

RED HAT INC
Form DEF 14A
June 25, 2012
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant:

Filed by a Party other than the Registrant:

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Table of Contents

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to 240.14a-12

RED HAT, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Edgar Filing: RED HAT INC - Form DEF 14A

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

June 25, 2012

Dear Red Hat Stockholders,

It is my pleasure to invite you to Red Hat's 2012 Annual Meeting of Stockholders. This year's meeting will be held on Thursday, August 9, 2012, at 9:00 a.m. local time, at our corporate headquarters, located at 1801 Varsity Drive, Raleigh, North Carolina 27606. I hope you will be able to attend. You will find details regarding the meeting and the business to be conducted in the accompanying Notice of 2012 Annual Meeting of Stockholders and Proxy Statement.

This year we are again pleased to furnish our proxy materials via the Internet. Providing our materials to stockholders electronically allows us to conserve natural resources and reduce our printing and mailing costs related to the distribution of the proxy materials. As a result, we are mailing to stockholders a Notice of Internet Availability of Proxy Materials for the 2012 Annual Meeting which contains instructions on how to access those documents over the Internet. Stockholders who wish to receive paper copies of the proxy materials may do so by following the instructions on the Notice of Internet Availability of Proxy Materials.

Your vote is important to us. Whether or not you plan to attend the 2012 Annual Meeting, we hope you will vote as soon as possible. You may vote in person, by telephone, over the Internet or, if you received paper copies of the proxy materials, by mail.

Thank you for your ongoing support of Red Hat.

Sincerely,

James M. Whitehurst

President and Chief Executive Officer

Table of Contents

RED HAT, INC.

1801 Varsity Drive

Raleigh, North Carolina 27606

NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

- TIME AND DATE:** 9:00 a.m. local time on Thursday, August 9, 2012
- PLACE:** Red Hat's corporate headquarters located at 1801 Varsity Drive, Raleigh, North Carolina 27606
- ITEMS OF BUSINESS:**
1. To elect two members to the Board of Directors, each to serve for a three-year term as a Class I director
 2. To ratify the selection of PricewaterhouseCoopers LLP as Red Hat's independent registered public accounting firm for the fiscal year ending February 28, 2013
 3. To approve, on an advisory basis, a resolution relating to Red Hat's executive compensation
 4. To approve an amendment and restatement of Red Hat's 2004 Long-Term Incentive Plan
 5. To vote on a stockholder proposal described in the accompanying Proxy Statement, if properly presented at the Annual Meeting
 6. To transact such other business as may properly come before the 2012 Annual Meeting and any adjournments thereof
- ADJOURNMENTS** Any action on the items of business described above may be considered at the 2012 Annual Meeting or at any time and date to which the 2012 Annual Meeting may be properly adjourned or postponed.

AND

POSTPONEMENTS:

Edgar Filing: RED HAT INC - Form DEF 14A

RECORD DATE: Stockholders of record at the close of business on June 15, 2012 are entitled to notice of, and to vote at, the 2012 Annual Meeting and at any adjournments or postponements thereof.

INSPECTION OF LIST OF STOCKHOLDERS OF RECORD: A list of stockholders of record will be available for inspection at our corporate headquarters located at 1801 Varsity Drive, Raleigh, North Carolina 27606, during ordinary business hours during the ten-day period before the 2012 Annual Meeting.

VOTING: Whether or not you plan to attend the 2012 Annual Meeting, we urge you to vote your shares via the toll-free telephone number or over the Internet as described in the proxy materials. If you received a copy of the proxy card by mail, you may sign, date and mail the proxy card in the pre-paid envelope provided.

By Order of the Board of Directors,

Michael R. Cunningham

Secretary

Raleigh, North Carolina

June 25, 2012

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2012 ANNUAL MEETING TO BE HELD ON AUGUST 9, 2012: THIS PROXY STATEMENT, THE ACCOMPANYING PROXY CARD AND RED HAT'S ANNUAL REPORT TO STOCKHOLDERS ARE AVAILABLE AT WWW.PROXYVOTING.COM/RHT

Table of Contents

**PROXY STATEMENT
FOR THE 2012 ANNUAL MEETING OF STOCKHOLDERS
ON AUGUST 9, 2012**

TABLE OF CONTENTS

	PAGE
<u>INTRODUCTION</u>	1
<u>GENERAL INFORMATION CONCERNING THE ANNUAL MEETING</u>	1
<u>ITEM NO. 1 ELECTION OF DIRECTORS</u>	6
<u>Criteria for Evaluating Candidates for Service on Our Board</u>	6
<u>Nominees for Election to the Board of Directors</u>	7
<u>Members of the Board Continuing to Serve</u>	8
<u>ITEM NO. 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	11
<u>Independent Registered Public Accounting Firm's Fees</u>	11
<u>Pre-Approval Policies and Procedures</u>	12
<u>ITEM NO. 3 ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	13
<u>ITEM NO. 4 AMENDMENT AND RESTATEMENT OF THE COMPANY'S 2004 LONG-TERM INCENTIVE PLAN</u>	14
<u>Purpose</u>	17
<u>Key Provisions</u>	17
<u>Grant History</u>	19
<u>Awards</u>	19
<u>Adjustments</u>	20
<u>Stock Options</u>	20
<u>Stock Appreciation Rights</u>	20
<u>Restricted Stock and Restricted Stock Unit Awards</u>	20
<u>Performance Awards and Other Stock-Based Awards</u>	20
<u>Transferability</u>	20
<u>Change in Control</u>	21
<u>Termination of Employment</u>	21
<u>Administration</u>	21
<u>Amendments</u>	21
<u>Federal Income Tax Consequences</u>	22
<u>ITEM NO. 5 STOCKHOLDER PROPOSAL TO REPEAL CLASSIFIED BOARD</u>	24
<u>Resolution Proposed by Stockholder</u>	24
<u>Stockholder's Supporting Statement</u>	24
<u>Statement of the Board of Directors in Opposition to Stockholder Proposal</u>	24
<u>Procedural Matters</u>	27
<u>BENEFICIAL OWNERSHIP OF OUR COMMON STOCK</u>	28
<u>Ownership by Our Directors and Executive Officers</u>	28
<u>Ownership of More than 5% of Our Common Stock</u>	30
<u>CORPORATE GOVERNANCE AND BOARD OF DIRECTORS INFORMATION</u>	32
<u>Key Governance Policies</u>	32
<u>Board Independence</u>	34
<u>Key Board Practices</u>	35
<u>Election of Directors</u>	35
<u>Risk Oversight</u>	35
<u>Leadership Structure</u>	35
<u>Process for Nominating Candidates for Service on Our Board</u>	36
<u>Communicating with Directors</u>	36

<u>Committees of the Board</u>	37
<u>Audit Committee Report</u>	39
<u>Compensation of Directors</u>	41
<u>Compensation Committee Interlocks and Insider Participation</u>	45

Table of Contents

	PAGE
<u>COMPENSATION AND OTHER INFORMATION CONCERNING EXECUTIVE OFFICERS</u>	46
<u>Executive Officers</u>	46
<u>Executive Summary of Compensation Discussion and Analysis</u>	47
<u>Compensation Discussion and Analysis</u>	49
<u>Compensation Committee Report</u>	61
<u>Summary Compensation Table</u>	62
<u>Employment and Indemnification Arrangements with Named Officers</u>	63
<u>Employment Arrangements with New Executive Officer</u>	64
<u>Grants of Plan-Based Awards in Fiscal 2012</u>	65
<u>Outstanding Equity Awards at End of Fiscal 2012</u>	66
<u>Option Exercises and Stock Vested in Fiscal 2012</u>	67
<u>Potential Payments Upon Termination or Change in Control</u>	67
<u>Potential Payments Upon Termination or Change in Control Table</u>	70
<u>Equity Compensation Plan Information</u>	72
<u>Other Stock Plans</u>	73
<u>Compensation Program Risk Assessment</u>	74
<u>OTHER MATTERS</u>	75
<u>Stockholder Proposals</u>	75
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	75
<u>APPENDIX A: Red Hat, Inc. 2004 Long-Term Incentive Plan, as Amended and Restated</u>	A-1

Table of Contents

PROXY STATEMENT
FOR THE 2012 ANNUAL MEETING OF STOCKHOLDERS
ON AUGUST 9, 2012

INTRODUCTION

This Proxy Statement for Red Hat's 2012 Annual Meeting of Stockholders (Proxy Statement) is furnished in connection with a solicitation of proxies by the Board of Directors (Board) of Red Hat, Inc., to be used at our 2012 Annual Meeting of Stockholders (Annual Meeting) to be held at the corporate headquarters of Red Hat, Inc. located at 1801 Varsity Drive, Raleigh, North Carolina 27606 on Thursday, August 9, 2012, at 9:00 a.m. local time, and at any adjournments or postponements thereof. This Proxy Statement and the accompanying materials (or a Notice of Internet Availability of Proxy Materials) are being mailed on or about June 29, 2012 to stockholders of record as of the close of business on June 15, 2012.

