

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

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

For the quarterly period ended September 30, 2021

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 October 29, 2021, the registrant had approximately 108.5 million shares of common stock outstanding.

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Part 1—FINANCIAL INFORMATION

Item 1. Financial Statements.

Teradata Corporation

Condensed Consolidated Statements of Income (Loss) (Unaudited)

In millions, except per share amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue				
Subscription software licenses	\$ 64	\$ 52	\$ 238	\$ 155
Services and other	288	277	862	808
Total recurring	352	329	1,100	963
Perpetual software licenses, hardware and other	18	25	58	73
Consulting services	90	100	284	309
Total revenue	460	454	1,442	1,345
Cost of revenue				
Subscription software licenses	2	6	10	21
Services and other	93	90	262	257
Total recurring	95	96	272	278
Perpetual software licenses, hardware and other	12	13	34	46
Consulting services	78	91	244	286
Total cost of revenue	185	200	550	610
Gross profit	275	254	892	735
Operating expenses				
Selling, general and administrative expenses	166	163	476	486
Research and development expenses	79	90	235	246
Total operating expenses	245	253	711	732
Income from operations	30	1	181	3
Other expense, net				
Interest expense	(6)	(7)	(20)	(21)
Interest income	1	1	4	4
Other expense	(6)	(5)	(15)	(13)
Total other expense, net	(11)	(11)	(31)	(30)
Income (loss) before income taxes	19	(10)	150	(27)
Income tax expense (benefit)	2	(9)	36	(151)
Net income (loss)	\$ 17	\$ (1)	\$ 114	\$ 124
Net income (loss) per common share				
Basic	\$ 0.16	\$ (0.01)	\$ 1.05	\$ 1.13
Diluted	\$ 0.15	\$ (0.01)	\$ 1.01	\$ 1.12
Weighted average common shares outstanding				
Basic	108.9	109.1	108.9	109.3
Diluted	113.4	109.1	113.1	110.9

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

In millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income (loss)	\$ 17	\$ (1)	\$ 114	\$ 124
Other comprehensive income (loss):				
Foreign currency translation adjustments	(10)	6	(11)	(11)
Derivatives:				
Unrealized gain (loss) on derivatives, before tax	3	3	10	(10)
Unrealized gain (loss) on derivatives, tax portion	(1)	(1)	(3)	2
Unrealized gain (loss) on derivatives, net of tax	2	2	7	(8)
Defined benefit plans:				
Defined benefit plan adjustment, before tax	3	3	8	7
Defined benefit plan adjustment, tax portion	(1)	(1)	(2)	(2)
Defined benefit plan adjustment, net of tax	2	2	6	5
Other comprehensive (loss) income	(6)	10	2	(14)
Comprehensive income	<u>\$ 11</u>	<u>\$ 9</u>	<u>\$ 116</u>	<u>\$ 110</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 613	\$ 529
Accounts receivable, net	290	331
Inventories	17	29
Other current assets	144	155
Total current assets	1,064	1,044
Property and equipment, net	300	339
Right of use assets - operating lease, net	29	38
Goodwill	397	401
Capitalized contract costs, net	99	98
Deferred income taxes	205	222
Other assets	40	51
Total assets	\$ 2,134	\$ 2,193
Liabilities and stockholders' equity		
Current liabilities		
Current portion of long-term debt	\$ 75	\$ 44
Current portion of finance lease liability	81	75
Current portion of operating lease liability	13	15
Accounts payable	104	50
Payroll and benefits liabilities	137	170
Deferred revenue	464	499
Other current liabilities	81	99
Total current liabilities	955	952
Long-term debt	349	411
Finance lease liability	58	70
Operating lease liability	20	28
Pension and other postemployment plan liabilities	141	152
Long-term deferred revenue	28	38
Deferred tax liabilities	8	6
Other liabilities	118	136
Total liabilities	1,677	1,793
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 September 30, 2021 and December 31, 2020, respectively	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 108.4 and 108.8 shares issued at September 30, 2021 and December 31, 2020, respectively	1	1
Paid-in capital	1,776	1,656
Accumulated deficit	(1,179)	(1,114)
Accumulated other comprehensive loss	(141)	(143)
Total stockholders' equity	457	400
Total liabilities and stockholders' equity	\$ 2,134	\$ 2,193

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Teradata Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine Months Ended September 30,	
	2021	2020
Operating activities		
Net income	\$ 114	\$ 124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	113	126
Stock-based compensation expense	79	79
Deferred income taxes	10	(152)
Changes in assets and liabilities:		
Receivables	41	77
Inventories	12	17
Current payables and accrued expenses	45	(24)
Deferred revenue	(45)	(13)
Other assets and liabilities	(1)	(23)
Net cash provided by operating activities	368	211
Investing activities		
Expenditures for property and equipment	(19)	(34)
Additions to capitalized software	(2)	(6)
Net cash used in investing activities	(21)	(40)
Financing activities		
Repurchases of common stock	(176)	(75)
Repayments of long-term borrowings	(32)	(19)
Payments of finance leases	(68)	(43)
Other financing activities, net	24	7
Net cash used in financing activities	(252)	(130)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(11)	(3)
Increase in cash, cash equivalents and restricted cash	84	38
Cash, cash equivalents and restricted cash at beginning of period	533	496
Cash, cash equivalents and restricted cash at end of period	\$ 617	\$ 534
Supplemental cash flow disclosure:		
Assets acquired under operating lease	\$ 9	\$ 6
Assets acquired under finance lease	\$ 62	\$ 58
Annual variable incentive payout settled in equity	\$ 17	\$ —

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

	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 613	\$ 529
Restricted cash	4	4
Total cash, cash equivalents and restricted cash	\$ 617	\$ 533

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, 2020	108	\$ 1	\$ 1,656	\$ (1,114)	\$ (143)	\$ 400
Net income	—	—	—	53	—	53
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	4	—	52	—	—	52
Repurchases of common stock, retired	(3)	—	—	(85)	—	(85)
Pension and postemployment benefit plans, net of tax	—	—	—	—	2	2
Unrealized gain on derivatives, net of tax	—	—	—	—	3	3
Currency translation adjustment	—	—	—	—	(8)	(8)
March 31, 2021	109	\$ 1	\$ 1,708	\$ (1,146)	\$ (146)	\$ 417
Net income	—	—	—	44	—	44
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	—	—	35	—	—	35
Repurchases of common stock, retired	—	—	—	(36)	—	(36)
Pension and postemployment benefit plans, net of tax	—	—	—	—	2	2
Unrealized gain on derivatives, net of tax	—	—	—	—	2	2
Currency translation adjustment	—	—	—	—	7	7
June 30, 2021	109	\$ 1	\$ 1,743	\$ (1,138)	\$ (135)	\$ 471
Net income	—	—	—	17	—	17
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	—	—	33	—	—	33
Repurchases of common stock, retired	(1)	—	—	(58)	—	(58)
Pension and postemployment benefit plans, net of tax	—	—	—	—	2	2
Unrealized gain on derivatives, net of tax	—	—	—	—	2	2
Currency translation adjustment	—	—	—	—	(10)	(10)
September 30, 2021	108	\$ 1	\$ 1,776	\$ (1,179)	\$ (141)	\$ 457

