

RED HAT INC
Form 10-Q
January 08, 2015
Table of Contents

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)

Edgar Filing: RED HAT INC - Form 10-Q

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.

Table of Contents

RED HAT, INC.

	Page
<u>CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS</u>	2
PART I FINANCIAL INFORMATION:	
ITEM 1: FINANCIAL STATEMENTS	
<u>Consolidated Balance Sheets at November 30, 2014 (unaudited) and February 28, 2014 (derived from audited financial statements)</u>	3
<u>Consolidated Statements of Operations for the three months and nine months ended November 30, 2014 (unaudited) and 2013 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the three months and nine months ended November 30, 2014 (unaudited) and 2013 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the three months and nine months ended November 30, 2014 (unaudited) and 2013 (unaudited)</u>	6
<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
ITEM 2: <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	32
ITEM 3: <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	48
ITEM 4: <u>CONTROLS AND PROCEDURES</u>	51
PART II OTHER INFORMATION:	
ITEM 1: <u>LEGAL PROCEEDINGS</u>	52
ITEM 1A: <u>RISK FACTORS</u>	52
ITEM 2: <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	73
ITEM 6: <u>EXHIBITS</u>	74
<u>SIGNATURES</u>	75

Table of Contents

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

Edgar Filing: RED HAT INC - Form 10-Q

(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)
Total other comprehensive income (loss)	(15,755)	6,679	(27,321)	2,724
Comprehensive income	\$ 32,178	\$ 58,704	\$ 105,180	\$ 135,948

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		Nine Months Ended	
	November 30, 2014	November 30, 2013	November 30, 2014	November 30, 2013
Cash flows from operating activities:				
Net income	\$ 47,933	\$ 52,025	\$ 132,501	\$ 133,224
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	18,651	18,955	57,114	55,326
Amortization of debt discount and transaction costs	3,085		3,085	
Share-based compensation expense	33,623	30,190	98,942	83,196
Deferred income taxes	(780)	(1,412)	3,125	9,608
Net amortization of bond premium on debt securities available for sale	2,407	2,301	6,965	6,637
Other	(175)	438	(527)	485
Changes in operating assets and liabilities, net of effects of acquisitions:				
Accounts receivable	(75,917)	(75,330)	2,314	(9,249)
Prepaid expenses	(5,922)	(1,109)	(13,502)	(3,503)
Accounts payable and accrued expenses	26,254	12,272	56,175	38,565
Deferred revenue	83,912	56,019	57,955	40,999
Other	(83)	805	1,264	610
Net cash provided by operating activities	132,988	95,154	405,411	355,898
Cash flows from investing activities:				
Purchase of investment in debt securities available for sale	(141,928)	(101,636)	(461,069)	(448,712)
Proceeds from sales and maturities of investment in debt securities available for sale	93,578	118,084	503,110	597,851
Acquisition of businesses, net of cash acquired	(78,317)		(296,121)	
Purchase of other intangible assets	(2,160)	(682)	(3,911)	(13,203)
Purchase of property and equipment	(12,201)	(13,327)	(35,085)	(61,833)
Other	482	(150)	2,917	(2,084)
Net cash provided by (used in) investing activities	(140,546)	2,289	(290,159)	72,019
Cash flows from financing activities:				
Excess tax benefits from share-based payment arrangements	3,488	3,428	4,897	9,071
Proceeds from exercise of common stock options	465	223	1,154	1,311
Payments related to net settlement of share-based compensation awards	(21,754)	(18,307)	(39,314)	(33,122)
Purchase of treasury stock	(375,000)	(40,018)	(535,062)	(239,363)
Proceeds from issuance of convertible notes, net of issuance costs	790,394		790,394	
Purchase of convertible note hedges	(148,040)		(148,040)	
Proceeds from issuance of warrants	79,776		79,776	
Payments on other borrowings	(402)	(362)	(2,392)	(979)
Net cash provided by (used in) financing activities	328,927	(55,036)	151,413	(263,082)

Edgar Filing: RED HAT INC - Form 10-Q

Effect of foreign currency exchange rates on cash and cash equivalents	(22,761)	2,910	(29,418)	(9,808)
Net increase in cash and cash equivalents	298,608	45,317	237,247	155,027
Cash and cash equivalents at beginning of the period	585,381	596,794	646,742	487,084
Cash and cash equivalents at end of the period	\$ 883,989	\$ 642,111	\$ 883,989	\$ 642,111

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

Table of Contents

RED HAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 Company

Red Hat, Inc., incorporated in Delaware, together with its subsidiaries (Red Hat or the Company) is a leading global provider of open source software solutions, using a community-powered approach to develop and offer reliable and high-performing operating system, virtualization, middleware, storage and cloud technologies.

