

# RED HAT, INC.

## Quarterly Non-GAAP Consolidated Statement of Ops (see Non-GAAP reconciliation on following page)

(Unaudited)

(In thousands - except per share amounts)

	Q215 Quarter End 08/31/2014	Q315 Quarter End 11/30/2014	Q415 Quarter End 02/28/2015	Q116 Quarter End 05/31/2015	Q216 Quarter End 08/31/2015	Q316 Quarter End 11/30/2015
GAAP Revenue:						
Subscriptions	\$389,495	\$394,699	\$405,073	\$424,793	\$441,526	\$457,488
Training and services	56,404	61,196	58,869	56,208	62,622	66,092
Total subscription, training and services revenue	445,899	455,895	463,942	481,001	504,148	523,580
Non-GAAP Cost of revenue:						
Subscriptions	23,708	23,888	24,669	25,673	26,574	27,321
Training and services	37,555	40,567	39,404	39,424	42,621	46,553
Total cost of subscription, training and services revenue	61,263	64,455	64,073	65,097	69,195	73,874
Total Non-GAAP gross profit	384,636	391,440	399,869	415,904	434,953	449,706
Non-GAAP Operating expense:						
Sales and marketing	158,837	169,394	172,098	181,455	186,309	196,262
Research and development	83,208	82,233	81,362	86,307	90,174	91,535
General and administrative	33,766	31,290	35,896	34,810	35,332	38,853
Total operating expense	275,811	282,917	289,356	302,572	311,815	326,650
Non-GAAP Income from operations	108,825	108,523	110,513	113,332	123,138	123,056
GAAP Interest income	2,010	2,196	2,288	2,715	2,895	2,874
Other income (expense), net	(192)	1,559	4,784	(203)	(1,245)	49
Interest expense	(97)	(707)	(1,247)	(1,116)	(1,113)	(1,153)
Income before provision (benefit) for income taxes	110,546	111,571	116,338	114,728	123,675	124,826
<b>Provision (benefit) for income taxes</b>	32,058	32,356	35,754	33,271	35,866	36,200
Non-GAAP Net income	\$78,488	\$79,215	\$80,584	\$81,457	\$87,809	\$88,626
Non-GAAP Net income per share:						
<b>Basic</b>	<b>\$0.42</b>	<b>\$0.43</b>	<b>\$0.44</b>	<b>\$0.44</b>	<b>\$0.48</b>	<b>\$0.48</b>
<b>Diluted</b>	<b>\$0.41</b>	<b>\$0.42</b>	<b>\$0.43</b>	<b>\$0.44</b>	<b>\$0.47</b>	<b>\$0.48</b>
Weighted average shares outstanding:						
Basic	188,162	185,039	183,459	183,131	183,179	182,850
GAAP Diluted	190,755	187,674	186,307	186,175	186,750	186,094
Dilution offset from convertible note hedge transactions	-	-	-	(51)	(585)	(390)
Non-GAAP Diluted	190,755	187,674	186,307	186,124	186,165	185,704

## Red Hat GAAP to Non-GAAP Reconciliation – Quarterly

(Unaudited)

(In thousands - except per share amounts)

