

RED HAT INC
Form 10-Q
July 09, 2014
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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, 2014

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, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 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 30, 2014, there were 189,096,335 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. together with its subsidiaries (Red Hat) and its partners). Words such as anticipate, believe, estimate, expect, intend, plan, 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 Part II, 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)**

	May 31, 2014	February 28,
	(Unaudited)	2014 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 564,148	\$ 646,742
Investments in debt securities, short-term	239,039	335,387
Accounts receivable, net of allowances for doubtful accounts of \$1,946 and \$1,986, respectively	265,663	360,594
Deferred tax assets, net	114,253	108,264
Prepaid expenses	124,523	118,387
Other current assets	1,275	1,808
Total current assets	\$ 1,308,901	\$ 1,571,182
Property and equipment, net of accumulated depreciation and amortization of \$220,916 and \$209,295, respectively	172,792	173,917
Goodwill	817,279	687,430
Identifiable intangibles, net	141,326	133,399
Investments in debt securities, long-term	596,895	505,300
Other assets, net	32,817	35,391
Total assets	\$ 3,070,010	\$ 3,106,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 185,910	\$ 179,468
Deferred revenue	947,353	966,832
Other current obligations	1,851	1,786
Total current liabilities	\$ 1,135,114	\$ 1,148,086
Long-term deferred revenue	325,216	322,365
Other long-term obligations	84,877	85,003
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, 231,361,701 and 230,915,589 shares issued, and 188,556,010 and 189,712,211 shares outstanding at May 31, 2014 and February 28, 2014, respectively	23	23
Additional paid-in capital	1,908,934	1,891,848
Retained earnings	757,917	720,172
Treasury stock at cost, 42,805,691 and 41,203,378 shares at May 31, 2014 and February 28, 2014, respectively	(1,136,713)	(1,056,419)
Accumulated other comprehensive loss	(5,358)	(4,459)
Total stockholders' equity	\$ 1,524,803	\$ 1,551,165
Total liabilities and stockholders' equity	\$ 3,070,010	\$ 3,106,619

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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)**

	Three Months Ended	
	May 31, 2014	May 31, 2013
Revenue:		
Subscriptions	\$ 371,968	\$ 315,817
Training and services	51,786	47,442
Total subscription and training and services revenue	423,754	363,259
Cost of subscription and training and services revenue:		
Cost of subscriptions	27,760	23,375
Cost of training and services	36,683	32,682
Total cost of subscription and training and services revenue	64,443	56,057
Gross profit	359,311	307,202
Operating expense:		
Sales and marketing	176,838	142,444
Research and development	89,939	73,802
General and administrative	41,571	34,333
Total operating expense	308,348	250,579
Income from operations	50,963	56,623
Interest income	1,842	1,502
Other income (expense), net	357	(424)
Income before provision for income taxes	53,162	57,701
Provision for income taxes	15,417	17,310
Net income	\$ 37,745	\$ 40,391
Basic net income per common share	\$ 0.20	\$ 0.21
Diluted net income per common share	\$ 0.20	\$ 0.21
Weighted average shares outstanding		
Basic	189,372	191,114
Diluted	191,457	192,969

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)**

	Three Months Ended	
	May 31, 2014	May 31, 2013
Net income	\$ 37,745	\$ 40,391
Other comprehensive income (loss):		
Change in foreign currency translation adjustment	(902)	(3,617)
Available-for-sale securities:		
Unrealized gain (loss) on available-for-sale securities during the period	89	(731)
Reclassification for gain realized on available-for-sale securities, reported in Other income (expense), net	(153)	(285)
Tax benefit	67	372
Net change in available-for-sale securities (net of tax)	3	(644)
Total other comprehensive loss	(899)	(4,261)
Comprehensive income	\$ 36,846	\$ 36,130

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)**

	Three Months Ended	
	May 31, 2014	May 31, 2013
Cash flows from operating activities:		
Net income	\$ 37,745	\$ 40,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,924	17,932
Share-based compensation expense	28,714	23,131
Deferred income taxes	2,930	9,812
Net amortization of bond premium on debt securities available for sale	2,033	2,051
Other	(948)	143
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	96,580	72,422
Prepaid expenses	(5,189)	3,251
Accounts payable and accrued expenses	2,655	(12,609)
Deferred revenue	(19,749)	(16,900)
Other	991	2,191
Net cash provided by operating activities	164,686	141,815
Cash flows from investing activities:		
Purchase of investment in debt securities available for sale	(268,574)	(129,643)
Proceeds from sales and maturities of investment in debt securities available for sale	269,431	325,850
Acquisition of business, net of cash acquired	(151,621)	
Purchase of other intangible assets	(553)	(2,344)
Purchase of property and equipment	(8,594)	(26,677)
Other	3,472	192
Net cash provided by (used in) investing activities	(156,439)	167,378
Cash flows from financing activities:		
Excess tax benefits from share-based payment arrangements	986	3,033
Proceeds from exercise of common stock options	45	453
Payments related to net settlement of share-based compensation awards	(13,729)	(10,983)
Purchase of treasury stock	(80,033)	(179,336)
Payments on other borrowings	(355)	(305)

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