Open source software is an alternative to proprietary software and represents a different model for the development and licensing of commercial software code than that typically used for proprietary software. Because open source software code is often freely shared, there are customarily no licensing fees for the use of open source software. Therefore, the Company does not recognize revenue from the licensing of the code itself. The Company provides value to its customers through the development, aggregation, integration, testing, certification, delivery, maintenance, enhancement and support of its Red Hat enterprise technologies, and by providing a level of performance, reliability, scalability, flexibility, stability and security for the enterprise technologies the Company packages and distributes. Moreover, because communities of developers not employed by the Company assist with the creation of the Company's open source offerings, opportunities for further innovation of the Company's offerings are supplemented by these communities.

The Company derives its revenue and generates cash from customers primarily from two sources: (i) subscription revenue and (ii) training and services revenue. These arrangements typically involve subscriptions to Red Hat enterprise technologies. The arrangements with the Company's customers that produce this revenue and cash are explained in further detail in NOTE 2 Summary of Significant Accounting Policies to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2014.

NOTE 2 Summary of Significant Accounting Policies

Basis of presentation

The unaudited interim consolidated financial statements as of and for the three months and nine months ended November 30, 2014 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial reporting. These consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary for a fair statement of the consolidated balance sheets, consolidated operating results, consolidated other comprehensive income and consolidated cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America. Operating results for the three months and nine months ended November 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending February 28, 2015. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted in accordance with the SEC's rules and regulations for interim reporting. For further information, see the Company's Consolidated Financial Statements, including notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2014.

There have been no changes to the Company's significant accounting policies from those described in NOTE 2 Summary of Significant Accounting Policies to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2014. These unaudited financial statements should be read in conjunction with such Annual Report on Form 10-K.

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

Table of Contents

RED HAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Consolidation policy

The accompanying Consolidated Financial Statements include the accounts of the Company and all of its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation. There are no significant foreign exchange restrictions on the Company's foreign subsidiaries.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from such estimates.

Recent accounting pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (ASU 2014-12). The FASB issued ASU 2014-12 to provide explicit guidance for share-based awards which allow for an employee to vest in an award upon achievement of a performance condition met after completion of a requisite service period regardless of whether the employee is rendering service on the date the performance target is achieved. ASU 2014-12 provides that the performance target should not be reflected in estimating the grant-date fair value of the award but rather compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and recognized prospectively over the remaining requisite service period. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and is effective for the Company as of the first quarter of the fiscal year ending February 28, 2017. The Company has not issued such share-based awards and does not believe that this updated standard will have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The FASB issued ASU 2014-09 to clarify the principles for recognizing revenue and to develop a common revenue standard for generally accepted accounting principles (GAAP) and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, which is effective for the Company as of the first quarter of the fiscal year ending February 28, 2018. The Company is currently evaluating the impact that the implementation of this standard will have on the Company's consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11), to eliminate diversity in practice of presenting unrecognized tax benefits as a liability or presenting unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances by requiring that an unrecognized tax benefit be presented in the financial statements as a reduction to deferred tax assets excluding certain exceptions. ASU 2013-11 became effective for the Company during the three months ended May 31, 2014. The updated standard did not have a material impact on the Company's consolidated financial statements.

Table of Contents**RED HAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

In March 2013, the FASB issued Accounting Standards Update No. 2013-05, *Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* (ASU 2013-05), which requires a parent entity to release a related foreign entity's cumulative translation adjustment into net income only if its sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU 2013-05 became effective for the Company during the three months ended May 31, 2014. The updated standard did not have a material impact on the Company's consolidated financial statements.

NOTE 3 Changes in Equity

The following table summarizes the changes in the Company's stockholders' equity during the three months ended November 30, 2014 (in thousands):

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at August 31, 2014	\$ 23	\$ 1,942,659	\$ 804,740	\$ (1,216,741)	\$ (16,025)	\$ 1,514,656
Net income			47,933			47,933
Other comprehensive income (loss), net of tax					(15,755)	(15,755)
Exercise of common stock options		465				465
Common stock repurchase (see NOTE 10)		(75,000)		(300,000)		(375,000)
Share-based compensation expense		33,623				33,623
Tax benefits related to share-based awards		2,978				2,978
Minimum tax withholdings paid by the Company on behalf of employees related to net settlement of employee share-based awards		(21,754)				(21,754)
Equity component of convertible notes		96,890				96,890
Equity component of convertible notes issuance cost		(1,833)				(1,833)
Purchase of convertible note hedges		(148,040)				(148,040)
Proceeds from issuance of warrants		79,776				79,776
Deferred taxes related to convertible notes		19,868				19,868
Other adjustments		(1,453)		1,453		
Balance at November 30, 2014	\$ 23	\$ 1,928,179	\$ 852,673	\$ (1,515,288)	\$ (31,780)	\$ 1,233,807

Table of Contents**RED HAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table summarizes the changes in the Company's stockholders' equity during the three months ended November 30, 2013 (in thousands):

