323	296
Research and development expenses	83	81	156	159
Income from operations	\$ 8	\$ 10	\$ 2	\$ 5

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

You should read the following discussion in conjunction with the Condensed Consolidated Financial Statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements contained in the MD&A are forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in other sections of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Annual Report"). The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

Teradata Corporation ("we," "us," "Teradata," or the "Company") is a leading hybrid cloud data and analytics software platform provider focused on helping companies leverage all of their data across an enterprise to uncover real-time intelligence, at scale. In doing so, we enable them to find answers to their toughest challenges. Our solutions enable customers to integrate and simplify their analytics ecosystem, access and manage data, and use analytics to extract answers and derive business value from data. Our solutions are composed of software, hardware, and related business consulting and support services to deliver analytics across a company's entire analytic ecosystem.

Teradata's strategy is based on our mission of transforming how businesses work and people live through the power of data. Our target market is made up of companies that we believe are the world's most demanding, large-scale users of data. These companies face significant challenges including siloed data and conflicting and duplicative solutions that typically result in considerable expense to maintain and difficulty to manage the complexity. Our strategy is to provide a differentiated set of offerings to our target market through an extensible data and analytic platform. Teradata Vantage™ is an extremely scalable, secure, highly concurrent and resilient analytics platform that solves the most complex data challenges at scale faced by our targeted customer set. By offering customers full integration of their datasets, tools, analytics languages, functions, and engines in one analytical platform, Vantage reduces customers' complexity, risk, and costs. Our Vantage platform embraces leading commercial and open source analytics technologies and is available in the cloud and on-premises.

All subscription-based Teradata software licenses enable portability of the software license between cloud and on-premises deployment options; this flexibility is designed to reduce risk associated with customers' buying decisions. Customer buying behavior has shifted from predominantly capital-intensive purchases to subscription-based purchasing options. In the near term, the movement to subscription-based transactions is negatively impacting the timing of our reported revenue and our cash flows because revenue and cash related to subscription-based transactions are recognized and received over time versus upfront as was the case with the capital purchase model. The transition to a subscription-based model is expected to increase our recurring revenue, create more predictable operating results and improve cash flow generation over time. Near-term impacts, however, can fluctuate based on the pace of customer adoption, which can be difficult to predict. In the longer term, we expect our reported operating results and cash flow to normalize and increase as customers increasingly transition to these subscription-based offerings.

We are continuing to execute on our key priorities, including development and expansion of our cloud-based offerings, enhancements to our market-leading Vantage platform, consulting, partner solutions and operational excellence.

To allow for greater transparency regarding the progress we are making toward achieving our strategic objectives, we utilize the following financial and performance metrics:

- Annual Recurring Revenue ("ARR") - annual contract value for all active and contractually binding term-based contracts at the end of a period. ARR includes maintenance, software upgrade rights, subscription-based transactions and managed services.
- Backlog - the price of firm orders for which work has not been performed or goods have not been delivered and the Company is contractually required to perform.

COVID-19

During the six months ended June 30, 2020, the effects of the coronavirus disease 2019 ("COVID-19") pandemic and the related actions by governments around the world to attempt to contain the spread of the virus have impacted our business globally, and we expect our business will continue to be impacted for the foreseeable future. In particular, the outbreak and related preventive measures taken to contain COVID-19 beginning late in the first quarter of 2020 negatively impacted our ability to close transactions with customers and timely collect receivables in certain instances. We experienced a more favorable trend in the second quarter with meaningful ARR growth, strong cash flows and recurring revenue growth generated in the quarter, although we continued to see COVID-19 negatively impact our consulting business as described below.

We also took the necessary actions to manage expenses and costs appropriately in light of the uncertainty COVID-19 created, which helped improve second quarter operating performance. We are keeping a watchful eye on COVID-19 impacts and have undertaken additional second half expense management and cost initiatives to further drive our operating performance and provide agility in the event of an unforeseen reduction in demand should it occur. During the first six months of 2020, we also experienced increased volatility in foreign currency exchange rates, in part related to the uncertainty from COVID-19, as well as actions taken by governments and central banks in response to COVID-19. Certain foreign currency rates have depreciated significantly against the U.S. dollar during the period. We expect continued volatility in foreign currency exchange rates during the remainder of 2020, though we cannot reasonably estimate the duration or extent of that volatility.

As of the date of this filing, our supply chain has been relatively stable with respect to manufacturing and distribution capabilities; however, our supply chain is susceptible to volatility due to ongoing uncertainty as a result of ongoing international and domestic pandemic response and recovery efforts. Operationally, we have been able to run our business without significant interruptions, with the vast majority of employees having shifted quickly as of mid-March 2020 to a work-from-home model, which remains in effect. However, our consulting business has been negatively impacted during the transition to work from home and shelter-in-place orders, and customers' efforts to reduce discretionary spending in light of COVID-19 uncertainties and impacts, with consulting projects being delayed or suspended by our customers. The Company also developed and continues to refine numerous engagement and communication programs to support employees both from a health and well-being perspective as well as to enhance their productivity during the pandemic.

In general, our priorities in formulating and implementing our response to the COVID-19 pandemic and business disruption include the following:

- People - protecting the health and well-being of our employees,
- Customers - proactively connecting with our customers to support their needs and meet our service level commitments,
- Supply Chain - proactively working to monitor existing inventory, supplier availability and securing inventory for future quarters,
- Financial - responsibly managing expenses and costs to provide financial agility during the extended period of global economic uncertainty,
- Global Community - making our technology available to customers, partners and communities, particularly in healthcare and government, where collectively we can positively impact efforts in combating COVID-19, and
- Future of Work - planning to best position the Company to emerge as strong as possible when this crisis ends.

As of the date of this Quarterly Report on Form 10-Q, we are continuing to execute our pandemic response plan and the Teradata Pandemic Response Team is refining and executing return-to-office plans with "safety first" considerations. Customer-facing teams are also proactively working to identify ways to assist customers, meet service level commitments, and engage with customers via virtual events.

Despite these efforts, there remains a fair degree of uncertainty regarding the potential impact of the pandemic on our business, from both a financial and operational perspective, and the scope and costs associated with additional measures that may be necessary in response to the pandemic going forward. We will continue our diligent efforts to monitor and respond as appropriate to the impacts of the pandemic on our business, including the status of our workforce, supply chain, customers, suppliers, and vendors, based on the priorities described above. Our actions will continue to be informed by the requirements and recommendations of the federal, state or local authorities. We will remain agile and have contingency plans in place to appropriately respond to conditions as they unfold. For more information, see "Risk Factors" under Part II, Item 1A of this Quarterly Report on Form 10-Q.

Second Quarter Financial Overview

As more fully discussed in later sections of this MD&A, the following were significant financial items for the second quarter of 2020:

- Total revenue was \$457 million for the second quarter of 2020, a 4% decrease compared to the second quarter of 2019, with an underlying 6% increase in recurring revenue. The Company's business has shifted to subscription-based transactions driving increased recurring revenue, which was offset by a 41% decrease in perpetual software licenses and hardware revenue as transactions move to subscription and a 26% decrease in consulting services revenue in alignment with our strategy as well as the impact of COVID-19 as discussed above. Foreign currency fluctuations had a 1% negative impact on total revenue for the quarter compared to the prior year.
- Gross margin increased to 56.0% in the second quarter of 2020 from 49.4% in the second quarter of 2019, primarily due to a higher recurring revenue mix as compared to the prior period.
- Operating expenses for the second quarter of 2020 increased by 10% compared to the second quarter of 2019, primarily due to an increase in equity compensation expense.
- Operating income was \$8 million in the second quarter of 2020, compared to \$10 million in the second quarter 2019.
- Net loss in the second quarter of 2020 was \$43 million, compared to a net loss of \$1 million in the second quarter of 2019. The increase in net loss was primarily due to the higher operating expenses and discrete tax items during the quarter.

Results of Operations for the Three Months Ended June 30, 2020
Compared to the Three Months Ended June 30, 2019

Revenue

In millions	2020	% of Revenue	2019	% of Revenue
Recurring	\$ 358	78.4 %	\$ 338	70.7 %
Perpetual software licenses and hardware	17	3.7 %	29	6.1 %
Consulting services	82	17.9 %	111	23.2 %
Total revenue	\$ 457	100.0 %	\$ 478	100.0 %

Total revenue decreased \$21 million, or 4%, in second quarter of 2020 and included a 1% negative impact from foreign currency fluctuations. Recurring revenue grew 6%, which included a 2% negative impact from foreign currency fluctuations. This increase in recurring revenue was driven by our movement to subscription-based transactions from perpetual software licenses and hardware transactions, which is consistent with our strategy. Under subscription models, we recognize revenue over time as opposed to the upfront recognition under the perpetual model. For 2020, we expect ARR growth and recurring revenue growth. Taking into consideration the growth in recurring revenue offset by reduced perpetual software licenses and hardware revenue and reduced consulting services revenue, we expect that total revenues will decrease in 2020, although the amount of decline is difficult to predict due to the uncertain global environment caused by COVID-19.

Revenues from perpetual software licenses and hardware decreased 41%, including a 1% negative impact from foreign currency fluctuations. We expect perpetual revenues to continue to decline as customers switch to our subscription-based offerings. However, some customers continue to purchase on a perpetual basis, and COVID-19 impacts might result in some additional customers preferring this option. Perpetual revenue is primarily hardware-related, as software is generally being sold on subscription. We expect that perpetual revenue will continue to decline in 2020 and will continue to be predominantly hardware-related.

