

# Red Hat Reports Second Quarter Results

SEP 24, 2012

*Second quarter revenue of \$323 million, up 15% year-over-year*

*Second quarter subscription revenue of \$279 million, up 17% year-over-year*

*Second quarter operating cash flow of \$104 million, up 35% year-over-year*

RALEIGH, N.C.--(BUSINESS WIRE)-- Red Hat, Inc. (NYSE: RHT), the world's leading provider of open source solutions, today announced financial results for its fiscal year 2013 second quarter ended August 31, 2012.

Total revenue for the quarter was \$322.6 million, an increase of 15% in U.S. dollars from the year ago quarter, or 20% measured in constant currency, as detailed in the tables below. Subscription revenue for the quarter was \$278.8 million, up 17% in U.S. dollars year-over-year, or 22% measured in constant currency, as detailed in the tables below.

"Our double-digit growth was driven by demand for Red Hat's open source technologies that are key to creating innovation, scale and flexibility in our customers' data centers and their businesses," stated Jim Whitehurst, President and Chief Executive Officer of Red Hat. "At Red Hat, we firmly believe in the strength of community-powered innovation. In early September, we were pleased to be recognized by Forbes, Inc. on its list of the *World's Most Innovative Companies*. We are also proud that our customers who have built mission-critical systems on Red Hat technologies are also reflected on the Forbes list of innovative companies."

GAAP operating income for the second quarter was \$50.0 million, down 5% year-over-year. GAAP operating margin was 15.5%. After adjusting for stock compensation and amortization expenses, as detailed in the tables below, non-GAAP operating income for the second quarter was \$79.2 million, up 4% year-over-year. Non-GAAP operating margin was 24.6%.

Net income for the quarter was \$35.0 million, or \$0.18 per diluted share, compared with \$40.0 million, or \$0.20 per diluted share, in the year ago quarter. After adjusting for stock compensation and amortization expenses, as detailed in the tables below, non-GAAP net income for the quarter was \$54.9 million, or \$0.28 per diluted share, as compared to \$56.5 million, or \$0.29 per diluted share, in the year ago quarter. The year ago quarter would have been \$0.28 per diluted share excluding a discrete tax benefit of \$2.1 million, or approximately \$0.01 per share.

Operating cash flow was \$103.9 million for the second quarter, as compared to \$77.1 million in the year ago quarter. At quarter end, the company's total deferred revenue balance was \$944.4 million, an increase of 16% on a year-over-year basis. Total cash, cash equivalents and investments as of August 31, 2012 was \$1.36 billion.

"On a constant currency basis, subscription revenue grew 22% year-over-year while total revenue grew 20%. Our business model and offerings continue to appeal to customers despite the global economic malaise," stated Charlie Peters, Executive Vice President and Chief Financial Officer of Red Hat. "This quarter marked a significant ramp-up in investments in our nascent storage business, with the launch in late June of Red Hat Storage Server 2.0. Furthermore, we announced two small technology acquisitions in the middleware space to further round out our offerings, which decreased the quarter's EPS by approximately \$0.01 per share due to one-time closing costs."

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 is the world's leading provider of open source software solutions, taking a community-powered approach to reliable and high-performing cloud, Linux, middleware, storage and virtualization technologies. Red Hat also offers award-winning support, training, and consulting services. As the connective hub in a global network of enterprises, partners, and open source communities, Red Hat helps create relevant, innovative technologies that liberate resources for growth and prepare customers for the future of IT. Learn more at <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; the effects of industry consolidation; the ability of the Company to compete effectively; uncertainty and adverse results in litigation and related settlements; the integration of acquisitions and the ability to market successfully acquired technologies and products; 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 and political conditions, governmental and public policy changes and the impact of natural disasters such as earthquakes and floods. 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 this press release.

