

RED HAT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands - except per share amounts)

	Three Months Ended		Six Months Ended	
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2007	Aug. 31, 2006
Revenue:				
Subscriptions	\$109,172	\$ 84,947	\$212,217	\$156,439
Training and services	18,098	14,726	33,926	27,237
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Total subscription, training and services revenue	127,270	99,673	246,143	183,676
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Cost of revenue:				
Subscriptions	8,492	7,386	16,093	13,382
Training and services	11,572	9,034	22,235	16,484
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Total cost of subscription, training and services revenue	20,064	16,420	38,328	29,866
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Total gross profit	107,206	83,253	207,815	153,810
Operating expense:				
Sales and marketing	46,093	37,807	92,302	68,308
Research and development	23,384	18,068	45,171	31,883
General and administrative	19,933	17,926	37,594	31,555
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Total operating expense	89,410	73,801	175,067	131,746
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Income from operations	17,796	9,452	32,748	22,064
Other income, net	14,030	9,573	27,608	20,275
Interest expense	(1,565)	(1,490)	(3,060)	(2,974)
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Income before provision (benefit) for income taxes	30,261	17,535	57,296	39,365
Provision (benefit) for income taxes	12,104	6,488	22,918	14,565
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Net income	\$ 18,157	\$ 11,047	\$ 34,378	\$ 24,800
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Net income-diluted	\$ 19,050	\$ 12,000	\$ 36,165	\$ 26,705
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Net income per share:				
Basic	\$ 0.09	\$ 0.06	\$ 0.18	\$ 0.13
Diluted	\$ 0.09	\$ 0.05	\$ 0.16	\$ 0.12
Weighted average shares outstanding:				
Basic	193,634	190,292	193,358	186,936
Diluted	221,688	219,940	221,559	217,348
Diluted net income per share computation:				
GAAP Net income, basic	\$ 18,157	\$ 11,047	\$ 34,378	\$ 24,800
Interest expense on convertible debentures, net of related GAAP tax effects	435	464	869	927
Amortization of debt issuance costs, net of related GAAP tax effects	458	489	918	978
GAAP Net income, diluted	\$ 19,050	\$ 12,000	\$ 36,165	\$ 26,705
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Note: certain prior year amounts have been reclassified to conform with current year presentation.

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

ASSETS	Aug. 31, 2007	Feb. 28, 2007
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	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 524,619	\$ 527,239
Investments in debt securities	353,764	350,827
Accounts receivable, net	89,125	87,973
Prepaid expenses and other current assets	57,862	41,026
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Total current assets	1,025,370	1,007,065
Property and equipment, net	51,363	45,258
Goodwill	339,357	328,837
Identifiable intangibles, net	97,477	94,314
Investments in debt securities	375,263	278,028
Other assets, net	32,945	32,352
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Total assets	\$1,921,775	\$1,785,854
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,085	\$ 12,062
Accrued expenses	37,622	38,472
Deferred revenue	278,361	249,615

Other current obligations	24	214
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Total current liabilities	326,092	300,363
Deferred lease credits	5,042	5,235
Long term deferred revenue	98,673	89,020
Other long term obligations	23,430	-
Convertible debentures	570,000	570,000
Stockholders' equity:		
Common stock	20	20
Additional paid-in capital	1,096,394	1,040,892
Accumulated deficit	(70,491)	(92,092)
Treasury stock, at cost	(125,924)	(125,789)
Accumulated other comprehensive loss	(1,461)	(1,795)
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Total stockholders' equity	898,538	821,236
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Total liabilities and stockholders' equity	\$1,921,775	\$1,785,854
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Note: certain prior year amounts have been reclassified to conform with current year presentation.

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

	Three Months Ended		Six Months Ended	
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2007	Aug. 31, 2006
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Cash flows from operating activities:				
Net income	\$ 18,157	\$ 11,047	\$ 34,378	\$ 24,800
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	8,219	6,754	15,453	11,098
Deferred income taxes	9,884	4,092	18,214	9,502
Share-based compensation expense	8,581	8,300	16,967	15,926
Excess tax benefits from share-based payment arrangements	(14,509)	(740)	(27,119)	(2,875)
Provision for doubtful accounts	(195)	201	387	702
Amortization of debt issuance costs	752	752	1,505	1,504
Other	156	(12)	156	(289)
Changes in operating assets and liabilities net of effects of acquisitions:				

Accounts receivable and earnings in excess of billings	4,162	3,311	245	(181)
Prepaid expenses and other current assets	736	(1,115)	-	(2,415)
Accounts payable	2,116	399	(2,107)	509
Accrued expenses	(617)	(1,707)	(2,382)	(157)
Deferred revenue	11,858	12,623	33,421	38,079
Other assets	(99)	(21)	(193)	53
Net cash provided by operating activities	49,201	43,884	88,925	96,256
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Cash flows from investing activities:				
Purchase of investment securities	(167,415)	(112)	(508,590)	(7,444)
Proceeds from sales and maturities of investment securities	193,478	78,021	408,958	356,052
Acquisitions of businesses, net of cash acquired	-	(147,651)	(11,784)	(149,562)
Purchase of property and equipment	(8,375)	(5,107)	(14,782)	(8,985)
Purchase of developed software and other intangibles assets	(865)	-	(4,352)	-
Net cash provided by (used in) investing activities	16,823	(74,849)	(130,550)	190,061
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Cash flows from financing activities:				
Excess tax benefits from share-based payment arrangements	14,509	740	27,119	2,875
Net proceeds from issuance of common stock under Employee Stock Purchase Plan	-	-	-	306
Proceeds from exercise of common stock options	5,455	4,354	8,530	11,684
Purchase of treasury stock	(136)	(1,359)	(136)	(1,532)
Proceeds from other borrowings	-	-	2,898	-
Payments on other borrowings	(90)	(31)	(757)	(31)
Net cash provided by financing activities	19,738	3,704	37,654	13,302
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Effect of foreign currency exchange rates on cash and cash equivalents	1,473	(1,475)	1,351	1,015