Consulting services revenue decreased 26%, including a 2% negative impact from foreign currency fluctuations, as we are realigning and focusing our consulting resources on higher-margin engagements that drive increased software consumption within our targeted customer base. Consulting revenue was also impacted by the transition to work from home and shelter-in-place orders that went in effect late in the first quarter in response to COVID-19. In the second quarter, we made progress towards our strategy of refocusing our consulting organization on Vantage-oriented offerings and de-emphasizing non-core consulting engagements. We expect consulting revenue to decline longer term as we build a deepening partner ecosystem and our product simplification efforts reduce our customers' need for consulting services while creating greater total value for our customers. We also expect consulting revenue to continue to be impacted by COVID-19, as we anticipate delays and/or cancellation of new projects.

As a portion of the Company's operations and revenue occur outside the United States, and in currencies other than the U.S. dollar, the Company is exposed to fluctuations in foreign currency exchange rates. Based on currency rates as of July 31, 2020, Teradata is expecting less than one percentage point of negative impact from currency translation on our 2020 full-year projected revenue growth rate.

Included below are financial and performance growth metrics for 2020:

- At the end of the second quarter of 2020, ARR was \$1.454 billion, an 8% increase from the second quarter of 2019, including a 1% negative impact from foreign currency translation, as compared to the second quarter of 2019.
- Total backlog was \$2.595 billion at the end of the second quarter of 2020, up 3% from the prior year.

Gross Profit

In millions	2020	% of Revenue	2019	% of Revenue
Recurring	\$ 242	67.6 %	\$ 231	68.3 %
Perpetual software licenses and hardware	6	35.3 %	3	10.3 %
Consulting services	8	9.8 %	2	1.8 %
Total gross profit	\$ 256	56.0 %	\$ 236	49.4 %

The decrease in recurring revenue gross profit as a percentage of revenue was driven by a higher mix of subscription-based revenue that includes hardware and lower margin cloud, as compared to the prior-year period. Subscription-based transactions carry lower margins than revenue from perpetual-related maintenance and software upgrade rights as a result of embedded hardware rentals and cloud offerings in our subscription business.

The increase in perpetual software licenses and hardware gross profit as a percentage of revenue was driven by deal mix compared to the same period a year ago.

Consulting services gross profit as a percentage of revenue increased as compared to the prior-year period, due to improved utilization as well as increased price realization and our continued strategic focus to improve consulting margins. As indicated above, the consulting business was negatively impacted due to the COVID-19 pandemic; however, performance is expected to normalize in the second half of the year. We expect consulting gross margins to be in the low double digits for the year.

Operating Expenses

In millions	2020	% of Revenue	2019	% of Revenue
Selling, general and administrative expenses	\$ 165	36.1 %	\$ 145	30.3 %
Research and development expenses	83	18.3 %	81	16.8 %
Total operating expenses	\$ 248	54.3 %	\$ 226	47.3 %

The selling, general and administrative ("SG&A") expense increase was primarily driven by an increase in equity compensation expense, amortization of capitalized sales compensation, as well as additional investments in our go-to-market and customer success teams. The Company took several actions to manage operating expenses, including limiting travel and other discretionary spend. For the full year, we will continue to look for areas to optimize our cost structure while investing in our key strategic initiatives in cloud and transforming our go-to-market organization to support our recurring revenue model and expand our opportunities in the market. As a result of the actions we have taken in the first half, we now expect full year operating expenses to be flat year over year.

Research and development ("R&D") expenses increased due to spending focused on accelerating our cloud initiatives. For the full year, we expect R&D expense to be flat to slightly up as we reallocate spending to accelerate our cloud initiatives.

Other Expense, net

In millions	2020	2019
Interest income	\$ 1	\$ 6
Interest expense	(7)	(8)
Other	(5)	(3)
Other expense, net	\$ (11)	\$ (5)

Other expense, net in the second quarter of 2020 and 2019 is comprised primarily of interest expense on long-term debt and finance leases, partially offset by interest income earned on our cash and cash equivalents. Other expense, net increased compared to the prior year primarily due to lower interest income on lower cash and cash equivalents.

Provision for Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant infrequent or unusual items which are required to be discretely recognized within the current interim period.

As a result of the 2017 Tax Act, the Company changed its indefinite reversal assertion related to its foreign subsidiary undistributed earnings and no longer considers a majority of its foreign earnings permanently reinvested outside of the U.S. The effective tax rates in the periods presented are largely based upon the forecasted pre-tax earnings mix between the U.S. and other foreign taxing jurisdictions where the Company conducts its business. The Company estimates its full-year effective tax rate for 2020 to be approximately 1,000.0%, which takes into consideration, among other things, the forecasted earnings mix by jurisdiction and the estimated discrete items to be recognized in 2020, which includes a \$157 million one-time discrete tax benefit recognized in the first quarter of 2020 related to an intra-entity asset transfer of certain of the Company's intellectual property ("IP") to one of its Irish subsidiaries, which occurred on January 1, 2020. The forecasted tax rate is based on the overseas profits being taxed at an overall effective tax rate of approximately 47%, as compared to the U.S. federal statutory tax rate of 21%.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss ("NOL") carryovers and carry backs to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOL's incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. It also allows deferral of certain payroll tax payments to 2021 and 2022. We are currently evaluating the impact of the CARES Act, but at present do not expect that the NOL carry back provision of the CARES Act would result in a cash benefit to us. Deferred payroll taxes as of June 30, 2020 were approximately \$6 million.

The effective tax rate for the three months ended June 30, 2020 and 2019 were as follows:

	2020	2019
Effective tax rate	(1,333.3)%	120.0 %

For the three months ended June 30, 2020, the Company recorded \$39 million of discrete tax expense, a majority of which related to the true-up of the marginal tax rate from the first quarter based on revised full-year forecasted earnings. As a result, the Company recorded income tax expense of \$40 million on a pre-tax net loss of \$3 million for the three months ended June 30, 2020, resulting in an effective income tax rate of (1,333.3)%.

For the three months ended June 30, 2019, the Company recorded \$5 million of discrete tax expense, of which \$4 million related to an uncertain tax position resulting from the reversal of the United States Tax Court's decision in the Altera Corp. v. Commissioner case (the "Altera Case") by the Ninth Circuit Court of Appeals in June 2019. The Altera Case focused on whether current U.S. Treasury Regulations requiring the inclusion of stock-based compensation expense in a taxpayer's cost-sharing calculations are valid. As a result, the Company recorded income tax expense of \$6 million on a pre-tax income of \$5 million for the three months ended June 30, 2019, resulting in an effective income tax rate of 120.0%.

Revenue and Gross Profit by Operating Segment

Teradata manages its business under three geographic regions, which are also the Company's operating segments: (1) Americas region (North America and Latin America); (2) EMEA region (Europe, Middle East, and Africa) and (3) APJ region (Asia Pacific and Japan). For purposes of discussing results by segment, management excludes the impact of certain items, consistent with the manner by which management evaluates the performance of each segment. This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by Teradata management to make decisions regarding the segments and to assess financial performance. The chief operating decision maker, who is our President and Chief Executive Officer, evaluates the performance of the segments based on revenue and multiple profit measures, including segment gross profit. For management reporting purposes, assets are not allocated to the segments. Our segment

results are reconciled to total company results reported under GAAP in Note 12 of Notes to Condensed Consolidated Financial Statements (Unaudited).

The following table presents segment revenue and segment gross profit for the Company for the three months ended June 30:

In millions	2020	% of Revenue	2019	% of Revenue
Segment revenue				
Americas	\$ 259	56.7 %	\$ 269	56.3 %
EMEA	118	25.8 %	122	25.5 %
APJ	80	17.5 %	87	18.2 %
Total segment revenue	<u>\$ 457</u>	<u>100 %</u>	<u>\$ 478</u>	<u>100 %</u>
Segment gross profit				
Americas	\$ 161	62.2 %	\$ 158	58.7 %
EMEA	67	56.8 %	57	46.7 %
APJ	41	51.3 %	37	42.5 %
Total segment gross profit	<u>\$ 269</u>	<u>58.9 %</u>	<u>\$ 252</u>	<u>52.7 %</u>

Americas

Americas revenue decreased 4%, which included a decrease in perpetual software licenses and hardware revenue of 17% and a 30% decrease in consulting revenue. Segment gross profit as a percentage of revenues was higher primarily due to an overall higher mix of recurring revenue.

EMEA

EMEA revenue decreased 3%, which included a 2% unfavorable impact from foreign currency fluctuations. An increase of 16% in recurring revenue was offset by a decrease of 60% in perpetual software licenses and hardware revenue and a decrease in consulting revenue of 27%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

APJ

APJ revenue decreased 8%, which included a 1% unfavorable impact from foreign currency fluctuations. An increase in recurring revenue of 9% was offset by a decrease of 57% in perpetual software licenses and hardware revenue and a decrease in consulting revenue of 21%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

Results of Operations for the Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

Revenue

In millions	2020	% of Revenue	2019	% of Revenue
Recurring	\$ 703	78 %	\$ 669	71 %
Perpetual software licenses and hardware	31	4 %	60	6 %
Consulting services	157	18 %	217	23 %
Total revenue	<u>\$ 891</u>	<u>100 %</u>	<u>\$ 946</u>	<u>100 %</u>

Total revenue decreased \$55 million, or 6%, for the six months ended June 30, 2020 compared to the prior period and included a 2% negative impact from foreign currency fluctuations. Recurring revenue increased 5%, which included a 2% negative impact from foreign currency fluctuations. This increase in recurring revenue was driven by our movement to subscription-based transactions from perpetual software licenses and hardware transactions, which is consistent with our strategy.