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

|   | Three Months Ended  |                     | Six Months Ended    |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | August 31,<br>2012  | August 31,<br>2011  | August 31,<br>2012  | August 31,<br>2011  |
| <b>Revenue:</b>   |                     |                     |                     |                     |
| Subscriptions   | \$278,800           | \$238,337           | \$551,371           | \$463,870           |
| Training and services   | 43,795              | 42,983              | 85,956              | 82,196              |
| <br>Total subscription, training and services revenue         | <br>322,595         | <br>281,320         | <br>637,327         | <br>546,066         |
| <br><b>Cost of revenue:</b>                                   |                     |                     |                     |                     |
| Subscriptions   | 18,846              | 16,596              | 36,786              | 31,835              |
| Training and services   | 29,012              | 30,043              | 57,092              | 57,251              |
| <br>Total cost of subscription, training and services revenue | <br>47,858          | <br>46,639          | <br>93,878          | <br>89,086          |
| <br>Total gross profit  | <br>274,737         | <br>234,681         | <br>543,449         | <br>456,980         |
| <b>Operating expense:</b>                                     |                     |                     |                     |                     |
| Sales and marketing   | 123,578             | 99,730              | 244,449             | 197,056             |
| Research and development                                      | 63,366              | 51,488              | 123,246             | 99,776              |
| General and administrative                                    | 37,813              | 30,985              | 71,724              | 62,311              |
| Facility exit costs   | -                   | -                   | 3,142               | -                   |
| <br>Total operating expense                                   | <br>224,757         | <br>182,203         | <br>442,561         | <br>359,143         |
| <br>Income from operations                                    | <br>49,980          | <br>52,478          | <br>100,888         | <br>97,837          |
| Interest income   | 2,154               | 2,127               | 4,448               | 4,063               |
| Other income (expense), net                                   | (656)               | 326                 | 1,232               | 59                  |
| <br>Income before provision for income taxes                  | <br>51,478          | <br>54,931          | <br>106,568         | <br>101,959         |
| Provision for income taxes                                    | 16,473              | 14,963              | 34,102              | 29,542              |
| <br>Net income  | <br><u>\$35,005</u> | <br><u>\$39,968</u> | <br><u>\$72,466</u> | <br><u>\$72,417</u> |
| <br><b>Net income per share:</b>                              |                     |                     |                     |                     |
| Basic   | \$0.18              | \$0.21              | \$0.38              | \$0.38              |
| Diluted   | \$0.18              | \$0.20              | \$0.37              | \$0.37              |
| <br><b>Weighted average shares outstanding:</b>               |                     |                     |                     |                     |
| Basic   | 193,064             | 192,937             | 193,005             | 193,046             |
| Diluted   | 195,795             | 196,171             | 195,929             | 196,428             |

RED HAT, INC.  
CONSOLIDATED BALANCE SHEETS

(In thousands)

| ASSETS                                    | August 31,<br>2012<br>(Unaudited) | February 29,<br>2012 (1) |
|---|-----------------------------------|--------------------------|
| <b>Current assets:</b>                    |                                   |                          |
| Cash and cash equivalents                 | \$571,576                         | \$549,217                |
| Investments in debt and equity securities | 297,876                           | 264,298                  |
| Accounts receivable, net                  | 215,433                           | 255,180                  |
| Deferred tax assets, net                  | 72,007                            | 69,765                   |
| Prepaid expenses                          | 85,642                            | 81,266                   |
| Other current assets                      | 2,135                             | 1,629                    |
| <br>Total current assets                  | <br>1,244,669                     | <br>1,221,355            |
| <br>Property and equipment, net           | <br>113,092                       | <br>92,065               |
| Goodwill                                  | 595,430                           | 591,563                  |
| Identifiable intangibles, net             | 122,709                           | 100,638                  |
| Investments in debt securities            | 490,168                           | 446,838                  |
| Other assets, net                         | 39,573                            | 38,640                   |
| <br>Total assets                          | <br><u>\$2,605,641</u>            | <br><u>\$2,491,099</u>   |