When we use the terms Red Hat, the Company, we, us, and our, we mean Red Hat, Inc., a Delaware corporation, and its subsidiaries, where applicable.

GENERAL INFORMATION CONCERNING THE ANNUAL MEETING

Why am I receiving these materials?

We have made these proxy materials available to you over the Internet, or have delivered paper copies of these materials to you by mail, in connection with the solicitation of proxies for our Annual Meeting. These materials include information that we are required to provide to you under the rules of the U.S. Securities and Exchange Commission (SEC) and are designed to assist you in voting on the matters presented at the Annual Meeting. Stockholders of record as of the close of business on June 15, 2012 may attend the Annual Meeting and are entitled and requested to vote on the proposals described in this Proxy Statement.

What is included in the proxy materials?

The proxy materials include our Proxy Statement for the Annual Meeting, our 2012 Annual Report which includes our Annual Report on Form 10-K for the fiscal year ended February 29, 2012 (Fiscal 2012) and, if you receive a paper copy of these materials, a proxy card or voting instruction card.

Why did I receive a Notice of Internet Availability of Proxy Materials instead of a paper copy of the proxy materials?

You may receive a Notice of Internet Availability of Proxy Materials (Notice of Internet Availability) instead of a paper copy of the proxy materials. The Notice of Internet Availability describes how to access the proxy materials over the Internet and request paper copies of the proxy materials via mail. We will begin mailing the Notices of Internet Availability on or about June 29, 2012 to stockholders who are eligible to vote at the Annual Meeting.

Who is eligible to vote at the Annual Meeting?

If your shares of Red Hat common stock are registered in your name in the records of our transfer agent, Computershare Limited (Computershare), as of the close of business on June 15, 2012, you are a stockholder of record for purposes of the Annual Meeting and are eligible to attend and vote. If you hold shares of our common stock indirectly through a broker, bank or similar institution, you are not a stockholder of record, but instead hold your shares in street name and the record owner of your shares is your broker, bank or similar institution. Instructions on how to vote shares held in street name are described under How do I vote my shares? below.

Table of Contents

How many votes do I have?

You will have one vote for each share of our common stock owned by you, as a stockholder of record or in street name, as of the close of business on June 15, 2012.

What am I being asked to vote on at the Annual Meeting?

You are being asked to vote on:

Item 1: the election of two members to the Board, each to serve for a three-year term as a Class I director;

Item 2: the ratification of the selection of PricewaterhouseCoopers LLP as Red Hat's independent registered public accounting firm for the fiscal year ending February 28, 2013 (Fiscal 2013);

Item 3: the approval, on an advisory basis, of a resolution relating to Red Hat's executive compensation;

Item 4: the approval of an amendment and restatement of the Company's 2004 Long-Term Incentive Plan; and

Item 5: the stockholder proposal described in this Proxy Statement, if properly presented at the Annual Meeting.

How does the Board recommend that I vote?

The Board recommends that you vote:

FOR the election of the two nominees named in this Proxy Statement to the Board, each to serve for a three-year term as a Class I director;

FOR the ratification of the selection of PricewaterhouseCoopers LLP as Red Hat's independent registered public accounting firm for Fiscal 2013;

FOR the approval, on an advisory basis, of the resolution relating to Red Hat's executive compensation;

FOR the approval of an amendment and restatement of Red Hat's 2004 Long-Term Incentive Plan; and

Edgar Filing: RED HAT INC - Form DEF 14A

AGAINST the stockholder proposal described in this Proxy Statement, if properly presented at the Annual Meeting.

Other than the items listed in the Proxy Statement, what other business will be addressed at the Annual Meeting?

We currently know of no other matters to be properly presented at the Annual Meeting. However, by giving your proxy you appoint the persons named as proxies as your representatives at the Annual Meeting. If other matters are properly presented at the Annual Meeting, the proxy holders are authorized to vote your shares in their discretion.

How do I vote my shares?

For stockholders of record: If you are eligible to vote at the Annual Meeting and are a stockholder of record, you may submit your proxy or cast your vote in any of four ways:

By Internet If you have Internet access, you may submit your proxy by following the instructions provided in the Notice of Internet Availability, or if you requested printed proxy materials, by following the instructions provided with your proxy materials and on your proxy card.

Table of Contents

By Telephone You can also submit your proxy by telephone by following the instructions provided in the Notice of Internet Availability, or if you requested printed proxy materials, by following the instructions provided with your proxy materials and on your proxy card.

By Mail If you received your proxy materials by mail, you may submit your proxy by completing the proxy card enclosed with those materials, signing and dating it and returning it in the pre-paid envelope we have provided.

In Person at our Annual Meeting You can vote in person at our Annual Meeting. In order to gain admittance, you must present a valid government-issued photo identification such as a driver's license or passport.

For holders in street name: If you hold your shares in street name and, therefore, are not a stockholder of record, you will need to follow the specific voting instructions provided to you by your broker, bank or other similar institution. If you wish to vote your shares in person at our Annual Meeting, you must obtain a valid proxy from your broker, bank or similar institution, granting you authorization to vote your shares. In order to attend and vote your shares held in street name at our Annual Meeting, you will need to present a valid government-issued photo identification such as a driver's license or passport and hand in the valid proxy from your broker, bank or similar institution, along with a signed ballot that you can request at the Annual Meeting. You will not be able to vote your shares held in street name at the Annual Meeting without a valid government-issued photo identification such as a driver's license or passport, a valid proxy from your broker, bank or similar institution and a signed ballot.

Can I change or revoke my proxy?

For stockholders of record: Yes. A proxy may be changed or revoked at any time prior to the voting at the Annual Meeting by submitting a later-dated proxy (including a proxy submitted via the Internet or by telephone) or by giving written notice to our President or Corporate Secretary at our corporate headquarters. You may also attend the Annual Meeting and vote your shares in person.

For holders in street name: Yes. You must follow the specific voting instructions provided to you by your broker, bank or other similar institution to change or revoke any instructions you have already provided to them.

If I submit a proxy by Internet, telephone or mail, how will my shares be counted?

If you submit your proxy by one of these methods, and you do not subsequently revoke your proxy, your shares of common stock will be voted in accordance with your instructions.

If you sign, date and return your proxy card but do not provide specific voting instructions, your shares of common stock will be voted FOR the election of the nominees for director named in this Proxy Statement, FOR the ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for Fiscal 2013, FOR the approval (on an advisory basis) of a resolution relating to Red Hat's executive compensation, FOR the approval of an amendment and restatement of the Company's 2004 Long-Term Incentive Plan, and AGAINST the stockholder proposal, if properly presented before the Annual Meeting. If any other matter properly comes before our Annual Meeting, the proxy holders will vote your shares in their discretion.

What is broker discretionary voting ?

If you hold your shares in street name, your broker, bank or other similar institution may be able to vote your shares without your instructions depending on whether the matter being voted on is discretionary or non-discretionary. In the case of a discretionary matter (for example, the ratification of the independent registered public accounting firm), your broker is permitted to vote your shares of common stock if you have not given voting instructions. In the case of a non-discretionary matter (for example, the election of directors, the advisory

Table of Contents

vote on a resolution relating to Red Hat's executive compensation plan, the approval of an amendment and restatement of the Company's 2004 Long-Term Incentive Plan and the stockholder proposal), your broker cannot vote your shares if you have not given voting instructions. A

broker non-vote occurs when your broker submits a proxy for the Annual Meeting with respect to discretionary matters, but does not vote on non-discretionary matters because you did not provide voting instructions on these matters. Therefore, it is important that you provide specific voting instructions regarding non-discretionary matters (such as election of directors, approval of the amendment and restatement of the Company's 2004 Long-Term Incentive Plan and the stockholder proposal) to your broker, bank or similar institution.