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
Net loss	—	—	—	(1)	—	(1)
Employee stock compensation, employee stock purchase programs and option exercises, net of tax	—	—	29	—	—	29
Pension and postemployment benefit plans, net of tax	—	—	—	—	2	2
Unrealized gain on derivatives, net of tax	—	—	—	—	2	2
Currency translation adjustment	—	—	—	—	6	6
September 30, 2020	109	\$ 1	\$ 1,632	\$ (1,094)	\$ (155)	\$ 384

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 2020 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, 2020 (the "2020 Annual Report"). The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

Prior period amounts have been revised to conform to the current year presentation. At the beginning of the first quarter of 2021, the Company changed its historical presentation for certain components within its revenue and cost categories. To better reflect the strategy and shift in the business, the Company adopted and revised the presentation beginning in the first quarter of 2021, including reclassifying managed services revenue of \$28 million and \$80 million for the three and nine months ended September 30, 2020 and costs of \$21 million and \$62 million for the three and nine months ended September 30, 2020 from Recurring to Consulting services. The Company also reclassified third party revenue of \$8 million and \$25 million for the three and nine months ended September 30, 2020 and costs of \$6 million and \$19 million for the three and nine months ended September 30, 2020 from Recurring to Perpetual software licenses, hardware and other. This change in presentation does not affect the Company's total revenues, total costs of revenues or overall total gross profit (defined as total revenue less total cost of revenue).

2. New Accounting Pronouncements

Reference Rate Reform. In March 2020, the Financial Accounting Standards Board ("FASB") issued new guidance to provide relief to companies that will be impacted by the expected change in benchmark interest rates, as participating banks will no longer be required to submit London Interbank Offered Rate ("LIBOR") quotes by the U.K. 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 condensed consolidated financial statements or related disclosures.

Recently Adopted Guidance

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, intra-period 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. We adopted the guidance in the first quarter of 2021. The adoption did not have a material impact on our condensed consolidated financial statements or related disclosures.

3. Revenue from Contracts with Customers

Disaggregation of Revenue from Contracts with Customers

The following table presents a disaggregation of revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
in millions	2021	2020	2021	2020
Americas				
Recurring	\$ 210	\$ 203	\$ 661	\$ 603
Perpetual software licenses, hardware and other	5	16	16	36
Consulting services	34	42	109	125
Total Americas	249	261	786	764
EMEA				
Recurring	90	79	277	227
Perpetual software licenses, hardware and other	10	5	30	26
Consulting services	33	31	101	98
Total EMEA	133	115	408	351
APJ				
Recurring	52	47	162	133
Perpetual software licenses, hardware and other	3	4	12	11
Consulting services	23	27	74	86
Total APJ	78	78	248	230
Total Revenue	<u>\$ 460</u>	<u>\$ 454</u>	<u>\$ 1,442</u>	<u>\$ 1,345</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
in millions	2021	2020	2021	2020
Rental revenue*	\$ 36	\$ 28	\$ 123	\$ 72

*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	
	September 30, 2021	December 31, 2020
Accounts receivable, net	290	\$ 331
Contract assets	12	11
Current deferred revenue	464	499
Long-term deferred revenue	28	38

Revenue recognized during the nine months ended September 30, 2021 from amounts included in deferred revenue at the beginning of the period was \$445 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 September 30, 2021:

in millions	Total at September 30, 2021	Year 1	Year 2 and Thereafter
Remaining unsatisfied obligations	\$ 2,524	\$ 1,550	\$ 974

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 \$1,423 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 \$481 million in the next year from contracts that are non-cancelable. 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 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 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, 2020	Capitalized	Amortization	September 30, 2021
Capitalized contract costs	\$ 98	\$ 35	\$ (34)	\$ 99

in millions	December 31, 2019	Capitalized	Amortization	September 30, 2020
Capitalized contract costs	\$ 91	\$ 23	\$ (25)	\$ 89

5. Supplemental Financial Information

In millions	As of	
	September 30, 2021	December 31, 2020
Inventories		
Finished goods	\$ 7	\$ 18
Service parts	10	11
Total inventories	<u>\$ 17</u>	<u>\$ 29</u>
Deferred revenue		
Deferred revenue, current	\$ 464	\$ 499
Long-term deferred revenue	28	38
Total deferred revenue	<u>\$ 492</u>	<u>\$ 537</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. The Company expects that a majority of its foreign earnings will be repatriated back to 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Effective tax rate	10.5 %	90.0 %	24.0 %	559.3 %

For the three months ended September 30, 2021, the Company recorded a total of \$4 million of net discrete tax benefits, of which \$5 million of tax benefit was related to true-up adjustments to reconcile the Company's 2020 U.S. tax return as completed in the third quarter of 2021 versus the preliminary estimate as booked in its tax provision for the year ended December 31, 2020. In addition, the Company recognized \$1 million of incremental tax benefit related to stock-based compensation vesting. These tax benefits were partially offset by \$2 million of discrete tax expense related to adjustments to the Company's accrual for unrecognized tax benefits in accordance with FIN 48. As a result of these discrete items the Company recorded income tax expense of \$2 million on a pre-tax income of \$19 million for the three months ended September 30, 2021, resulting in an effective income tax rate of 10.5%.

For the nine months ended September 30, 2021, the Company recorded \$7 million of net discrete tax benefits, of which \$5 million of tax benefit was related to the true-up adjustments to reconcile the Company's 2020 U.S. tax return as completed in the third quarter of 2021 versus the preliminary estimate as booked in its tax provision for the year ended December 31, 2020. In addition, the Company recognized \$4 million of incremental tax benefit related to stock-based compensation vesting and \$1 million incremental tax benefit from true-ups to its forecasted marginal annual rate for 2021 based on revised full-year forecasted earnings. These tax benefits were partially offset by \$3 million of discrete tax expense related to adjustments to the Company's accrual for unrecognized tax benefits in accordance with FIN 48. The Company recorded income tax expense of \$36 million on a pre-tax net income of \$150 million for the nine months ended September 30, 2021, resulting in an effective income tax rate of 24.0%.

For the three months ended September 30, 2020, the Company recorded \$9 million of discrete tax benefit, a majority of which related to the adjustment of the marginal tax rate from the second quarter based on revised full-year forecasted earnings. As a result, the Company recorded income tax benefit of \$9 million on a pre-tax net loss of \$10 million for the three months ended September 30, 2020, resulting in an effective income tax rate of 90.0%.

For the nine months ended September 30, 2020, the Company recorded \$122 million of discrete tax benefit. The year to date discrete tax expense of \$29 million recorded for marginal tax rate adjustments based on revised full year forecasted earnings 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 \$151 million on a pre-tax net loss of \$27 million for the nine months ended September 30, 2020, resulting in an effective income tax rate of 559.3%.

The Company estimates its annual effective tax rate for 2021 to be approximately 27%, which takes into consideration, among other things, the forecasted earnings mix by jurisdiction and the impact of discrete tax items to be recognized in 2021. Under U.S. tax law, U.S. shareholders are subject 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 2021.

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 steps down according to the amortization schedule of the term loan. The notional amount of the hedge was \$425 million as of September 30, 2021.