LIABILITIES AND STOCKHOLDERS' EQUITY

|  |                        |                        |
|--|------------------------|------------------------|
| <b>Current liabilities:</b>                    |                        |                        |
| Accounts payable and accrued expenses          | \$139,060              | \$114,078              |
| Deferred revenue                               | 704,573                | 711,408                |
| Other current obligations                      | 963                    | 819                    |
| <br>Total current liabilities                  | <br>844,596            | <br>826,305            |
| <br>Long term deferred revenue                 | <br>239,827            | <br>235,328            |
| Other long term obligations                    | 37,535                 | 30,649                 |
| <b>Stockholders' equity:</b>                   |                        |                        |
| Common stock                                   | 23                     | 23                     |
| Additional paid-in capital                     | 1,761,524              | 1,709,082              |
| Retained earnings                              | 464,142                | 391,676                |
| Treasury stock, at cost                        | (728,894)              | (696,012)              |
| Accumulated other comprehensive loss           | (13,112)               | (5,952)                |
| <br>Total stockholders' equity                 | <br>1,483,683          | <br>1,398,817          |
| <br>Total liabilities and stockholders' equity | <br><u>\$2,605,641</u> | <br><u>\$2,491,099</u> |

(1) Derived from audited financial statements

RED HAT, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands)

Three Months Ended

Six Months Ended

|   | August 31,<br>2012      | August 31,<br>2011      | August 31,<br>2012      | August 31,<br>2011      |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| <b>Cash flows from operating activities:</b>                                      |                         |                         |                         |                         |
| Net income  | \$35,005                | \$39,968                | \$72,466                | \$72,417                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                         |                         |                         |
| Depreciation and amortization   | 14,568                  | 13,147                  | 28,647                  | 25,886                  |
| Share-based compensation expense  | 23,859                  | 18,753                  | 46,065                  | 34,940                  |
| Deferred income taxes   | 13,036                  | 8,155                   | 23,063                  | 19,210                  |
| Excess tax benefits from share-based payment arrangements                         | (9,600)                 | (8,112)                 | (19,800)                | (16,672)                |
| Other   | 529                     | (240)                   | (1,840)                 | (317)                   |
| Changes in operating assets and liabilities net of effects of acquisitions:       |                         |                         |                         |                         |
| Accounts receivable   | (18,735)                | (20,457)                | 35,825                  | 11,585                  |
| Prepaid expenses  | 833                     | 65                      | (6,966)                 | (3,228)                 |
| Accounts payable and accrued expenses   | 15,250                  | 3,328                   | 26,348                  | (611)                   |
| Deferred revenue  | 26,430                  | 22,851                  | 21,308                  | 24,121                  |
| Other   | 2,678                   | (357)                   | 3,141                   | (19)                    |
| <b>Net cash provided by operating activities</b>                                  | <b>103,853</b>          | <b>77,101</b>           | <b>228,257</b>          | <b>167,312</b>          |
| <b>Cash flows from investing activities:</b>                                      |                         |                         |                         |                         |
| Purchase of available-for-sale debt securities                                    | (185,028)               | (220,436)               | (507,769)               | (401,286)               |
| Proceeds from sales and maturities of available-for-sale debt securities          | 190,094                 | 208,693                 | 417,779                 | 381,276                 |
| Proceeds from sales of available-for-sale equity securities                       | -                       | 681                     | 330                     | 1,346                   |
| Acquisition of business, net of cash acquired                                     | (10,051)                | -                       | (10,051)                | -                       |
| Purchase of strategic equity investments  | -                       | (1,000)                 | -                       | (1,000)                 |
| Purchase of other intangible assets   | (24,341)                | (1,059)                 | (26,863)                | (3,602)                 |
| Purchase of property and equipment  | (20,344)                | (11,523)                | (36,243)                | (20,179)                |
| <b>Net cash used in investing activities</b>                                      | <b>(49,670)</b>         | <b>(24,644)</b>         | <b>(162,817)</b>        | <b>(43,445)</b>         |
| <b>Cash flows from financing activities:</b>                                      |                         |                         |                         |                         |
| Excess tax benefits from share-based payment arrangements                         | 9,600                   | 8,112                   | 19,800                  | 16,672                  |
| Proceeds from exercise of common stock options                                    | 2,626                   | 3,370                   | 6,516                   | 8,413                   |
| Purchase of treasury stock  | (2,871)                 | (38,006)                | (32,882)                | (56,952)                |
| Payments related to net settlement of employee share-based compensation awards    | (3,856)                 | (2,952)                 | (22,688)                | (11,985)                |
| Payments on other borrowings  | (213)                   | (94)                    | (477)                   | (688)                   |
| <b>Net cash provided by (used in) financing activities</b>                        | <b>5,286</b>            | <b>(29,570)</b>         | <b>(29,731)</b>         | <b>(44,540)</b>         |
| <b>Effect of foreign currency exchange rates on cash and cash equivalents</b>     | <b>3,491</b>            | <b>4,348</b>            | <b>(13,350)</b>         | <b>15,501</b>           |
| <b>Net increase in cash and cash equivalents</b>                                  | <b>62,960</b>           | <b>27,235</b>           | <b>22,359</b>           | <b>94,828</b>           |
| <b>Cash and cash equivalents at beginning of the period</b>                       | <b>508,616</b>          | <b>710,223</b>          | <b>549,217</b>          | <b>642,630</b>          |
| <b>Cash and cash equivalents at end of period</b>                                 | <b><u>\$571,576</u></b> | <b><u>\$737,458</u></b> | <b><u>\$571,576</u></b> | <b><u>\$737,458</u></b> |