Revenues from perpetual software licenses and hardware decreased 48% as customers continue to switch to subscription-based offerings.

Consulting services revenue decreased 28%, including a 2% negative impact from foreign currency fluctuations, as we are realigning and focusing our consulting resources on higher-margin engagements that drive increased software consumption within our targeted customer base. Consulting revenue was also impacted by the transition to work from home and shelter-in-place orders that went in effect late in the first quarter in response to COVID-19.

Gross Profit

In millions	2020	% of Revenue	2019	% of Revenue
Recurring	\$ 467	66.4 %	\$ 456	68.2 %
Perpetual software licenses and hardware	11	35.5 %	9	15.0 %
Consulting services	3	1.9 %	(5)	(2.3) %
Total gross profit	\$ 481	54.0 %	\$ 460	48.6 %

The decrease in recurring revenue gross profit as a percentage of revenue was driven by a higher mix of subscription-based revenue as compared to the prior-year period. Subscription-based transactions are typically lower margin as compared to the recurring revenue from legacy software maintenance and software upgrade rights, due to the higher mix of rental hardware included in subscription-based transactions.

The increase in perpetual software licenses and hardware gross profit as a percentage of revenue was driven by deal mix compared to the same period a year ago.

Consulting services gross profit as a percentage of revenue increased as compared to the prior-year period due to improved utilization as well as increased price realization and our continued strategic focus to improve consulting margins. The Company continues to refocus our consulting organization on Vantage-oriented offerings and reduce our footprint in non-core consulting engagements.

Operating Expenses

In millions	2020	% of Revenue	2019	% of Revenue
Operating expenses				
Selling, general and administrative expenses	\$ 323	36.3 %	\$ 296	30.3 %
Research and development expenses	156	17.5 %	159	16.8 %
Total operating expenses	\$ 479	53.8 %	\$ 455	47.3 %

The SG&A expense increase was primarily driven by an increase in equity compensation expense, amortization of capitalized sales compensation, as well as additional investments in our go-to-market and customer success teams.

R&D expenses decreased due to a re-prioritization of our R&D organization on strategic initiatives and reduced spending on de-prioritized initiatives.

Other Expense, net

In millions	2020	2019
Interest income	\$ 3	\$ 12
Interest expense	(14)	(17)
Other	(8)	(5)
Other expense, net	\$ (19)	\$ (10)

Other expense, net in the first six months of 2020 and 2019 is comprised primarily of interest expense on long-term debt and finance leases, partially offset by interest income earned on our cash and cash equivalents. Other expense, net increased compared to the prior year primarily due to lower interest income on lower cash and cash equivalents.

Provision for Income Taxes

The effective tax rate for the six months ended June 30, 2020 and 2019 were as follows:

	2020	2019
Effective tax rate	835.3 %	(120.0)%

For the six months ended June 30, 2020, the Company recorded \$113 million of discrete tax benefit. The discrete tax expense of \$39 million recorded in the second quarter described above was offset by \$152 million of discrete tax benefit recorded in the first quarter, a majority of which related to the intra-entity IP transfer described above. As a result, the Company recorded income tax benefit of \$142 million on a pre-tax loss of \$17 million for the six months ended June 30, 2020, resulting in an effective income tax rate of 835.3%.

For the six months ended June 30, 2019, the Company recorded \$7 million of discrete tax expense, a majority of which related to the uncertain tax position resulting from the reversal of the Tax Court's decision in the Altera Case. As a result, the Company recorded income tax expense of \$6 million on a pre-tax net loss of \$5 million for the six months ended June 30, 2019, resulting in an effective income tax rate of (120.0)%.

Revenue and Gross Profit by Operating Segment

The following table presents segment revenue and segment gross profit for the Company for the six months ended June 30:

In millions	2020	% of Revenue	2019	% of Revenue
Segment revenue				
Americas	\$ 503	56.5 %	\$ 538	56.9 %
EMEA	236	26.5 %	235	24.8 %
APJ	152	17.1 %	173	18.3 %
Total segment revenue	\$ 891	100 %	\$ 946	100 %
Segment gross profit				
Americas	\$ 305	60.6 %	\$ 315	58.6 %
EMEA	128	54.2 %	107	45.5 %
APJ	71	46.7 %	71	41.0 %
Total segment gross profit	\$ 504	56.6 %	\$ 493	52.1 %

Americas

Americas revenue decreased 7%, which included a 2% unfavorable impact from foreign currency fluctuations. An increase of 1% in recurring revenue was offset by a decrease in perpetual software licenses and hardware revenue of 55% and a 30% decrease in consulting revenue. Segment gross profit as a percentage of revenues was higher primarily due to an overall higher mix of recurring revenue.

EMEA

EMEA revenue was flat and included a 3% unfavorable impact from foreign currency fluctuations. An increase of 16% in recurring revenue was offset by a decrease of 24% in perpetual software licenses and hardware revenue as well as a decrease in consulting revenue of 26%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

APJ

APJ revenue decreased 12%, which included a 2% unfavorable impact from foreign currency fluctuations. An increase in recurring revenue of 7% was offset by a decrease of 67% in perpetual software licenses and hardware revenue and a decrease in consulting revenue of 27%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

Financial Condition, Liquidity and Capital Resources

Cash provided by operating activities increased by \$36 million in the six months ended June 30, 2020 compared to the six months ended June 30, 2019. Teradata used approximately \$21 million of cash in the first six months of 2020 for reorganizing and restructuring its operations and go-to-market functions to align to its strategy, as compared to \$46 million in the first six months of 2019. The increase in cash provided by operating activities was primarily due to improved management of working capital. Although the COVID-19 pandemic did not have a significant adverse impact on our financial results for the second quarter of 2020, we have reviewed our capital projects to ensure that we are only spending on projects that are deemed to be essential in the current environment. We have taken steps to manage spending on travel, third-party services and other operating expenses, and we continue to focus on cash flow generation. Terms of payments have been extended for certain customers in impacted industries; however, the majority of these extensions do not go beyond the end of the fiscal year. We do not expect the pandemic to have a significant adverse effect on our liquidity, as we believe that operating cash flows and available liquidity are sufficient to support operational needs for at least the next 12 months.

Teradata's management uses a non-GAAP measure called "free cash flow," which is not a measure defined under GAAP. We use 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, and this may differ from the definitions used by other companies. The components that are used to calculate free cash flow are GAAP measures taken directly from the Condensed Consolidated Statements of Cash Flows (Unaudited). We believe that free cash flow information is useful for investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash available after capital expenditures, for among other things, investments in the Company's existing businesses, strategic acquisitions and repurchases 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, along with free cash flow, for the following periods:

In millions	Six Months Ended June 30,	
	2020	2019
Net cash provided by operating activities	\$ 140	\$ 104
Less:		
Expenditures for property and equipment	(23)	(27)
Additions to capitalized software	(4)	(2)
Free cash flow	\$ 113	\$ 75

Financing activities and certain other investing activities are not included in our calculation of free cash flow. There were no other investing activities for the six months ended June 30, 2020 and 2019.

Teradata's financing activities for the six months ended June 30, 2020 and 2019 primarily consisted of cash outflows for share repurchases and payments on the Company's finance leases, and long-term debt. At June 30, 2020, the Company had no outstanding borrowings on its \$400 million revolving credit facility entered into in June 2018 (the "Credit Facility"). The Company purchased approximately 3.7 million shares of its common stock at an average price per share of \$20.52 in the six months ended June 30, 2020, and 4.3 million shares at an average price per share of \$40.52 in the six months ended June 30, 2019 under the two share repurchase programs that were authorized by our Board of Directors. The first program (the "dilution offset program") allows the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and the Teradata Employee Stock Purchase Plan ("ESPP") to offset dilution from shares issued pursuant to these plans. On July 28, 2019, Teradata's Board of Directors authorized an additional \$500 million to be utilized to repurchase Teradata common stock under the Company's second share repurchase program (the "general share repurchase program"). As of June 30, 2020, the Company had \$432 million of authorization remaining under this program to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis. Our share repurchase activity depends on factors such as our working capital needs, our cash requirements for capital investments, our stock price, and economic and market conditions. As a precautionary measure, due to the uncertainty of the impact of COVID-19 on our business, in the second quarter of 2020, the Company suspended repurchases under its share repurchase programs and currently does not anticipate any share repurchases for the remainder of 2020.

Proceeds from the ESPP and the exercise of stock options, net of tax, were \$6 million for the six months ended June 30, 2020 and \$37 million for the six months ended June 30, 2019. These proceeds are included in other financing activities, net in the Condensed Consolidated Statements of Cash Flows (Unaudited).

Our total cash and cash equivalents held outside the United States in various foreign subsidiaries was \$339 million as of June 30, 2020 and \$344 million as of December 31, 2019. The remaining balance held in the United States was \$156 million as of June 30, 2020 and \$150 million as of December 31, 2019. Prior to the enactment of the 2017 Tax Act, the Company either reinvested or intended to reinvest its earnings outside of the United States. As a result of the 2017 Tax Act, the Company has changed its indefinite reinvestment assertion related to foreign earnings that have been taxed in the United States and now considers a majority of these earnings no longer indefinitely reinvested. Effective January 1, 2018, the United States moved to a territorial system of international taxation, and as such will generally not subject future foreign earnings to United States taxation upon repatriation in future years.

Management believes current cash, cash generated from operations and the \$400 million available under the Credit Facility will be sufficient to satisfy future working capital, research and development activities, capital expenditures, pension contributions, and other financing requirements for at least the next twelve months. The Company principally holds its cash and cash equivalents in bank deposits and highly-rated money market funds.