	Q215 Quarter End 08/31/2014	Q315 Quarter End 11/30/2014	Q415 Quarter End 02/28/2015	Q116 Quarter End 05/31/2015	Q216 Quarter End 08/31/2015	Q316 Quarter End 11/30/2015
<b>Revenue</b>	<b>\$445,899</b>	<b>\$455,895</b>	<b>\$463,942</b>	<b>\$481,001</b>	<b>\$504,148</b>	<b>\$523,580</b>
<b>GAAP Gross Profit as reported</b>	<b>\$378,725</b>	<b>\$384,530</b>	<b>\$393,724</b>	<b>\$409,604</b>	<b>\$428,184</b>	<b>\$442,532</b>
Add: Non-cash share-based compensation expense	3,425	3,915	3,569	3,727	4,151	4,074
Add: Amortization of intangible assets	2,486	2,995	2,576	2,573	2,618	3,100
<b>Non-GAAP Gross Profit</b>	<b>\$384,636</b>	<b>\$391,440</b>	<b>\$399,869</b>	<b>\$415,904</b>	<b>\$434,953</b>	<b>\$449,706</b>
<b>GAAP Operating Income as reported</b>	<b>\$64,227</b>	<b>\$67,197</b>	<b>\$67,608</b>	<b>\$70,930</b>	<b>\$76,470</b>	<b>\$68,877</b>
Add: Non-cash share-based compensation expense – Cost of Revenue	3,425	3,915	3,569	3,727	4,151	4,074
Add: Non-cash share-based compensation expense – S&M	13,691	15,866	15,408	15,412	16,782	17,192
Add: Non-cash share-based compensation expense – R&D	11,098	8,130	10,426	10,874	12,022	13,059
Add: Non-cash share-based compensation expense – G&A	8,391	5,713	6,887	6,509	7,582	9,082
<b>Total Non-cash share-based compensation expense</b>	<b>36,605</b>	<b>33,624</b>	<b>36,290</b>	<b>36,522</b>	<b>40,537</b>	<b>43,407</b>
Add: Amortization of intangible assets – Cost of Revenue	2,486	2,995	2,576	2,573	2,618	3,100
Add: Amortization of intangible assets – S&M	1,992	1,958	2,305	2,005	2,010	2,330
Add: Amortization of intangible assets – R&D	959	250	250	250	292	312
Add: Amortization of intangible assets – G&A	1,607	1,438	1,484	1,052	1,160	1,238
<b>Total Amortization of intangible assets</b>	<b>7,044</b>	<b>6,641</b>	<b>6,615</b>	<b>5,880</b>	<b>6,080</b>	<b>6,980</b>
Add: Transaction costs related to business combinations	949	1,061	0	0	51	3,792
<b>Non-GAAP Operating Income</b>	<b>\$108,825</b>	<b>\$108,523</b>	<b>\$110,513</b>	<b>\$113,332</b>	<b>\$123,138</b>	<b>\$123,056</b>
<b>GAAP Gross Margin as reported</b>	<b>84.9%</b>	<b>84.3%</b>	<b>84.9%</b>	<b>85.2%</b>	<b>84.9%</b>	<b>84.5%</b>
<b>Non-GAAP Gross Margin</b>	<b>86.3%</b>	<b>85.9%</b>	<b>86.2%</b>	<b>86.5%</b>	<b>86.3%</b>	<b>85.9%</b>
<b>GAAP Operating Margin as reported</b>	<b>14.4%</b>	<b>14.7%</b>	<b>14.6%</b>	<b>14.7%</b>	<b>15.2%</b>	<b>13.2%</b>
<b>Non-GAAP Operating Margin</b>	<b>24.4%</b>	<b>23.8%</b>	<b>23.8%</b>	<b>23.6%</b>	<b>24.4%</b>	<b>23.5%</b>
<b>GAAP Net Income as reported</b>	<b>\$46,823</b>	<b>\$47,933</b>	<b>\$47,700</b>	<b>\$48,086</b>	<b>\$51,395</b>	<b>\$46,848</b>
Provision for income taxes	19,125	19,578	21,177	19,641	20,992	19,135
<b>GAAP Income before provision for income taxes</b>	<b>\$65,948</b>	<b>\$67,511</b>	<b>\$68,877</b>	<b>\$67,727</b>	<b>\$72,387</b>	<b>\$65,983</b>
Add: Non-cash share-based compensation expense	36,605	33,624	36,290	36,522	40,537	43,407
Add: Amortization of intangible assets	7,044	6,641	6,615	5,880	6,080	6,980
Add: Non-cash interest expense from accretion of debt discount	0	2,734	4,556	4,599	4,620	4,664
Add: Transaction costs related to business combinations	949	1,061	0	0	51	3,792
<b>Non-GAAP adjusted income before provision for taxes</b>	<b>110,546</b>	<b>111,571</b>	<b>116,338</b>	<b>114,728</b>	<b>123,675</b>	<b>124,826</b>
Provision for income taxes	32,058	32,356	35,754	33,271	35,866	36,200
<b>Non-GAAP adjusted net income</b>	<b>\$78,488</b>	<b>\$79,215</b>	<b>\$80,584</b>	<b>\$81,457</b>	<b>\$87,809</b>	<b>\$88,626</b>
<b>Non-GAAP adjusted net income per share:</b>						
Basic	\$0.42	\$0.43	\$0.44	\$0.44	\$0.48	\$0.48
Diluted	\$0.41	\$0.42	\$0.43	\$0.44	\$0.47	\$0.48