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	
	September 30, 2021	December 31, 2020
Contract notional amount of foreign exchange forward contracts	\$ 80	\$ 90
Net contract notional amount of foreign exchange forward contracts	\$ 46	\$ 29
Contract notional amount of interest rate swap	\$ 425	\$ 456

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

Legal Proceedings. In the ordinary course of business, the Company is subject to proceedings, lawsuits, governmental investigations, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, intellectual property, tax matters and other regulatory compliance and general matters. We are not currently a party to any litigation, nor are we aware of any pending or threatened litigation against us that we believe would materially affect our business, operating results, financial condition or cash flows, other than the following:

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 may seek 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 of SAP's U.S. patents (one of which has since been dismissed from the suit), and the Company is vigorously defending against these counterclaims. On August 31, 2020, the Company filed a second lawsuit against SAP in the U.S. District Court for the Northern District of California. In this lawsuit as it currently stands, Teradata alleges infringement by SAP of four of Teradata's U.S. patents and seeks an injunction barring SAP from further infringement, monetary damages, and other available legal and equitable relief. On February 16, 2021, SAP filed additional patent infringement counterclaims against Teradata based on six additional U.S. patents. On the same day, SAP also filed a lawsuit in Germany for infringement of a single German patent. Currently, it is not possible to determine the likelihood of a loss or a reasonably estimated range of loss, if any, pertaining to any of SAP's patent counterclaims in the United States or its German lawsuit.

Other Contingencies. The Company provides its customers with certain indemnification rights. In general, the Company agrees to indemnify the customer if a third party asserts patent or other infringement on the part of the customer for its use of the Company's 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 September 30, 2021 and December 31, 2020.

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 contract assets and liabilities at September 30, 2021 and December 31, 2020 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 and nine months ended September 30, 2021 and 2020.

The Company's other assets and liabilities measured at fair value on a recurring basis and subject to fair value disclosure requirements at September 30, 2021 and December 31, 2020 were as follows:

In millions	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds at September 30, 2021	\$ 207	\$ 207	\$ —	\$ —
Money market funds at December 31, 2020	\$ 16	\$ 16	\$ —	\$ —
Liabilities				
Interest rate swap at September 30, 2021	\$ 17	\$ —	\$ 17	\$ —
Interest rate swap at December 31, 2020	\$ 27	\$ —	\$ 27	\$ —

10. Debt

In June 2018, Teradata replaced an existing 5 year, \$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 September 30, 2021, the Company had no borrowings outstanding under the Credit Facility, leaving \$400 million in borrowing capacity available under the Credit Facility. The Company was in compliance with all covenants under the Credit Facility as of September 30, 2021.

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 September 30, 2021, the term loan principal outstanding was \$425 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 September 30, 2021, the all-in fixed rate is 4.36%. The Company was in compliance with all covenants under the term loan as of September 30, 2021.

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
In millions, except per share amounts				
Net income (loss) attributable to common stockholders	\$ 17	\$ (1)	\$ 114	\$ 124
Weighted average outstanding shares of common stock	108.9	109.1	108.9	109.3
Dilutive effect of employee stock options, restricted stock and other stock awards	4.5	—	4.2	1.6
Common stock and common stock equivalents	113.4	109.1	113.1	110.9
Net income (loss) per share:				
Basic	\$ 0.16	\$ (0.01)	\$ 1.05	\$ 1.13
Diluted	\$ 0.15	\$ (0.01)	\$ 1.01	\$ 1.12

For the three months ended September 30, 2020, due to the net loss attributable to Teradata common stockholders, potential shares that would cause dilution, such as shares resulting from 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 111.1 million for the three months ended September 30, 2020.

Options to purchase \$0.2 million and \$0.4 million shares of common stock for the three and nine months ended September 30, 2021 and 2.1 million shares of common stock for the three and nine months ended September 30, 2020 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 the Company's 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Segment revenue				
Americas	\$ 249	\$ 261	\$ 786	\$ 764
EMEA	133	115	408	351
APJ	78	78	248	230
Total revenue	460	454	1,442	1,345
Segment gross profit				
Americas	157	165	524	470
EMEA	81	69	249	197
APJ	44	43	142	114
Total segment gross profit	282	277	915	781
Stock-based compensation costs	4	5	12	13
Acquisition, integration, reorganization and transformation-related costs	3	12	11	16
Amortization of capitalized software costs	—	6	—	17
Total gross profit	275	254	892	735
Selling, general and administrative expenses	166	163	476	486
Research and development expenses	79	90	235	246
Income from operations	\$ 30	\$ 1	\$ 181	\$ 3

13. Reorganization and Business Transformation

2020 Workforce Reduction and Real Estate Rationalization Measures

In September 2020, the Company offered a voluntary separation program ("VSP") to certain tenured employees. This global program was generally made available to active employees in good standing who (1) were at least 55 years old as of October 1, 2020 and (2) had at least ten years of service with Teradata. This program was implemented as part of the Company's efforts to improve its cost structure. On November 2, 2020, the Company approved a plan to realign and reduce its workforce and rationalize its real estate footprint. The workforce measures involve involuntary headcount reduction actions. These actions are separate from the VSP. The rationalization of the Company's real estate footprint involves terminating leases relating to certain of the Company's offices globally and transitioning impacted employees to a permanent virtual working environment, co-working space or a smaller facility, depending on business need. The Company is continuing to evaluate and implement additional measures that would be expected to result in further cost savings.

The costs relating to these workforce reduction and real estate rationalization measures include one-time employee separation benefits, transition support, outside services and other exit-related costs. The Company expects that it will incur total costs and charges related to these actions in the range of approximately \$54 to \$58 million, consisting primarily of the following:

- \$13 to \$14 million for employee severance and other employee-related costs, which is separate from the \$28 to \$29 million for costs related to the VSP,
- \$6 to \$7 million charge for facilities lease related costs, and
- \$7 to \$8 million for outside service, legal and other associated costs.

The Company incurred \$13 million of these costs and charges in the first nine months of 2021 and \$42 million in 2020 with the remaining costs and charges expected to be incurred in the fourth quarter of 2021 upon completion of

these actions. Cash expenditures related to these actions are estimated at approximately \$59 to \$63 million. Approximately \$12 to \$13 million of the cash expenditures relate to cash payments to international employees, which are not expected to have a material impact on the Company's Condensed Consolidated Statements of Income due to the Company accounting for its International postemployment benefits under Accounting Standards Codification 712, Compensation - Nonretirement Postemployment Benefits ("ASC 712"), which uses actuarial estimates and defers the immediate recognition of gains or losses.

The Company recognized costs of \$13 million (\$10 million cash and \$3 million non-cash) in the first nine months of 2021 for the VSP, employee separation benefits, facilities lease related costs, outside service, legal and other associated costs. Certain benefits are being expensed over the time period that the employees are required to work to earn them to the extent the required service period extends beyond the nominal period. \$4 million of these costs were recorded to costs of revenue, \$6 million were recorded to selling, general and administrative expenses and \$3 million were recorded to research and development expenses. There was no impact to the segment gross profit.

Cash paid related to the actions described above was \$35 million in the first nine months of 2021 and \$23 million in 2020. Not included in the table below are approximately \$9 million in the first nine months of 2021 and \$2 million in 2020 of cash payments for international employees, which did not have a material impact on the Condensed Consolidated Statements of Income.

