

# Red Hat Reports Third Quarter Results

DEC 22, 2009

*Revenue of \$194 million, up 18% year-over-year*

*Subscription Revenue of \$164 million, up 21% year-over-year*

*Deferred Revenue of \$619 million, up 23% year-over-year*

*Repurchased \$52.3 million, or 1.9 million shares, of common stock*

RALEIGH, N.C., Dec 22, 2009 (BUSINESS WIRE) -- Red Hat (NYSE: RHT), the world's leading provider of open source solutions, today announced financial results for its fiscal year 2010 third quarter ended November 30, 2009.

Total revenue for the quarter was \$194.3 million, an increase of 18% from the year ago quarter. Subscription revenue for the quarter was \$164.4 million, up 21% year-over-year.

"Continued solid execution drove another quarter of strong results for Red Hat. Our double digit growth in the current economic environment was driven by our compelling value proposition and outstanding service. Our customer focus has clearly differentiated us from the competition. Red Hat was recently ranked as #1 among software vendors by IT executives for the fifth time in six years in the Ziff Davis CIO Insight Study, with the highest marks for reliability and value," stated Jim Whitehurst, President and Chief Executive Officer of Red Hat. "We also continued to introduce new products, including the November release of RHEV that advances our position in server virtualization and cloud computing. RHEV provides customers the choice of a high-value, low cost, open management solution that was not previously available in the \$2 billion virtualization market."

GAAP operating income for the quarter was \$19.8 million, including a previously announced charge of \$8.8 million for a litigation settlement, compared to \$21.0 million in the year ago quarter. After adjusting for stock compensation, amortization expenses and the charge for the litigation settlement as detailed in the tables below, non-GAAP operating income for the quarter was \$46.1 million, up 20% year-over-year. GAAP operating margin was 10.2%. Non-GAAP operating margin was 23.7%, up 50 basis points from the year ago quarter.

GAAP net income for the quarter was \$16.4 million, or \$0.08 per diluted share, compared with \$24.3 million, or \$0.12 per diluted share, in the year ago quarter. The current quarter GAAP net income was reduced by \$0.03 per diluted share due to the charge for the litigation settlement. Non-GAAP adjusted net income for the quarter was \$33.5 million, or \$0.17 per diluted share, after adjusting for stock compensation, amortization expenses and the charge for the litigation settlement as detailed in the tables below, as compared to \$36.9 million, or \$0.18 per diluted share, in the year ago quarter.

Operating cash flow totaled \$54.1 million, compared to \$59.1 million from the year ago quarter. Due to record billings, accounts receivable increased \$24 million compared to last year even as days sales outstanding (DSO) improved to 54 days compared to 59 days last year. At November 30, the company's total deferred revenue balance was \$618.7 million, an increase of 23% on a year-over-year basis. Total cash, cash equivalents and investments as of November 30, 2009 were \$959.1 million after repurchasing \$52.3 million, or 1.9 million shares, of common stock.

"Strong bookings, particularly in North America, led to strong billings and greater than 20% growth in subscription revenue and deferred revenue, as well as further improvement of non-GAAP operating margins," stated Charlie Peters, Executive Vice President and Chief Financial Officer of Red Hat. "This type of consistent performance, combined with our strong balance sheet, led to our third debt rating upgrade in 20 months by Standard and Poors rating agency."

Additional information on Red Hat's reported results, including a reconciliation of the non-GAAP adjusted results, are included in the financial tables below. A live webcast of Red Hat's results will begin at 5:00 pm ET today and can be accessed by the general public at Red Hat's investor relations website at <http://investors.redhat.com>. A replay of the webcast will be available shortly after the live event has ended.

About Red Hat, Inc.

Red Hat, the world's leading provider of open source solutions and a component of the S&P 500, is headquartered in Raleigh, NC with over 65 offices spanning the globe. CIOs ranked Red Hat as one of the top vendors delivering value in Enterprise Software for six consecutive years in the CIO Insight Magazine Vendor Value survey. Red Hat provides high-quality, affordable technology with its operating system platform, Red Hat Enterprise Linux, together with virtualization, applications, management and Services Oriented Architecture (SOA) solutions, including Red Hat Enterprise Virtualization and JBoss Enterprise Middleware. Red Hat also offers support, training and consulting services to its customers worldwide. Learn more: <http://www.redhat.com>.

