

RED HAT, INC.
Quarterly Non-GAAP Consolidated Statement of Ops (see Non-GAAP reconciliation on following page)

(Unaudited)

(In thousands - except per share amounts)

	Q116	Q216	Q316	Q416	Q117	Q217
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>5/31/2015</u>	<u>8/31/2015</u>	<u>11/30/2015</u>	<u>2/29/2016</u>	<u>5/31/2016</u>	<u>8/31/2016</u>
GAAP Revenue:						
Subscriptions	\$ 424,793	\$ 441,526	\$ 457,488	\$ 479,642	501,665	531,209
Training and services	56,208	62,622	66,092	63,860	66,234	68,596
Total subscription, training and services revenue	481,001	504,148	523,580	543,502	567,899	599,805
Non-GAAP Cost of revenue:						
Subscriptions	25,673	26,574	27,321	28,275	30,765	33,828
Training and services	39,424	42,621	46,553	45,565	45,355	45,943
Total cost of subscription, training and services revenue	65,097	69,195	73,874	73,840	76,120	79,771
Total Non-GAAP gross profit	415,904	434,953	449,706	469,662	491,779	520,034
Non-GAAP Operating expense:						
Sales and marketing	181,455	186,309	196,262	207,760	222,892	230,989
Research and development	86,307	90,174	91,535	96,000	102,980	108,262
General and administrative	34,810	35,332	38,853	41,460	41,943	44,120
Total operating expense	302,572	311,815	326,650	345,220	367,815	383,371
Non-GAAP Income from operations	113,332	123,138	123,056	124,442	123,964	136,663
GAAP Interest income	2,715	2,895	2,874	3,189	3,430	3,392
Other income (expense), net	(203)	(1,245)	49	(337)	(553)	84
Interest expense	(1,116)	(1,113)	(1,153)	(1,170)	(1,156)	(1,172)
Income before provision (benefit) for income taxes (1)	114,728	123,675	124,826	126,124	125,685	138,967
Provision (benefit) for income taxes	33,271	35,866	36,200	29,094	33,507	37,739
Non-GAAP Net income	<u>\$ 81,457</u>	<u>\$ 87,809</u>	<u>\$ 88,626</u>	<u>\$ 97,030</u>	<u>\$ 92,178</u>	<u>\$ 101,228</u>
Net income-diluted	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228
Non-GAAP Net income per share:						
Basic	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56
Diluted	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55
Weighted average shares outstanding:						
Basic	183,131	183,179	182,850	182,099	181,168	180,322
GAAP Diluted	186,175	186,750	186,094	184,888	184,187	183,346
Dilution offset from convertible note hedge transactions	(51)	(585)	(390)	(67)	—	(195)
Non-GAAP Diluted	186,124	186,165	185,704	184,821	184,187	183,151
(1) Non-GAAP provision for income taxes:						
Non-GAAP adjusted income before provision for income taxes	\$ 114,728	\$ 123,675	\$ 124,826	\$ 126,124	\$ 125,685	\$ 138,967
GAAP estimated annual effective tax rate	29 %	29 %	29 %	23.1 %	27 %	27 %
Provision for income taxes on Non-GAAP adjusted net income before discrete tax expenses (benefits)	33,271	35,866	36,200	29,094	33,935	37,521
Discrete tax expenses (benefits), excluding discrete tax expenses (benefits) related to share-based compensation	—	—	—	—	(428)	218
Provision for income taxes on Non-GAAP adjusted net income excluding discrete tax benefits (expenses) related to share-based compensation	<u>\$ 33,271</u>	<u>\$ 35,866</u>	<u>\$ 36,200</u>	<u>\$ 29,094</u>	<u>\$ 33,507</u>	<u>\$ 37,739</u>

Red Hat GAAP to Non-GAAP Reconciliation Quarterly

(Unaudited)

(In thousands - except per share amounts)