The 2021 activity and the reserves related to these workforce reduction and real estate rationalization measures are as follows:

In millions	Balance at December 31, 2020	Expense accruals	Cash payments	Balance at September 30, 2021
VSP	\$ 16	\$ 3	\$ (18)	\$ 1
Employee severance and other employee-related costs	2	4	(5)	1
Facilities lease related costs, outside service, legal and other associated costs	—	3	(3)	—
Total	\$ 18	\$ 10	\$ (26)	\$ 2

In addition, the Company incurred non-cash costs not reflected in the table above of \$1 million in the first nine months of 2021 and \$2 million in 2020 for stock-based compensation for accelerated vesting tied to the VSP and \$2 million in 2021 and 2020 for accelerated amortization of right-of-use assets and fixed assets associated with the termination of leases relating to certain of the Company's offices globally. The remaining lease liability is included in our operating lease obligations as of September 30, 2021 and is not included in the table above.

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, 2020 (the "2020 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 the leading connected multi-cloud data platform for enterprise analytics at scale. Our connected multi-cloud data platform, Teradata Vantage, allows customers to integrate and simplify their multi-cloud data and analytic ecosystems, streamline access and management of their data, and use analytics to derive business value from diverse data types. Our Teradata Vantage platform is designed and built to run across on-premises, private cloud and public cloud environments. This platform is supported by business consulting, support services and partner networks that enable customers to extract insights from across a company's entire data and analytics ecosystem.

Teradata's strategy is based on our differentiated value proposition for the top 10,000 largest organizations in the world. Our strategy is to provide a connected multi-cloud data platform, Teradata Vantage, that supports the needs of enterprises from start to scale. Teradata Vantage is an effective platform for driving business outcomes, with a partnering approach, embracing modern ecosystems and enabling users to build how they want.

We are continuing to execute on our key priorities, including significant product expansion of our Teradata Vantage multi-cloud data platform offering, expanding our footprint with existing customers and adding new customers, driving focus on modern cloud partner ecosystems and driving operational efficiency and agility across the company. Our strategy is further supported by various people initiatives to drive a growth-oriented culture, as well as an increased focus on diversity, equity and inclusiveness, to attract and support high performing, top talent, and diverse teams.

Teradata uses various financial and performance metrics to track its progress and performance, including:

- 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, public cloud and on-premises subscription-based transactions.
- Public Cloud ARR (included within total ARR) - annual contract value for all active and contractually binding term based contracts at the end of a period that are operated in a public cloud environment.
- Cloud Net Expansion Rate - Teradata calculates its last-twelve months dollar-based cloud net expansion rate as of a fiscal quarter end as follows. We identify the ARR for active (revenue generating) cloud customers in the fiscal quarter ending one year prior to the given fiscal quarter (the "base period"). We then identify the cloud ARR in the given fiscal quarter (the "current period") from the same set of active cloud customers as the base period, including increases in usage, as well as reductions and cancellations, and additional conversions of on-premises revenues to the cloud for customers active in the base period, all in constant currency. The quarterly dollar-based, cloud net expansion rate is calculated by taking the ARR from the current period and dividing by the ARR from the base period. The last twelve-month dollar-based cloud net expansion rate is calculated by taking the average of the quarterly dollar-based cloud net expansion rate from the last fiscal quarter and the prior three fiscal quarters.
- Remaining performance obligation ("RPO")/Backlog - the price of firm orders for which work has not been performed or goods have not been delivered and which the Company is contractually required to perform.

COVID-19 Update

See Part I, Item 1A. "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2020 Annual Report for a discussion related to risks and impact of COVID-19 on the Company. 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, particularly in light of the potential

impact of one or more COVID-19 variants. 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 continue to unfold.

Third Quarter Financial Overview

As more fully discussed in later sections of this MD&A, the following were significant financial items for the third quarter of 2021:

- At the end of the third quarter of 2021, ARR was \$1.437 billion, increasing 7% as compared to the third quarter of 2020, including a 1% positive impact from foreign currency translation, as compared to the third quarter of 2020. At the end of third quarter of 2021, Public Cloud ARR was \$148 million, increasing 83% as compared to the third quarter of 2020, including a 1% positive impact from foreign currency fluctuations.
- Total revenue was \$460 million for the third quarter of 2021, a 1% increase compared to the third quarter of 2020, with an underlying 7% increase in recurring revenue. Perpetual software licenses, hardware and other revenue decreased 28%, and consulting services revenue decreased 10%. Foreign currency fluctuations did not have an impact on total revenue for the quarter compared to the prior year.
- Gross margin increased to 59.8% in the third quarter of 2021 from 55.9% in the third quarter of 2020, primarily due to a higher recurring revenue mix as compared to the prior period.
- Operating expenses for the third quarter of 2021 decreased by 3% compared to the third quarter of 2020, primarily due to a lower employee cost base resulting from the workforce reduction measures in 2020 offset by an increase in investments in cloud transformation and variable incentive compensation expense.
- Operating income was \$30 million in the third quarter of 2021, compared to \$1 million in the third quarter of 2020.
- Net income in the third quarter of 2021 was \$17 million, compared to net loss of \$1 million in the third quarter of 2020.
- Cloud Net Expansion Rate for the third quarter of 2021 remains in excess of 130%.
- Total backlog of \$2.524 billion at the end of the third quarter of 2021, down 2% from the third quarter of the prior year.

Results of Operations for the Three Months Ended September 30, 2021
Compared to the Three Months Ended September 30, 2020

Revenue

In millions	2021	% of Revenue	2020	% of Revenue
Recurring	\$ 352	76.5 %	\$ 329	72.5 %
Perpetual software licenses, hardware and other	18	3.9 %	25	5.5 %
Consulting services	90	19.6 %	100	22.0 %
Total revenue	\$ 460	100.0 %	\$ 454	100.0 %

Total revenue increased \$6 million, or 1%, in the third quarter of 2021. Recurring revenue grew 7%, including a 1% positive impact from foreign currency fluctuations. Recurring revenue increased as we continued to build on the higher base and favorable mix of recurring revenue. Additionally, during the quarter there was an approximate net negative \$10 million impact related to upfront recurring revenue from revenue recognized upfront in prior quarters, generally in-line with our expectations. This amount was partially offset by a modest amount of positive renewal or expansion arrangements with upfront recurring revenue impact during the current quarter. For full year 2021, we expect a mid- to high-single digit percentage increase in total ARR growth. Public Cloud ARR is expected to increase by approximately 90% year-over-year, or approximately \$200 million, for full year of 2021 as compared to 2020. Recurring revenue is expected to grow at a high-single-digit to low-double-digit percentage compared to 2020. Taking into consideration the expected growth in recurring revenue, partially offset by anticipated reductions in perpetual software licenses, hardware and other revenue and consulting services revenue, we expect that total revenue will grow at low-single-digit to mid-single-digit percentage in 2021 as compared to 2020.

Revenues from perpetual software licenses, hardware and other were down 28% in the third quarter of 2021, including a 1% positive impact from foreign currency fluctuations, as customers continue to transition to subscription-based offerings, consistent with our overall strategy.