Forward-Looking Statements

Certain statements contained in this press release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including: risks related to delays or reductions in information technology spending, uncertainty and adverse results in litigation and related settlements, the integration of acquisitions and the ability to market successfully acquired technologies and products; the ability of the Company to effectively compete; the inability to adequately protect Company intellectual property and the potential for infringement or breach of license claims

of or relating to third party intellectual property; the ability to deliver and stimulate demand for new products and technological innovations on a timely basis; risks related to data and information security vulnerabilities; ineffective management of, and control over, the Company's growth and international operations; fluctuations in exchange rates; and changes in and a dependence on key personnel, as well as other factors contained in our most recent Quarterly Report on Form 10-Q (copies of which may be accessed through the Securities and Exchange Commission's website at <http://www.sec.gov>), including those found therein under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". In addition to these factors, actual future performance, outcomes, and results may differ materially because of more general factors including (without limitation) general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes. The forward-looking statements included in this press release represent the Company's views as of the date of this press release and these views could change. However, while the Company may elect to update these forward-looking statements at some point in the future, the Company specifically disclaims any obligation to do so. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of the press release.

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RED HAT, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands - except per share amounts)

|   | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | November 30, 2009  | November 30, 2008 | November 30, 2009 | November 30, 2008 |
| <b>Revenue:</b>   |                    |                   |                   |                   |
| Subscriptions   | \$ 164,432         | \$ 135,451        | \$ 469,496        | \$ 401,854        |
| Training and services   | 29,914             | 29,881            | 82,872            | 84,497            |
| Total subscription, training and services revenue                           | 194,346            | 165,332           | 552,368           | 486,351           |
| <b>Cost of revenue:</b>   |                    |                   |                   |                   |
| Subscriptions   | 11,010             | 8,771             | 32,033            | 27,448            |
| Training and services   | 18,588             | 17,765            | 52,474            | 53,025            |
| Total cost of subscription, training and services revenue                   | 29,598             | 26,536            | 84,507            | 80,473            |
| Total gross profit  | 164,748            | 138,796           | 467,861           | 405,878           |
| <b>Operating expense:</b>   |                    |                   |                   |                   |
| Sales and marketing   | 71,498             | 58,514            | 202,242           | 177,350           |
| Research and development  | 38,605             | 34,544            | 110,068           | 95,184            |
| General and administrative  | 26,102             | 24,768            | 74,411            | 71,060            |
| Litigation Settlement   | 8,750              | -                 | 8,750             | -                 |
| Total operating expense   | 144,955            | 117,826           | 395,471           | 343,594           |
| Income from operations  | 19,793             | 20,970            | 72,390            | 62,284            |
| Interest income   | 2,206              | 9,294             | 8,161             | 30,568            |
| Other income (expense), net   | 3,295              | 4,501             | 6,580             | 8,025             |
| Interest expense  | (42)               | (1,249)           | (138)             | (4,365)           |
| Income before provision for income taxes                                    | 25,252             | 33,516            | 86,993            | 96,512            |
| Provision for income taxes  | 8,838              | 9,211             | 23,128            | 33,779            |
| Net income  | \$ 16,414          | \$ 24,305         | \$ 63,865         | \$ 62,733         |
| Net income-diluted  | \$ 16,414          | \$ 25,147         | \$ 63,865         | \$ 65,392         |
| <b>Net income per share:</b>  |                    |                   |                   |                   |
| Basic   | \$ 0.09            | \$ 0.13           | \$ 0.34           | \$ 0.33           |
| Diluted   | \$ 0.08            | \$ 0.12           | \$ 0.33           | \$ 0.30           |
| <b>Weighted average shares outstanding:</b>                                 |                    |                   |                   |                   |
| Basic   | 187,450            | 190,665           | 187,823           | 190,978           |
| Diluted   | 193,733            | 208,408           | 193,366           | 215,605           |
| <b>Diluted net income per share computation:</b>                            |                    |                   |                   |                   |
| Net income, basic   | \$ 16,414          | \$ 24,305         | \$ 63,865         | \$ 62,733         |
| Interest expense on convertible debentures, net of related GAAP tax effects | -                  | 387               | -                 | 1,273             |
| Amortization of debt issuance costs, net of related GAAP tax effects        | -                  | 455               | -                 | 1,386             |
| Net income, diluted   | \$ 16,414          | \$ 25,147         | \$ 63,865         | \$ 65,392         |