I understand that a quorum is required in order to conduct business at the Annual Meeting. What constitutes a quorum?

A majority of all of our outstanding shares of common stock entitled to vote at the Annual Meeting, represented in person or by proxy, constitutes a quorum at the Annual Meeting. As of June 15, 2012, the record date for the Annual Meeting, there were 192,898,144 shares of common stock outstanding and entitled to vote. If you submit a properly executed proxy by mail, telephone or the Internet, you will be considered a part of the quorum. In addition, abstentions and broker non-votes will be counted for purposes of establishing a quorum. If a quorum is not present, the Annual Meeting will be adjourned until a quorum is obtained.

What is required to approve the proposals submitted to a vote at the Annual Meeting?

At the Annual Meeting each director will be elected by the vote of the majority of the votes cast with respect to the director nominee. This means to elect the director nominee, the number of shares voted For the director nominee must exceed the number of shares voted Against the director nominee. Abstentions and broker non-votes will not be considered votes cast.

The affirmative vote of the holders of a majority of the shares of common stock present or represented and voting is required to approve ratification of the selection of the independent registered public accounting firm, approve (on an advisory basis) the resolution relating to the Company's executive compensation, approve an amendment and restatement of the Company's 2004 Long-Term Incentive Plan, approve the stockholder proposal (which is non-binding, as described below in Item 5 Stockholder Proposal to Repeal Classified Board) and any other matters that properly come before the Annual Meeting. Abstentions and broker non-votes will not be considered to have been voted.

How can I obtain a proxy card or voting instruction form?

If you lose, misplace or otherwise need to obtain a proxy card or a voting instruction form, please follow the applicable procedure below.

For stockholders of record: Please contact Computershare at 1-888-313-0164.

For holders in street name: Please contact your account representative at your broker, bank or other similar institution.

Who counts the votes?

Votes are counted by Computershare, our transfer agent and registrar, and are then certified by a representative of Computershare appointed by the Board to serve as the Inspector of Election at the Annual Meeting.

How can I obtain directions to the Annual Meeting?

You may contact Red Hat Investor Relations at 919-754-3700.

Table of Contents

Who pays for the expenses of this proxy solicitation?

Red Hat will bear the entire cost of this proxy solicitation, including the preparation, printing and mailing of our proxy materials and the proxy card. We may also reimburse brokerage firms and other persons representing stockholders who hold their shares in street name for reasonable expenses incurred by them in forwarding proxy materials to such stockholders. The Company has retained Georgeson Shareholder Communications, Inc. to assist with the solicitation of proxies, in person, by telephone, or by other means of communication, for a fee of approximately \$10,000, plus reimbursable expenses. In addition, certain directors, officers and other employees, without additional remuneration, may solicit proxies in person, or by telephone, facsimile, email and other methods of electronic communication.

Where can I find vote results after the Annual Meeting?

We are required to publish final vote results in a Current Report on Form 8-K to be filed with the SEC within four business days after our Annual Meeting.

How can I obtain more information about Red Hat?

Copies of this Proxy Statement and our Annual Report on Form 10-K are available online at www.proxyvoting.com/rht or at www.redhat.com under About Red Hat Investor Relations SEC Filings & Financial Information.

What is householding ?

Some banks, brokers and similar institutions may be participating in the practice of householding Notices of Internet Availability. This means that only one copy of our Notice of Internet Availability may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of the Notice of Internet Availability to you if you write to us at the following address or call us at the following phone number:

Red Hat, Inc.

Attention: Investor Relations

1801 Varsity Drive

Raleigh, North Carolina 27606

Phone: 919-754-3700

Edgar Filing: RED HAT INC - Form DEF 14A

If you want to receive separate copies of the Notice of Internet Availability in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or similar institution.

Table of Contents

ITEM NO. 1 ELECTION OF DIRECTORS

Our Board currently consists of ten directors divided into three classes. One class of directors is elected annually, and each class serves for a term of three years. The term of the Class I directors will expire at this Annual Meeting. The class makeup of the Board is as follows:

Class	Directors	Term Expires
I	Micheline Chau, Marye Anne Fox and Donald H. Livingstone	2012
II	Jeffrey J. Clarke, W. Steve Albrecht and General H. Hugh Shelton (U.S. Army Retired)	2013
III	Sohaib Abbasi, Narendra K. Gupta, William S. Kaiser and James M. Whitehurst	2014

Criteria for Evaluating Candidates for Service on Our Board

The Nominating and Corporate Governance Committee of our Board is responsible for identifying and evaluating candidates for service on our Board and recommending proposed director nominees to the full Board for consideration. Our Corporate Governance Guidelines describe the criteria used to select candidates for service on our Board:

Nominees should have a reputation for integrity, honesty and adherence to high ethical standards.

Nominees should have demonstrated business acumen, experience and ability to exercise sound judgment in matters that relate to the current and long-term objectives of the Company and should be willing and able to contribute positively to the decision-making process of the Company.

Nominees should have a commitment to understand the Company and its industry and to regularly attend and participate in meetings of the Board and its committees.

Nominees should have the interest and ability to understand the sometimes conflicting interests of the various constituencies of the Company, which include stockholders, employees, customers, governmental units, creditors and the general public, and to act in the interests of all stockholders.

Nominees should not have, nor appear to have, a conflict of interest that would impair the nominee's ability to represent the interests of all the Company's stockholders and to fulfill the responsibilities of a director.

Nominees shall not be discriminated against on the basis of race, religion, national origin, sex, sexual orientation, disability or any other basis proscribed by law. The value of diversity on the Board should be considered.

Nominees should normally be able to serve for at least five years before reaching the age of 75.

Edgar Filing: RED HAT INC - Form DEF 14A

The Corporate Governance Guidelines state that the Nominating and Corporate Governance Committee's review of a nominee's qualifications will include consideration of diversity, age, skills and professional experience in the context of the needs of the Board. While the Company has no formal diversity policy that applies to the consideration of director candidates, the Nominating and Corporate Governance Committee believes that diversity includes not just race and gender but differences of viewpoint, experience, education, skill and other qualities or attributes that contribute to Board heterogeneity.

In addition, the Nominating and Corporate Governance Committee believes it is important to select directors from various backgrounds and professions in an effort to ensure that the Board as a group has a broad range of experiences to enrich discussion and inform its decisions. Consistent with this philosophy, the Nominating and Corporate Governance Committee believes that each director should possess at least two of the following attributes:

Financial Expertise. Nominees who have knowledge of financial markets, financing and funding operations and accounting and financial reporting processes assist us in understanding, advising and overseeing our capital structure, financing and investing activities, financial reporting and internal controls.

Table of Contents

Global Expertise. As a global organization with offices in over 30 countries, nominees with global expertise bring useful business and cultural perspectives that relate to many significant aspects of our business.

Industry Expertise. Nominees with experience in the information technology industry help us to analyze our research and development efforts, competing technologies, the various products and processes that we develop and the market segments in which we compete.

Public Company Board Experience. Nominees who have served on other public company boards offer advice and insights with regard to the dynamics and operation of a board of directors, the relations of a board with senior management and oversight of a changing mix of strategic, operational and compliance-related matters.

Science and Technology Expertise. Nominees with backgrounds in science and technology support our efforts to spur innovation and develop new ideas.

Senior Leadership Experience. Nominees who have served in senior leadership positions provide special insight and guidance. We seek candidates who possess proven leadership qualities and the ability to identify and develop those qualities in others. They also bring a practical understanding of organizations, processes, strategy, risk management and methods to drive change and growth.

Nominees for Election to the Board of Directors

The Board has nominated two Class I directors, Marye Anne Fox and Donald H. Livingstone, for three-year terms ending in 2015. Each nominee has indicated an intention to serve if elected and will hold office for his or her term and until a successor has been elected and qualified or until his or her earlier resignation or removal. In the event that any of the nominees should be unable or unwilling to serve, proxies may be voted for the election of some other person or for fixing the number of directors at a lesser number. Proxies cannot be voted for a greater number of persons than the number of nominees named.

Micheline Chau has indicated that she will not stand for re-election due to the time demands required by her other professional obligations. Ms. Chau will continue to serve until the expiration of her term.

Set forth below is a brief biography for each nominee and a description of certain key attributes that the Board considered in recommending each nominee for re-election.

