

RED HAT, INC.

Quarterly Non-GAAP Consolidated Statement of Ops (see accompanying Non-GAAP reconciliation)

(Unaudited)

(In thousands - except per share amounts)

	Q115 Quarter End 05/31/2014	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
GAAP Revenue:						
Subscriptions	\$371,968	\$389,495	\$394,699	\$405,073	\$424,793	\$441,526
Training and services	51,786	56,404	61,196	58,869	56,208	62,622
Total subscription, training and services revenue	423,754	445,899	455,895	463,942	481,001	504,148
Non-GAAP Cost of revenue:						
Subscriptions	23,600	23,708	23,888	24,669	25,673	26,574
Training and services	35,110	37,555	40,567	39,404	39,424	42,621
Total cost of subscription, training and services revenue	58,710	61,263	64,455	64,073	65,097	69,195
Total Non-GAAP gross profit	365,044	384,636	391,440	399,869	415,904	434,953
Non-GAAP Operating expense:						
Sales and marketing	165,018	158,837	169,394	172,098	181,455	186,309
Research and development	80,117	83,208	82,233	81,362	86,307	90,174
General and administrative	31,657	33,766	31,290	35,896	34,810	35,332
Total operating expense	276,792	275,811	282,917	289,356	302,572	311,815
Non-GAAP Income from operations	88,252	108,825	108,523	110,513	113,332	123,138
GAAP Interest income	1,842	2,010	2,196	2,288	2,715	2,895
Other income (expense), net	410	(192)	1,559	4,784	(203)	(1,245)
Interest expense	(52)	(97)	(707)	(1,247)	(1,116)	(1,113)
Income before provision (benefit) for income taxes	90,452	110,546	111,571	116,338	114,728	123,675
Provision (benefit) for income taxes	26,231	32,058	32,356	35,754	33,271	35,866
Non-GAAP Net income	\$64,221	\$78,488	\$79,215	\$80,584	\$81,457	\$87,809
Non-GAAP Net income per share:						
Basic	\$0.34	\$0.42	\$0.43	\$0.44	\$0.44	\$0.48
Diluted	\$0.34	\$0.41	\$0.42	\$0.43	\$0.44	\$0.47
Weighted average shares outstanding:						
Basic	189,372	188,162	185,039	183,459	183,131	183,179
GAAP Diluted	191,457	190,755	187,674	186,307	186,175	186,750
Dilution offset from convertible note hedge transactions	-	-	-	-	(51)	(585)
Non-GAAP Diluted	191,457	190,755	187,674	186,307	186,124	186,165

Red Hat GAAP to Non-GAAP Reconciliation – Quarterly

(Unaudited)

	Q115 Quarter End 05/31/2014	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
Revenue	\$423,754	\$445,899	\$455,895	\$463,942	\$481,001	\$504,148
GAAP Gross Profit as reported	\$359,311	\$378,725	\$384,530	\$393,724	\$409,604	\$428,184
Add: Non-cash share-based compensation expense	3,118	3,425	3,915	3,569	3,727	4,151
Add: Amortization of intangible assets	2,615	2,486	2,995	2,576	2,573	2,618
Non-GAAP Gross Profit	\$365,044	\$384,636	\$391,440	\$399,869	\$415,904	\$434,953
GAAP Operating Income as reported	\$50,963	\$64,227	\$67,197	\$67,608	\$70,930	\$76,470
Add: Non-cash share-based compensation expense – Cost of Revenue	3,118	3,425	3,915	3,569	3,727	4,151
Add: Non-cash share-based compensation expense – S&M	10,238	13,691	15,866	15,408	15,412	16,782
Add: Non-cash share-based compensation expense – R&D	8,864	11,098	8,130	10,426	10,874	12,022
Add: Non-cash share-based compensation expense – G&A	6,494	8,391	5,713	6,887	6,509	7,582
Total Non-cash share-based compensation expense	28,714	36,605	33,624	36,290	36,522	40,537
Add: Amortization of intangible assets – Cost of Revenue	2,615	2,486	2,995	2,576	2,573	2,618
Add: Amortization of intangible assets – S&M	1,582	1,992	1,958	2,305	2,005	2,010
Add: Amortization of intangible assets – R&D	959	959	250	250	250	292
Add: Amortization of intangible assets – G&A	1,428	1,607	1,438	1,484	1,052	1,160
Total Amortization of intangible assets	6,584	7,044	6,641	6,615	5,880	6,080
Add: Transaction costs related to business combinations	1,991	949	1,061	0	0	51
Non-GAAP Operating Income	\$88,252	\$108,825	\$108,523	\$110,513	\$113,332	\$123,138
GAAP Gross Margin as reported	84.8%	84.9%	84.3%	84.9%	85.2%	84.9%
Non-GAAP Gross Margin	86.1%	86.3%	85.9%	86.2%	86.5%	86.3%
GAAP Operating Margin as reported	12.0%	14.4%	14.7%	14.6%	14.7%	15.2%
Non-GAAP Operating Margin	20.8%	24.4%	23.8%	23.8%	23.6%	24.4%
GAAP Net Income as reported	\$37,745	\$46,823	\$47,933	\$47,700	\$48,086	\$51,395
Provision for income taxes	15,417	19,125	19,578	21,177	19,641	20,992
GAAP Income before provision for income taxes	\$53,162	\$65,948	\$67,511	\$68,877	\$67,727	\$72,387
Add: Non-cash share-based compensation expense	28,714	36,605	33,624	36,290	36,522	40,537
Add: Amortization of intangible assets	6,584	7,044	6,641	6,615	5,880	6,080
Add: Non-cash interest expense from accretion of debt discount	0	0	2,734	4,556	4,599	4,620
Add: Transaction costs related to business combinations	1,991	949	1,061	0	0	51
Non-GAAP adjusted income before provision for taxes	90,451	110,546	111,571	116,338	114,728	123,675
Provision for income taxes	26,231	32,058	32,356	35,754	33,271	35,866
Non-GAAP adjusted net income	\$64,220	\$78,488	\$79,215	\$80,584	\$81,457	\$87,809
Non-GAAP adjusted net income per share:						
Basic	\$0.34	\$0.42	\$0.43	\$0.44	\$0.44	\$0.48
Diluted	\$0.34	\$0.41	\$0.42	\$0.43	\$0.44	\$0.47

