

RED HAT INC  
Form 10-Q  
July 05, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2013

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-33162

**RED HAT, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

**06-1364380**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**100 East Davie Street, Raleigh, North Carolina 27601**

(Address of principal executive offices, including zip code)

**(919) 754-3700**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of June 28, 2013, there were 189,304,464 shares of common stock outstanding.

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**CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS**

Certain statements contained in this report and the documents incorporated by reference in this report, including in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide current expectations of future events based on certain assumptions and any statement that is not strictly a historical statement could be deemed to be a forward-looking statement (for example, statements regarding current or future financial performance, management's plans and objectives for future operations, product plans and performance, management's expectations regarding market risk and market penetration, management's assessment of market factors or strategies, objectives and plans of Red Hat, Inc. (Red Hat) and its partners). Words such as anticipates, believes, expects, estimates, intends, plans, projects, and similar expressions may also identify such forward-looking statements. Red Hat may also make forward-looking statements in other filings made with the Securities and Exchange Commission (SEC), press releases, materials delivered to stockholders and oral statements made by management. Investors are cautioned that these forward-looking statements are inherently uncertain, are not guarantees of Red Hat's future performance and are subject to a number of risks and uncertainties that could cause Red Hat's actual results to differ materially from those found in the forward-looking statements and from historical trends. These risks and uncertainties include the risks and cautionary statements detailed in Item 1A, Risk Factors and elsewhere in this report as well as in Red Hat's other filings with the SEC, copies of which may be accessed through the SEC's web site at <http://www.sec.gov>. Readers are urged to carefully review these risks and cautionary statements. Moreover, Red Hat operates in a rapidly changing and highly competitive environment. It is impossible to predict all risks and uncertainties or assess the impact of any new risk or uncertainty on our business or any forward-looking statement. The forward-looking statements included in this report represent our views as of the date of this report. We specifically disclaim any obligation to update these forward-looking statements in the future. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this report.

**Table of Contents****RED HAT, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands except share and per share amounts)**

	<b>May 31, 2013</b> <b>(Unaudited)</b>	<b>February 28,</b> <b>2013 (1)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 597,998	\$ 487,084
Investments in debt and equity securities, short-term	255,638	392,381
Accounts receivable, net of allowances for doubtful accounts of \$1,292 and \$1,339, respectively	227,747	302,942
Deferred tax assets, net	88,595	88,765
Prepaid expenses	90,141	94,421
Other current assets	2,414	3,156
<b>Total current assets</b>	<b>\$ 1,262,533</b>	<b>\$ 1,368,749</b>
Property and equipment, net of accumulated depreciation and amortization of \$197,112 and \$189,985, respectively	158,876	141,586
Goodwill	690,530	690,911
Identifiable intangibles, net	137,313	142,243
Investments in debt securities, long-term	374,652	438,908
Other assets, net	31,029	31,263
<b>Total assets</b>	<b>\$ 2,654,933</b>	<b>\$ 2,813,660</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 141,593	\$ 154,202
Deferred revenue	800,791	830,486
Other current obligations	1,041	1,024
<b>Total current liabilities</b>	<b>\$ 943,425</b>	<b>\$ 985,712</b>
Long-term deferred revenue	259,103	259,466
Other long-term obligations	59,098	48,321
Commitments and contingencies (NOTES 12 and 13)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized, none outstanding		
Common stock, \$0.0001 per share par value, 300,000,000 shares authorized, 229,567,268 and 229,210,961 shares issued, and 189,728,958 and 193,021,226 shares outstanding at May 31, 2013 and February 28, 2013, respectively	23	23
Additional paid-in capital	1,819,251	1,802,899
Retained earnings	582,271	541,880
Treasury stock at cost, 39,838,310 and 36,189,735 shares at May 31, 2013 and February 28, 2013, respectively	(996,010)	(816,674)
Accumulated other comprehensive loss	(12,228)	(7,967)
<b>Total stockholders' equity</b>	<b>\$ 1,393,307</b>	<b>\$ 1,520,161</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,654,933</b>	<b>\$ 2,813,660</b>

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(1) Derived from audited financial statements.