## Red Hat GAAP to Non-GAAP Reconciliation – Quarterly Gross Margins

(Unaudited)  
(In thousands)

	Q215 Quarter End 08/31/2014	Q315 Quarter End 11/30/2014	Q415 Quarter End 02/28/2015	Q116 Quarter End 05/31/2015	Q216 Quarter End 08/31/2015	Q316 Quarter End 11/30/2015
<b>GAAP Revenue:</b>						
Subscriptions	\$389,495	\$394,699	\$405,073	\$424,793	\$441,526	\$457,488
Training and services	56,404	61,196	58,869	56,208	62,622	66,092
<b>Total subscription, training and services revenue</b>	<b>445,899</b>	<b>455,895</b>	<b>463,942</b>	<b>481,001</b>	<b>504,148</b>	<b>523,580</b>
<b>Non-GAAP Cost of revenue:</b>						
Subscriptions	23,708	23,888	24,669	25,673	26,574	27,321
Training and services	37,555	40,567	39,404	39,424	42,621	46,553
<b>Total cost of subscription, training and services revenue</b>	<b>61,263</b>	<b>64,455</b>	<b>64,073</b>	<b>65,097</b>	<b>69,195</b>	<b>73,874</b>
<b>Total Non-GAAP gross profit</b>	<b>384,636</b>	<b>391,440</b>	<b>399,869</b>	<b>415,904</b>	<b>434,953</b>	<b>449,706</b>
<b>Non-GAAP Gross Margin</b>	<b>86.3%</b>	<b>85.9%</b>	<b>86.2%</b>	<b>86.5%</b>	<b>86.3%</b>	<b>85.9%</b>
<b>Non-GAAP Subscription Gross Margin</b>	<b>93.9%</b>	<b>93.9%</b>	<b>93.9%</b>	<b>94.0%</b>	<b>94.0%</b>	<b>94.0%</b>
<b>Non-GAAP Training and services Gross Margin</b>	<b>33.4%</b>	<b>33.7%</b>	<b>33.1%</b>	<b>29.9%</b>	<b>31.9%</b>	<b>29.6%</b>
<b>Cost of revenue reconciliation GAAP to non-GAAP</b>						
Subscriptions (GAAP)	27,791	28,574	28,731	29,846	30,996	32,246
Less: non-cash share-based compensation expense	1,646	1,822	1,586	1,692	1,836	1,825
Less: Amortization of intangible assets	2,437	2,864	2,476	2,481	2,586	3,100
<b>Subscriptions (non-GAAP)</b>	<b>23,708</b>	<b>23,888</b>	<b>24,669</b>	<b>25,673</b>	<b>26,574</b>	<b>27,321</b>
Training and services (GAAP)	39,383	42,791	41,487	41,551	44,968	48,802
Less: non-cash share-based compensation expense	1,778	2,093	1,983	2,035	2,315	2,249
Less: Amortization of intangible assets	50	131	100	92	32	-
<b>Training and services (non-GAAP)</b>	<b>37,555</b>	<b>40,567</b>	<b>39,404</b>	<b>39,424</b>	<b>42,621</b>	<b>46,553</b>

# RED HAT, INC.

## Annual Non-GAAP Consolidated Statement of Ops (excludes stock option expense and amortization)

(Unaudited)

(In thousands - except per share amounts)