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

(Unaudited)

	Q115 Quarter End 05/31/2014	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
Revenue:						
Subscriptions	\$371,968	\$389,495	\$394,699	\$405,073	\$424,793	\$441,526
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Total subscription, training and services revenue	423,754	445,899	455,895	463,942	481,001	504,148
Cost of revenue:						
Subscriptions	23,600	23,708	23,888	24,669	25,673	26,574
Training and services	35,110	37,555	40,567	39,404	39,424	42,621
Total cost of subscription, training and services revenue	58,710	61,263	64,455	64,073	65,097	69,195
Total gross profit	365,044	384,636	391,440	399,869	415,904	434,953
Non-GAAP Gross Margin	86.1%	86.3%	85.9%	86.2%	86.5%	86.3%
Non-GAAP Subscription Gross Margin	93.7%	93.9%	93.9%	93.9%	94.0%	94.0%
Non-GAAP Training and services Gross Margin	32.2%	33.4%	33.7%	33.1%	29.9%	31.9%
Cost of revenue reconciliation GAAP to non-GAAP						
Subscriptions (GAAP)	27,760	27,791	28,574	28,731	29,846	30,996
Less: non-cash share-based compensation expense	1,545	1,646	1,822	1,586	1,692	1,836
Less: Amortization of intangible assets	2,615	2,437	2,864	2,476	2,481	2,586
Subscriptions (non-GAAP)	23,600	23,708	23,888	24,669	25,673	26,574
Training and services (GAAP)	36,683	39,383	42,791	41,487	41,551	44,968
Less: non-cash share-based compensation expense	1,573	1,778	2,093	1,983	2,035	2,315
Less: Amortization of intangible assets	-	50	131	100	92	32
Training and services (non-GAAP)	35,110	37,555	40,567	39,404	39,424	42,621

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	<u>909,277</u>	<u>1,133,103</u>	<u>1,328,817</u>	<u>1,534,615</u>	<u>1,789,489</u>
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	<u>140,960</u>	<u>167,135</u>	<u>185,224</u>	<u>210,627</u>	<u>248,500</u>
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	<u>543,083</u>	<u>667,039</u>	<u>817,192</u>	<u>947,550</u>	<u>1,124,877</u>
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	<u>233,252</u>	<u>307,025</u>	<u>335,114</u>	<u>383,696</u>	<u>428,908</u>
Provision (benefit) for income taxes (GAAP tax rate) ¹	<u>70,442</u>	<u>90,603</u>	<u>95,139</u>	<u>98,226</u>	<u>126,399</u>
Net income	<u>\$162,810</u>	<u>\$216,422</u>	<u>\$239,975</u>	<u>\$285,470</u>	<u>\$302,509</u>
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.

GAAP Tax Rate	30.2%	29.5%	28.4%	25.6%	29.5%
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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	<u>\$92,668</u>	<u>\$102,451</u>
Discrete tax benefit	<u>2,066</u>	<u>4,225</u>
Provision for income taxes on Non-GAAP adjusted net income	<u><u>\$90,602</u></u>	<u><u>\$98,226</u></u>

Red Hat GAAP to Non-GAAP Reconciliation – Annual

	FY11 Year End <u>02/28/2011</u>	FY12 Year End <u>02/29/2012</u>	FY13 Year End <u>02/28/2013</u>	FY14 Year End <u>02/28/2014</u>	FY15 Year End <u>02/28/2015</u>
Revenue	\$909,277	\$1,133,103	\$1,328,817	\$1,534,615	\$1,789,489
GAAP Gross Profit as reported	\$758,990	\$954,555	\$1,128,217	\$1,302,015	\$1,516,290
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
Non-GAAP Gross Profit	\$768,317	\$965,968	\$1,143,593	\$1,323,988	\$1,540,989
GAAP Operating Income as reported	\$145,677	\$199,913	\$201,038	\$232,290	\$249,994
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
Total Non-cash share-based compensation expense	60,597	79,267	98,698	113,774	135,232
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
Total Amortization of intangible assets	18,961	19,749	23,523	28,204	26,885
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 Operating Income	\$225,235	\$298,929	\$326,401	\$376,439	\$416,112
GAAP Gross Margin as reported	83.5%	84.2%	84.9%	84.8%	84.7%
Non-GAAP Gross Margin	84.5%	85.2%	86.1%	86.3%	86.1%
GAAP Operating Margin as reported	16.0%	17.6%	15.1%	15.1%	14.0%
Non-GAAP Operating Margin	24.8%	26.4%	24.6%	24.5%	23.3%
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
Non-GAAP adjusted net income	\$162,810	\$216,422	\$239,976	\$285,471	\$302,509
Non-GAAP adjusted net income per share (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

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>