Marye Anne Fox, 64

Chancellor of the University of California, San Diego

Director since January 2002

Dr. Fox has served as the Chancellor of the University of California, San Diego and Distinguished Professor of Chemistry at that institution since August 2004. Prior to that Dr. Fox served as the Chancellor of North Carolina State University and as Distinguished University Professor of Chemistry from August 1998 until July 2004. Dr. Fox is an elected member of the National Academy of Sciences and serves on the board of directors of W.R. Grace & Co. (NYSE:GRA), a specialty chemicals and materials company, and Bridgepoint Education, Inc. (NYSE:BPI), a

Edgar Filing: RED HAT INC - Form DEF 14A

provider of educational services. Dr. Fox served on the board of directors of Boston Scientific Corporation, a developer, marketer and manufacturer of medical devices, from June 2002 until May 2011. Dr. Fox also served as a director of Pharmaceutical Product Development, Inc., a biotechnology development services company, from 2002 until 2008. With her experience leading large educational institutions, her technical background and service as director of large public companies, Dr. Fox brings to our Board public company board experience, science and technology expertise and senior leadership experience.

Table of Contents

Donald H. Livingstone, 69

Teaching Professor (Retired), Brigham Young University, Marriott School of Management

Director since September 2009

Mr. Livingstone retired in August 2011 from Brigham Young University's (BYU) Marriott School of Management (Marriott School) where he had served as a teaching professor since 1994. In addition to his teaching duties, Mr. Livingstone served as director of the Rollins Center for Entrepreneurship and Technology at the Marriott School from 1995 until 2007. Mr. Livingstone took a leave of absence from the Marriott School from June 2007 until June 2009 to serve as a mission president in Africa for his church. Prior to joining BYU, Mr. Livingstone had a 29-year career with Arthur Andersen LLP that included service as an audit and consulting services partner in the San Francisco and Los Angeles offices. Mr. Livingstone served as a member of the board of directors of Micrel, Incorporated, an integrated circuit designer and manufacturer, from 2002 until 2007; Sento Corporation, a provider of integrated, multi-channel customer support, from 2004 until 2007; AmericanWest Bancorporation, a bank holding company, from 2005 until 2007; and American Express Centurion Bank, a chartered industrial bank and wholly owned subsidiary of American Express Travel Related Services, Inc., from 2005 until 2007. Mr. Livingstone's career in public accounting and as a professor, as well as his service as a director of a number of public companies, brings to our Board financial expertise and public company board experience.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE

FOR

THE ELECTION OF

MARYE ANNE FOX AND DONALD H. LIVINGSTONE

TO THE COMPANY'S BOARD OF DIRECTORS

Members of the Board Continuing to Serve

The following directors will continue to serve on our Board. Set forth below is a brief biography for each such director and a description of the key attributes that each brings to our Board.

Sohaib Abbasi, 55

Chairman, Chief Executive Officer and President of Informatica Corporation

Director since March 2011

Mr. Abbasi has served as the Chief Executive Officer and President of Informatica Corporation (NASDAQ:INFA) since July 2004 and as Chairman of its board of directors since March 2005. Until 2003, Mr. Abbasi was Senior Vice President, Oracle Tools Division and Oracle Education at Oracle Corporation, which he joined in 1982. From 1994 to 2000, he was Senior Vice President, Oracle Tools Product Division. As President, Chief Executive Officer and Chairman of a technology-related company, Mr. Abbasi brings to our Board industry expertise as well as

public company board and senior leadership experience.

W. Steve Albrecht, 65

Professor of Accounting, Brigham Young University, Marriott School of Management

Director since March 2011

Dr. Albrecht, who previously served on our Board from April 2003 through June 2009, is the Andersen Alumni Professor of Accounting at BYU. Dr. Albrecht has also served as a mission president in Japan for his church since June 2009. Dr. Albrecht, a certified public accountant, certified internal auditor, and certified fraud examiner, joined BYU in 1977 after teaching at Stanford University and the University of Illinois, and served as Associate Dean of the Marriott School at BYU until July 2008. Prior to becoming a professor, he worked as an accountant for Deloitte & Touche. Dr. Albrecht currently serves on the board of directors of Cypress Semiconductor Corporation (NASDAQ:CY) and SkyWest, Inc., the holding company of SkyWest Airlines (NASDAQ:SKYW). He previously served on the board of directors of SunPower Corporation, a solar panel design and manufacturing company, from 2005 to 2012. He is the past president of the American Accounting

Table of Contents

Association and the Association of Certified Fraud Examiners and is a former trustee of the Financial Accounting Foundation that oversees the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). Dr. Albrecht's career in public accounting and as a professor and associate dean, as well as his service as a director of a number of public companies, brings to our Board financial expertise as well as public company board and senior leadership experience.

Jeffrey J. Clarke, 50

Chairman of the Board of Directors of Travelport, Inc.

Director since November 2008

Mr. Clarke has served as Chairman of the board of directors of Travelport, Inc., a provider of transaction processing for the global travel industry, since February 2012. A member of Travelport's board since May 2006, Mr. Clarke also served as its Executive Chairman from May 2011 until February 2012. Mr. Clarke served as the President and CEO of Travelport from April 2006 through May 2011. Since February 2012, Mr. Clarke has served as a Managing Partner of Augusta Columbia Capital Group LLC, an investment firm. From April 2004 until April 2006, Mr. Clarke was the Chief Operating Officer of CA, Inc. (formerly Computer Associates), an information technology company, where he was responsible for sales, services, business development, partnership alliances, finance and information technology. From May 2002 through November 2003, Mr. Clarke was the Executive Vice President of Global Operations of Hewlett-Packard Company, an information technology company. Mr. Clarke currently serves as Chairman of the board of directors of Orbitz Worldwide Ltd. (NYSE:OWW), a global online travel company. Mr. Clarke served as a director of UTStarcom, Inc., a provider of IP-based networking and telecommunications solutions, from 2005 through 2010. Mr. Clarke's experience as an executive at large global technology companies brings to our Board global and industry expertise as well as senior leadership experience.

Narendra K. Gupta, 63

Managing Director of Nexus Venture Partners

Director since November 2005

Dr. Gupta co-founded and has served as Managing Director of Nexus Venture Partners, an India-focused venture capital fund, since December 2006. In 1980, Dr. Gupta co-founded Integrated Systems Inc., a provider of products for embedded software development, which went public in 1990. Dr. Gupta served as Integrated System's President and CEO from founding until 1994 and as Chairman until 2000 when Integrated Systems merged with Wind River Systems, Inc., a provider of device software optimization solutions. Dr. Gupta served as Wind River's Vice Chairman from 2000 until its acquisition by Intel Corporation in 2009. Dr. Gupta sits on the board of directors of Tibco Software Inc. (NASDAQ:TIBX), a provider of service-oriented architecture and business process management enterprise software, and was on the board of Wind River from 2000 until 2009. He also serves as a member of the Board of Trustees of the California Institute of Technology and as a board member and advisor to several privately held companies and foundations. As a current and former executive and board member of a number of technology-related public companies and as an investor in global companies, Dr. Gupta provides our Board with global expertise, industry and public company board experience, as well as science and technology expertise.

William S. Kaiser, 56

Managing Director, Greylock Management Corporation

Director since September 1998

Mr. Kaiser has been employed by Greylock Management Corporation, a venture capital firm, since May 1986 and has been one of the general partners of the Greylock Limited Partnerships since January 1988. Mr. Kaiser currently serves on the board of directors of a number private organizations in addition to Constant Contact, Inc. (NASDAQ:CTCT), a provider of products and services that help small organizations create and grow customer relationships. Having a background in venture capital investment focusing on technology-related entities, Mr. Kaiser brings to our Board financial and industry expertise.