RED HAT, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

## ASSETS

|   | November 30,<br>2009<br>(Unaudited) | February 28,<br>2009 |
|---|-------------------------------------|----------------------|
| <b>Current assets:</b>                    |                                     |                      |
| Cash and cash equivalents                 | \$ 389,709                          | \$ 515,548           |
| Investments in debt and equity securities | 348,187                             | 147,178              |
| Accounts receivable, net                  | 137,237                             | 128,669              |
| Prepaid expenses and other current assets | 96,585                              | 99,437               |
| Total current assets                      | 971,718                             | 890,832              |
| Property and equipment, net               | 73,220                              | 67,913               |
| Goodwill                                  | 439,497                             | 438,109              |
| Identifiable intangibles, net             | 112,046                             | 122,177              |
| Investments in debt securities            | 221,191                             | 183,363              |
| Other assets, net                         | 38,157                              | 51,242               |
| Total assets                              | \$ 1,855,829                        | \$ 1,753,636         |

## LIABILITIES AND STOCKHOLDERS' EQUITY

|  |              |              |
|--|--------------|--------------|
| <b>Current liabilities:</b>                |              |              |
| Accounts payable                           | \$ 17,496    | \$ 9,576     |
| Accrued expenses                           | 72,874       | 54,123       |
| Deferred revenue                           | 446,685      | 382,050      |
| Other current obligations                  | 878          | 900          |
| Total current liabilities                  | 537,933      | 446,649      |
| Deferred lease credits                     | 4,067        | 4,470        |
| Long term deferred revenue                 | 172,051      | 161,032      |
| Other long term obligations                | 34,578       | 35,432       |
| <b>Stockholders' equity:</b>               |              |              |
| Common stock                               | 21           | 21           |
| Additional paid-in capital                 | 1,370,795    | 1,281,469    |
| Retained earnings                          | 114,384      | 50,519       |
| Treasury stock, at cost                    | (382,528)    | (236,283)    |
| Accumulated other comprehensive income     | 4,528        | 10,327       |
| Total stockholders' equity                 | 1,107,200    | 1,106,053    |
| Total liabilities and stockholders' equity | \$ 1,855,829 | \$ 1,753,636 |

## RED HAT, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

|   | Three Months Ended   |                      | Nine Months Ended    |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | November 30,<br>2009 | November 30,<br>2008 | November 30,<br>2009 | November 30,<br>2008 |
| <b>Cash flows from operating activities:</b>                                      |                      |                      |                      |                      |
| Net income  | \$ 16,414            | \$ 24,305            | \$ 63,865            | \$ 62,733            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |                      |                      |
| Depreciation and amortization   | 11,595               | 10,561               | 33,847               | 29,486               |
| Share-based compensation expense  | 12,557               | 12,251               | 34,246               | 33,682               |
| Deferred income taxes   | 9,578                | 7,031                | 15,066               | 27,260               |
| Excess tax benefits from share-based payment arrangements                         | (9,524)              | (14,790)             | (27,280)             | (39,246)             |
| Gain on sale of equity securities   | (4,584)              | -                    | (8,247)              | (4,996)              |
| Gain on repurchase of convertible debentures                                      | -                    | (4,129)              | -                    | (4,129)              |
| Other   | (198)                | 941                  | (205)                | 2,308                |
| Changes in operating assets and liabilities net of effects of acquisitions:       |                      |                      |                      |                      |
| Accounts receivable   | (21,742)             | (7,650)              | (1,130)              | 13,687               |
| Prepaid expenses and other current assets   | 2,923                | (7,400)              | 7,855                | (14,308)             |
| Accounts payable  | (843)                | 1,836                | 6,944                | (6,138)              |
| Accrued expenses  | 14,651               | 8,774                | 16,836               | 18,576               |
| Deferred revenue  | 23,446               | 27,503               | 35,963               | 58,217               |
| Other assets, net   | (124)                | (85)                 | (402)                | (355)                |