Consulting services revenue decreased 10% in the third quarter of 2021, as we are realigning and focusing our consulting resources on higher-margin engagements, both direct engagement with customers and joint engagement with partners 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 of 2020 in response to COVID-19 as well as delays and/or cancellations of consulting projects due to customers' reduced spending in light of COVID-19.

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 October 29, 2021, Teradata is expecting approximately one to one and half percentage points of positive impact from currency translation on our 2021 full-year total revenues.

Gross Profit

In millions	2021	% of Revenue	2020	% of Revenue
Recurring	\$ 257	73.0 %	\$ 233	70.8 %
Perpetual software licenses, hardware and other	7	38.9 %	12	48.0 %
Consulting services	11	12.2 %	9	9.0 %
Total gross profit	\$ 275	59.8 %	\$ 254	55.9 %

The increase in recurring revenue gross profit as a percentage of revenue was primarily driven by a higher amount of recurring revenue at an improved gross margin rate driven by greater subscription and cloud efficiencies versus prior year, as well as a lower employee cost base resulting from the 2020 reorganization efforts. This was partially offset by the negative impact from upfront revenue arrangements pulled forward from the third quarter into the first half of fiscal 2021.

The decrease in perpetual software licenses, hardware and other gross profit as a percentage of revenue was primarily driven by deal mix.

Consulting services gross profit as a percentage of revenue increased as compared to the prior year primarily due to improved resource mix utilization, increased revenue realization, our continued strategic focus on higher-value projects and higher reorganization costs in the prior period compared to the current period.

Operating Expenses

In millions	2021	% of Revenue	2020	% of Revenue
Selling, general and administrative expenses	\$ 166	36.1 %	\$ 163	35.9 %
Research and development expenses	79	17.3 %	90	19.9 %
Total operating expenses	\$ 245	53.3 %	\$ 253	55.7 %

The selling, general and administrative expense ("SG&A") increase was primarily driven by higher variable incentive tied to performance, higher cloud sales compensation expense, and additional investments in go-to-market operations, partially offset by a combination of lower cost structure and continued cost discipline. The research and development ("R&D") expense decrease was driven by a lower employee cost base resulting from the 2020 reorganization efforts and continued cost discipline, partially offset by increased spend on cloud.

Other Expense, net

In millions	2021	2020
Interest income	\$ 1	\$ 1
Interest expense	(6)	(7)
Other	(6)	(5)
Other expense, net	\$ (11)	\$ (11)

Other expense, net in the third quarter of 2021 and 2020 is comprised primarily of interest expense on long-term debt and finance leases as well as benefit costs on our pension and postemployment plans, partially offset by interest income earned on our cash and cash equivalents.

Provision for Income Taxes

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

The Company expects that a majority of its foreign earnings will be repatriated to the U.S. As a result, the effective tax rates in the periods presented are largely based upon the forecasted pre-tax earnings mix between the U.S. and other foreign taxing jurisdictions where the Company conducts its business. The Company estimates its full-year effective tax rate for 2021 will be approximately 27%, which takes into consideration, among other things, the forecasted earnings mix by jurisdiction and the estimated discrete items to be recognized in 2021. The forecasted tax rate is based on the overseas profits being taxed at an overall effective tax rate of approximately 24%, as compared to the U.S. federal statutory tax rate of 21%.

The effective tax rate for the three months ended September 30, 2021 and 2020 were as follows:

	2021	2020
Effective tax rate	10.5 %	90.0 %

For the three months ended September 30, 2021, the Company recorded a total of \$4 million of net discrete tax benefits, of which \$5 million of tax benefit was related to true-up adjustments to reconcile the Company's 2020 U.S. tax return as completed in the third quarter of 2021 versus the preliminary estimate as booked in its tax provision for the year ended December 31, 2020. In addition, the Company recognized \$1 million of incremental tax benefit related to stock-based compensation vesting. These tax benefits were partially offset by \$2 million of discrete tax expense related to adjustments to the Company's accrual for unrecognized tax benefits in accordance with FIN 48. As a result of these discrete items the Company recorded income tax expense of \$2 million on pre-tax income of \$19 million for the three months ended September 30, 2021, resulting in an effective income tax rate of 10.5%.

For the three months ended September 30, 2020, the Company recorded a net \$9 million discrete tax benefit, a majority of which related to the true-up of the marginal tax rate from the second quarter based on revised full-year forecasted earnings. As a result, the Company recorded income tax benefit of \$9 million on a pre-tax net loss of \$10 million for the three months ended September 30, 2020, resulting in an effective income tax rate of 90.0%.

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 September 30:

In millions	2021	% of Revenue	2020	% of Revenue
Segment revenue				
Americas	\$ 249	54.1 %	\$ 261	57.5 %
EMEA	133	28.9 %	115	25.3 %
APJ	78	17.0 %	78	17.2 %
Total segment revenue	<u>\$ 460</u>	<u>100 %</u>	<u>\$ 454</u>	<u>100 %</u>
Segment gross profit				
Americas	\$ 157	63.1 %	\$ 165	63.2 %
EMEA	81	60.9 %	69	60.0 %
APJ	44	56.4 %	43	55.1 %
Total segment gross profit	<u>\$ 282</u>	<u>61.3 %</u>	<u>\$ 277</u>	<u>61.0 %</u>

Americas

Americas revenue decreased 5% as compared to the prior year. Recurring revenue was up 3% and perpetual and other revenue was down 69% (\$11 million). Consulting revenue decreased 19% as compared to the prior year. Segment gross profit as a percentage of revenues was flat as compared to the third quarter of 2020.

EMEA

EMEA revenue increased 16%, which included a 1% favorable impact from foreign currency fluctuations. The overall increase in revenue included an increase of 14% in recurring revenue, an increase of 100% (\$5 million) in perpetual and other revenue and increase of 6% in consulting revenue. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

APJ

APJ revenue was flat as compared to third quarter of 2020 and included a 2% favorable impact from foreign currency fluctuations. An increase in recurring revenue of 11% was offset by decrease in perpetual and other revenue of 25% (\$1 million) and a decrease in consulting revenue of 15%. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

Results of Operations for the Nine Months Ended September 30, 2021
Compared to the Nine Months Ended September 30, 2020

Revenue

In millions	2021	% of Revenue	2020	% of Revenue
Recurring	\$ 1,100	76.3 %	\$ 963	71.6 %
Perpetual software licenses, hardware and other	58	4.0 %	73	5.4 %
Consulting services	284	19.7 %	309	23.0 %
Total revenue	\$ 1,442	100.0 %	\$ 1,345	100.0 %

Total revenue increased \$97 million, or 7%, in the first nine months of 2021 and included a 2% positive impact from foreign currency fluctuations. Recurring revenue grew 14%, and was positively impacted by a higher base of revenue driven by continued growth in public cloud and subscription ARR during 2020 and continued growth in public cloud and subscription ARR in the first nine months of 2021. Additionally, on-premises customer transactions involving substantive long-term commitments resulted in revenue being recognized on a recurring annual basis rather than a recurring quarterly basis and drove revenue into the first nine months of 2021 from these arrangements versus ratably across four quarters.

Revenues from perpetual software licenses, hardware and other were down 21% in the first nine months of 2021, as customers continue to transition to subscription-based offerings, consistent with our overall strategy.