Table of Contents

General H. Hugh Shelton, 70

U.S. Army (Retired) and Former Chairman of the Joint Chiefs of Staff

Director since April 2003, Lead Director from March 2008 through August 2010, and Chairman since August 2010

General Shelton has served as the Executive Director of the General H. Hugh Shelton Leadership Program at North Carolina State University since January 2002 in addition to serving as a board member and advisor to a number of entities. From January 2002 until April 2006, General Shelton served as the President, International Sales, for M.I.C. Industries, an international manufacturing company. General Shelton served as the 14th Chairman of the Joint Chiefs of Staff from October 1997 until his retirement in September 2001. General Shelton serves on the board of directors of L-3 Communications Corporation (NYSE:LLL), a supplier of products and services used in the aerospace and defense industries. He has also served as a member of the board of directors of several other public companies including vice chairman of the board of directors of Protective Products of America, Inc., a manufacturer of protective armor products, from 2006 until 2010; Anheuser-Busch Companies, an operator of beer, packaging and entertainment companies, from 2001 until 2009; and CACI International Inc., a provider of professional services and IT solutions to defense, intelligence, homeland security and the federal civilian government, from 2007 until 2008. General Shelton's leadership experience in the U.S. military and his service on the boards of other public companies brings to our Board global expertise as well as public company board and senior leadership experience.

James M. Whitehurst, 44

President and CEO, Red Hat, Inc.

Director since January 2008

Mr. Whitehurst has served as the President and CEO of Red Hat and as a member of the Board since January 2008. Prior to joining Red Hat, Mr. Whitehurst served as the Chief Operating Officer of Delta Air Lines, Inc. from July 2005 to August 2007, as Senior Vice President and Chief Network and Planning Officer from May 2004 to July 2005 and as Senior Vice President Finance, Treasury & Business Development from January 2002 to May 2004. Delta filed for bankruptcy in September 2005. Prior to joining Delta, he was a partner and managing director at The Boston Consulting Group. Mr. Whitehurst also serves on the board of directors of DigitalGlobe, Inc. (NYSE:DGI), a builder and operator of satellites for digital imaging. Mr. Whitehurst's service as our CEO as well as his experience as a senior executive at a global corporation brings financial and global expertise as well as senior leadership experience to our Board.

Table of Contents**ITEM NO. 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has selected PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for Fiscal 2013. During Fiscal 2012, PricewaterhouseCoopers LLP served as our independent registered public accounting firm and also provided certain tax and other audit-related services as described below.

Although stockholder ratification of our independent registered public accounting firm is not required under Delaware law, our charter or our by-laws, the Company believes it is advisable to provide our stockholders with the opportunity to ratify this selection. If our stockholders do not ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for Fiscal 2013, the Audit Committee will consider whether to select a new independent registered public accounting firm for Fiscal 2013 or to wait until the completion of the audit for Fiscal 2013 before considering a change in our independent registered public accounting firm.

Representatives of PricewaterhouseCoopers LLP are expected to attend our Annual Meeting, will have the opportunity to make a statement if so desired and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE**FOR**

**THE RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP
AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR
FISCAL 2013**

Independent Registered Public Accounting Firm's Fees

The following table summarizes the fees PricewaterhouseCoopers LLP billed to the Company for each of the last two fiscal years.

Fee Category	Fiscal Year	Fiscal Year
	Ended	Ended
	February 29, 2012	February 28, 2011
Audit Fees (1)	\$ 1,400,999	\$ 1,430,955
Audit-Related Fees (2)	\$ 60,000	\$ 97,500
Tax Fees (3)	\$ 141,641	\$ 181,413
All Other Fees (4)	\$ 102,108	\$ 14,800
Total Fees	\$ 1,704,748	\$ 1,724,668

Edgar Filing: RED HAT INC - Form DEF 14A

- (1) **Audit Fees** consist of fees for the audit of the Company's annual financial statements, the review of the interim financial statements included in the Company's Quarterly Reports on Form 10-Q and other professional services provided in connection with statutory and regulatory filings or engagements for those fiscal years.
- (2) **Audit-Related Fees** consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and which are not reported under **Audit Fees**. For the fiscal year ended February 28, 2011 (**Fiscal 2011**) and **Fiscal 2012**, fees for assistance with merger and acquisition activities comprise substantially all of the amounts described.
- (3) **Tax Fees** consist of fees for tax compliance, tax advice and tax planning services. For **Fiscal 2011** and **Fiscal 2012**, fees for advice relating to transfer pricing matters and non-U.S. subsidiary taxes and tax planning comprise substantially all of the amounts described.
- (4) **All Other Fees** consist of fees for products and services provided by the independent registered public accounting firm other than for the services reported above in **Audit Fees**, **Audit-Related Fees** or **Tax Fees**.

Table of Contents

For Fiscal 2011, fees for utilization of a research tool and training and consulting regarding international financial reporting standards comprise substantially all of the amount described. For Fiscal 2012, fees for conducting customer compliance audits and utilization of a research tool comprise substantially all of the amount described.

Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by our independent registered public accounting firm. This policy generally provides that we will not engage our independent registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee or the engagement is entered into pursuant to one of the pre-approval procedures described below.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided by our independent registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

The Audit Committee may delegate, and has delegated to the Chairman of the Audit Committee, the authority to approve any audit or non-audit services to be provided by our independent registered public accounting firm. The Audit Committee also may delegate this pre-approval authority to other individual members of the Audit Committee from time to time. Any approval of services by any member of the Audit Committee pursuant to this delegated authority, whether the Chairman or another member, is reported at the next meeting of the Audit Committee.

For Fiscal 2011 and Fiscal 2012, all audit and non-audit services provided by the independent registered public accounting firm were pre-approved by the Audit Committee directly or pursuant to this delegated authority.

Table of Contents

ITEM NO. 3 ADVISORY VOTE ON EXECUTIVE COMPENSATION

We are asking stockholders to approve, on an advisory basis, a resolution relating to the Company's executive compensation as reported in this Proxy Statement. Consistent with the preference expressed by our stockholders at the Company's 2011 Annual Meeting, the Board has approved holding an advisory vote on executive compensation every year.

We urge stockholders to read the Compensation Discussion and Analysis section of this Proxy Statement, which describes how our executive compensation program is designed and operates, as well as the Summary Compensation Table and other related compensation tables, which provide additional information on the compensation of our named executive officers. The Board and the Compensation Committee believe that our executive compensation program as described in the Compensation Discussion and Analysis section has supported and contributed to the Company's recent and long-term success and the creation of long-term stockholder value and is effective in helping the Company attract and retain the high caliber of executive talent necessary to drive our business forward and build sustainable value for our stockholders.

In accordance with regulations issued under Section 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), we are asking stockholders to approve the following non-binding advisory resolution at the Annual Meeting:

RESOLVED, that the compensation paid to the Company's Named Officers, as disclosed in the Compensation Discussion and Analysis section, compensation tables and narrative discussion of the Proxy Statement for the 2012 Annual Meeting of Stockholders, is hereby APPROVED.

While this advisory resolution, commonly referred to as a say on pay resolution, is non-binding, the Compensation Committee will carefully review and consider the voting results when making future decisions regarding our executive compensation program.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE

FOR THE RESOLUTION RELATING TO RED HAT'S EXECUTIVE COMPENSATION

Table of Contents

ITEM NO. 4 AMENDMENT AND RESTATEMENT OF THE COMPANY'S 2004 LONG-TERM INCENTIVE PLAN

On June 19, 2012, the Board approved, subject to stockholder approval, an amendment and restatement of the Company's 2004 Long-Term Incentive Plan (the Amended Plan). The Company's stockholders are being asked to approve the Amended Plan. If approved, the Amended Plan would, among other things, increase the number of shares available for issuance under the 2004 Long-Term Incentive Plan.

Introduction

The most significant of the amendments to the 2004 Long-Term Incentive Plan approved by the Board is an increase to the number of shares available for grant under the Amended Plan. As of February 29, 2012, there were 5,338,228 shares available for future grant under the 2004 Long-Term Incentive Plan. If our stockholders approve the Amended Plan, (i) the remaining shares available for future grant under the 2004 Long-Term Incentive Plan, (ii) an additional 21,000,000 shares representing approximately 12.3 million full value shares (taking into account the fungible share counting method to be used with the Amended Plan as further described below), plus (iii) any shares which may be added back into the share reserve (as further described in the summary of key provisions below) will be available for issuance under the Amended Plan (with all of the foregoing subject to adjustment in the event of stock splits and other similar events). If the stockholders fail to approve the Amended Plan, the 2004 Long-Term Incentive Plan will remain in existence unchanged.