The Company's ability to generate positive cash flows from operations is dependent on general economic conditions, competitive pressures, and other business and risk factors described in the 2019 Annual Report and elsewhere in this Quarterly Report on Form 10-Q. If the Company is unable to generate sufficient cash flows from operations, or otherwise comply with the terms of the Credit Facility or its term loan agreement, the Company may be required to seek additional financing alternatives.

Long-term Debt. There has been no significant change in our long-term debt as described in the 2019 Annual Report. Our long-term debt is discussed in Note 10 of Notes to Condensed Consolidated Financial Statements (Unaudited).

Contractual and Other Commercial Commitments. There has been no significant change in our contractual and other commercial commitments as described in the 2019 Annual Report. Our guarantees and product warranties are discussed in Note 8 of Notes to Condensed Consolidated Financial Statements (Unaudited).

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. In connection with the preparation of these financial statements, we are required to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the time. However, because future events and their effects cannot be determined with certainty, the determination of

estimates requires the exercise of judgment. Our critical accounting policies are those that require assumptions to be made about matters that are highly uncertain. Different estimates could have a material impact on our financial results. Judgments and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions or circumstances. Our management periodically reviews these estimates and assumptions to ensure that our financial statements are presented fairly and are materially correct. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts of COVID-19 as of June 30, 2020 and through the date of this report. The accounting matters assessed included, but were not limited to, our allowance for doubtful accounts, stock-based compensation, the carrying value of our goodwill and other long-lived assets, financial assets, valuation allowances for tax assets and revenue recognition. While there was not a material impact to our consolidated financial statements as of and for the six months ended June 30, 2020, resulting from our assessments, our future assessment of our current expectations at that time of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to our consolidated financial statements in future reporting periods.

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 2019 Annual Report. Teradata's senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies in the six months ended June 30, 2020.

New Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have not been any material changes to the market risk factors previously disclosed in Part II, Item 7A of the 2019 Annual Report.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2020, our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material adverse impact to our internal controls over financial reporting as a result of most of our employees working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

Part II—OTHER INFORMATION

Item 1. Legal Proceedings.

On June 19, 2018, the Company and certain of its subsidiaries filed a lawsuit in the U.S. District Court for the Northern District of California against SAP SE, SAP America, Inc., and SAP Labs, LLC (collectively, "SAP"). In the lawsuit, the Company alleges, among other things, that SAP misappropriated certain of the Company's trade secrets within the Company's enterprise data analytics and warehousing products and used them to help develop, improve, introduce, and sell one or more competing products. The Company further alleges that SAP has employed anticompetitive practices using its substantial market position in the enterprise resource planning applications market to pressure the Company's customers and prospective customers to use SAP's one or more competing products and reduce or eliminate customers' and prospective customers' use of the Company's offerings. The Company seeks an injunction barring SAP's alleged conduct, monetary damages, and other available legal and equitable relief. In July 2019, SAP filed patent infringement counterclaims against Teradata based on five SAP patents, and we plan to vigorously defend against these counterclaims. Currently, it is not possible to determine the likelihood of a loss or a reasonably estimated range of loss, if any, pertaining to the counterclaims.

Item 1A. Risk Factors.

With the exception of the risk factor listed below, there have not been any material changes to the risk factors previously disclosed in Part I, Item 1A of the 2019 Annual Report.

The Company's business, results of operations, and financial condition have been adversely affected, and could in the future be materially adversely affected, by the COVID-19 pandemic.

As more fully described elsewhere in this Quarterly Report on Form 10-Q, our business, results of operations, and financial condition have been adversely affected by the COVID-19 pandemic. The degree to which the COVID-19 pandemic in the future affects our business, financial condition, and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the unprecedented pandemic, its severity, the actions to contain the virus or respond to its impact, and how quickly and to what extent normal economic and operating conditions can resume. The COVID-19 pandemic or any other adverse public health development could also inhibit our ability to execute our strategic initiatives including, without limitation, improving the experience of our customers, investing in growing identified strategic growth platforms and shifting the mix of revenue in our business to cloud as well as subscription revenue.

Furthermore, negative economic conditions related to the COVID-19 pandemic have impacted, and may continue to impact, our ability to close transactions and/or collect receivables from customers on a timely basis, or at all, and may also impact our customers' willingness to maintain or increase spending on data analytics, their ability to obtain adequate financing for the purchase of our products and services, or the amount of disposable income available to consumers, which may adversely impact the businesses of our customers in consumer-facing industries.

Additionally, governmental restrictions and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumers to avoid or limit gatherings in public places or social interactions, which could adversely affect the businesses of our customers in certain industries, such as transportation, entertainment and hospitality. Such customers have experienced, and may continue to experience, significant near-term working capital and cash flow adverse impacts as a result of the COVID-19 pandemic, which, in turn, could adversely impact our ability to maintain or increase revenue from such customers.

In addition, the global supply chain risks present a level of uncertainty due to the international and domestic pandemic recovery efforts. The uncertainty of an increase in the number of COVID-19 infections in areas where our suppliers source their parts could present sourcing challenges to our suppliers. Further, if countries in which we do business close their borders, it may impact the timing of closing sales transactions or the ability to service our customers in select geographies.

We have experienced, and expect to continue to experience, adverse fluctuations in foreign currency exchange rates, particularly an increase in the value of the U.S. dollar against certain key foreign currencies, which negatively affected, and we expect will continue to negatively affect, our reported results of operations and financial condition.

As a result of the COVID-19 pandemic, including related governmental guidance or directives, we have required most employees to work remotely. We may experience reductions in productivity and disruptions to our business routines while our remote work policy remains in place.

Governmental authorities in the United States and throughout the world may increase or impose new income taxes or indirect taxes, or revise interpretations of existing tax rules and regulations, as a means of financing the costs of stimulus and other measures enacted or taken, or that may be enacted or taken in the future, to protect populations and economies from the impact of the COVID-19 pandemic. Such actions could have an adverse effect on our results of operations and cash flows.

While we have implemented programs to mitigate the impact of these risks on our results of operations, there can be no assurance that these programs will be successful and there are many aspects of this pandemic, particularly its impact on our customers, that are beyond our control. The spread of COVID-19 has caused us to modify our business practices, such as employee work locations, and we may take further actions as may be required by government authorities or that we determine is in the best interests of our employees, customers, distributors, suppliers and contractors. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed. Moreover, these measures, and similar measures at our customers, have resulted in and may result in further installation and payment delays. In addition, we have experienced, and expect to continue to experience, delays and cancellations of consulting projects due to work from home and shelter-in-place orders and also because of the discretionary nature of consulting projects which may be delayed or suspended as a result of more conservative spending patterns by our customers in light of the economic impacts of the pandemic.

Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of the economic recession that has occurred and any economic recession that may occur in the future. The COVID-19 pandemic could also exacerbate or trigger other risks discussed in our "Risk Factors" in Part I, Item 1A of the 2019 Annual Report, any of which could have a material adverse effect on our business, results of operations and financial condition.

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

Purchases of Company Common Stock

From time to time, the Company's Section 16 officers sell to the Company shares of the Company's common stock received upon vesting of restricted share units at the current market price to cover their withholding taxes. For the six months ended June 30, 2020, the total of these purchases was 77,145 shares at an average price of \$23.57 per share.

The following table provides information relating to the Company's share repurchase programs for the six months ended June 30, 2020:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Dilution Offset Program ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced General Share Repurchase Program ⁽²⁾	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	3,656,766	\$ 20.52	208,078	3,448,688	\$ 1,317,522	\$ 432,248,874
April 2020	—	—	—	—	2,342,277	432,248,874
May 2020	—	—	—	—	2,342,277	432,248,874
June 2020	—	—	—	—	4,374,148	432,248,874
Second Quarter Total	—	—	—	—	\$ 4,374,148	\$ 432,248,874

(1) The dilution offset program allows the Company to repurchase Teradata common stock to the extent of cash received from the exercise of stock options and purchases under the ESPP to offset dilution from shares issued pursuant to these plans.

(2) The general share repurchase program authorized by the Board allows the Company to repurchase outstanding shares of Teradata common stock. Share repurchases made by the Company are reported on a trade date basis. On July 28, 2019, Teradata's Board of Directors authorized an additional \$500 million to be utilized to repurchase Teradata common stock under this share repurchase program. As of June 30, 2020, the Company had a total of \$432 million authorized for share repurchases under this share repurchase program. The general share repurchase program expires on July 27, 2022.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

None

Item 5. Other Information.

None

Item 6. Exhibits.