Consulting services revenue decreased 8% in the first nine months of 2021, including a 3% positive impact from foreign currency fluctuations, as we are realigning and focusing our consulting resources on higher-margin engagements, both direct engagement with customers and joint engagement with partners 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 of 2020 in response to COVID-19 as well as delays and/or cancellations of consulting projects due to customers' reduced spending in light of COVID-19.

Gross Profit

In millions	2021	% of Revenue	2020	% of Revenue
Recurring	\$ 828	75.3 %	\$ 685	71.1 %
Perpetual software licenses, hardware and other	25	43.1 %	27	37.0 %
Consulting services	39	13.7 %	23	7.4 %
Total gross profit	\$ 892	61.9 %	\$ 735	54.6 %

The increase in recurring revenue gross profit as a percentage of revenue was primarily driven by a higher amount of recurring revenue at an improved gross margin rate driven by improved operating efficiencies of our subscription and cloud offerings partially offset by the higher mix shift to cloud. Upfront revenue recognition of certain renewed and expanded customer arrangements, discussed above, also had a positive impact on recurring revenue gross margin.

The increase in perpetual software licenses, hardware and other gross profit as a percentage of revenue was primarily driven by deal mix and opportunities with lower hardware mix as compared to prior year.

Consulting services gross profit as a percentage of revenue increased as compared to the prior year primarily due to improved resource mix utilization as well as increased revenue realization and our continued strategic focus to improve consulting margins by focusing on higher-value projects. 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	2021	% of Revenue	2020	% of Revenue
Selling, general and administrative expenses	\$ 476	33.0 %	\$ 486	36.1 %
Research and development expenses	235	16.3 %	246	18.3 %
Total operating expenses	\$ 711	49.3 %	\$ 732	54.4 %

The SG&A expense decrease was primarily driven by a lower employee cost base resulting from the workforce reduction measures in 2020, lower travel and marketing spend as compared to the prior year pre-pandemic period and continued cost discipline as compared to prior year. This was partially offset by higher variable incentive tied to performance, higher cloud compensation expenses and additional investments in go-to-market operations.

R&D expenses decreased for the first nine months of 2021 as compared to prior year. R&D expenses were impacted by a lower employee cost base resulting from the workforce reduction measures initiated in 2020 and continued cost discipline as compared to the prior year partially offset by an increase in spending focused on accelerating our cloud initiatives as well as higher variable incentive compensation expense.

Other Expense, net

In millions	2021	2020
Interest income	\$ 4	\$ 4
Interest expense	(20)	(21)
Other	(15)	(13)
Other expense, net	\$ (31)	\$ (30)

Other expense, net in the first nine months of 2021 and 2020 is comprised primarily of interest expense on long-term debt and finance leases as well as benefit costs associated with our pension and postemployment plans, partially offset by interest income earned on our cash and cash equivalents.

Provision for Income Taxes

The effective tax rate for the nine months ended September 30, 2021 and 2020 were as follows:

	2021	2020
Effective tax rate	24.0 %	559.3 %

For the nine months ended September 30, 2021, the Company recorded \$7 million of net discrete tax benefits, of which \$5 million of tax benefit was related to the true-up adjustments to reconcile the Company's 2020 U.S. tax return as completed in the third quarter of 2021 versus the preliminary estimate as booked in its tax provision for the year ended December 31, 2020. In addition, the Company recognized \$4 million of incremental tax benefit related to stock-based compensation vesting and \$1 million incremental tax benefit from true-ups to its forecasted marginal annual rate for 2021 based on revised full-year forecasted earnings. These tax benefits were partially offset by \$3 million of discrete tax expense related to adjustments to the Company's accrual for unrecognized tax benefits in accordance with FIN 48. The Company recorded income tax expense of \$36 million on a pre-tax net income of \$150 million for the nine months ended September 30, 2021, resulting in an effective income tax rate of 24.0%.

For the nine months ended September 30, 2020, the Company recorded \$122 million of discrete tax benefit. The year to date discrete tax expense of \$29 million recorded for marginal tax rate adjustments based on revised full year forecasted earnings 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. As a result, the Company recorded income tax benefit of \$151 million on a pre-tax loss of \$27 million for the nine months ended September 30, 2020, resulting in an effective income tax rate of 559.3%.

Revenue and Gross Profit by Operating Segment

The following table presents segment revenue and segment gross profit for the Company for the Nine Months Ended September 30:

In millions	2021	% of Revenue	2020	% of Revenue
Segment revenue				
Americas	\$ 786	54.5 %	\$ 764	56.8 %
EMEA	408	28.3 %	351	26.1 %
APJ	248	17.2 %	230	17.1 %
Total segment revenue	<u>\$ 1,442</u>	<u>100.0 %</u>	<u>\$ 1,345</u>	<u>100.0 %</u>
Segment gross profit				
Americas	\$ 524	66.7 %	\$ 470	61.5 %
EMEA	249	61.0 %	197	56.1 %
APJ	142	57.3 %	114	49.6 %
Total segment gross profit	<u>\$ 915</u>	<u>63.5 %</u>	<u>\$ 781</u>	<u>58.1 %</u>

Americas

Americas revenue increased 3% as compared to the prior year. Recurring revenue was up 10% and perpetual software licenses, hardware and other revenue was down 56%. Consulting revenue decreased 13% as compared to the prior year. Segment gross profit as a percentage of revenues was higher primarily due to an overall higher mix of recurring revenue.

EMEA

EMEA revenue increased 16%, which included a 4% favorable impact from foreign currency fluctuations. The overall increase in revenue included an increase of 22% in recurring revenue, 15% increase in perpetual software licenses, hardware and other revenue and 3% increase in consulting revenue. Segment gross profit as a percentage of revenues was higher primarily due to a higher mix of recurring revenue.

APJ

APJ revenue increased 8%, which included a 6% favorable impact from foreign currency fluctuations. An increase in recurring revenue of 22% and perpetual software licenses, hardware and other revenue increase of 9% was partially offset by a decrease in consulting revenue of 14%. 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 was \$368 million, which increased by \$157 million in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase in cash provided by operating activities was primarily due to increased net income (net of non-cash items such as depreciation and amortization, stock-based compensation expense and deferred income taxes), improved cash collections and favorable working capital dynamics. Teradata used approximately \$36 million of cash in the first nine months of 2021 for reorganizing and restructuring its operations and go-to-market functions to align to its strategy, as compared to \$32 million in the first nine months of 2020.

Teradata's management uses a financial 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 investing activities related to 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 net cash used in investing activities related to capital expenditures, along with free cash flow, for the following periods:

In millions	Nine Months Ended September 30, 2021	
	2021	2020
Net cash provided by operating activities	\$ 368	\$ 211
Less:		
Expenditures for property and equipment	(19)	(34)
Additions to capitalized software	(2)	(6)
Free cash flow	\$ 347	\$ 171

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 nine months ended September 30, 2021 and 2020.

Teradata's financing activities for the nine months ended September 30, 2021 and 2020 primarily consisted of cash outflows for share repurchases and payments on the Company's finance leases and long-term debt. At September 30, 2021, the Company had no outstanding borrowings on its \$400 million revolving credit facility entered into in June 2018 (the "Credit Facility"). The Company repurchased approximately 4.5 million shares of its common stock at an average price per share of \$39.67 in the nine months ended September 30, 2021, and 3.7 million shares at an average price per share of \$20.52 in the nine months ended September 30, 2020 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 September 30, 2021, the Company had \$275 million of authorization remaining under this program to repurchase outstanding shares of Teradata common stock.

