

TERADATA CORP /DE/
Form 10-Q
August 14, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from _____ to _____

Commission File Number 001-33458

TERADATA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

2835 Miami Village Dr.

Miamisburg, Ohio 45342

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (937) 242-4800

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

At July 31, 2008, the registrant has approximately 178.5 million shares of common stock outstanding.

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Table of Contents**Part 1. Financial Information****Item 1. FINANCIAL STATEMENTS
Teradata Corporation****Condensed Consolidated Statements of Income (Unaudited)**

In millions, except per share amounts	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007*
Revenue				
Product revenue	\$ 221	\$ 220	\$ 386	\$ 412
Service revenue	234	210	444	385
Total revenue	455	430	830	797
Operating expenses				
Cost of products	75	77	135	145
Cost of services	131	123	252	226
Selling, general and administrative expenses	132	112	248	211
Research and development expenses	25	30	50	57
Total operating expenses	363	342	685	639
Income from operations	92	88	145	158
Interest and other income, net	2		5	
Income before income taxes	94	88	150	158
Income tax expense	25	39	39	66
Net income	\$ 69	\$ 49	\$ 111	\$ 92
Net income per common share				
Basic	\$ 0.38	\$ 0.27	\$ 0.62	\$ 0.51
Diluted	\$ 0.38	\$ 0.27	\$ 0.61	\$ 0.51
Weighted average common shares outstanding				
Basic	179.3	180.7	179.9	180.7
Diluted	181.2	180.7	181.8	180.7

* The results for the six months ended June 30, 2007 have been revised as described under **Revision of Prior Period Financial Statements** in Note 1.

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents**Teradata Corporation****Condensed Consolidated Balance Sheets (Unaudited)**

In millions, except per share amounts	June 30, 2008	December 31, 2007
Assets		
Current Assets		
Cash and cash equivalents	\$ 317	\$ 270
Short-term investments	50	
Accounts receivable, net	445	507
Inventories, net	42	51
Other current assets	55	45
Total current assets	909	873
Property and equipment, net	94	94
Capitalized software, net	74	61
Goodwill	106	90
Deferred income taxes	130	140
Other assets	39	36
Total assets	\$ 1,352	\$ 1,294
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 94	\$ 120
Payroll and benefits liabilities	84	91
Deferred revenue	283	246
Other current liabilities	101	115
Total current liabilities	562	572
Pension and other postemployment plan liabilities	92	88
Other liabilities	7	3
Total liabilities	661	663
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at June 30, 2008 and December 31, 2007		
Common stock: par value \$0.01 per share, 500.0 shares authorized, 179.8 and 181.0 shares issued at June 30, 2008 and December 31, 2007, respectively	2	2
Paid-in capital	537	555
Treasury stock: 1.4 and no shares at June 30, 2008 and December 31, 2007, respectively	(34)	
Retained earnings	190	79
Accumulated other comprehensive loss	(4)	(5)
Total stockholders' equity	691	631
Total liabilities and stockholders' equity	\$ 1,352	\$ 1,294

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents**Teradata Corporation****Condensed Consolidated Statements of Cash Flows (Unaudited)**

In millions	Six Months Ended June 30,	
	2008	2007*
Operating activities		
Net income	\$ 111	\$ 92
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33	33
Stock-based compensation expense	10	7
Excess tax benefit from stock-based compensation	(1)	
Deferred income taxes	16	29
Changes in assets and liabilities:		
Receivables	76	1
Inventories	9	4
Current payables and accrued expenses	(38)	(17)
Deferred revenue	43	51
Other assets and liabilities	(31)	(5)
Net cash provided by operating activities	228	195
Investing activities		
Purchases of short-term investments	(50)	
Expenditures for property and equipment	(11)	(15)
Additions to capitalized software	(34)	(31)
Other investing activities and business acquisition, net	(22)	(5)
Net cash used in investing activities	(117)	(51)
Financing activities		
Repurchases of common stock	(72)	
Excess tax benefit from stock-based compensation	1	
Transfer to parent, net		(144)
Other financing activities, net	4	
Net cash used in financing activities	(67)	(144)
Effect of exchange rate changes on cash and cash equivalents	3	
Increase in cash and cash equivalents	47	
Cash and cash equivalents at beginning of period	270	
Cash and cash equivalents at end of period	\$ 317	\$

* The results for the six months ended June 30, 2007 have been revised as described under Revision of Prior Period Financial Statements in Note 1.

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

These statements have been prepared pursuant to the rules and regulations of the U.S. 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, and the revision discussed below, 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 2007 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 combined and 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, 2007 (the 2007 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.

On August 27, 2007, the Board of Directors of NCR Corporation (NCR), the Company 's former parent, approved the separation of NCR into two independent, publicly-traded companies through the distribution of 100% of its Teradata data warehousing business to shareholders of NCR (the Separation). The Condensed Consolidated Financial Statements (Unaudited) reflect the consolidated operations of Teradata and its subsidiaries as a separate, stand-alone entity subsequent to the spin off from NCR on September 30, 2007, in addition to the historical operations of the Teradata data warehousing business which were operated as part of NCR prior to the Separation.