**Reference Number
per Item 601 of
Regulation S-K**

Description

<u>2.1</u>	<u>Form of Separation and Distribution Agreement between Teradata Corporation and NCR Corporation (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated September 11, 2007 (SEC file number 001-33458)).</u>
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation of Teradata Corporation as amended and restated on September 24, 2007 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated September 25, 2007 (SEC file number 001-33458)).</u>
<u>3.2</u>	<u>Amended and Restated By-Laws of Teradata Corporation, as amended and restated on July 26, 2016 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated August 1, 2016).</u>
<u>4.1</u>	<u>Common Stock Certificate of Teradata Corporation (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q dated November 13, 2007 (SEC file number 001-33458)).</u>
<u>10.1*</u>	<u>Offer Letter from Teradata Corporation to Stephen McMillan dated May 5, 2020.</u>
<u>10.2*</u>	<u>Form of Restricted Share Unit Agreement (New Hire Grant) Inducement Grant to new CEO (incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-8 dated June 2, 2020 (SEC file number 001-33458)).</u>
<u>10.3*</u>	<u>Form of Restricted Share Unit Agreement (Graded Vesting) Inducement Grant to new CEO (incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-8 dated June 2, 2020 (SEC file number 001-33458)).</u>
<u>10.4*</u>	<u>Form of Performance-Based Restricted Share Unit Agreement (2020-2022 Performance Period Award) Inducement Grant to new CEO (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form S-8 dated June 2, 2020 (SEC file number 001-33458)).</u>
<u>10.5*</u>	<u>Executive Severance Plan Participation Agreement to new CEO, approved on May 5, 2020.</u>
<u>10.6</u>	<u>Consulting Services Agreement between Teradata Corporation and Victor L. Lund, effective June 8, 2020.</u>
<u>10.7*</u>	<u>Teradata Incentive Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated June 2, 2020 (SEC file number 001-33458)).</u>
<u>10.8*</u>	<u>Form of Teradata Incentive Stock Purchase Plan Stock Purchase Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated June 2, 2020 (SEC file number 001-33458)).</u>
<u>10.9*</u>	<u>Teradata New Employee Stock Inducement Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K dated June 2, 2020 (SEC file number 001-33458)).</u>
<u>31.1</u>	<u>Certification pursuant to Rule 13a-14(a), dated August 10, 2020.</u>
<u>31.2</u>	<u>Certification pursuant to Rule 13a-14(a), dated August 10, 2020.</u>
<u>32</u>	<u>Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 10, 2020.</u>
101	Inline interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of (Loss) Income for the three and six months period ended June 30, 2020 and 2019, (ii) the Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six months period ended June 30, 2020 and 2019, (iii) the Condensed Consolidated Balance Sheets at June 30, 2020 and December 31, 2019, (iv) the Condensed Consolidated Statements of Cash Flows for the six months period ended June 30, 2020 and 2019, (v) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and six months period ended June 30, 2020 and 2019 and (vi) the Notes to Condensed Consolidated Financial Statements.
104	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Management contract or compensatory plan, contract or arrangement.

SIGNATURES

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

TERADATA CORPORATION

Date: August 10, 2020

By: /s/ Mark A. Culhane
Mark A. Culhane
Chief Financial Officer



PERSONAL AND CONFIDENTIAL

May 5, 2020

Stephen McMillan

Dear Steve,

I am very pleased to extend you this offer of employment with Teradata Corporation and its affiliates ("Teradata" or "Company") as President and Chief Executive Officer, based in San Diego, and reporting to the Teradata Board of Directors (the "Board"), subject to the conditions set forth below.

This letter outlines the key elements of your compensation and related arrangements.

Base Salary: You shall receive a base salary of \$800,000 on an annualized basis, less applicable taxes and withholdings, which would be paid on the Company's normal bi-weekly payroll schedule and subject to change upon mutual agreement.

Management Incentive Plan: You will be eligible to participate in Teradata's Management Incentive Plan (the "MIP"), a performance-based annual incentive program for executive officers. Under the MIP, the Compensation and Human Resource Committee of the Board (the "Committee") establishes an annual bonus program based upon financial and/or strategic performance results achieved by Teradata, as well as each eligible employee's individual performance against their business objectives. Your MIP target incentive opportunity shall equal 125% of your eligible gross base salary, which would bring your total targeted annual incentive compensation opportunity to \$1,000,000. The period of your eligibility under the MIP will begin upon your start date of employment. The first plan year of your incentive opportunity will be pro-rated based on the time you are active in the plan year. Incentive awards are subject to discretionary adjustment by the Committee together with the other independent members of the Board as outlined in the MIP and, if earned, are paid in the first calendar quarter following the program year. Historically, annual incentive awards under the MIP have been paid out in cash.

Annual Equity Award (Performance-Based / Restricted Share Units): You will be eligible to participate in Teradata's annual equity award program for executive officers. Annual awards are typically determined by the Committee together with the other independent members of the Board in the first quarter of each year and are generally comprised of a mixture of performance-based restricted share units ("PBRsUs") and service-based restricted share units ("RSUs"). The precise nature of the award and vesting schedules will be determined by the Committee together with the other independent members of the Board in its discretion. Your annual equity award for 2020 shall have a target value of \$8,500,000 (the "2020 Equity Award"). The actual number of shares for your 2020 Equity Award will be determined by dividing the target value by the preceding 20-day average of Teradata's common stock prior to, but not including, the date of formal Board approval of your appointment. The 2020 Equity Award shall be effective the first business day following your hire date and allocated 60% to PBRsUs (subject to a three (3)-year performance period commencing January 1, 2020 and achievement of the same goals applicable to other senior executives of Teradata) and 40% to RSUs (vesting in three (3) equal annual installments). The 2020 Equity Award will be governed by the terms and conditions of your PBRsU and RSU equity award agreements, which you will be required to accept in connection with the award. In addition, for avoidance of doubt, Teradata's standard practice with respect to the settlement of PBRsU awards is to distribute any vested shares earned in connection with such awards promptly after the performance achievement is certified by the Committee in the first quarter following the end of the applicable performance period. Notwithstanding the foregoing, in the event that

the Company terminates your employment without Cause (as defined in the Teradata 2012 Stock Incentive Plan, as amended (the "Plan")) and not as a result of your disability or death, or you resign from the Company for Good Reason (as defined below), then you shall be entitled to pro-rated vesting of the PBRsUs and RSUs underlying the 2020 Equity Award, determined under the pro-ratio methodology employed by the Company from time-to-time (provided that your years of vesting service for this purpose only shall be no less than 2 years) and, in the case of PBRsUs for which the applicable performance period has not been completed as of the date of termination, subject to actual achievement of the applicable performance goals, as determined by the Committee after the end of the performance period.

"Good Reason" means the occurrence of any of the following events without your prior written consent in the event they are not remedied by the Company within thirty (30) days after receipt of written notice thereof given by you to the Company's General Counsel: (a) a material reduction in your authority, duties and responsibilities, excluding for this purpose any isolated, insubstantial and inadvertent action not taken in bad faith; (b) any reduction in your annual base salary; (c) the failure to pay annual or long-term incentive compensation to which you are otherwise entitled under the terms and conditions of the applicable Company incentive plan, at the time at which such compensation is otherwise payable in the ordinary course of business or as soon thereafter as administratively feasible; (d) a reduction of five percent (5%) or more in your "target" or "maximum" annual or long-term incentive opportunity (other than any such reduction that is applied across-the-board to senior executives of Teradata); (e) the failure by the Company to continue in effect any equity compensation plan in which you participate, unless a substantially equivalent alternative compensation arrangement (embodied in an ongoing substitute or alternative plan) has been provided to you, or the failure by the Company to continue your participation in any such equity compensation plan on substantially the same basis, in terms of the level of your participation relative to other participants, excluding for this purpose any isolated, insubstantial and inadvertent action not taken in bad faith; or (f) except as required by law, the failure by the Company to continue to provide to you employee benefits substantially equivalent, in the aggregate, to those enjoyed by you under the qualified and nonqualified employee benefit and welfare plans of the Company, including, without limitation, the life insurance, medical, dental, health and accident, disability retirement, and savings plans, other than a reduction of such benefits, in the aggregate, of less than 5% of aggregate value of such benefits.

New Hire Grant Restricted Stock Unit Award: Teradata shall award you a one-time grant of service-based RSUs (the "New Hire Grant") with a target value of \$4,662,327, which is equal to the product of (i) the number of share units that you will forfeit upon resignation from your current employer, which we agree equals 36,096 share units, and (ii) the preceding 20-day average of your current employer's common stock prior to, but not including, the date of formal Board approval of your appointment (the "Target Value"). The actual number of RSUs for your New Hire Grant will be determined by dividing the Target Value by the preceding 20-day average of Teradata's common stock prior to, but not including, the date of formal Board approval of your appointment. The New Hire Grant will be effective the first business day following your hire date and vest as follows: (i) 45% of the RSUs on December 1, 2020, (ii) 42% of the RSUs on the first anniversary of the date of grant, and (iii) the remaining RSUs (i.e., 13% of the RSUs) on the second anniversary of the date of grant, in each case subject to your continued employment with Teradata and subject to the other terms and conditions set forth in the applicable equity award agreement. Notwithstanding the foregoing, in the event that the Company terminates your employment without Cause (as defined in the Plan) and not as a result of your disability or death, or you resign from the Company for Good Reason (as defined above), then any unvested portion of the New Hire Grant shall vest in full.

Cash Signing Bonus: You will receive a one-time cash signing bonus in the amount of \$500,000, minus applicable taxes and withholdings, which shall be payable to you in the first payroll cycle after you have completed thirty (30) days of continuous and satisfactory employment with Teradata.

If, after receipt of your signing bonus, your employment is terminated for Cause (as defined in the Plan) or if you terminate your employment for any reason other than Good Reason (as defined above) within twelve (12) months of your first day of employment with Teradata, you agree to repay \$250,000 (net of taxes) of the signing bonus, and Teradata may withhold these sums from any compensation otherwise due to you. If your employment is terminated for Cause (as defined in the Plan) or if you terminate your employment for any reason other than Good Reason (as defined above) between twelve (12) and twenty-four (24) months of your first day of employment with

Teradata, you agree to repay \$125,000 (net of taxes) of the signing bonus, and Teradata may withhold these sums from any compensation otherwise due to you.

Stock Ownership Guidelines: The Chief Executive Officer position is subject to Teradata's Stock Ownership Guidelines holding requirement as established by the Committee, currently, 6x annual base pay for the CEO, which are subject to change from time to time at the Committee's discretion.