On November 1, 2021 Teradata's Board of Directors authorized an additional \$1 billion to be utilized to repurchase Teradata common stock under this share repurchase program. The Company now has a total of \$1.3 billion authorized for share repurchases under this share repurchase program. The stock may be repurchased periodically on an ongoing basis in open market transactions, through 10b5-1 programs, through accelerated share repurchase programs, in privately negotiated transactions, or through the use of derivative instruments, in accordance with applicable securities rules regarding issuer repurchases. The increased share repurchase authorization is effective immediately and the program expires on December 31, 2025. Share repurchases made by the Company are reported on a trade date basis. Our share repurchase activity depends on factors such as our working capital needs, our cash requirements for capital investments, our stock price, and economic and market conditions.

Proceeds from the ESPP and the exercise of stock options, net of tax, were \$24 million for the nine months ended September 30, 2021 and \$7 million for the nine months ended September 30, 2020. 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 \$445 million as of September 30, 2021 and \$342 million as of December 31, 2020. The remaining balance held in the United States was \$172 million as of September 30, 2021 and \$191 million as of December 31, 2020. The Company considers a majority of its foreign earnings will be repatriated to the United States. 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 2020 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 2020 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 2020 Annual Report. Our commitments and contingencies 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 as of September 30, 2021 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.

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 2020 Annual Report. Teradata's senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies in the nine months ended September 30, 2021.

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 2020 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, as amended (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 September 30, 2021, 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 September 30, 2021 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.

The information required to be set forth under this Part II, Item 1 is incorporated by reference to Note 8, Commitments and Contingencies—Legal Proceedings of the Notes to Condensed Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

There have not been any material changes to the risk factors previously disclosed in Part I, Item 1A of the 2020 Annual Report, as updated by Part II, Item 1A in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021.

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 tax obligations. For the nine months ended September 30, 2021, the total of these purchases was 367,338 shares at an average price of \$41.11 per share.

The following table provides information relating to the Company's share repurchase programs for the nine months ended September 30, 2021:

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
January 2021	1,131,893	\$ 25.18	54,817	1,077,076	\$ 799,586	\$ 389,254,180
February 2021	318,878	\$ 31.49	100,000	218,878	\$ 15,944,217	\$ 383,254,259
March 2021	1,137,133	\$ 41.08	377,814	759,319	\$ 3,379,199	\$ 351,832,159
First Quarter Total	2,587,904	\$ 32.94	532,631	2,055,273	\$ 3,379,199	\$ 351,832,159
April 2021	488,434	\$ 42.99	94,986	393,448	\$ 1,767,405	\$ 334,833,096
May 2021	358,859	\$ 41.89	30,979	327,880	\$ 1,954,604	\$ 321,236,126
June 2021	—	\$ —	—	—	\$ 4,074,322	\$ 321,236,126
Second Quarter Total	847,293	\$ 42.52	125,965	721,328	\$ 4,074,322	\$ 321,236,126
July 2021	—	—	—	—	5,786,645	321,236,126
August 2021	447,943	53.08	113,660	334,283	4,906,607	303,404,671
September 2021	636,177	53.76	104,761	531,416	1,410,950	275,145,619
Third Quarter Total	1,084,120	\$ 53.48	218,421	865,699	\$ 1,410,950	\$ 275,145,619

(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 November 1, 2021 Teradata's Board of Directors authorized an additional \$1 billion to be utilized to repurchase Teradata common stock under this share repurchase program. The Company now has a total of \$1.3 billion authorized for share repurchases under this share repurchase program. The general share repurchase program expires on December 31, 2025.

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>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>Separation Letter between Mark Culhane and the Company executed on September 11, 2021.</u>
<u>10.2*</u>	<u>Release of Claims between Mark Culhane and the Company executed on September 11, 2021.</u>
<u>31.1</u>	<u>Certification pursuant to Rule 13a-14(a), dated November 5, 2021.</u>
<u>31.2</u>	<u>Certification pursuant to Rule 13a-14(a), dated November 5, 2021.</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 November 5, 2021.</u>
101	Inline interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Income (Loss) for the three and nine months period ended September 30, 2021 and 2020, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months period ended September 30, 2021 and 2020, (iii) the Condensed Consolidated Balance Sheets at September 30, 2021 and December 31, 2020, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months period ended September 30, 2021 and 2020, (v) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months period ended September 30, 2021 and 2020 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: November 5, 2021

By: /s/ Claire Bramley
Claire Bramley
Chief Financial Officer



August 17, 2021

Mark Culhane
90 McCormick Lane
Atherton, CA 94027

Dear Mark:

Your employment with Teradata Corporation ("Teradata" or the "Company") terminated effective as of June 30, 2021. As a participant in the Teradata Executive Severance Plan ("Plan"), you are entitled to the following severance benefits under Section 4(b) of the Plan, conditioned upon your timely execution and non-revocation of the attached separation agreement and release ("Release"):

- Salary and target annual bonus continuation for 12-months, for a total of \$1,020,000 less required withholdings and deductions ("Severance Pay"), which will be paid in equal installments over the 12-month period following the effective date of the Release;
- Continued eligibility for a pro-rated incentive bonus for the year of termination, payable following the determination of Teradata's actual financial performance, and subject to the terms and conditions of the Company's Management Incentive Plan. The bonus will be paid on the same schedule as these bonuses are paid to other eligible participants, and will be subject to required withholdings and deductions;
- The Company will contribute towards your COBRA premiums the portion of the premiums currently paid by the Company for your medical, dental and/or vision benefits for up to 12-months from the date of your termination of employment (you must apply for COBRA benefits, Teradata cannot do so on your behalf);
- Outplacement services for 12-months from the date of termination of your employment; and
- Pro-rata vesting of your outstanding service-based restricted share units ("RSU") and performance-based restricted share unit ("PBRSU") awards, plus one additional year of vesting of your outstanding service-based RSUs. Your RSUs that are scheduled to vest under the Plan in connection with your termination will be distributed to your Fidelity account shortly after the effective date of the Release. In the case of your PBRsUs for which the applicable performance period has not been completed as of your termination date, shares will be distributed subject to actual achievement of the applicable performance goals, as determined by the Compensation Committee of the Board after the end of the applicable performance period.

If you have any questions about your equity awards, please contact Fidelity Stock Plan Services on 1-800-429-2363.

In addition, as agreed between you and Teradata and in connection with the termination of your employment, and conditioned upon your timely execution and non-revocation of the Release, Teradata will pay you the sum of \$35,525 (the 'Additional Amount'), which represents the aggregate amount of your rent of \$5,000/month plus associated payments of an additional \$75/month from July 1, 2021 through the end of the lease term (i.e., through January 31, 2022) under your outstanding condominium lease in the San Diego, California area that was part of your commuting benefits while employed by the Company. The Company will pay you the Additional Amount within 10 business days following the date upon which the Release is effective.