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Net cash provided by operating activities                                      | 54,149     | 59,148     | 177,358    | 176,777    |
| Cash flows from investing activities:  |            |            |            |            |
| Purchase of available-for-sale debt securities                                 | (245,788)  | -          | (534,260)  | (331,705)  |
| Proceeds from sales and maturities of available-for-sale debt securities       | 93,089     | 77,498     | 299,193    | 427,314    |
| Proceeds from sales of available-for-sale equity securities                    | 4,312      | -          | 8,371      | 5,568      |
| Acquisitions of businesses, net of cash acquired                               | -          | (101,338)  | -          | (148,140)  |
| Net purchase of strategic equity investments                                   | (1,368)    | -          | (1,368)    | -          |
| Purchase of developed technologies and other intangible assets                 | (847)      | (779)      | (2,917)    | (3,121)    |
| Purchase of property and equipment   | (8,655)    | (4,212)    | (21,318)   | (18,164)   |
| Net cash used in investing activities  | (159,257)  | (28,831)   | (252,299)  | (68,248)   |
| Cash flows from financing activities:  |            |            |            |            |
| Excess tax benefits from share-based payment arrangements                      | 9,524      | 14,790     | 27,280     | 39,246     |
| Proceeds from exercise of common stock options                                 | 44,985     | -          | 63,574     | -          |
| Repurchase of convertible debentures   | -          | (280,058)  | -          | (280,058)  |
| Purchase of treasury stock   | (52,289)   | (29,999)   | (146,246)  | (39,365)   |
| Payments related to net settlement of employee share-based compensation awards | (6,754)    | (772)      | (9,054)    | 16,017     |
| Structured stock repurchase  | -          | -          | -          | 1,989      |
| Proceeds from other borrowings   | -          | -          | -          | -          |
| Payments on other borrowings   | -          | (48)       | (900)      | (72)       |
| Net cash used in financing activities  | (4,534)    | (296,087)  | (65,346)   | (262,243)  |
| Effect of foreign currency exchange rates on cash and cash equivalents         | 6,299      | (1,850)    | 14,448     | (4,169)    |
| Net decrease in cash and cash equivalents                                      | (103,343)  | (267,620)  | (125,839)  | (157,883)  |
| Cash and cash equivalents at beginning of the period                           | 493,052    | 787,457    | 515,548    | 677,720    |
| Cash and cash equivalents at end of period                                     | \$ 389,709 | \$ 519,837 | \$ 389,709 | \$ 519,837 |

RED HAT, INC.

RECONCILIATION OF CERTAIN GAAP RESULTS TO NON-GAAP ADJUSTED RESULTS

(Unaudited)

(In thousands - except per share amounts)

Non cash share-based compensation expense included in Consolidated Statements of Operations:

|  | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | November 30, 2009  | November 30, 2008 | November 30, 2009 | November 30, 2008 |
| Cost of revenue                        | \$ 916             | \$ 723            | \$ 2,475          | \$ 2,047          |
| Sales and marketing                    | 3,627              | 3,352             | 9,875             | 9,554             |
| Research and development               | 3,239              | 3,715             | 9,588             | 9,769             |
| General and administration             | 4,775              | 4,461             | 12,308            | 12,311            |
| Total share-based compensation expense | \$ 12,557          | \$ 12,251         | \$ 34,246         | \$ 33,681         |

Amortization of intangible assets expense included in Consolidated Statements of Operations:

|   | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | November 30, 2009  | November 30, 2008 | November 30, 2009 | November 30, 2008 |
| Cost of revenue                                 | \$ 989             | \$ 989            | \$ 2,938          | \$ 2,534          |
| Sales and marketing                             | 2,293              | 2,301             | 6,908             | 6,861             |
| Research and development                        | 925                | 1,049             | 2,776             | 1,049             |
| General and administration                      | 811                | 797               | 2,411             | 2,254             |
| Total amortization of intangible assets expense | \$ 5,018           | \$ 5,136          | \$ 15,033         | \$ 12,698         |

Class action litigation settlement expense included in Consolidated Statement of Operations:

|                       | Three Months Ended |                   | Nine Months Ended |                   |
|-----------------------|--------------------|-------------------|-------------------|-------------------|
|                       | November 30, 2009  | November 30, 2008 | November 30, 2009 | November 30, 2008 |
| Litigation Settlement | \$ 8,750           | -                 | \$ 8,750          | -                 |