Executive Severance Plan and Change in Control Plan: You shall participate as a Level I participant in the Teradata Executive Severance Plan (the "ESP") and shall participate under the Teradata Change in Control Severance Plan (the "CIC Plan"). You shall be designated by the Committee as an eligible participant in both plans effective upon your start date of employment with Teradata; however, each plan is subject to amendment or termination by Teradata in accordance with the terms of each plan, and your participation in the ESP is subject to your signing a participation agreement under the ESP. A copy of each plan, as well as the participation agreement for the ESP reflective of the provisions of this offer letter, will be provided to you under separate cover.

Your participation agreement under the ESP shall provide that (i) a Qualified Termination (as defined in the ESP) includes termination of your employment by you for Good Reason (as defined above) at any time (and not just in connection with a change in control), and (ii) upon a Qualified Termination (as defined in the ESP and as modified by the foregoing clause (i)), in addition to any applicable vesting provided for under Section 4(b)(v) of the ESP or the applicable award agreement, and subject to the terms and conditions of the ESP, with respect to any outstanding but unvested PBRsUs or RSUs, (a) you will be treated as having attained age 55 at the time of your termination of employment for purposes of determining the vesting of such awards under Section 4(b)(v) of the ESP, and (b) the additional year of vesting credit provided under Section 4(b)(v)(ii) of the ESP for purposes of calculating the vesting of RSU awards shall also be provided to you for purposes of determining the vesting of PBRsU awards, provided that payout of any such PBRsUs shall be subject to actual performance results as determined by the Committee after the end of the applicable performance period.

Travel Allowance: Because your principal place of employment will be Teradata's office in San Diego, California when you are not otherwise traveling for business, subject to Committee approval, you will be eligible to commute to San Diego to perform your duties hereunder. You shall receive a gross monthly allowance of \$15,000 to cover these commuting costs, such as the cost of airfare, lodging and a rental car or ride services (the "Allowance"). The Allowance shall be treated as taxable compensation to you but shall not be considered a part of your normal or expected compensation for purposes of calculating severance payments, bonuses, long-service awards or retirement benefits or similar payments. The Company shall have no other obligation to reimburse you for any costs related to your commuting expenses, nor will it assume any liability for lease agreements should you wish to lease an apartment. The Allowance may be revisited by the Committee on an annual basis.

Travel: Any business-related travel will be reimbursed as a Company business expense. Such expenses include the cost of airfare, lodging, and a rental car or ride services. Travel expenses will be reimbursed upon receipt, in accordance with the Company's Travel and Expense Policy. In addition, in connection with any business travel for the Company and your commute to San Diego, notwithstanding anything to the contrary in the Company's Travel and Expense Policy, you will be permitted to fly business or first class for flights of any duration whether internationally or domestically.

Tax Matters: Notwithstanding any other provision of your offer letter, Teradata may withhold from any amounts payable hereunder, or any other benefits received pursuant hereto, such minimum federal, state and/or local taxes as shall be required to be withheld under any applicable law or regulation.

Benefits: As an employee of the Company, you will be eligible to participate in the standard benefit plans offered to similarly situated employees by Teradata, subject to plan terms and generally applicable company policies. A full description of these benefits is available for your review. Teradata may change its benefit programs from time to time in its discretion; provided; however, that your prior consent will be required in the event that the Company material reduces your aggregate benefit levels unless such changes are required by applicable law.

Indemnification and D&O Coverage: The Company shall indemnify you to the full extent provided for in its corporate certificate of incorporation, bylaws or any other indemnification policy or procedure as in effect from time to time and applicable to its other directors and officers and to the maximum extent that the Company

indemnifies any of its other directors and officers, and you will be entitled to the protection of the insurance policies the Company maintains generally for the benefit of its directors and officers against all costs, charges, liabilities and expenses incurred or sustained by you in connection with any action, suit or proceeding to which you may be made a party by reason of you being or having been a director, officer or employee of the Company or any of its affiliates or you serving or having served any other enterprise, plan or trust as a director, officer, employee or fiduciary at the request of the Company or any of its affiliates (other than any dispute, claim or controversy arising under or relating to this letter) pursuant to the terms and conditions of such policies.

Board Service: The Board shall elect you as a director of Teradata upon commencement of your employment. During your service as Chief Executive Officer of Teradata, the Company shall cause the Committee on Directors and Governance of the Board (the "Governance Committee") to nominate you to serve as a member of the Board each year that your term of Board service is to be slated for reelection to the Board. If the Company's stockholders vote in favor of the Governance Committee's nomination for you to serve as a member of the Board, you agree to serve in such capacity. Any service on the Board shall be without additional compensation. Notwithstanding the foregoing, upon the termination of your service as Chief Executive Officer (whether voluntarily or involuntarily or as a result of resignation or removal), you shall immediately resign from all positions that you hold or have ever held with the Company and its affiliates, including your position on the Board. You agree to execute any and all documentation to effectuate such resignations upon request by the Company but shall be treated for all purposes as having so resigned upon removal or resignation as Chief Executive Officer, regardless of when or whether you execute any such documentation.

Legal Fee Reimbursement: The Company agrees to reimburse you for reasonable attorney's fees associated with legal review of this letter in an amount up to \$10,000, upon receipt of invoice(s) for such fees.

By accepting an offer of at-will employment, you must agree to the **Conditions of Employment** outlined in Attachment A, including but not limited to the restriction of disclosure of any trade secret or confidential/proprietary information during your employment at Teradata, satisfactory outcome of background and reference checks, and proof of identity and legal authorization to work.

Upon commencement of your employment, this letter, together with Attachment A and your Employee Confidential Information and Inventions Assignment Agreement, forms the complete and exclusive statement of your employment agreement with Teradata. It will supersede any other agreements or promises made to you by anyone, whether oral or written. Changes in your employment terms, other than those changes expressly reserved to Teradata's discretion in this letter, require a written modification signed by you and an officer of Teradata.

Steve, we are excited to provide this offer and look forward to the contributions you will bring to the Teradata team and we know that you share this enthusiasm. The offer assumes a start date of June 8, 2020, unless otherwise mutually agreed.

If you have any questions regarding the details set forth above, please do not hesitate to contact me.

Sincerely,

TERADATA CORPORATION

By: _____
Michael P. Gianoni, Chairman

ACCEPTANCE:

I accept the offer of employment by Teradata Corporation on the terms described in this letter.

Stephen McMillan

Date: _____

ATTACHMENT A CONDITIONS OF EMPLOYMENT

Teradata requires employment candidates to successfully complete various employment documentation and processes. This offer of employment is conditioned upon your satisfying and agreeing to the criteria outlined below. You agree to assist as needed and to complete any documentation at the Company's request to meet these conditions. You assume any and all risks associated with terminating any prior or current employment or making any financial or personal commitments based upon Teradata's conditional offer.

Pre-employment Background and Reference Checks: This offer of employment is conditioned upon successful completion of a background and reference checks. By accepting this offer and these conditions you will agree to provide Teradata permission to conduct both of these checks and release the results to Teradata designated officials. Following acceptance of the offer you will receive an e-mail with the subject Action Required to Complete Background Check for Teradata Employment with a link to initiate the background check process. Please submit your information within three days of receipt of the link.

U.S. Employment Eligibility. As required by federal law, you must provide satisfactory proof of your right to work in the United States. You will be required to complete an I-9 form and submit acceptable documentation (as noted in the I-9 form) verifying your identity and work authorization within three (3) days of your employment start date.

Confidential Information. You must read, execute, and agree to abide by Teradata's *Employee Confidential Information and Invention Assignment Agreement*, which prohibits unauthorized use or disclose of Teradata's proprietary information, among other obligations.

Mutual Agreement to Arbitrate. You must read, execute, and agree to abide by Teradata's *Mutual Agreement to Arbitrate all Employment Related Claims*, which provides for final and binding arbitration of any unresolved employment-related disputes that may arise between you and Teradata.

Code of Conduct & Conflicts of Interest Certifications. You agree to read and abide by Teradata's Code of Conduct and to disclose in writing all actual and potential conflicts of interest which pertain to you. Teradata's Code of Conduct, which includes the contact information for Teradata's Ethics Helpline, will be provided to you on your first day of employment, and can also be accessed here: <https://assets.teradata.com/pdf/Code-of-Conduct.pdf>. You will be required to take Teradata's Code of Conduct training and certify in writing your commitment to reading and complying with the Code of Conduct and disclosing all conflicts in interest no later than thirty (30) days after your employment start date. An email with a link to the training will be sent you on or shortly after your start date of employment.

No Employment Restrictions. By accepting and signing this document, you certify to Teradata that you are not subject to any restrictions by virtue of any prior employment which would preclude or restrict you from performing the position being offered in this letter, such as non-competition, non-solicitation, or other work-related restrictions. This offer is further conditioned upon Teradata confirming that there are no export restrictions applicable to your employment

No Improper Use of Information of Prior Employers and Others. Teradata respects the intellectual property rights of other companies. You should not bring with you to your Teradata position any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality, nor in any other way disclose or use such information while employed by Teradata. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by Teradata. Your managers and colleagues will be instructed to not accept any such confidential information of another company, and you will be subject to discipline up to and including termination of employment for disclosure of such information.

Employment At Will. This document reflects the general description of the terms and conditions of your employment with Teradata. Teradata has in place other policies which govern your employment relationship with Teradata, which it may change from time to time in its discretion. Your offer letter, this attachment, and these policies are not a contract of employment for any definite duration of time. Your employment at Teradata will be "at-will", meaning either you or Teradata have the right to discontinue the employment relationship with or without cause at any time and for any reason whatsoever. Your employment at-will status can only be modified in a written agreement signed by you and by an officer of Teradata.