	Q116	Q216	Q316	Q416	Q117	Q217
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	5/31/2015	8/31/2015	11/30/2015	2/29/2016	5/31/2016	8/31/2016
Revenue	\$ 481,001	\$ 504,148	\$ 523,580	\$ 543,502	\$ 567,899	\$ 599,805
GAAP Gross Profit as reported	\$ 409,604	\$ 428,184	\$ 442,532	\$ 462,282	\$ 483,851	\$ 512,134
Add: Non-cash share-based compensation expense	3,727	4,151	4,074	3,946	4,305	4,054
Add: Amortization of intangible assets	2,573	2,618	3,100	3,434	3,623	3,846
Non-GAAP Gross Profit	\$ 415,904	\$ 434,953	\$ 449,706	\$ 469,662	\$ 491,779	\$ 520,034
GAAP Operating Income as reported	\$ 70,930	\$ 76,470	\$ 68,877	\$ 71,772	\$ 75,363	\$ 81,884
Revenue	3,727	4,151	4,074	3,946	4,305	4,054
Add: Non-cash share-based compensation expense S&M	15,412	16,782	17,192	19,703	18,440	20,361
Add: Non-cash share-based compensation expense R&D	10,874	12,022	13,059	12,511	12,002	12,969
Add: Non-cash share-based compensation expense G&A	6,509	7,582	9,082	9,608	6,528	7,973
Total Non-cash share-based compensation expense	36,522	40,537	43,407	45,768	41,275	45,357
Add: Amortization of intangible assets Cost of Revenue	2,573	2,618	3,100	3,434	3,623	3,846
Add: Amortization of intangible assets S&M	2,005	2,010	2,330	1,730	1,916	1,905
Add: Amortization of intangible assets R&D	250	292	312	(13)	34	34
Add: Amortization of intangible assets G&A	1,052	1,160	1,238	1,711	1,753	1,848
Total Amortization of intangible assets	5,880	6,080	6,980	6,862	7,326	7,633
Add: Transaction costs related to business combinations	—	51	3,792	40	—	1,789
Non-GAAP Operating Income	\$ 113,332	\$ 123,138	\$ 123,056	\$ 124,442	\$ 123,964	\$ 136,663
GAAP Gross Margin as reported	85.2 %	84.9 %	84.5 %	85.1 %	85.2 %	85.4 %
Non-GAAP Gross Margin	86.5 %	86.3 %	85.9 %	86.4 %	86.6 %	86.7 %
GAAP Operating Margin as reported	14.7 %	15.2 %	13.2 %	13.2 %	13.3 %	13.7 %
Non-GAAP Operating Margin	23.6 %	24.4 %	23.5 %	22.9 %	21.8 %	22.8 %
GAAP Net Income as reported	\$ 48,086	\$ 51,395	\$ 46,848	\$ 53,036	\$ 61,184	\$ 58,772
GAAP provision for income taxes	19,641	20,992	19,135	15,732	11,169	20,663
GAAP Income before provision for income taxes	\$ 67,727	\$ 72,387	\$ 65,983	\$ 68,768	\$ 72,353	\$ 79,435
Add: Non-cash share-based compensation expense	36,522	40,537	43,407	45,768	41,275	45,357
Add: Amortization of intangible assets	5,880	6,080	6,980	6,862	7,326	7,633
Add: Non-cash interest expense related to the debt discount	4,599	4,620	4,664	4,686	4,731	4,753
Add: Transaction costs related to business combinations	—	51	3,792	40	—	1,789
Non-GAAP adjusted income before provision for taxes	114,728	123,675	124,826	126,124	125,685	138,967
Non-GAAP provision for income taxes	33,271	35,866	36,200	29,094	33,507	37,739
Non-GAAP adjusted net income	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228
Non-GAAP adjusted net income-diluted	\$ 81,457	\$ 87,809	\$ 88,626	\$ 97,030	\$ 92,178	\$ 101,228
GAAP net income per share:						
Basic	\$ 0.26	\$ 0.28	\$ 0.26	\$ 0.29	\$ 0.34	\$ 0.33
Diluted	\$ 0.26	\$ 0.28	\$ 0.25	\$ 0.29	\$ 0.33	\$ 0.32
Non-GAAP adjusted net income per share:						
Basic	\$ 0.44	\$ 0.48	\$ 0.48	\$ 0.53	\$ 0.51	\$ 0.56
Diluted	\$ 0.44	\$ 0.47	\$ 0.48	\$ 0.52	\$ 0.50	\$ 0.55
Weighted average shares outstanding:						
Basic	183,131	183,179	182,850	182,099	181,168	180,322
GAAP Diluted	186,175	186,750	186,094	184,888	184,187	183,346
Dilution offset from convertible note hedge transactions	(51)	(585)	(390)	(67)	—	(195)
Non-GAAP Diluted	186,124	186,165	185,704	184,821	184,187	183,151

Margins

(Unaudited)

(In thousands)

GAAP Revenue:

	Q116	Q216	Q316	Q416	Q117	Q217
	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End	Quarter End
	<u>5/31/2015</u>	<u>8/31/2015</u>	<u>11/30/2015</u>	<u>2/29/2016</u>	<u>5/31/2016</u>	<u>8/31/2016</u>
Subscriptions	\$ 424,793	\$ 441,526	\$ 457,488	\$ 479,642	\$ 501,665	\$ 531,209
Training and services	56,208	62,622	66,092	63,860	66,234	68,596
Total subscription, training and services revenue	481,001	504,148	523,580	543,502	567,899	599,805

Non-GAAP Cost of revenue:

Subscriptions	25,673	26,574	27,321	28,275	30,765	33,828
Training and services	39,424	42,621	46,553	45,565	45,355	45,943
Total cost of subscription, training and services revenue	65,097	69,195	73,874	73,840	76,120	79,771

Total Non-GAAP gross profit

415,904 434,953 449,706 469,662 491,779 520,034

Cost of revenue reconciliation GAAP to non-GAAP

Subscriptions (GAAP)	29,846	30,996	32,246	33,575	36,545	39,678
Less: non-cash share-based compensation expense	1,692	1,836	1,825	1,866	2,157	2,004
Less: Amortization of intangible assets	2,481	2,586	3,100	3,434	3,623	3,846
Subscriptions (non-GAAP)	25,673	26,574	27,321	28,275	30,765	33,828

Training and services (GAAP)

Less: non-cash share-based compensation expense	2,035	2,315	2,249	2,080	2,148	2,050
Less: Amortization of intangible assets	92	32	—	—	—	—
Training and services (non-GAAP)	39,424	42,621	46,553	45,565	45,355	45,943

GAAP Gross Margin 85.2 % 84.9 % 84.5 % 85.1 % 85.2 % 85.4 %

Non-GAAP Gross Margin 86.5 % 86.3 % 85.9 % 86.4 % 86.6 % 86.7 %

GAAP Subscription Gross Margin 93.0 % 93.0 % 93.0 % 93.0 % 92.7 % 92.5 %

Non-GAAP Subscription Gross Margin 94.0 % 94.0 % 94.0 % 94.1 % 93.9 % 93.6 %

GAAP Training and services Gross Margin 26.1 % 28.2 % 26.2 % 25.4 % 28.3 % 30.0 %

Non-GAAP Training and services Gross Margin 29.9 % 31.9 % 29.6 % 28.6 % 31.5 % 33.0 %

RED HAT, INC.**Annual Non-GAAP Consolidated Statement of Ops**

(Unaudited)

(In thousands - except per share amounts)

	FY2012	FY2013	FY2014	FY2015	FY2016
	Year End	Year End	Year End	Year End	Year End
	<u>2/29/2012</u>	<u>2/28/2013</u>	<u>2/28/2014</u>	<u>2/28/2015</u>	<u>2/29/2016</u>
Revenue:					
Subscriptions	\$ 965,575	\$ 1,148,341	\$ 1,336,771	\$ 1,561,234	\$ 1,803,449
Training and services	167,528	180,476	197,844	228,255	248,781
Total subscription, training and services revenue	1,133,103	1,328,817	1,534,615	1,789,489	2,052,230
Cost of revenue:					
Subscriptions	59,109	70,059	81,316	95,865	107,842
Training and services	108,026	115,165	129,311	152,635	174,163
Total cost of subscription, training and services revenue	167,135	185,224	210,627	248,500	282,005
Total gross profit	965,968	1,143,593	1,323,988	1,540,989	1,770,225
Operating expense:					
Sales and marketing	386,226	473,232	548,691	665,346	771,786
Research and development	182,898	229,667	279,233	326,922	364,014
General and administrative	97,915	114,293	119,626	132,609	150,456
Total operating expense	667,039	817,192	947,550	1,124,877	1,286,256
Income from operations	298,929	326,401	376,438	416,112	483,969
Interest income	8,418	8,245	6,645	8,336	11,673
Other income (expense), net	(262)	736	774	6,562	(1,735)
Interest expense	(60)	(267)	(160)	(2,102)	(4,551)
Income before provision (benefit) for income taxes	307,025	335,115	383,697	428,908	489,356
Provision (benefit) for income taxes (GAAP tax rate) (1)	90,603	95,139	98,226	126,399	134,431
Net income	<u>\$ 216,422</u>	<u>\$ 239,976</u>	<u>\$ 285,471</u>	<u>\$ 302,509</u>	<u>\$ 354,925</u>
Net income per share at GAAP tax rate:					
Basic	\$ 1.12	\$ 1.24	\$ 1.50	\$ 1.62	\$ 1.94
Diluted	\$ 1.10	\$ 1.23	\$ 1.49	\$ 1.60	\$ 1.91
Weighted average shares outstanding:					
Basic	193,151	193,147	189,920	186,529	182,817
GAAP Diluted	196,451	195,804	192,036	189,246	186,119
Dilution offset from convertible note hedge transactions	—	—	—	—	(282)
Non-GAAP Diluted	196,451	195,804	192,036	189,246	185,837

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

GAAP Tax Rate	29.5 %	28.4 %	25.6 %	29.5 %	27.5 %
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(1) Note Q212 & Q314 included discrete tax benefits, please see below for provision for income tax breakout:

Non-GAAP adjusted net income before income tax provision	\$ 307,025	\$ 383,697
GAAP effective tax rate, excluding discrete tax items	31 %	26 %
Non-GAAP provision for income taxes before discrete tax benefits	\$ 92,668	\$ 102,451
Discrete tax benefits	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