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at August 31, 2013	\$ 23	\$ 1,846,825	\$ 623,079	\$ (1,016,401)	\$ (11,922)	\$ 1,441,604
Net income			52,025			52,025
Other comprehensive income (loss), net of tax					6,679	6,679
Exercise of common stock options		223				223
Common stock repurchase				(40,018)		(40,018)
Share-based compensation expense		30,190				30,190
Tax benefits related to share-based awards		(1,193)				(1,193)
Minimum tax withholdings paid by the Company on behalf of employees related to net settlement of employee share-based awards		(18,307)				(18,307)
Balance at November 30, 2013	\$ 23	\$ 1,857,738	\$ 675,104	\$ (1,056,419)	\$ (5,243)	\$ 1,471,203

Table of Contents**RED HAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table summarizes the changes in the Company's stockholders' equity during the nine months ended November 30, 2014 (in thousands):

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at February 28, 2014	\$ 23	\$ 1,891,848	\$ 720,172	\$ (1,056,419)	\$ (4,459)	\$ 1,551,165
Net income			132,501			132,501
Other comprehensive income (loss), net of tax					(27,321)	(27,321)
Exercise of common stock options		1,154				1,154
Common stock repurchase (see NOTE 10)		(75,000)		(460,062)		(535,062)
Share-based compensation expense		98,942				98,942
Assumed employee share-based awards from acquisitions		895				895
Tax benefits related to share-based awards		4,186				4,186
Minimum tax withholdings paid by the Company on behalf of employees related to net settlement of employee share-based awards		(39,314)				(39,314)
Equity component of convertible notes		96,890				96,890
Equity component of convertible notes issuance cost		(1,833)				(1,833)
Purchase of convertible note hedges		(148,040)				(148,040)
Proceeds from issuance of warrants		79,776				79,776
Deferred taxes related to convertible notes		19,868				19,868
Other adjustments		(1,193)		1,193		
Balance at November 30, 2014	\$ 23	\$ 1,928,179	\$ 852,673	\$ (1,515,288)	\$ (31,780)	\$ 1,233,807

Table of Contents**RED HAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table summarizes the changes in the Company's stockholders' equity during the nine months ended November 30, 2013 (in thousands):

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance at February 28, 2013	\$ 23	\$ 1,802,899	\$ 541,880	\$ (816,674)	\$ (7,967)	\$ 1,520,161
Net income			133,224			133,224
Other comprehensive income (loss), net of tax					2,724	2,724
Exercise of common stock options		1,311				1,311
Common stock repurchase				(239,363)		(239,363)
Share-based compensation expense		83,196				83,196
Tax benefits related to share-based awards		3,072				3,072
Minimum tax withholdings paid by the Company on behalf of employees related to net settlement of employee share-based awards		(33,122)				(33,122)
Other adjustments		382		(382)		
Balance at November 30, 2013	\$ 23	\$ 1,857,738	\$ 675,104	\$ (1,056,419)	\$ (5,243)	\$ 1,471,203

Accumulated other comprehensive loss

The following is a summary of accumulated other comprehensive loss as of November 30, 2014 and February 28, 2014 (in thousands):

	As of November 30, 2014	As of February 28, 2014
Accumulated loss from foreign currency translation adjustment	\$ (32,588)	\$ (4,823)
Accumulated unrealized gain, net of tax, on available-for-sale securities	808	364
Accumulated other comprehensive loss	\$ (31,780)	\$ (4,459)

NOTE 4 Identifiable Intangible Assets

Identifiable intangible assets consist primarily of trademarks, copyrights and patents, purchased technologies, customer and reseller relationships and covenants not to compete which are amortized over the estimated useful life, generally on a straight-line basis with the exception of customer and reseller relationships which are generally amortized over the greater of straight-line or the related asset's pattern of economic benefit. Useful lives range from three to ten years. As of November 30, 2014 and February 28, 2014, trademarks with an indefinite estimated useful life totaled \$12.1 million and \$9.6 million, respectively.

Table of Contents**RED HAT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following is a summary of identifiable intangible assets (in thousands):

	As of November 30, 2014			As of February 28, 2014		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Trademarks, copyrights and patents	\$ 115,091	\$ (40,681)	\$ 74,410	\$ 105,269	\$ (34,784)	\$ 70,485
Purchased technologies	89,416	(62,343)	27,073	79,433	(55,960)	23,473
Customer and reseller relationships	101,128	(69,120)	32,008	89,992	(63,075)	26,917
Covenants not to compete	11,286	(7,379)	3,907	10,690	(5,977)	4,713
Other intangible assets	8,909	(2,131)	6,778	8,922	(1,111)	7,811
Total identifiable intangible assets	\$ 325,830	\$ (181,654)	\$ 144,176	\$ 294,306	\$ (160,907)	\$ 133,399

Amortization expense associated with identifiable intangible assets recognized in the Company's Consolidated Financial Statements for the three months and nine months ended November 30, 2014 and November 30, 2013 is summarized as follows (in thousands):