EXECUTIVE SEVERANCE PLAN PARTICIPATION AGREEMENT

June __, 2020

Dear Stephen McMillan:

You have been selected to participate in the Teradata Executive Severance Plan (the "Plan"), subject to your execution and return of this agreement (this "Participation Agreement") to Teradata Corporation (the "Company"). The Plan has been adopted by the Company effective as of February 1, 2017, and capitalized terms used without definition in this Participation Agreement have the meaning given to such terms in the Plan.

You have been designated as an Eligible Employee who is eligible to participate in the Plan as a Level I Participant, subject to the terms and conditions of the Plan and this Participation Agreement.

By signing below, the Company and you agree that the Plan shall be modified as set forth below with respect to your participation therein:

1. Section 2 of the Plan is amended by deleting the definition of "Good Reason" contained therein and replacing it with the following:

"Good Reason" means the occurrence of any of the following events without the Participant's prior written consent in the event they are not remedied by the Company within thirty (30) days after receipt of written notice thereof given by the Participant to the Company's General Counsel: (a) a material reduction in the Participant's authority, duties and responsibilities, excluding for this purpose any isolated, insubstantial and inadvertent action not taken in bad faith; (b) any reduction in the Participant's annual base salary; (c) the failure to pay annual or long-term incentive compensation to which the Participant is otherwise entitled under the terms and conditions of the applicable Company incentive plan, at the time at which such compensation is otherwise payable in the ordinary course of business or as soon thereafter as administratively feasible; (d) a reduction of five percent (5%) or more in the Participant's "target" or "maximum" annual or long-term incentive opportunity (other than any such reduction that is applied across-the-board to senior executives of the Company); (e) the failure by the Company to continue in effect any equity compensation plan in which the Participant participates, unless a substantially equivalent alternative compensation arrangement (embodied in an ongoing substitute or alternative plan) has been provided to the Participant, or the failure by the Company to continue the Participant's participation in any such equity compensation plan on substantially the same basis, in terms of the level of the Participant's participation relative to other participants, excluding for this purpose any isolated, insubstantial and inadvertent action not taken in bad faith; or (f) except as required by law, the failure by the Company to continue to provide to the Participant employee benefits substantially equivalent, in the aggregate, to those enjoyed by the Participant under the qualified and nonqualified employee benefit and welfare plans of the Company, including, without limitation, the life insurance, medical, dental, health and accident, disability retirement, and savings plans, other than a reduction of such benefits, in the aggregate, of less than 5% of aggregate value of such benefits.

2. Section 2 of the Plan is amended by deleting the definition of "Qualified Termination" contained therein and replacing it with the following:
-

“Qualified Termination” means the termination of a Participant’s employment with the Company and its Affiliates (a) by the Company without Cause and not as a result of the Participant’s disability or death; or (b) by the Participant for Good Reason.

3. Section 4(b) of the Plan is amended by deleting Section 4(b)(v) thereof and replacing it with the following:

(v) Equity Awards. Each outstanding equity award of the Company granted to the Participant shall be treated as provided in the applicable Company equity plan and award agreement; provided, however, that, unless the applicable equity plan and award agreement would provide a greater benefit, (i) the Participant shall be entitled to pro-rated vesting of all outstanding service-based and performance-based restricted share unit awards granted by the Company, determined under the pro-ration methodology employed by the Company from time-to-time and, in the case of any performance-based restricted share unit awards for which the applicable performance period has not been completed as of the Date of Termination, subject to actual achievement of the applicable performance goals, as determined by the Committee after the end of the applicable performance period; and (ii) for any equity awards granted after December 31, 2020, the Participant shall receive an extra year of vesting credit for purposes of calculating the vesting of the Participant’s outstanding service-based and performance-based restricted share units and stock options granted by the Company and, in the case of any performance-based restricted share unit awards for which the applicable performance period has not been completed as of the Date of Termination, subject to actual achievement of the applicable performance goals, as determined by the Committee after the end of the applicable performance period.

4. Section 7(f) of the Plan is amended by adding the following sentence to the end thereof:

The Participant shall be reimbursed, in accordance with the Company’s Travel and Expense Policy, for all reasonable out of pocket expenses incurred by the Participant in connection with his compliance with this Section 7(f).

5. Paragraph 4 of the Release attached to the Plan as Exhibit C is amended by adding the following language to the end thereof:

However, this Release excludes, and I hereby do not waive, release, or discharge: (A) any obligation of Teradata under the Plan; (B) claims that cannot be waived by law, such as claims for unemployment benefit rights and workers’ compensation; (C) indemnification rights that I have against Teradata under applicable corporate law, the by-laws or certificate of incorporation of Teradata, or as an insured under any director’s and officer’s liability insurance policy now or previously in force; and (D) any rights to accrued and vested benefits through the date of termination, such as vested retirement benefits, vested but unpaid equity other incentive awards, or accrued but unpaid salary, the rights to which shall be governed by the terms of the applicable plan, arrangement or agreement.

By signing this Participation Agreement, you hereby acknowledge and agree as follows: (a) that you have read the Plan, including, but not limited to, the provisions contained in Section 7 of the Plan entitled “*Restrictive Covenants*” as amended by this Participation Agreement (the “Restrictive Covenants”); (b) that the Restrictive Covenants are intended to encourage conduct that protects the legitimate business interests of the Company and its subsidiaries and affiliates, including but not limited to protection of Teradata’s Trade Secret Information; (c) that, as a condition to and in consideration of receiving the benefits set forth in the Plan, you hereby agree to be bound by and to comply with the terms and conditions of the Restrictive Covenants; and (d) that you will notify the Company in writing if you have, or reasonably should have, any questions regarding the applicability of the Restrictive Covenants. You further acknowledge that by signing this Participation Agreement, you have thereby

willingly agreed to comply with the Restrictive Covenants, and that that you were free to reject this Participation Agreement and all benefits under the Plan with no adverse consequences to your employment with the Company and its Affiliates.

Note that the agreements you make by executing this Participation Agreement will be enforceable against you, regardless of whether or not your employment terminates in circumstances that entitle you to severance benefits under the Plan.

Please note that you are not required to participate in the Plan and may decline participation in the Plan by not returning this Participation Agreement. If you want to accept participation in the Plan, you must execute this Participation Agreement and see that it is returned to the Company's [TITLE][NAME], via email at [EMAIL] or via mail at 17095 Via del Campo, San Diego, CA 92127 so that it is received no later than _____, 2020. This Participation Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

TERADATA CORPORATION

**ACCEPTED AND AGREED BY PARTICIPANT – STEPHEN
MCMILLAN**

By:

Signed: _____

Title:

Dated: _____

CONSULTING SERVICES AGREEMENT

THIS CONSULTING SERVICES AGREEMENT (this "Agreement") is made and entered into effective as of June 8, 2020 (the "Effective Date"), by and between Victor L. Lund ("Consultant"), and Teradata Corporation and its affiliates ("Teradata" or the "Company"). Consultant and Teradata are referred to herein as the "Parties".

WHEREAS, Consultant was appointed Interim President and Chief Executive Officer ("CEO") of Teradata on November 5, 2019, and served as Executive Chairman of the Board of the Company and its President and CEO prior to such time, and accordingly has deep knowledge and executive expertise concerning the business and strategy of Teradata;

WHEREAS, on May 5, 2020, the Board of Directors of Teradata ("Board") appointed a new President and CEO as of the Effective Date, and in connection with such appointment, at the Board's request, Consultant agreed to resign as an employee and step down as Interim President and CEO and a director of the Board as of the Effective Date;

WHEREAS, the Company can benefit from Consultant's considerable executive management experience and expertise and familiarity with Teradata's business and strategy; and

WHEREAS, in connection with the transition to a new CEO, the Company desires to retain Consultant to provide certain executive management consulting services through the completion of the current fiscal year, and Consultant has agreed to perform such services, in accordance with the terms, and subject to the conditions, of this Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, the Parties hereby agree as follows:

1. Engagement. Teradata hereby engages Consultant, and Consultant agrees to provide, certain executive management consulting services, in accordance with the terms, and subject to the conditions, of this Agreement.

2. Consulting Period. During the period commencing on the Effective Date and ending on December 31, 2020, unless terminated prior thereto pursuant to this Section 2 or Section 10 herein (the "Consulting Period"), Consultant shall, at Teradata's request, provide consulting services to Teradata, as set forth in Section 3 below. The Consulting Period automatically terminates upon the death of Consultant or the incurrence of a disability that prevents the Consultant from providing the consulting services sought by Teradata.

3. Services To Be Provided. Consultant shall consult with and advise the Chief Executive Officer of the Company, with respect to the matters set forth on Exhibit A (the "Consulting Services"). Consultant will make reasonable efforts to be available to provide the Consulting Services upon reasonable advance notice as requested.

4. Non-Exclusive Relationship. The Consulting Services being provided by Consultant are on a non-exclusive basis, and Consultant shall be entitled to perform or engage in

any activity not prohibited by or otherwise inconsistent with this Agreement or in violation of the Company's policies including, without limitation, its conflict of interest policy, so long as such activities (individually or in the aggregate) do not significantly interfere with the performance of Consultant's responsibilities as set forth in Section 3 of this Agreement. Moreover, Teradata shall be permitted to engage any other individual or firm as a consultant or other advisor during the Consulting Period.