|   | November 30, 2009 | November 30, 2008 | November 30, 2009 | November 30, 2008 |
|---|-------------------|-------------------|-------------------|-------------------|
| GAAP net income   | \$ 16,414         | \$ 24,305         | \$ 63,865         | \$ 62,733         |
| Provision for income taxes  | 8,838             | 9,211             | 23,128            | 33,779            |
| GAAP income before provision for income taxes                               | \$ 25,252         | \$ 33,516         | \$ 86,993         | \$ 96,512         |
| Add: Non-cash share-based compensation expense per FAS 123R                 | 12,557            | 12,251            | 34,246            | 33,681            |
| Add: Amortization of intangible assets                                      | 5,018             | 5,136             | 15,033            | 12,698            |
| Add: Litigation settlement  | 8,750             | -                 | 8,750             | -                 |
| Non-GAAP adjusted income before provision for income taxes                  | \$ 51,577         | \$ 50,903         | \$ 145,022        | \$ 142,891        |
| Provision for income taxes (1)  | \$ 18,052         | \$ 13,998         | \$ 43,439         | \$ 49,875         |
| Non-GAAP adjusted net income  | \$ 33,525         | \$ 36,905         | \$ 101,583        | \$ 93,016         |
| Non-GAAP adjusted net income-diluted  | \$ 33,525         | \$ 37,747         | \$ 101,583        | \$ 95,646         |
| Non-GAAP adjusted net income per share:                                     |                   |                   |                   |                   |
| Basic   | \$ 0.18           | \$ 0.19           | \$ 0.54           | \$ 0.49           |
| Diluted   | \$ 0.17           | \$ 0.18           | \$ 0.53           | \$ 0.44           |
| Non-GAAP diluted net income per share computation:                          |                   |                   |                   |                   |
| Non-GAAP adjusted net income  | \$ 33,525         | \$ 36,905         | \$ 101,583        | \$ 93,016         |
| Interest expense on convertible debentures, net of related GAAP tax effects | -                 | 387               | -                 | 1,257             |
| Amortization of debt issuance costs, net of related GAAP tax effects        | -                 | 455               | -                 | 1,373             |
| Non-GAAP adjusted net income-diluted  | \$ 33,525         | \$ 37,747         | \$ 101,583        | \$ 95,646         |
| (1) Provision for income taxes:   |                   |                   |                   |                   |
| Non-GAAP adjusted net income before income tax provision                    | \$ 51,577         | \$ 50,903         | \$ 145,022        | \$ 142,891        |
| Estimated annual effective tax rate   | 35%               | 28%               | 35%               | 35%               |
| Non-GAAP provision for income taxes before discrete tax benefit             | \$ 18,052         | \$ 13,998         | \$ 50,758         | \$ 49,875         |
| Discrete tax benefit  | 0                 | 0                 | 7,319             | 0                 |
| Provision for income taxes on Non-GAAP adjusted net income                  | \$ 18,052         | \$ 13,998         | \$ 43,439         | \$ 49,875         |

RED HAT, INC.

RECONCILIATION OF CERTAIN GAAP RESULTS TO NON-GAAP ADJUSTED RESULTS

(Unaudited)

(In thousands - except per share amounts)

Reconciliation of GAAP results to non-GAAP adjusted results

|  | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | November 30, 2009  | November 30, 2008 | November 30, 2009 | November 30, 2008 |
| GAAP gross profit  | \$ 164,748         | \$ 138,796        | \$ 467,861        | \$ 405,878        |
| Add: Non-cash share-based compensation expense per FAS 123R    | 916                | 723               | 2,475             | 2,047             |
| Add: Amortization of intangible assets                         | 989                | 989               | 2,938             | 2,534             |
| Non-GAAP gross profit  | \$ 166,653         | \$ 140,508        | \$ 473,274        | \$ 410,459        |
| Non-GAAP gross margin  | 86%                | 85%               | 86%               | 84%               |
|  | Three Months Ended |                   | Nine Months Ended |                   |
|  | November 30, 2009  | November 30, 2008 | November 30, 2009 | November 30, 2008 |
| GAAP operating expenses  | \$ 144,955         | \$ 117,826        | \$ 395,471        | \$ 343,594        |
| Deduct: Non-cash share-based compensation expense per FAS 123R | (11,641)           | (11,528)          | (31,771)          | (31,634)          |
| Deduct: Amortization of intangible assets                      | (4,029)            | (4,147)           | (12,095)          | (10,164)          |
| Deduct: Litigation Settlement                                  | (8,750)            | -                 | (8,750)           | -                 |
| Non-GAAP adjusted operating expenses                           | \$ 120,535         | \$ 102,151        | \$ 342,855        | \$ 301,796        |
|  | Three Months Ended |                   | Nine Months Ended |                   |
|  | November 30, 2009  | November 30, 2008 | November 30, 2009 | November 30, 2008 |
| GAAP operating income  | \$ 19,793          | \$ 20,970         | \$ 72,390         | \$ 62,284         |
| Add: Non-cash share-based compensation expense per FAS 123R    | 12,557             | 12,251            | 34,246            | 33,681            |
| Add: Amortization of intangible assets                         | 5,018              | 5,136             | 15,033            | 12,698            |
| Add: Litigation Settlement                                     | 8,750              | -                 | 8,750             | -                 |

|                                    |    |        |    |        |    |         |    |         |
|------------------------------------|----|--------|----|--------|----|---------|----|---------|
| Non-GAAP adjusted operating income | \$ | 46,118 | \$ | 38,357 | \$ | 130,419 | \$ | 108,663 |
| Non-GAAP adjusted operating margin |    | 23.7%  |    | 23.2%  |    | 23.6%   |    | 22.3%   |

SOURCE: Red Hat Inc.

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