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****RED HAT, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands except per share amounts)****(Unaudited)**

	<b>Three Months Ended</b>	
	<b>May 31,</b>	<b>May 31,</b>
	<b>2013</b>	<b>2012</b>
<b>Revenue:</b>		
Subscriptions	\$ 315,817	\$ 272,571
Training and services	47,442	42,160
<b>Total subscription and training and services revenue</b>	<b>363,259</b>	<b>314,731</b>
<b>Cost of subscription and training and services revenue:</b>		
Cost of subscriptions	23,375	17,940
Cost of training and services	32,682	28,079
<b>Total cost of subscription and training and services revenue</b>	<b>56,057</b>	<b>46,019</b>
<b>Gross profit</b>	<b>307,202</b>	<b>268,712</b>
<b>Operating expense:</b>		
Sales and marketing	142,444	120,870
Research and development	73,802	59,880
General and administrative	34,333	33,912
Facility exit costs (NOTE 12)		3,142
<b>Total operating expense</b>	<b>250,579</b>	<b>217,804</b>
<b>Income from operations</b>	<b>56,623</b>	<b>50,908</b>
Interest income	1,502	2,294
Other income (expense), net	(424)	1,887
<b>Income before provision for income taxes</b>	<b>57,701</b>	<b>55,089</b>
Provision for income taxes	17,310	17,628
<b>Net income</b>	<b>\$ 40,391</b>	<b>\$ 37,461</b>
<b>Basic net income per common share</b>	<b>\$ 0.21</b>	<b>\$ 0.19</b>
<b>Diluted net income per common share</b>	<b>\$ 0.21</b>	<b>\$ 0.19</b>
<b>Weighted average shares outstanding</b>		
Basic	191,114	192,947
Diluted	192,969	195,937

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****RED HAT, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In thousands)****(Unaudited)**

	<b>Three Months Ended</b>	
	<b>May 31,</b>	<b>May 31,</b>
	<b>2013</b>	<b>2012</b>
Net income	\$ 40,391	\$ 37,461
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(3,617)	(9,321)
Unrealized gain (loss) on securities during period	(359)	46
Reclassification for gain recognized in other income during period	(285)	(364)
Total other comprehensive income (loss), net of tax	(4,261)	(9,639)
Comprehensive income	\$ 36,130	\$ 27,822

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****RED HAT, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Three Months Ended</b>	
	<b>May 31,</b>	<b>May 31,</b>
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 40,391	\$ 37,461
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	17,932	14,079
Share-based compensation expense	23,131	22,206
Deferred income taxes	12,845	10,026
Excess tax benefits from share-based payment arrangements	(3,033)	(10,200)
Net amortization of bond premium on debt securities available for sale	2,051	1,671
Other	143	(2,370)
<b>Changes in operating assets and liabilities net of effects of acquisitions:</b>		
Accounts receivable	72,422	54,560
Prepaid expenses	3,251	(7,799)
Accounts payable and accrued expenses	(12,609)	9,427
Deferred revenue	(16,900)	(5,122)
Other	2,191	465
<b>Net cash provided by operating activities</b>	<b>141,815</b>	<b>124,404</b>
<b>Cash flows from investing activities:</b>		
Purchase of investment in debt securities available for sale	(129,643)	(322,741)
Proceeds from sales and maturities of investment in debt securities available for sale	325,850	227,685
Purchase of other intangible assets	(2,344)	(2,522)
Purchase of property and equipment	(26,677)	(15,899)
Other	192	330
<b>Net cash provided by (used in) investing activities</b>	<b>167,378</b>	<b>(113,147)</b>
<b>Cash flows from financing activities:</b>		
Excess tax benefits from share-based payment arrangements	3,033	10,200
Proceeds from exercise of common stock options	453	3,890
Payments related to net settlement of share-based compensation awards	(10,983)	(18,832)
Purchase of treasury stock	(179,336)	(30,011)
Payments on other borrowings	(305)	(264)
<b>Net cash used in financing activities</b>	<b>(187,138)</b>	<b>(35,017)</b>
<b>Effect of foreign currency exchange rates on cash and cash equivalents</b>	<b>(11,141)</b>	<b>(16,841)</b>