Our most recent request for an increase in shares under the 2004 Long-Term Incentive Plan occurred in August 2008. Since that time, we have diversified our technology offerings and expanded our addressable markets, which has increased our need for highly-skilled, specialized talent. Today, we provide enterprise-strength, mission-critical software and services in what we believe are some of the most innovative and competitive IT opportunities: big data storage, cloud computing, middleware, operating systems and virtualization. We believe our ability to attract and retain talented employees with specialized skills in extremely competitive technology labor markets has played and will continue to play an important role in the Company's ongoing success. Approval of the Amended Plan will enable us to continue to compete for and retain the high-caliber employees whose contributions are critical to our long-term success. In addition, the Amended Plan allows us to link incentive rewards to Company performance by encouraging employee ownership in Red Hat, thereby better aligning the interest of our employees and directors with those of our stockholders.

At the same time, we believe it is important to manage stockholder dilution that could arise as a result of our equity incentive programs. As a result, and in an effort to mitigate the dilution that could occur as a result of the issuance of all of the shares available under the Amended Plan in the form of restricted stock, restricted stock units (RSUs), performance awards or other stock-based awards (which we refer to collectively as full value awards), the Amended Plan, if approved, will provide that full value awards will deplete the share reserve at a ratio of 1.7 shares for every share subject to the full value award. In contrast, full value awards currently deplete the share reserve in the 2004 Long-Term Incentive Plan on a 1-for-1 basis. Stock options and stock appreciation rights (SARs) (which we refer to collectively as appreciation awards) would continue to deplete the share reserve on a 1-for-1 basis under the Amended Plan. This method of depleting the share reserve under the Amended Plan commonly referred to as fungible share counting is intended to balance potential stockholder dilution concerns with the Company's desire to have flexibility to grant the types of equity awards that are most appropriate for a particular recipient in a particular set of circumstances.

Key facts relating to the Amended Plan are summarized below:

If all of the 21,000,000 additional shares of our common stock available for issuance under the Amended Plan were granted as full value awards, then, because of the fungible share counting method described above, a maximum of approximately 12.3 million shares

Edgar Filing: RED HAT INC - Form DEF 14A

would actually be issued by the Company under those awards, representing approximately 6.4% of the Company's outstanding common shares as of February 29, 2012.

Table of Contents

Based on our current granting practices, which include granting primarily full value awards, we anticipate that the additional 12.3 million shares requested (taking into account the fungible share counting method to be used with the Amended Plan) will enable the Company to fund the equity compensation program for the next four years, accommodating anticipated grants relating to recruiting and retaining employees as well as equity issuances to employees who join us through future acquisitions.

The Company has delivered strong revenue and earnings growth. During the five-year period beginning March 1, 2007 and ending February 29, 2012, the Company's revenue grew by over \$610 million, an increase of 117%, and net income grew by almost \$70 million, an increase of 91%. See the discussion below in Item 5 Stockholder Proposal to Repeal Classified Board Statement of the Board of Directors in Opposition to Stockholder Proposal Financial Results.

The Company's success has also resulted in a significant increase in stockholder value. In the period beginning on February 29, 2008 (the end of the fiscal year when we last asked stockholders to approve an amendment to the 2004 Long-Term Incentive Plan) and ending February 29, 2012, our market capitalization grew by \$6 billion, an increase of over 176%, and our stock price appreciated by over 176%. See the discussion below in Item 5 Stockholder Proposal to Repeal Classified Board Statement of the Board of Directors in Opposition to Stockholder Proposal.

Our share repurchase program reflects our continuing confidence in our financial strength and growth prospects. The program has effectively neutralized dilution from equity granted during the Company's last five fiscal years under the 2004 Long-Term Incentive Plan. Our basic weighted average common stock outstanding for the fiscal year ended February 29, 2008 was approximately 193 million and our basic weighted average common stock outstanding for the year ended February 29, 2012 was also approximately 193 million.

We last amended the 2004 Long-Term Incentive Plan in August 2008. Since that time, our employee population has increased significantly. From February 29, 2008 to February 29, 2012, our employee population more than doubled.

Although our employee population has increased significantly, our annual burn rate has decreased. For Fiscal Year 2012, our Gross Burn Rate (defined below) was 1.30% and Net Burn Rate (as defined below) was 1.02%, while in Fiscal Year 2008 our Gross Burn Rate was 1.69% and our Net Burn Rate was 1.28%. Gross Burn Rate is defined as the total number of shares underlying all awards granted during the period divided by the weighted average common shares outstanding for the period. Gross Burn Rate includes all awards granted and does not include cancellations or forfeitures of awards. Net Burn Rate is defined as the total number of shares underlying all awards granted during the period less any unused shares due to cancellations or forfeitures of awards during the period divided by the weighted average common shares outstanding for the period.

For the last three fiscal years ending February 29, 2012, our average Gross Burn Rate was 1.49%. We believe this three-year average Gross Burn Rate to be at the 25th percentile when compared to our Compensation Peer Group (as defined in Compensation and other Information Concerning Executive Officers Compensation Discussion and Analysis Process Used to Determine Annual Compensation). Our current intention is to continue to limit Gross Burn Rate to a level consistent with our historical usage.

Our Overhang (defined below) from outstanding grants and shares available for future awards under the 2004 Long-Term Incentive Plan as of February 29, 2012 was approximately 6.26%. We estimate our current Overhang to be below the 25th percentile when compared to our Compensation Peer Group. Assuming only full value awards would be granted under the Amended Plan, the 12.3 million shares available for issuance (taking into account the fungible share counting method to be used with the Amended Plan) would result in an Overhang of approximately 11.56%, which is below the Compensation Peer Group median of 12.49%. However, if we were to change our current grant practices and grant only appreciation awards, then the additional 21,000,000 shares available for issuance would result in an Overhang of approximately 14.93%. Overhang is a measure of potential dilution and is defined as the sum of (i) the total number of shares underlying all equity awards

Table of Contents

outstanding as listed in the Equity Compensation Plan Information table below and (ii) the total number of shares available for future award grants, divided by: the sum of (a) the total shares underlying all equity awards granted as noted in the Equity Compensation Plan Information table, (b) the total number of shares available for future award grants and (c) the weighted average common shares outstanding for the most recently completed fiscal year.

In an effort to provide a stronger link between the Company's performance and executive compensation, in the fiscal year ended February 28, 2007 we introduced a performance equity program of grants of performance stock units (PSUs) that are issued to senior management. Vesting of PSUs occurs based on our financial performance and stock price performance relative to our Compensation Peer Group. For a discussion of PSUs, see the section below entitled Compensation Discussion and Analysis Components of Compensation Equity Compensation.

In addition to increasing the shares available for issuance under the 2004 Long-Term Incentive Plan and adopting the fungible share counting method, the Amended Plan includes other key changes:

The Amended Plan includes language that strengthens and clarifies the limitation on the Company's ability to take any action that could constitute a repricing of an appreciation award.

The Amended Plan prohibits dividends or dividend equivalents (as they are described in the 2004 Long-Term Incentive Plan) from being awarded in connection with any appreciation award and requires the accrual of dividends and dividend equivalents granted with respect to any full value award until the applicable award is no longer subject to any restrictions on transferability or forfeitability.

The Amended Plan prohibits shares withheld or tendered in connection with an exercise of an appreciation award or to satisfy tax withholding obligations applicable to an appreciation award from being added back into the share reserve available for future awards. The Amended Plan continues to provide that any shares withheld or tendered in connection with the vesting of a full value award, to satisfy tax withholding obligations or the settlement of a full value award in cash may be added back into the share reserve.

The Amended Plan removes the 2004 Long-Term Incentive Plan's minimum vesting provisions. Our current intention is to continue to use our standard four-year vesting schedule for employee service-based equity awards.

The Amended Plan permits grants of other stock-based awards to be settled in cash as well as shares.

The Amended Plan incorporates a definition of change in control that would be applicable for awards granted under the Amended Plan following the Annual Meeting.

Stockholders are requested to approve the adoption of the Amended Plan in the form attached hereto as *Appendix A*.

We firmly believe that the approval of the Amended Plan is essential to continue to grow our business. The Board believes that equity awards in meaningful amounts motivate high levels of performance, align the interests of employees and stockholders by giving employees the perspective of an owner with an equity stake in the Company, and provide an effective means of recognizing employee contributions to the success of the Company. The Board believes that equity awards are a competitive necessity in the environment in which we operate, and are essential to our continued success at recruiting and retaining the highly qualified technical and other key personnel who help the Company meet its goals, as well as rewarding and encouraging current employees. The Board believes that the ability to continue to grant meaningful equity awards will be important to our future success.

