

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
Revenue:				
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	<u>194,346</u>	<u>165,332</u>	<u>552,368</u>	<u>486,351</u>
Cost of revenue:				
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	<u>29,598</u>	<u>26,536</u>	<u>84,507</u>	<u>80,473</u>
Total gross profit	164,748	138,796	467,861	405,878
Operating expense:				
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	<u>144,955</u>	<u>117,826</u>	<u>395,471</u>	<u>343,594</u>
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	<u>\$16,414</u>	<u>\$24,305</u>	<u>\$63,865</u>	<u>\$62,733</u>
Net income-diluted	<u>\$16,414</u>	<u>\$25,147</u>	<u>\$63,865</u>	<u>\$65,392</u>
Net income per share:				
Basic	\$0.09	\$0.13	\$0.34	\$0.33
Diluted	\$0.08	\$0.12	\$0.33	\$0.30
Weighted average shares outstanding:				
Basic	187,450	190,665	187,823	190,978
Diluted	193,733	208,408	193,366	215,605
Diluted net income per share computation:				
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	<u>\$16,414</u>	<u>\$25,147</u>	<u>\$63,865</u>	<u>\$65,392</u>

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

ASSETS

	November 30, 2009	February 28, 2009
	<u>(Unaudited)</u>	
Current assets:		
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	<u>96,585</u>	<u>99,437</u>
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	<u>38,157</u>	<u>51,242</u>
Total assets	<u>\$1,855,829</u>	<u>\$1,753,636</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$17,496	\$9,576
Accrued expenses	72,874	54,123
Deferred revenue	446,685	382,050
Other current obligations	<u>878</u>	<u>900</u>
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
Stockholders' equity:		
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	<u>4,528</u>	<u>10,327</u>
Total stockholders' equity	<u>1,107,200</u>	<u>1,106,053</u>
Total liabilities and stockholders' equity	<u>\$1,855,829</u>	<u>\$1,753,636</u>

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

	Three Months Ended		Nine Months Ended	
	November 30, 2009	November 30, 2008	November 30, 2009	November 30, 2008
Cash flows from operating activities:				
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	<u>54,149</u>	<u>59,148</u>	<u>177,358</u>	<u>176,777</u>
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	<u>(159,257)</u>	<u>(28,831)</u>	<u>(252,299)</u>	<u>(68,248)</u>
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	<u>(4,534)</u>	<u>(296,087)</u>	<u>(65,346)</u>	<u>(262,243)</u>
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	<u>493,052</u>	<u>787,457</u>	<u>515,548</u>	<u>677,720</u>
Cash and cash equivalents at end of period	<u>\$389,709</u>	<u>\$519,837</u>	<u>\$389,709</u>	<u>\$519,837</u>

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	<u>\$12,557</u>	<u>\$12,251</u>	<u>\$34,246</u>	<u>\$33,681</u>

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	<u>\$5,018</u>	<u>\$5,136</u>	<u>\$15,033</u>	<u>\$12,698</u>

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	<u>\$8,750</u>	<u>-</u>	<u>\$8,750</u>	<u>-</u>

	Three Months Ended		Nine Months Ended	
	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	<u>\$33,525</u>	<u>\$36,905</u>	<u>\$101,583</u>	<u>\$93,016</u>
Non-GAAP adjusted net income-diluted	<u>\$33,525</u>	<u>\$37,747</u>	<u>\$101,583</u>	<u>\$95,646</u>
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	<u>\$33,525</u>	<u>\$37,747</u>	<u>\$101,583</u>	<u>\$95,646</u>
(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	<u>\$18,052</u>	<u>\$13,998</u>	<u>\$43,439</u>	<u>\$49,875</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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>November 30, 2009</u>	<u>November 30, 2008</u>	<u>November 30, 2009</u>	<u>November 30, 2008</u>
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	<u>\$166,653</u>	<u>\$140,508</u>	<u>\$473,274</u>	<u>\$410,459</u>
Non-GAAP gross margin	86%	85%	86%	84%
	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>November 30, 2009</u>	<u>November 30, 2008</u>	<u>November 30, 2009</u>	<u>November 30, 2008</u>
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	<u>\$120,535</u>	<u>\$102,151</u>	<u>\$342,855</u>	<u>\$301,796</u>
	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>November 30, 2009</u>	<u>November 30, 2008</u>	<u>November 30, 2009</u>	<u>November 30, 2008</u>
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	<u>\$46,118</u>	<u>\$38,357</u>	<u>\$130,419</u>	<u>\$108,663</u>
Non-GAAP adjusted operating margin	23.7%	23.2%	23.6%	22.3%