

Red Hat Reports Fiscal Third Quarter Results

- **Revenue up 44% from prior year**
- **Operating margin expands to 26%**
- **Quarterly cash flow up 82% year-over-year to \$54.1 million**

Raleigh, NC (Business Wire)- December 21, 2005 - Red Hat, Inc. (NASDAQ:RHAT), the world's leading provider of open source solutions to the enterprise, today announced financial results for its fiscal third quarter ended November 30, 2005.

Total revenue for the quarter was \$73.1 million, an increase of 44% from the year ago quarter and 11% from the prior quarter. Subscription revenue was \$60.2 million, up 54% year-over-year and 11% sequentially.

The company reported operating income of \$18.7 million, representing a 147% increase from the year ago quarter and a 57% increase from the prior quarter. Net income for the quarter was \$23.2 million, up 114% year-over-year and 39% sequentially. Earnings per diluted share were \$0.12 for the quarter, an increase from \$0.09 in the prior quarter and \$0.06 in the year ago quarter.

At quarter end, the company's total deferred revenue balance was \$199.7 million, an increase of 64% on a year-over-year basis and 9% on a sequential basis.

Other highlights from the quarter included:

- Gross margin improved to 84%.
- Cash and investments totaled more than \$1.0 billion at quarter's end.
- Annualized revenue per employee of \$270 thousand.

“Our third quarter results reflect return on investments in people and infrastructure made in prior periods,” stated Charlie Peters, Executive Vice President and Chief Financial Officer of Red Hat. “Solid growth across key metrics indicates not only strength in the demand for our solutions but also continuing improvements in the day-to-day operations of our business.”

“We believe that our third quarter revenue growth places Red Hat among the fastest growing mid-cap technology companies in the world,” stated Dion Cornett, Vice President of Investor Relations.

About Red Hat, Inc.

Red Hat, the world's leading open source and Linux provider, is headquartered in Raleigh, NC with satellite offices spanning the globe. Red Hat is leading Linux and open source solutions into the mainstream by making high quality, low cost technology accessible. Red Hat provides operating system software along with middleware, applications and management solutions. Red Hat also offers support, training and consulting services to its customers worldwide and through top-tier partnerships. Red Hat's open source strategy offers customers a long term plan for building infrastructures that are based on and leverage open source technologies with focus on security and ease of management. Learn more: <http://www.redhat.com>

Forward-Looking Statements

Any statements in this press release about future expectations, plans and prospects for the company, including statements containing the words "believes," "anticipates," "plans," "expects," "will," and similar expressions, constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including: the factors discussed in our most recent Quarterly Report on Form 10-Q filed with the SEC (a copy of which may be accessed through the SEC's website at <http://www.sec.gov>), reliance upon strategic relationships, management of growth, the possibility of undetected software errors, the risks of economic downturns generally, and in Red Hat's industry specifically, the risks associated with competition and competitive pricing pressures and the viability of the Internet. In addition, the forward-looking statements included in this press release represent the company's views as of the date of this press release and these views could change. However, while the company may elect to update these forward-looking statements at some point in the future, the company specifically disclaims any obligation to do so. These forward-looking statements should not be relied upon as representing the company's views as of any date subsequent to the date of the press release.

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