Edgar Filing: RED HAT INC - Form DEF 14A

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE

FOR THE APPROVAL OF THE AMENDED PLAN.

A brief summary of the Amended Plan is outlined below. The following summary is not a complete description of all the provisions of the Amended Plan and is qualified in its entirety by reference to the Amended Plan, a copy of which is attached hereto as *Appendix A*.

Table of Contents

Purpose

The Amended Plan allows us to provide directors, employees, consultants and advisors who are selected to receive awards under the Amended Plan the opportunity to acquire an equity interest in the Company. The Board believes that equity incentives are a significant factor in attracting, retaining and motivating eligible persons whose present and potential contributions are important to our long-term success.

Key Provisions

The Amended Plan is designed to reflect prevailing corporate governance and executive compensation best practices. The following is a summary of its key provisions:

Plan Termination Date: August 7, 2022

Eligible Participants: Directors, employees, consultants and advisors of the Company or an affiliate of the Company

Shares Authorized:

43,500,000 shares (including 22,500,000 previously authorized under the 2004 Long-Term Incentive Plan and 21,000,000 additional shares).

Full value awards deplete the share reserve available for future awards at a ratio of 1.7 shares for every share subject to such award; appreciation awards deplete the share reserve on a 1-for-1 basis. As a result of the fungible share counting provisions, the maximum number of shares that may be issued under the Amended Plan in the form of full value awards is approximately 12.3 million shares.

The maximum aggregate number of shares that may be issued under the Amended Plan subject to Incentive Stock Options is 8,000,000 shares.

Subject to the discussion in the bullet immediately below, if any award granted under the Amended Plan or any Acquired Plan expires or is terminated, surrendered or cancelled without having been fully exercised, is forfeited in whole or in part (including as a result of the Company's contractual repurchase right), is settled in cash or otherwise results in any shares being forfeited or not being issued, the unused shares covered by such award are added back into the reserve of shares available for future awards under the Amended Plan.

Shares withheld or tendered in connection with the exercise of a full value award (but not an appreciation award) or to satisfy tax withholding obligations of a full value award (but not an appreciation award) may be added back into the share reserve.

Award Types:

Stock options, including incentive stock options

Stock appreciation rights (SARs)

Restricted stock awards (RSAs)

Restricted stock units (RSUs), including performance stock units (PSUs) and deferred stock units (DSUs)

Performance awards

Other stock-based awards

Table of Contents

Award Limits Per Person Per Fiscal Year:

Stock Options/SARs: 2,000,000 shares

RSAs, RSUs, Performance Awards and/or Other Stock-Based Awards denominated in shares: 1,000,000 shares

Awards Valued Other Than With Reference to Our Common Stock: Value of \$10,000,000

Vesting: Determined by the Compensation Committee in its discretion. Currently, stock options are granted with a four-year vesting schedule with awards vesting 25% after one year and quarterly thereafter. RSAs and RSUs are granted with a four year vesting schedule with awards vesting 25% annually

Repricing of stock options or SARs: Not permitted

Plan Benefits: As of February 29, 2012 over 4,500 persons would have been eligible to receive awards under the Amended Plan, including the Company's executive officers and non-employee directors. Other than grants of awards to independent directors pursuant to our 2010 Non-Employee Director Compensation Plan or successor director compensation plans, the granting of future awards under the Amended Plan is discretionary, and the Company cannot now determine the number or type of awards to be granted in the future to any particular person or group. See Board of Directors and Corporate Governance Information Compensation of Directors below for a description of the 2010 Non-Employee Director Compensation Plan.

Table of Contents**Grant History**

Since adoption of the 2004 Long-Term Incentive Plan through February 29, 2012, the Company has granted the following awards under the 2004 Long-Term Incentive Plan to the individuals and groups listed below:

Name and Principal Position	Weighted Average Exercise Price	Options	Stock-Based Awards	
		Total Shares Subject to Option Grants	Total Stock-Based Awards (1)	Weighted Average Purchase Price (2)
James M. Whitehurst <i>President and Chief Executive Officer</i>	\$ 19.95	500,000	1,195,834	
Paul J. Cormier <i>Executive Vice President and President, Products and Technologies</i>	\$ 15.23	400,000	662,293	
Charles E. Peters, Jr. <i>Executive Vice President and Chief Financial Officer</i>	\$ 14.51	180,000	582,959	
Michael R. Cunningham <i>Executive Vice President and General Counsel</i>	\$ 17.46	106,200	464,481	
DeLisa K. Alexander <i>Executive Vice President, Chief People Officer</i>	\$ 18.79	58,800	262,000	
Alex Pinchev <i>Former Executive Vice President and President Global Sales, Services and Field Marketing</i>	\$ 15.80	262,500	552,293	
All current executive officers, as a group	\$ 17.38	1,517,500	3,784,889	
All current directors who are not executive officers, as a group	\$ 20.88	135,000	254,919	
All nominees for director, as a group				
All associates of any director, executive officer, or director nominee				
All employees who are not executive officers, as a group	\$ 16.58	14,836,306	12,786,070	

- (1) Total Stock-Based Awards include PSUs at 200% of target which is the maximum number of shares that can be achieved. RSAs, RSUs, PSUs and DSUs under the 2004 Long-Term Incentive Plan have been granted for no cash consideration.
- (2) RSAs, RSUs, PSUs, and DSUs under the 2004 Long-Term Incentive Plan have been granted for no cash consideration other than par value in certain circumstances.

In all cases, the securities underlying the awards under the 2004 Long-Term Incentive Plan are shares of the Company's common stock. With the exception of performance-based awards and certain other special awards, options and full value awards vest over a period of four years, either (i) with 25% vesting after one year and 6.25% vesting on a quarterly basis thereafter or (ii) vesting 25% annually. As of February 29, 2012, the closing sale price of the Company's common stock on the NYSE was \$49.46.

Awards

Edgar Filing: RED HAT INC - Form DEF 14A

Awards under the Amended Plan may be either performance-based and designed to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), or discretionary. Subject to the Amended Plan limits (described above), the Compensation Committee has the discretionary authority to determine the size of an award and whether it is intended to be performance-based.

Table of Contents

Adjustments

In the event of a merger, reorganization, consolidation, recapitalization, dividend or distribution, stock split, reverse stock split, spin-off or similar event affecting our common stock, the Compensation Committee will, in addition to any provisions contained in the terms of a grant, equitably adjust (i) the number and kind of shares that may be delivered under the Amended Plan (including the fungible share counting provisions of the Amended Plan) and (ii) the number and kind of shares subject to outstanding awards and the exercise price of outstanding stock options, with the manner of adjustments being in its sole discretion.

Stock Options

Optionees receive the right to purchase a specified number of shares of common stock at a specified exercise price and subject to the terms and conditions as are specified in the option grant. The exercise price of stock options granted under the Amended Plan may not be less than the fair market value of the common stock on the date of grant, and no stock option will be exercisable more than seven years after the date it is granted. The Compensation Committee will determine at the time of grant when each stock option becomes exercisable. Payment of the exercise price of a stock option may be in cash, shares of common stock owned by the participant, delivery of a notice of net exercise to the Company with the consent of the Compensation Committee, other consideration permitted by the Compensation Committee or by a combination of the foregoing. Options may not provide for the accrual or payment of dividend equivalents.

Stock Appreciation Rights

A SAR is an award entitling the holder on exercise to receive, at the election of the Company, either cash or shares of common stock in an amount determined in whole or in part by reference to the appreciation in the fair market value of a share of common stock from the date of grant until the date of exercise. SARs may be granted without regard to any option or other award under the Amended Plan or in conjunction with all or part of any option granted under the Amended Plan. SARs generally have the same terms and conditions as options. SARs may not provide for the accrual or payment of dividend equivalents.

Restricted Stock and Restricted Stock Unit Awards

RSAs entitle recipients to acquire shares of common stock, subject to forfeiture of all or part of such shares by the recipient in the event that the conditions specified in the applicable award are not satisfied prior to the end of the applicable restriction period established in such award. RSUs entitle the recipient to receive shares of common stock or the value thereof, at the election of the Company, to be delivered in the future subject to such terms and conditions on the delivery of the shares as the Compensation Committee may determine, including restrictions covering a period of time or relating to achievement of performance targets or provisions providing for deferral of payment. Under the Amended Plan, dividends or dividend equivalents attributable to RSAs and RSUs, as applicable, shall accrue and shall only be paid to the extent that the applicable award vests.

