

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

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>February 28,</u> <u>2011</u>	<u>February 28,</u> <u>2010</u>	<u>February 28,</u> <u>2011</u>	<u>February 28,</u> <u>2010</u>
Revenue:				
Subscriptions	\$209,303	\$169,158	\$773,404	\$638,654
Training and services	35,493	26,710	135,873	109,582
Total subscription, training and services revenue	<u>244,796</u>	<u>195,868</u>	<u>909,277</u>	<u>748,236</u>
Cost of revenue:				
Subscriptions	14,742	11,393	52,997	43,426
Training and services	26,862	17,945	97,290	70,419
Total cost of subscription, training and services revenue	<u>41,604</u>	<u>29,338</u>	<u>150,287</u>	<u>113,845</u>
Total gross profit	203,192	166,530	758,990	634,391
Operating expense:				
Sales and marketing	88,273	70,462	327,408	272,705
Research and development	45,150	38,293	171,253	148,360
General and administrative	30,359	29,816	114,653	104,227
Litigation Settlement	-	-	-	8,750
Total operating expense	<u>163,782</u>	<u>138,571</u>	<u>613,314</u>	<u>534,042</u>
Income from operations	39,410	27,959	145,676	100,349
Interest income	1,697	2,220	6,743	10,381
Other income (expense), net	<u>(866)</u>	<u>4,329</u>	<u>1,275</u>	<u>10,772</u>
Income before provision for income taxes	40,241	34,508	153,694	121,502
Provision for income taxes	<u>6,707</u>	<u>11,120</u>	<u>46,416</u>	<u>34,249</u>
Net income	<u>\$33,534</u>	<u>\$23,388</u>	<u>\$107,278</u>	<u>\$87,253</u>
Net income-diluted	<u>\$33,534</u>	<u>\$23,388</u>	<u>\$107,278</u>	<u>\$87,253</u>
Net income per share:				
Basic	\$0.17	\$0.12	\$0.56	\$0.46
Diluted	\$0.17	\$0.12	\$0.55	\$0.45
Weighted average shares outstanding:				
Basic	192,996	187,911	190,294	187,845
Diluted	197,878	193,822	196,353	193,546

RED HAT, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	February 28, 2011	February 28, 2010 (1)
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$642,630	\$388,118
Investments in debt and equity securities	217,970	372,656
Accounts receivable, net	184,741	139,436
Deferred tax assets, net	75,720	57,951
Prepaid expenses	62,364	44,116
Other current assets	1,133	842
Total current assets	1,184,558	1,003,119
Property and equipment, net	75,558	71,708
Goodwill	463,673	438,749
Identifiable intangibles, net	109,932	108,213
Investments in debt securities	331,791	209,411
Other assets, net	33,810	39,672
Total assets	\$2,199,322	\$1,870,872
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$16,285	\$16,483
Accrued expenses	90,229	68,334
Deferred revenue	572,637	480,572
Other current obligations	650	878
Total current liabilities	679,801	566,267
Deferred lease credits	5,215	4,184
Long term deferred revenue	199,617	165,288
Other long term obligations	23,990	24,081
Stockholders' equity:		
Common stock	22	22
Additional paid-in capital	1,610,238	1,444,848
Retained earnings	245,050	137,772
Treasury stock, at cost	(562,792)	(472,646)
Accumulated other comprehensive (loss) income	(1,819)	1,056
Total stockholders' equity	1,290,699	1,111,052
Total liabilities and stockholders' equity	\$2,199,322	\$1,870,872

(1) Derived from audited financial statements

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

	Three Months Ended		Twelve Months Ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
Cash flows from operating activities:				
Net income	\$33,534	\$23,388	\$107,278	\$87,253
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	12,757	12,014	47,997	45,861
Share-based compensation expense	16,408	14,042	60,597	48,288
Deferred income taxes	4,151	5,570	33,848	20,636
Excess tax benefits from share-based payment arrangements	(10,292)	(8,289)	(42,291)	(35,569)
Gain on sale of available-for-sale equity securities	(903)	(4,409)	(3,746)	(12,656)
Other	716	1,453	1,505	1,248
Changes in operating assets and liabilities net of effects of acquisitions:				
Accounts receivable	(30,481)	(6,159)	(41,512)	(7,290)
Prepaid expenses	(7,863)	(5,810)	(17,220)	(630)
Accounts payable	(3,043)	(375)	(381)	6,569
Accrued expenses	5,320	(1,414)	29,915	15,423
Deferred revenue	73,540	46,662	112,724	82,625
Other	1,157	1,220	2,034	3,491
Net cash provided by operating activities	<u>95,001</u>	<u>77,893</u>	<u>290,748</u>	<u>255,249</u>
Cash flows from investing activities:				
Purchase of available-for-sale debt securities	(216,327)	(132,630)	(751,420)	(666,890)
Proceeds from sales and maturities of available-for-sale debt securities	165,472	113,321	770,860	412,514
Proceeds from sales of available-for-sale equity securities	939	4,681	3,938	13,053
Acquisitions of businesses, net of cash acquired	-	-	(31,381)	-
Net purchase of strategic equity investments	-	(400)	-	(1,768)
Purchase of developed technologies and other intangible assets	(1,667)	(1,775)	(14,093)	(4,692)
Purchase of property and equipment	(7,588)	(7,103)	(32,759)	(28,420)
Net cash used in investing activities	<u>(59,171)</u>	<u>(23,906)</u>	<u>(54,855)</u>	<u>(276,203)</u>
Cash flows from financing activities:				
Excess tax benefits from share-based payment arrangements	10,292	8,289	42,291	35,569
Proceeds from exercise of common stock options	4,090	39,758	84,443	103,332
Purchase of treasury stock	(10,791)	(90,147)	(90,146)	(236,393)
Payments related to net settlement of employee share-based compensation awards	(3,162)	(2,801)	(26,250)	(11,855)
Payments on other borrowings	(16)	-	(876)	(900)
Proceeds from other borrowings	-	-	318	-
Net cash provided by (used in) financing activities	<u>413</u>	<u>(44,901)</u>	<u>9,780</u>	<u>(110,247)</u>
Effect of foreign currency exchange rates on cash and cash equivalents	11,473	(10,677)	8,839	3,771
Net increase (decrease) in cash and cash equivalents	47,716	(1,591)	254,512	(127,430)
Cash and cash equivalents at beginning of the period	<u>594,914</u>	<u>389,709</u>	<u>388,118</u>	<u>515,548</u>
Cash and cash equivalents at end of period	<u>\$642,630</u>	<u>\$388,118</u>	<u>\$642,630</u>	<u>\$388,118</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		Twelve Months Ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
Cost of revenue	\$1,884	\$1,155	\$6,053	\$3,630
Sales and marketing	5,502	4,166	18,971	14,041
Research and development	4,244	4,026	15,639	13,614
General and administration	4,778	4,695	19,934	17,003
Total share-based compensation expense	<u>\$16,408</u>	<u>\$14,042</u>	<u>\$60,597</u>	<u>\$48,288</u>