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 |                    | Six Months Ended   |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
|                        | August 31,<br>2012 | August 31,<br>2011 | August 31,<br>2012 | August 31,<br>2011 |
| <b>Cost of revenue</b> | <b>\$2,167</b>     | <b>\$1,842</b>     | <b>\$4,333</b>     | <b>\$3,631</b>     |

|  |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
| Sales and marketing                    | 7,726           | 6,101           | 15,087          | 11,672          |
| Research and development               | 7,294           | 4,883           | 14,106          | 9,077           |
| General and administration             | 6,672           | 5,927           | 12,539          | 10,560          |
| Total share-based compensation expense | <u>\$23,859</u> | <u>\$18,753</u> | <u>\$46,065</u> | <u>\$34,940</u> |

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

|   | Three Months Ended |                    | Six Months Ended   |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | August 31,<br>2012 | August 31,<br>2011 | August 31,<br>2012 | August 31,<br>2011 |
| Cost of revenue                                 | \$1,149            | \$1,216            | \$1,819            | \$2,195            |
| Sales and marketing                             | 2,120              | 1,958              | 4,196              | 3,918              |
| Research and development                        | 959                | 1,157              | 1,918              | 2,313              |
| General and administration                      | 1,181              | 865                | 2,324              | 1,711              |
| Total amortization of intangible assets expense | <u>\$5,409</u>     | <u>\$5,196</u>     | <u>\$10,257</u>    | <u>\$10,137</u>    |

Facility exit costs included in Consolidated Statements of Operations:

|                     | Three Months Ended |                    | Six Months Ended   |                      |
|---------------------|--------------------|--------------------|--------------------|----------------------|
|                     | August 31,<br>2012 | August 31,<br>2011 | August 31,<br>2012 | August 31,<br>Jul 03 |
| Facility exit costs | -                  | -                  | \$3,142            | -                    |

|  | Three Months Ended |                    | Six Months Ended   |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | August 31,<br>2012 | August 31,<br>2011 | August 31,<br>2012 | August 31,<br>2011 |
| GAAP net income  | \$35,005           | \$39,968           | \$72,466           | \$72,417           |
| Provision for income taxes                                 | 16,473             | 14,963             | 34,102             | 29,542             |
| GAAP income before provision for income taxes              | \$51,478           | \$54,931           | \$106,568          | \$101,959          |
| Add: Non-cash share-based compensation expense             | 23,859             | 18,753             | 46,065             | 34,940             |
| Add: Amortization of intangible assets                     | 5,409              | 5,196              | 10,257             | 10,137             |
| Add: Facility exit costs                                   | -                  | -                  | 3,142              | -                  |
| Non-GAAP adjusted income before provision for income taxes | \$80,746           | \$78,880           | \$166,032          | \$147,036          |
| Provision for income taxes (1)                             | 25,839             | 22,387             | 53,130             | 43,515             |
| Non-GAAP adjusted net income (basic and diluted)           | <u>\$54,907</u>    | <u>\$56,493</u>    | <u>\$112,902</u>   | <u>\$103,521</u>   |
| Non-GAAP adjusted net income per share:                    |                    |                    |                    |                    |
| Basic  | \$0.28             | \$0.29             | \$0.58             | \$0.54             |
| Diluted  | \$0.28             | \$0.29             | \$0.58             | \$0.53             |