5. Compensation. During the Consulting Period, Teradata shall pay Consultant a fee equal to \$83,333.33 per month for Consulting Services to be performed by Consultant (the "Consulting Fee"). Teradata shall pay Consultant the Consulting Fee for such services in advance on a monthly basis.

6. Performance of Services. Consultant shall make himself available (by telephone or otherwise) at reasonable times during normal business hours and on reasonable notice to provide the Consulting Services. Any business-related travel will be reimbursed as a Company business expense. Such expenses include the cost of airfare, lodging, and a rental car or ride services. Travel expenses will be reimbursed upon receipt, in accordance with the Company's Travel and Expense Policy. Specific access by the Consultant to network applications utilized by Teradata will be agreed upon on a case-by-case basis.

7. Duties of Consultant. Subject to Section 3 and Section 9 of this Agreement, Consultant shall (a) dedicate such time commitment to the Consulting Services as is reasonably necessary to perform such Consulting Services, (b) comply with all applicable federal, state and municipal laws and regulations required to enable Consultant to render to Teradata the Consulting Services called for herein; and (c) upon termination of the Consulting Period, return to Teradata any Teradata property in Consultant's possession.

8. Independent Consultant Status. In performing the Consulting Services herein, Teradata and Consultant agree that Consultant shall at all times be acting solely as an independent contractor and not as an employee of Teradata. The Parties acknowledge that Consultant was, prior to the Effective Date, an employee of Teradata, serving as Interim President and Chief Executive Officer, but that such employment relationship has terminated in a manner that constitutes a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). Teradata and Consultant agree that Consultant will not be an employee of Teradata during the Consulting Period in any matter under any circumstances or for any purposes whatsoever, and that Consultant and not Teradata shall have the authority to direct and control Consultant's performance of his activities hereunder. Throughout the Consulting Period, the Company shall retain all authority and control over the business, policies, operations and assets of the Company and its affiliates. The Company does not, by virtue of the Agreement, delegate to Consultant any of the powers, duties or responsibilities vested in the Company or its affiliates by law or under the organizational documents of the Company or its affiliates. As an independent contractor, Consultant is not eligible for and will not be provided any benefits that the Company provides to its employees, including without limitation any severance, pension, retirement, health or welfare, or any kind of insurance benefits, including workers compensation insurance. Teradata shall not pay, on the

account of Consultant, any unemployment tax or other taxes, required under the law to be paid with respect to employees; nor shall Teradata withhold any monies from the fees of Consultant for income tax purposes. Consultant and Teradata hereby agree and acknowledge that this Agreement does not impose any obligation on Teradata to offer employment to Consultant at any time. Nothing contained in this Agreement shall be construed to create a partnership or joint venture between Teradata and Consultant, nor to authorize either party to act as general or special agent of the other party in any respect.

9. Confidentiality.

(a) Confidentiality. Consultant acknowledges that the information, observations and data obtained by Consultant while employed by Teradata and while providing the Consulting Services pursuant to this Agreement, including all information about Teradata's business, operations and prospects, whether in written or oral or other intangible form, shall be treated as confidential, unless such information (i) is, or becomes, publicly known, through publication, inspection of a product, or otherwise, and through no unlawful act of Consultant; (ii) is received by Consultant from a third party without similar restriction as to non-disclosure and without breach of this Agreement; (iii) is specifically approved for release by written authorization of Teradata; or (iv) is disclosed by Consultant upon receipt of a legal opinion from counsel that such disclosure is required pursuant to the lawful requirement or request of a governmental agency or disclosure is otherwise required by operation of law (but only after Consultant has provided Teradata with prior written notice, reasonable assistance and the opportunity to contest such court order). Upon termination of this Agreement, Consultant shall destroy or return all confidential information to Teradata, and all confidential information Consultant has received or learned shall continue to be subject to the same confidentiality requirements set forth above. Notwithstanding anything to the contrary herein, Consultant will be permitted to retain his Company-issued mobile phone and iPad following the termination of this Agreement provided that any confidential information is removed from such devices. The obligations in this paragraph will survive the termination of this Agreement.

(b) Securities Laws. Consultant acknowledges that it is aware that the United States securities laws prohibit any person who has received from an issuer material, non-public information from purchasing or selling securities of such issuer or from communicating this information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities and that Consultant will not trade in Teradata stock while in possession of such information regarding Teradata. Consultant further acknowledges that Consultant has received a copy of the Teradata Insider Trading Policy and will abide by such policy during the term of this Agreement.

(c) Protected Activity. Nothing contained in this Agreement, or any other agreement, policy, practice, procedure, directive or instruction maintained by Teradata shall prohibit Consultant from reporting possible violations of federal, state or local laws or regulations to any federal, state or local governmental agency or commission (a "Government Agency") or from making other disclosures that are protected under the whistleblower provisions of federal, state or local laws or regulations. Consultant does not need prior authorization of any

kind to make any such reports or disclosures to any Government Agency and Consultant is not required to notify Teradata that Consultant has made such reports or disclosures. Nothing in this Agreement limits any right Consultant may have to receive a whistleblower award or bounty for information provided to any Government Agency. Consultant hereby acknowledges that Teradata has informed Consultant, in accordance with 18 U.S.C. § 1833(b), that Consultant may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret where the disclosure: (i) is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

10. Termination of Consulting Services. Consultant may terminate this Agreement at any time and for any reason by providing at least thirty (30) days prior written notice to the Company in accordance with Section 11(h) below. The Company may terminate this Agreement for Cause (as defined below) by provided at least thirty (30) days prior written notice to Consultant. For purposes of this Agreement, “Cause” shall mean (a) conviction for committing a felony under federal law or the law of the state in which such action occurred, (b) dishonesty in the course of fulfilling the Consultant’s obligations hereunder, (c) failure to perform substantially such obligations in any material respect, or (d) a material violation of the Company’s ethics and compliance program. In the event of such termination, Consultant shall be entitled to receive all earned but unpaid Consulting Fees and shall have no further rights to payment of any consulting fees or other compensation hereunder.

11. Miscellaneous.

(a) Entire Agreement. This Agreement contains the entire understanding and agreement between the Parties relating to the subject matter hereof and supersedes all prior or contemporaneous negotiations, arrangements, agreements, understandings, representations and statements, whether oral or written, with respect to that agreement.

(b) Amendments. No provision of this Agreement may be amended, modified or waived except by a written instrument signed by each of the Parties hereto (or, in the case of a waiver, by the party against whom enforcement of the waiver is sought).

(c) Successors. This Agreement is personal to Consultant and without the prior written consent of Teradata shall not be assignable by Consultant other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Consultant’s legal representatives. This Agreement shall inure to the benefit of and be binding upon Teradata and its respective successors and assigns. Except as provided in the next sentence, Teradata may not assign this Agreement or delegate any of its obligations hereunder without the prior written consent of Consultant.

(d) Choice of Law. This Agreement shall be governed in all respects by the laws of the United States of America and by the laws of the California but excluding its conflict of law provisions that would require the application of the laws of any other state; however, the Federal Arbitration Act will govern all issues of arbitrability.

(e) Effect of Waivers and Consents. No waiver of any default or breach by any party hereto shall be implied from any omission by a party to take any action on account of such default or breach if such default or breach persists or is repeated and no express waiver shall affect any default or breach other than the default or breach specified in the express waiver, and that only for the time and to the extent therein stated. One or more waivers of any covenant, term or condition of this Agreement by a party shall not be construed to be a waiver of any subsequent breach of the same covenant, term or condition. The consent or approval by any party shall not be deemed to waive or render unnecessary the consent to or approval of said party of any subsequent or similar acts by a party.

(f) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be an original, but all of which taken together shall constitute one instrument.

(g) Severability. In construing this Agreement, if any portion of this Agreement shall be found to be invalid or unenforceable, the remaining terms and provisions of this Agreement shall be given effect to the maximum extent permitted without considering the void, invalid or unenforceable provision.

(h) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, or by overnight courier, addressed as follows:

If to Consultant: at Consultant's most recent address on the records of Teradata;

If to Teradata: 17095 Via Del Campo,
San Diego, CA 92127
Attn: General Counsel/Legal Notices
Email: Law.notices@teradata.com

or to such other address as a party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(i) Section 409A of the Code. The intent of the Parties is that payments under this Agreement comply with Section 409A of the Code or are exempt therefrom and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith.

(Signatures are on the following page)

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first set forth above.

TERADATA CORPORATION

By:
Title:
CONSULTANT

Victor L. Lund

EXHIBIT A

Consulting Services

Consultant shall consult with and advise the Chief Executive Officer of the Company with respect to the following matters:

- Strategy;
- Business development;
- Corporate governance;
- Go-to-market and customer activities;
- Product development and product management;
- Product marketing;
- Management and operational matters; and
- Investor relations.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14**

I, Stephen McMillan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Teradata Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date : August 10, 2020

/s/ Stephen McMillan

Stephen McMillan

President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14**

I, Mark A. Culhane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Teradata Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date : August 10, 2020

/s/ Mark A. Culhane

Mark A. Culhane

Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Teradata Corporation, a Delaware corporation (the “Company”), on Form 10-Q for the period ended June 30, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002), that:

and (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification (i) is given to such officers’ knowledge, based upon such officers’ investigation as such officers reasonably deem appropriate; and (ii) is being furnished solely pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002) and is not being filed as part of the Report or as a separate disclosure document.

Date: August 10, 2020

/s/ Stephen McMillan

Stephen McMillan

President and Chief Executive Officer

Date: August 10, 2020

/s/ Mark A. Culhane

Mark A. Culhane

Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to Teradata Corporation and will be retained by Teradata Corporation and furnished to the United States Securities and Exchange Commission or its staff upon request.