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

	Three Months Ended		Twelve Months Ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
Cost of revenue	\$979	\$724	\$3,274	\$3,662
Sales and marketing	2,085	2,148	8,322	9,056
Research and development	1,250	925	4,025	3,702
General and administration	846	816	3,340	3,228
Total amortization of intangible assets expense	<u>\$5,160</u>	<u>\$4,613</u>	<u>\$18,961</u>	<u>\$19,648</u>

Class action litigation settlement expense included in Consolidated Statements of Operations:

	Three Months Ended		Twelve Months Ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
Litigation settlement	-	-	-	\$8,750

	Three Months Ended		Twelve Months Ended	
	February 28, 2011	February 28, 2010	February 28, 2011	February 28, 2010
GAAP net income	\$33,534	\$23,388	\$107,278	\$87,253
Provision for income taxes	6,707	11,120	46,416	34,249
GAAP income before provision for income taxes	\$40,241	\$34,508	\$153,694	\$121,502
Add: Non-cash share-based compensation expense	16,408	14,042	60,597	48,288
Add: Amortization of intangible assets	5,160	4,613	18,961	19,648
Add: Litigation settlement	-	-	-	8,750
Non-GAAP adjusted income before provision for income taxes	\$61,809	\$53,163	\$233,252	\$198,188
Provision for income taxes (1)	<u>10,437</u>	<u>16,624</u>	<u>70,442</u>	<u>60,065</u>
Non-GAAP adjusted net income	<u>\$51,372</u>	<u>\$36,539</u>	<u>\$162,810</u>	<u>\$138,123</u>
Non-GAAP adjusted net income-diluted	<u>\$51,372</u>	<u>\$36,539</u>	<u>\$162,810</u>	<u>\$138,123</u>
Non-GAAP adjusted net income per share:				
Basic	\$0.27	\$0.19	\$0.86	\$0.74
Diluted	\$0.26	\$0.19	\$0.83	\$0.71

(1) Provision for income taxes:

Non-GAAP adjusted net income before income tax provision	\$61,809	\$53,163	\$233,252	\$198,188
Estimated annual effective tax rate	16.9%	31.3%	30.2%	34.0%
Non-GAAP provision for income taxes before discrete tax benefit	\$10,437	\$16,624	\$70,442	\$67,384
Discrete tax benefit	-	-	-	7,319
Provision for income taxes on Non-GAAP adjusted net income	<u>\$10,437</u>	<u>\$16,624</u>	<u>\$70,442</u>	<u>\$60,065</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>Twelve Months Ended</u>	
	<u>February 28, 2011</u>	<u>February 28, 2010</u>	<u>February 28, 2011</u>	<u>February 28, 2010</u>
GAAP gross profit	\$203,192	\$166,530	\$758,990	\$634,391
Add: Non-cash share-based compensation expense	1,884	1,155	6,053	3,630
Add: Amortization of intangible assets	979	724	3,274	3,662
Non-GAAP gross profit	<u>\$206,055</u>	<u>\$168,409</u>	<u>\$768,317</u>	<u>\$641,683</u>
Non-GAAP gross margin	84.2%	86.0%	84.5%	85.8%

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>February 28, 2011</u>	<u>February 28, 2010</u>	<u>February 28, 2011</u>	<u>February 28, 2010</u>
GAAP operating expenses	\$163,782	\$138,571	\$613,314	\$534,042
Deduct: Non-cash share-based compensation expense	(14,524)	(12,887)	(54,544)	(44,658)
Deduct: Amortization of intangible assets	(4,181)	(3,889)	(15,687)	(15,986)
Deduct: Litigation settlement	-	-	-	(8,750)
Non-GAAP adjusted operating expenses	<u>\$145,077</u>	<u>\$121,795</u>	<u>\$543,083</u>	<u>\$464,648</u>

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>February 28, 2011</u>	<u>February 28, 2010</u>	<u>February 28, 2011</u>	<u>February 28, 2010</u>
GAAP operating income	\$39,410	\$27,959	\$145,676	\$100,349
Add: Non-cash share-based compensation expense	16,408	14,042	60,597	48,288
Add: Amortization of intangible assets	5,160	4,613	18,961	19,648
Add: Litigation settlement	-	-	-	8,750
Non-GAAP adjusted operating income	<u>\$60,978</u>	<u>\$46,614</u>	<u>\$225,234</u>	<u>\$177,035</u>
Non-GAAP adjusted operating margin	24.9%	23.8%	24.8%	23.7%