Net increase (decrease) in cash and cash equivalents	87,235	(28,736)	(2,620)	300,634
Cash and cash equivalents at beginning of the period	437,384	596,917	527,239	267,547
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Cash and cash equivalents at end of period	\$ 524,619	\$ 568,181	\$ 524,619	\$ 568,181
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Note: certain prior year amounts have been reclassified to conform with current year presentation.

RED HAT, INC.

NON CASH SHARE-BASED COMPENSATION AND RECONCILIATION OF 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		Six Months Ended	
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2007	Aug. 31, 2006
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Cost of revenue	\$ 570	\$ 539	\$ 1,152	\$ 1,049
Sales and marketing	2,437	2,455	4,951	4,572
Research and development	2,118	1,771	4,243	3,268
General and administration	3,456	3,535	6,621	7,037
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Total stock based compensation expense	\$ 8,581	\$ 8,300	\$ 16,967	\$15,926
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Reconciliation of GAAP results to non-GAAP adjusted results

	Three Months Ended		Six Months Ended	
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2007	Aug. 31, 2006
	-----	-----	-----	-----
GAAP net income	\$18,157	\$11,047	\$ 34,378	\$24,800
GAAP provision for income taxes	12,104	6,488	22,918	14,565
GAAP income before provision for income taxes	\$30,261	\$17,535	\$ 57,296	\$39,365
Add: Share-based compensation per FAS 123R	8,581	8,300	16,967	15,926

Non-GAAP adjusted income before provision for income taxes	\$38,842	\$25,835	\$74,263	\$55,291
Non-GAAP cash provision for income taxes	\$1,942	\$1,292	\$3,713	\$2,765
Non-GAAP adjusted net income	\$36,900	\$24,543	\$70,550	\$52,526
Non-GAAP adjusted net income-diluted	\$38,292	\$25,935	\$73,334	\$55,310
Non-GAAP adjusted net income per share:				
Basic	\$0.19	\$0.13	\$0.36	\$0.28
Diluted	\$0.17	\$0.12	\$0.33	\$0.25

Non-GAAP diluted net income per share computation:				
Non-GAAP adjusted net income	\$36,900	\$24,543	\$70,550	\$52,526
Interest expense on convertible debentures, net of related 5% cash tax effects	677	677	1,354	1,354
Amortization of debt issuance costs, net of related 5% cash tax effects	715	715	1,430	1,430
Non-GAAP adjusted net income-diluted	\$38,292	\$25,935	\$73,334	\$55,310

Reconciliation of GAAP cash flows from operating activities to non-GAAP adjusted cash flows from operating activities

	Three Months Ended		Six Months Ended	
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2007	Aug. 31, 2006
GAAP net cash provided by operating activities	\$49,201	\$43,884	\$88,925	\$96,256
Add: Excess tax benefits from share-based payment arrangements	14,509	740	27,119	2,875
Non-GAAP net cash provided by operating activities	\$63,710	\$44,624	\$116,044	\$99,131

RED HAT, INC.
RECONCILIATION OF GAAP RESULTS TO NON-GAAP ADJUSTED RESULTS
(Unaudited)
(In thousands - except per share amounts)

Reconciliation of GAAP results to non-GAAP adjusted results

	Three Months Ended		Six Months Ended	
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2007	Aug. 31, 2006
GAAP Gross profit	\$107,206	\$83,253	\$207,815	\$153,810
Add: Non-cash share-based compensation per FAS 123R	570	539	1,152	1,049
Non-GAAP gross profit	\$107,776	\$83,792	\$208,967	\$154,859
Non-GAAP gross margin	85%	84%	85%	84%
	Three Months Ended		Six Months Ended	
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2007	Aug. 31, 2006
GAAP operating expenses	\$ 89,410	\$73,801	\$175,067	\$131,746
Deduct: Non-cash share-based compensation per FAS 123R	(8,011)	(7,761)	(15,815)	(14,877)
Non-GAAP adjusted operating expenses	\$ 81,399	\$66,040	\$159,252	\$116,869
	Three Months Ended		Six Months Ended	
	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2007	Aug. 31, 2006
GAAP operating income	\$ 17,796	\$ 9,452	\$ 32,748	\$ 22,064
Add: Non-cash share-based compensation per FAS 123R	8,581	8,300	16,967	15,926
Non-GAAP adjusted operating income	\$ 26,377	\$17,752	\$ 49,715	\$ 37,990
Non-GAAP adjusted operating margin	20.7%	17.8%	20.2%	20.7%