	FY2011 Year End 02/28/2011	FY2012 Year End 02/29/2012	FY2013 Year End 02/28/2013	FY2014 Year End 02/28/2014	FY2015 Year End 02/28/2015
Revenue:					
Subscriptions	\$773,404	\$965,575	\$1,148,341	\$1,336,771	\$1,561,234
Training and services	135,873	167,528	180,476	197,844	228,255
Total subscription, training and services revenue	909,277	1,133,103	1,328,817	1,534,615	1,789,489
Cost of revenue:					
Subscriptions	47,415	59,109	70,059	81,316	95,865
Training and services	93,545	108,026	115,165	129,311	152,635
Total cost of subscription, training and services revenue	140,960	167,135	185,224	210,627	248,500
Total gross profit	768,317	965,968	1,143,593	1,323,988	1,540,989
Operating expense:					
Sales and marketing	300,115	386,226	473,232	548,691	665,346
Research and development	151,589	182,898	229,667	279,232	326,922
General and administrative	91,379	97,915	114,293	119,627	132,609
Total operating expense	543,083	667,039	817,192	947,550	1,124,877
Income from operations	225,234	298,929	326,401	376,438	416,112
Interest income	6,743	8,418	8,245	6,645	8,336
Other income (expense), net	1,355	(262)	736	774	6,562
Interest expense	(80)	(60)	(268)	(161)	(2,102)
Income before provision (benefit) for income taxes	233,252	307,025	335,114	383,696	428,908
Provision (benefit) for income taxes (GAAP tax rate) <sup>1</sup>	70,442	90,603	95,139	98,226	126,399
Net income	\$162,810	\$216,422	\$239,975	\$285,470	\$302,509
Net income per share at GAAP tax rate:					
Basic	\$0.86	\$1.12	\$1.24	\$1.50	\$1.62
Diluted	\$0.83	\$1.10	\$1.23	\$1.49	\$1.60
Weighted average shares outstanding:					
Basic	190,294	193,151	193,147	189,920	186,529
Diluted	196,353	196,451	195,804	192,036	189,246

Note: certain prior year amounts have been reclassified to conform with current year presentation.

<b>GAAP Tax Rate</b>	<b>30.2%</b>	<b>29.5%</b>	<b>28.4%</b>	<b>25.6%</b>	<b>29.5%</b>
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**1Note Q210, Q212 & Q314 included discrete tax benefit, please see below for provision for income tax breakout:**

Non-GAAP adjusted net income before income tax provision	\$307,025	\$383,696
Effective tax rates, excluding discrete tax items	31%	26%
Non-GAAP provision for income taxes before discrete tax benefit	\$92,668	\$102,451
Discrete tax benefit	2,066	4,225
Provision for income taxes on Non-GAAP adjusted net income	<u>\$90,602</u>	<u>\$98,226</u>