(1) Provision for income taxes:

|   |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| Non-GAAP adjusted net income before income tax provision        | \$80,746        | \$78,880        | \$166,032       | \$147,036       |
| Estimated annual effective tax rate                             | 32.0%           | 31.0%           | 32.0%           | 31.0%           |
| Non-GAAP provision for income taxes before discrete tax benefit | \$25,839        | \$24,453        | \$53,130        | \$45,581        |
| Discrete tax benefit  | -               | 2,066           | -               | 2,066           |
| Provision for income taxes on Non-GAAP adjusted net income      | <u>\$25,839</u> | <u>\$22,387</u> | <u>\$53,130</u> | <u>\$43,515</u> |

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 |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | August 31,         | August 31, | August 31,       | August 31, |
|  | 2012               | 2011       | 2012             | 2011       |
| GAAP gross profit                              | \$274,737          | \$234,681  | \$543,449        | \$456,980  |
| Add: Non-cash share-based compensation expense | 2,167              | 1,842      | 4,333            | 3,631      |
| Add: Amortization of intangible assets         | 1,149              | 1,216      | 1,819            | 2,195      |
| Non-GAAP gross profit                          | \$278,053          | \$237,739  | \$549,601        | \$462,806  |
| Non-GAAP gross margin                          | 86%                | 85%        | 86%              | 85%        |

|   | Three Months Ended |            | Six Months Ended |            |
|---|--------------------|------------|------------------|------------|
|   | August 31,         | August 31, | August 31,       | August 31, |
|   | 2012               | 2011       | 2012             | 2011       |
| GAAP operating expenses                           | \$224,757          | \$182,203  | \$442,561        | \$359,143  |
| Deduct: Non-cash share-based compensation expense | (21,692)           | (16,911)   | (41,732)         | (31,309)   |
| Deduct: Amortization of intangible assets         | (4,260)            | (3,980)    | (8,438)          | (7,942)    |
| Deduct: Facility exit costs                       | -                  | -          | (3,142)          | -          |
| Non-GAAP adjusted operating expenses              | \$198,805          | \$161,312  | \$389,249        | \$319,892  |

|  | Three Months Ended |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | August 31,         | August 31, | August 31,       | August 31, |
|  | 2012               | 2011       | 2012             | 2011       |
| GAAP operating income                          | \$49,980           | \$52,478   | \$100,888        | \$97,837   |
| Add: Non-cash share-based compensation expense | 23,859             | 18,753     | 46,065           | 34,940     |
| Add: Amortization of intangible assets         | 5,409              | 5,196      | 10,257           | 10,137     |
| Add: Facility exit costs                       | -                  | -          | 3,142            | -          |
| Non-GAAP adjusted operating income             | \$79,248           | \$76,427   | \$160,352        | \$142,914  |
| Non-GAAP adjusted operating margin             | 24.6%              | 27.2%      | 25.2%            | 26.2%      |

|  | Three Months Ended |            |                |
|--|--------------------|------------|----------------|
|  | August 31,         | August 31, | Year-Over-Year |
|  | 2012               | 2011       | Growth Rate    |
| GAAP subscription revenue                                  | \$278,800          | \$238,337  | 17.0%          |
| Adjustment for currency impact                             | 12,248             | -          |                |
| Non-GAAP subscription revenue on a constant currency basis | \$291,048          | \$238,337  | 22.1%          |
| GAAP training and services revenue                         | \$43,795           | \$42,983   | 1.9%           |

|   |                  |                  |       |
|---|------------------|------------------|-------|
| Adjustment for currency impact  | 1,985            | -                |       |
| Non-GAAP training and services revenue on a constant currency basis                     | \$45,780         | \$42,983         | 6.5%  |
| GAAP total subscription, training and services revenue                                  | \$322,595        | \$281,320        | 14.7% |
| Adjustment for currency impact  | 14,233           | -                |       |
| Non-GAAP total subscription, training and services revenue on a constant currency basis | <u>\$336,828</u> | <u>\$281,320</u> | 19.7% |

Red Hat Inc.

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