Also, as per your Grant Agreement dated March 1, 2020, the 70,206 outstanding service-based restricted share units ("RSU") received on March 1, 2020, for retention purposes, have been fully vested and delivered to you, less required withholdings.

Your right to receive any severance benefits under the Plan is subject to all the terms and conditions of the Plan, and the description of Plan benefits above is a summary and does not modify the terms of the Plan (except for the timing of your Severance Pay, as set forth above).

Mark, should you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Kathy Cullen-Cote
Kathy Cullen-Cote
Chief Human Resources Officer

Accepted and acknowledged by:

/s/ Mark Culhane 9/11/21
Mark Culhane Date

RELEASE OF CLAIMS

My employment with Teradata Corporation ("Teradata" or the "Company") terminated effective as of June 30, 2021. In exchange for the severance benefits provided under Section 4(b) of the Teradata Executive Severance Plan (the "Plan"), which shall be provided upon the terms, and subject to the conditions, of the Plan, including, but not limited to, my compliance with Section 7 of the Plan, along with payment of the sum of \$35,525 as provided in the letter agreement between me and the Company dated August 17, 2021, I, Mark Culhane, acknowledge and agree to the following:

1. I may sign and submit this Release of Claims ("Release") at any time on or before 11:59pm Pacific Time on September 13, 2021.
2. I understand this Release does not constitute an admission by Teradata of any liability, violation of any federal or state laws, or any other civil wrong.
3. I may revoke this Release during the seven days after I sign it by delivering written notice to Teradata in accordance with Section 15 of the Plan no later than the close of business on the seventh day after signature. This Release will not become effective or enforceable until the expiration of that seven-day period. I understand that my severance benefits will be processed after the expiration of the seven-day period.
4. I release and discharge Teradata, its affiliates, successors, and each of their fiduciaries, stockholders, directors, officers, agents, and employees ("Released Parties"), from all claims, causes of action, suits, damages, rights to monetary or equitable relief, known or unknown, including access to Teradata's internal dispute resolution process, for anything occurring up to and including the date on which I sign this Release. Without limiting the prior sentence, this release covers all claims I have, have ever had, or may now have, or related in any way to my employment or the end of my employment with Teradata, including but not limited to: (a) any and all statutory claims, including claims under the Age Discrimination in Employment Act, as amended ("ADEA"), Title VII of the Civil Rights Act of 1964, the federal Equal Pay Act, the federal Family and Medical Leave Act, the Employee Retirement Income Security Act ("ERISA"), the California Fair Housing and Employment Act, the California Family Rights Act, the California Labor Code, the California Equal Pay Act, and any other federal, state, local, or foreign law (statutory, regulatory, or otherwise) that may be legally waived and released; (2) any claim of wrongful discharge, discrimination, harassment, retaliation, breach of implied or express promises, defamation, invasion of privacy, intentional or negligent infliction of emotional distress, tortious interference with contract or prospective business advantage, breach of the covenant of good faith and fair dealing, promissory estoppel, and detrimental reliance; (3) all claims for lost or unpaid wages, overtime, bonuses, commissions, incentive compensation, equity, vacation, sick leave, or statutory penalties; and (4) any claims of coverage under any of Teradata's commercial automobile liability insurance policies.

In granting the release herein, which includes all claims that I do not know or suspect to exist in my favor, I acknowledge that I have read, understand, and expressly waive Section 1542 of the California Civil Code, which provides:

“A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.”

I expressly agree to waive any rights or benefits conferred by Section 1542 and by any law of any state or territory of the United States or principal of common law pursuant to, or which is similar, comparable or equivalent to, Section 1542.

Without limiting the foregoing Paragraphs, I understand that this Release specifically releases and waives any claims of age discrimination, known or unknown, that I may have against the Released Parties as of the date I sign this Release. This Release specifically includes a waiver of rights and claims under the ADEA and the Older Workers Benefit Protection Act. I acknowledge that, as of the date I sign this Release, I may have certain rights or claims under the ADEA, and I voluntarily relinquish any such rights or claims by signing this Release.

5. All payments under the Plan are intended to comply with Section 409A of the Internal Revenue Code, as amended (“Section 409A”), or any exemption under Section 409A. In no event shall Teradata be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by me on account of non-compliance with Section 409A.
6. **Teradata advises me to consult with an attorney prior to signing this Release. By signing this Release, I understand I am giving up and waiving legal rights. I have either freely chosen not to consult with an attorney or I have decided to sign after discussing this Release with my attorney.**
7. This Release does not prevent me from responding accurately and fully to any question, inquiry or request for information when required by legal process, or disclosing information to regulatory bodies. Further, nothing contained in this Release limits my ability to file a charge or complaint with any federal, state or local governmental agency or commission (a “Government Agency”). In addition, nothing in this Release or any other Company agreement, policy, practice, procedure, directive or instruction shall prohibit me from reporting possible violations of federal, state or local laws or regulations to any Government Agency or making other disclosures that are protected under the whistleblower provisions of federal, state or local laws or regulations. I understand that I do not need prior authorization of any kind to make any such reports or disclosures, and that I am not required to notify the Company that I have made such reports or disclosures. However, if I file any charge or complaint with any Government Agency, and if the

Government Agency pursues any claim on my behalf, or if any other third party pursues any claim on my behalf, I hereby waive any right to monetary or other individualized relief (either individually, or as part of any collective or class action) that arises out of alleged facts or circumstances on or before the effective date of this Release; provided that nothing in this Release limits any right I may have to receive a whistleblower award or bounty for information provided to the Securities and Exchange Commission or other Government Agency.

8. As used in this Release, "Teradata" includes its parents, subsidiaries, affiliates, divisions, past and present directors, officers, agents and employees.
9. This Release and the Plan represent the entire agreement between me and Teradata relating to the end of my employment and, with the exception of any agreements relating to arbitration of employment-related disputes, or trade secrets and preserving the confidentiality of Teradata information, supersedes all prior written or oral understandings, statements or agreements.

I have read this Release and I understand its terms. I enter into and sign this Release knowingly, voluntarily, and with full knowledge of its contents.

/s/ Mark Culhane	XXXXXXXXXX	XXXXXXXXXXXXXXXXXX	9/11/21
Signature of Associate	Social Security Number	Non-Teradata E-mail Address	Date
Mark Culhane	XXXXXXXXXX	XXXXXXXXXXXXXXXXXX	
Associate Name (Printed)	Associate Global ID	Non-Teradata Telephone Number	

Human Resources Acknowledgment of Receipt:

/s/ Traci Mazakas-Corp	VP, Total Rewards	9/12/21
Human Resources Representative	Title	Date

NOTE: The original document, when signed by both employee and Human Resources Representative, should be returned to the Teradata HR Service Center, for inclusion in the employee's Personnel File.

**Teradata HR Service Center
17095 Via Del Campo
San Diego, California 92127**

**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 : November 5, 2021

/s/ Stephen McMillan

Stephen McMillan

President and Chief Executive Officer

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

I, Claire Bramley, 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 : November 5, 2021

/s/ Claire Bramley

Claire Bramley

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 September 30, 2021 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:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (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: November 5, 2021

/s/ Stephen McMillan

Stephen McMillan

President and Chief Executive Officer

Date: November 5, 2021

/s/ Claire Bramley

Claire Bramley

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.