

RED HAT INC
Form 10-Q
January 08, 2015
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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 November 30, 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 January 2, 2015, there were 183,414,508 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)**

	November 30, 2014 (Unaudited)	February 28, 2014 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 883,989	\$ 646,742
Investments in debt securities, short-term	231,420	335,387
Accounts receivable, net of allowances for doubtful accounts of \$2,336 and \$1,986, respectively	354,870	360,594
Deferred tax assets, net	106,282	108,264
Prepaid expenses	126,827	118,387
Other current assets	1,629	1,808
Total current assets	\$ 1,705,017	\$ 1,571,182
Property and equipment, net of accumulated depreciation and amortization of \$223,157 and \$209,295, respectively	173,599	173,917
Goodwill	939,574	687,430
Identifiable intangibles, net	144,176	133,399
Investments in debt securities, long-term	531,112	505,300
Other assets, net	54,393	35,391
Total assets	\$ 3,547,871	\$ 3,106,619
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 229,272	\$ 179,468
Deferred revenue	941,441	966,832
Other current obligations	1,908	1,786
Total current liabilities	\$ 1,172,621	\$ 1,148,086
Long-term deferred revenue	358,684	322,365
Convertible notes	710,844	
Other long-term obligations	71,915	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, 232,883,474 and 230,915,589 shares issued, and 183,372,588 and 189,712,211 shares outstanding at November 30, 2014 and February 28, 2014, respectively	23	23
Additional paid-in capital	1,928,179	1,891,848
Retained earnings	852,673	720,172
Treasury stock at cost, 49,510,886 and 41,203,378 shares at November 30, 2014 and February 28, 2014, respectively	(1,515,288)	(1,056,419)
Accumulated other comprehensive loss	(31,780)	(4,459)
Total stockholders' equity	\$ 1,233,807	\$ 1,551,165
Total liabilities and stockholders' equity	\$ 3,547,871	\$ 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		Nine Months Ended	
	November 30,	November 30,	November 30,	November 30,
	2014	2013	2014	2013
Revenue:				
Subscriptions	\$ 394,699	\$ 342,770	\$ 1,156,161	\$ 985,279
Training and services	61,196	53,766	169,387	148,939
Total subscription and training and services revenue	455,895	396,536	1,325,548	1,134,218
Cost of subscription and training and services revenue:				
Cost of subscriptions	28,574	24,544	84,125	71,437
Cost of training and services	42,791	35,883	118,857	100,627
Total cost of subscription and training and services revenue	71,365	60,427	202,982	172,064
Gross profit	384,530	336,109	1,122,566	962,154
Operating expense:				
Sales and marketing	187,218	153,528	538,576	440,568
Research and development	90,613	82,519	275,817	234,619
General and administrative	39,502	39,270	125,786	111,807
Facility exit costs				2,171
Total operating expense	317,333	275,317	940,179	789,165
Income from operations	67,197	60,792	182,387	172,989
Interest income	2,196	1,579	6,048	4,608
Interest expense	3,441	51	3,591	114
Other income (expense), net	1,559	(389)	1,777	446
Income before provision for income taxes	67,511	61,931	186,621	177,929
Provision for income taxes	19,578	9,906	54,120	44,705
Net income	\$ 47,933	\$ 52,025	\$ 132,501	\$ 133,224
Basic net income per common share	\$ 0.26	\$ 0.27	\$ 0.71	\$ 0.70
Diluted net income per common share	\$ 0.26	\$ 0.27	\$ 0.70	\$ 0.69
Weighted average shares outstanding				
Basic	185,039	189,514	187,533	190,024
Diluted	187,674	191,365	190,081	192,049

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		Nine Months Ended	
	November 30, 2014	November 30, 2013	November 30, 2014	November 30, 2013
Net income	\$ 47,933	\$ 52,025	\$ 132,501	\$ 133,224
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(16,013)	5,248	(27,765)	3,199
Available-for-sale securities:				
Unrealized gain (loss) on available-for-sale securities during the period	399	2,213	567	(503)
Reclassification for (gain) loss realized on available-for-sale securities, reported in Other income (expense), net	(1)	(23)	(151)	(340)
Tax benefit (expense)	(140)	(759)	28	368
Net change in available-for-sale securities (net of tax)	258	1,431	444	(475)