## Red Hat GAAP to Non-GAAP Reconciliation – Annual

	FY11 Year End 02/28/2011	FY12 Year End 02/29/2012	FY13 Year End 02/28/2013	FY14 Year End 02/28/2014	FY15 Year End 02/28/2015
Revenue	\$909,277	\$1,133,103	\$1,328,817	\$1,534,615	\$1,789,489
<b>GAAP Gross Profit as reported</b>	<b>\$758,990</b>	<b>\$954,555</b>	<b>\$1,128,217</b>	<b>\$1,302,015</b>	<b>\$1,516,290</b>
Add: Non-cash share-based compensation expense	6,053	7,880	9,433	11,793	14,027
Add: Amortization of intangible assets	3,274	3,533	5,943	10,180	10,672
<b>Non-GAAP Gross Profit</b>	<b>\$768,317</b>	<b>\$965,968</b>	<b>\$1,143,593</b>	<b>\$1,323,988</b>	<b>\$1,540,989</b>
<b>GAAP Operating Income as reported</b>	<b>\$145,677</b>	<b>\$199,913</b>	<b>\$201,038</b>	<b>\$232,290</b>	<b>\$249,994</b>
Add: Non-cash share-based compensation expense – Cost of Revenue	6,053	7,880	9,433	11,793	14,027
Add: Non-cash share-based compensation expense – S&M	18,971	25,060	32,906	40,322	55,203
Add: Non-cash share-based compensation expense – R&D	15,639	21,570	29,647	34,194	38,517
Add: Non-cash share-based compensation expense – G&A	19,934	24,757	26,712	27,465	27,485
<b>Total Non-cash share-based compensation expense</b>	<b>60,597</b>	<b>79,267</b>	<b>98,698</b>	<b>113,774</b>	<b>135,232</b>
Add: Amortization of intangible assets – Cost of Revenue	3,274	3,533	5,943	10,180	10,672
Add: Amortization of intangible assets – S&M	8,322	8,348	8,416	8,872	7,838
Add: Amortization of intangible assets – R&D	4,025	4,194	3,836	3,836	2,417
Add: Amortization of intangible assets – G&A	3,340	3,674	5,328	5,316	5,958
<b>Total Amortization of intangible assets</b>	<b>18,961</b>	<b>19,749</b>	<b>23,523</b>	<b>28,204</b>	<b>26,885</b>
Add: Transaction costs related to business combinations	0	0	0	0	4,001
Add: Facility exit costs	0	0	3,142	2,171	0
<b>Non-GAAP Operating Income</b>	<b>\$225,235</b>	<b>\$298,929</b>	<b>\$326,401</b>	<b>\$376,439</b>	<b>\$416,112</b>
<b>GAAP Gross Margin as reported</b>	<b>83.5%</b>	<b>84.2%</b>	<b>84.9%</b>	<b>84.8%</b>	<b>84.7%</b>
<b>Non-GAAP Gross Margin</b>	<b>84.5%</b>	<b>85.2%</b>	<b>86.1%</b>	<b>86.3%</b>	<b>86.1%</b>
<b>GAAP Operating Margin as reported</b>	<b>16.0%</b>	<b>17.6%</b>	<b>15.1%</b>	<b>15.1%</b>	<b>14.0%</b>
<b>Non-GAAP Operating Margin</b>	<b>24.8%</b>	<b>26.4%</b>	<b>24.6%</b>	<b>24.5%</b>	<b>23.3%</b>
GAAP Net Income as reported	\$107,278	\$146,626	\$150,204	\$178,292	\$180,201
Provision for income taxes	46,416	61,383	59,548	61,256	75,297
GAAP Income before provision for income taxes	\$153,694	\$208,009	\$209,752	\$239,548	\$255,498
Add: Non-cash share-based compensation expense per FAS 123R	60,597	79,267	98,698	113,774	135,232
Add: Amortization of intangible assets	18,961	19,749	23,523	28,204	26,885
Add: Non-cash interest expense from accretion of debt discount	0	0	0	0	7,292
Add: Transaction costs related to business combinations	0	0	0	0	4,001
Add: Facility exit costs	0	0	3,142	2,171	0
Non-GAAP adjusted income before provision for taxes	233,252	307,025	335,115	383,697	428,908
Provision for income taxes (1)	70,442	90,603	95,139	98,226	126,399
<b>Non-GAAP adjusted net income</b>	<b>\$162,810</b>	<b>\$216,422</b>	<b>\$239,976</b>	<b>\$285,471</b>	<b>\$302,509</b>
Non-GAAP adjusted net income per share ( <b>GAAP Tax Rate</b> ):					
Basic	\$0.86	\$1.12	\$1.24	\$1.50	\$1.62
Diluted	\$0.83	\$1.10	\$1.23	\$1.49	\$1.60

**Note:** Certain prior year amounts have been reclassified to conform with current year presentation.

**(1)Note Q210, Q212 & Q314 included discrete tax benefit, please see below for provision for income tax breakout:**

Non-GAAP adjusted net income before income tax provision	\$307,025	\$383,697
Effective tax rates, excluding discrete tax items	31%	26.7%
Non-GAAP provision for income taxes before discrete tax benefit	\$92,668	\$102,451
Discrete tax benefit	2,066	4,225
Provision for income taxes on Non-GAAP adjusted net income	<u>\$90,602</u>	<u>\$98,226</u>