(Unaudited)

(In thousands - except per share amounts)

	FY12 Year End 2/29/2012	FY13 Year End 2/28/2013	FY14 Year End 2/28/2014	FY15 Year End 2/28/2015	FY16 Year End 2/29/2016
Revenue	\$ 1,133,103	\$ 1,328,817	\$ 1,534,615	\$ 1,789,489	\$ 2,052,230
GAAP Gross Profit as reported	\$ 954,555	\$ 1,128,217	\$ 1,302,015	\$ 1,516,290	\$ 1,742,601
Add: Non-cash share-based compensation expense	7,880	9,433	11,793	14,027	15,898
Add: Amortization of intangible assets	3,533	5,943	10,180	10,672	11,726
Non-GAAP Gross Profit	\$ 965,968	\$ 1,143,593	\$ 1,323,988	\$ 1,540,989	\$ 1,770,225
GAAP Operating Income as reported	\$ 199,913	\$ 201,038	\$ 232,290	\$ 249,994	\$ 288,048
Add: Non-cash share-based compensation expense – Cost of Revenue	7,880	9,433	11,793	14,027	15,898
Add: Non-cash share-based compensation expense – S&M	25,060	32,906	40,322	55,203	69,089
Add: Non-cash share-based compensation expense – R&D	21,570	29,647	34,194	38,517	48,466
Add: Non-cash share-based compensation expense – G&A	24,757	26,712	27,465	27,485	32,781
Total Non-cash share-based compensation expense	79,267	98,698	113,774	135,232	166,234
Add: Amortization of intangible assets – Cost of Revenue	3,533	5,943	10,180	10,672	11,726
Add: Amortization of intangible assets – S&M	8,348	8,416	8,872	7,838	8,075
Add: Amortization of intangible assets – R&D	4,194	3,836	3,836	2,417	842
Add: Amortization of intangible assets – G&A	3,674	5,328	5,316	5,958	5,160
Total Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884
Add: Facility exit costs	—	3,142	2,171	—	—
Non-GAAP Operating Income	\$ 298,929	\$ 326,401	\$ 376,439	\$ 416,112	\$ 483,969
GAAP Gross Margin as reported	84.2 %	84.9 %	84.8 %	84.7 %	84.9 %
Non-GAAP Gross Margin	85.2 %	86.1 %	86.3 %	86.1 %	86.3 %
GAAP Operating Margin as reported	17.6 %	15.1 %	15.1 %	14 %	14 %
Non-GAAP Operating Margin	26.4 %	24.6 %	24.5 %	23.3 %	23.6 %
GAAP Net Income as reported	\$ 146,626	\$ 150,204	\$ 178,292	\$ 180,201	\$ 199,365
GAAP provision for income taxes	61,383	59,548	61,256	75,297	75,500
GAAP Income before provision for income taxes	\$ 208,009	\$ 209,752	\$ 239,548	\$ 255,498	\$ 274,865
Add: Non-cash share-based compensation expense per FAS 123R	79,267	98,698	113,774	135,232	166,234
Add: Amortization of intangible assets	19,749	23,523	28,204	26,885	25,803
Add: Non-cash interest expense related to the debt discount	—	—	—	7,292	18,570
Add: Transaction costs related to business combinations	—	—	—	4,001	3,884
Add: Facility exit costs	—	3,142	2,171	—	—
Non-GAAP adjusted income before provision for taxes	307,025	335,115	383,697	428,908	489,356
Non-GAAP provision for income taxes (1)	90,603	95,139	98,226	126,399	134,431
Non-GAAP adjusted net income	<u>\$ 216,422</u>	<u>\$ 239,976</u>	<u>\$ 285,471</u>	<u>\$ 302,509</u>	<u>\$ 354,925</u>
GAAP net income per share:					
Basic	\$ 0.76	\$ 0.78	\$ 0.94	\$ 0.97	\$ 1.09
Diluted	\$ 0.75	\$ 0.77	\$ 0.93	\$ 0.95	\$ 1.07
Non-GAAP adjusted net income per share (GAAP Tax Rate):					
Basic	\$ 1.12	\$ 1.24	\$ 1.50	\$ 1.62	\$ 1.94
Diluted	\$ 1.10	\$ 1.23	\$ 1.49	\$ 1.60	\$ 1.91
Weighted average shares outstanding:					
Basic	193,151	193,147	189,920	186,529	182,817
GAAP Diluted	196,451	195,804	192,036	189,246	186,119
Dilution offset from convertible note hedge transactions	—	—	—	—	(282)
Non-GAAP Diluted	196,451	195,804	192,036	189,246	185,837

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

(1)Note 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
GAAP effective tax rate, 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>