Management believes the assumptions underlying the Condensed Consolidated Financial Statements (Unaudited) for these periods are reasonable. However, the Condensed Consolidated Financial Statements (Unaudited) included herein for periods prior to September 30, 2007, do not necessarily reflect what the Teradata data warehousing business 's results of operations, financial position and cash flows would have been had the Teradata data warehousing business been a stand-alone company during those periods.

Prior to the second quarter of 2008, stock repurchased through the share repurchase programs was retired. Beginning in the second quarter of 2008, stock repurchased through the share repurchase programs is held as treasury stock. Teradata accounts for treasury stock using the cost method, recording the repurchases as a reduction to stockholders ' equity on the balance sheet.

Revision of Prior Period Financial Statements

As discussed in the Company 's 2007 Annual Report, during the fourth quarter of 2007 the Company identified an error related to a sales transaction that was originally recognized in the fourth quarter of 2006. Upon subsequent review, management determined that the transaction, which was made through a reseller, did not meet the conditions for revenue recognition until the first quarter of 2007 when the products were delivered and accepted by the end-user customer. The impact of this error was an overstatement of revenue and net income in the three- and twelve-month periods ended December 31, 2006, and an understatement of revenue and net income in the three-month period ended March 31, 2007. The Company assessed the materiality of this error on the three- and twelve-month periods ended December 31, 2006, in accordance with the SEC 's Staff Accounting Bulletin No. 99 (SAB 99) and concluded that the error was not material to either period. However, the Company did conclude that the error was material to the three-month period ended March 31, 2007, as it understated results for that period. Therefore, in accordance with the SEC 's Staff Accounting Bulletin No. 108 (SAB 108), the 2006 financial statements were revised in the 2007 Annual Report to correct for the immaterial error and to allow for the correct recording of this transaction in the 2007 consolidated financial statements. The correction has been reflected in these interim financial

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statements for the six month period ended June 30, 2007 and resulted in a \$13 million increase in product revenue, a \$3 million increase in cost of products and a \$4 million increase to income tax expense, resulting in a \$6 million increase in net income (\$0.04 per basic and diluted share).

Reclassifications. Certain prior-year amounts have been reclassified to conform to the 2008 presentation.

2. NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 157. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157 (SFAS 157), *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 is effective for financial assets and financial liabilities measured at fair value on a recurring basis for fiscal years beginning after November 15, 2007. FASB Staff Position No. FAS 157-2 (FSP 157-2), *Effective Date of FASB Statement No. 157*, deferred the effective date of SFAS 157 for all non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. Refer to Note 10, for additional information related to the adoption of SFAS 157. The adoption of SFAS 157 did not have a material effect on the Condensed Consolidated Financial Statements for fair value measurements made during the first two quarters of 2008. The Company does not expect the adoption of this Statement for non-financial assets and liabilities to have a material impact on its consolidated financial statements in subsequent reporting periods.

Statement of Financial Accounting Standards No. 159. In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option may generally be elected on an instrument-by-instrument basis, subject to a few exceptions. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. The implementation of this standard did not have a material impact on the Company's consolidated financial position and results of operations as the Company did not elect to record any additional assets or liabilities under the fair value option.

Statement of Financial Accounting Standards No. 141 (revised 2007). In December 2007, the FASB issued SFAS No. 141(revised 2007) (SFAS 141R), *Business Combinations*. This Statement changes the accounting for acquisition transaction costs by requiring them to be expensed in the period incurred, and also changes the accounting for contingent consideration, acquired contingencies and restructuring costs related to an acquisition. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008. The Company does not expect that the adoption will have a material impact on its financial condition and results of operations, although its effects on future periods will depend on the nature and significance of business combinations subject to this statement.

Statement of Financial Accounting Standards No. 160. In December 2007, the FASB issued SFAS No. 160 (SFAS 160), *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. This Statement will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not expect that this statement will have a material effect on its financial condition and results of operations.

Statement of Financial Accounting Standards No. 161. In March 2008, the FASB issued SFAS No. 161 (SFAS 161), *Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133*. This Statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company does not believe that adopting SFAS 161 will have a material impact on the presentation of its annual and interim period disclosures.

Table of Contents**3. SUPPLEMENTAL FINANCIAL INFORMATION**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
				As
				Revised
In millions				
Comprehensive Income				
Net income	\$ 69	\$ 49	\$ 111	\$ 92
Other comprehensive income, net of tax:				
Amortization of costs associated with pension and postemployment benefits			1	
Currency translation adjustments	(1)	1		2
Total comprehensive income	\$ 68	\$ 50	\$ 112	\$ 94
		&n		