Performance Awards and Other Stock-Based Awards

Edgar Filing: RED HAT INC - Form DEF 14A

Under the Amended Plan, the Compensation Committee has the right to grant other awards of common stock or awards otherwise based upon common stock or other property, including without limitation performance awards that may be paid in cash, shares of common stock, other property or any combination thereof, in the sole discretion of the Compensation Committee at the time of payment. Under the Amended Plan, dividend equivalents attributable to performance awards and other stock-based awards shall accrue and shall be paid only to the extent that the applicable award vests.

Transferability

No awards, no shares of common stock subject to an award which shares are to be issued at a later date, nor any shares that remain subject to any applicable restriction may be sold, assigned, transferred, pledged or otherwise

Table of Contents

encumbered other than by will, the laws of descent and distribution or a qualified domestic relations order. The Compensation Committee may, however, provide in certain types of awards for transfer to or for the benefit of a participant's immediate family member, a family trust or any other entity established for the benefit of the participant or his or her immediate family member, subject to certain exceptions and restrictions.

Change in Control

If provided in an award agreement, stock options and other awards granted to directors, employees, consultants and advisors under the Amended Plan may become exercisable upon the occurrence of a change in control (as defined in the Amended Plan) or upon a termination of employment under specified circumstances following a change in control. Notwithstanding the foregoing, terms and conditions as may be set forth in an award agreement or determined by the Compensation Committee in its discretion may supersede the Amended Plan.

Under the Amended Plan, a change in control is generally defined to mean (i) except in certain circumstances, the ownership, without approval of the Board, by a person or a group of 35% or more of the combined voting power of our then-outstanding securities eligible to vote for the election of our Board; (ii) a change, without approval by our Board, of a majority of our Board; (iii) our involvement in a merger, consolidation, reorganization, recapitalization, share exchange, or asset sale, unless (x) our stockholders prior to such event continue to own, in substantially the same proportions as before the transaction, at least 40% of the entity surviving such event, or its parent, as applicable, (y) no person or group owns more than 35% of the outstanding stock of the surviving entity or its parent, as applicable and (z) at least half of the members of the board of directors of the surviving entity or its parent, as applicable, were members of our Board of Directors at the time of the execution of the initial agreement providing for the transaction; or (iv) our liquidation or dissolution. The complete definition of change in control, which contains several exceptions from, and qualifications to, this description, can be read in the Amended Plan attached hereto as *Appendix A*.

Termination of Employment

The Compensation Committee shall determine the period of time, if any, for which any awards under the Amended Plan will continue to be exercisable and the terms of such exercise upon termination of a participant's employment or service with the Company or its affiliate.

Administration

The Amended Plan shall be administered by the Compensation Committee consisting of independent directors or such other committee of independent directors appointed by the Board, and except as limited by the Amended Plan, the Compensation Committee may exercise all discretion delegated to it under the Amended Plan. The Compensation Committee will select the employees of the Company and other persons who shall receive awards, determine the number of shares covered thereby, and establish the terms, conditions and other provisions of the grants. The Compensation Committee may interpret the Amended Plan and establish, any rules relating to the Amended Plan. The Compensation Committee may, under the Amended Plan, delegate to a committee of one or more directors or officers the right to grant, cancel or suspend awards to employees who are not directors or officers of the Company, subject to certain conditions and exceptions.

Amendments

Edgar Filing: RED HAT INC - Form DEF 14A

The Board of Directors may at any time terminate, amend or suspend the Amended Plan as it deems advisable, subject to any requirement for stockholder approval imposed by applicable law, including the rules and regulations of the NYSE (or any stock exchange or quotation system on which the Company's shares are then listed or quoted). In addition, no action may be taken by the Board (except those described earlier under the heading "Adjustments") without the approval of the stockholders if the amendment would (a) increase the number of shares that may be the subject of awards under the Amended Plan, (b) expand the types of awards

Table of Contents

available under the Amended Plan, (c) materially expand the class of persons eligible to participate in the Amended Plan, (d) amend any provision of the Amended Plan to allow for an exercise price of an option or SAR that is less than the fair market value of a share on the grant date of the award, (e) amend any provision of the Plan that prohibits re-pricing of options or SARs, (f) increase the maximum permissible term of any option beyond seven years, (g) amend any provision establishing limitations on grants to individual participants, (h) effect an amendment for which shareholder approval is required under Section 162(m) or (i) amend any award in any manner inconsistent with Section 162(m).

Federal Income Tax Consequences

The following briefly summarizes the United States federal income tax consequences that generally will arise with respect to awards granted under the Amended Plan. This summary is based on the federal tax laws in effect as of the date of this Proxy Statement. This summary assumes that all awards are exempt from, or comply with, Section 409A of the Code relating to nonqualified deferred compensation. Changes to these laws could alter the tax consequences described below.

Incentive Stock Options

A participant will not have income upon the grant of an incentive stock option. Also, except as described below, a participant will not have income upon exercise of an incentive stock option if the participant has been employed by us or its 50% or more-owned corporate subsidiary at all times beginning with the option grant date and ending three months before the date the participant exercises the option. If the participant has not been so employed during that time, then the participant will be taxed as described below under Nonstatutory Stock Options. The exercise of an incentive stock option may subject the participant to the alternative minimum tax.

A participant will have income upon the sale of the stock acquired under an incentive stock option at a profit (if sales proceeds exceed the exercise price). The type of income will depend on when the participant sells the stock. If a participant sells the stock more than two years after the option was granted and more than one year after the option was exercised, then all of the profit will be long-term capital gain. If a participant sells the stock prior to satisfying these waiting periods, then the participant will have engaged in a disqualifying disposition and a portion of the profit will be ordinary income and a portion may be capital gain. This capital gain will be long-term if the participant has held the stock for more than one year and otherwise will be short-term. If a participant sells the stock at a loss (sales proceeds are less than the exercise price), then the loss will be a capital loss. This capital loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Nonstatutory Stock Options

A participant will not have income upon the grant of a nonstatutory stock option. A participant will have compensation income upon the exercise of a nonstatutory stock option equal to the value of the stock on the day the participant exercised the option less the exercise price. Upon sale of the stock, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the day the option was exercised. This capital gain or loss will be long-term if the participant has held the stock for more than one year and otherwise will be short-term.

Stock Appreciation Rights

A participant will not have income upon the grant of a SAR. A participant generally will recognize compensation income upon the exercise of an SAR equal to the amount of the cash and the fair market value of any stock received. Upon the sale of the stock, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the day the SAR was exercised. This capital gain or loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Table of Contents

Restricted Stock

A participant will not have income upon the grant of restricted stock unless an election under Section 83(b) of the Code is made within 30 days of the date of grant. If a timely Section 83(b) election is made, then a participant will have compensation income equal to the value of the stock less the purchase price, if any. When the stock is sold, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the date of grant. If the participant does not make an Section 83(b) election, then when the stock vests the participant will have compensation income equal to the value of the stock on the vesting date less the purchase price, if any. When the stock is sold, the participant will have capital gain or loss equal to the sales proceeds less the value of the stock on the vesting date. Any capital gain or loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Restricted Stock Units

A participant will not have income upon the grant of an RSU. A participant is not permitted to make a Section 83(b) election with respect to a restricted stock unit award. When the RSU vests, the participant will have income on the vesting date in an amount equal to the fair market value of the stock on the vesting date less the purchase price, if any. When the stock is sold, the participant will have capital gain or loss equal to the sales proceeds less the value of the stock on the vesting date. Any capital gain or loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term. Generally, any deferred awards are intended to be taxable on distribution.

Other Stock-Based Awards

The tax consequences associated with any other stock-based award granted under the Amended Plan will vary depending on the specific terms of such award. Among the relevant factors are whether or not the award has a readily ascertainable fair market value, whether or not the award is subject to forfeiture provisions or restrictions on transfer, the nature of the property to be received by the participant under the award and the participant's holding period and tax basis for the award or underlying common stock.

Tax Consequences to Us

There will be no tax consequences to us except that the Company will be entitled to a deduction when a participant has compensation income. Any such deduction will be subject to the limitations of Section 162(m) of the Code.

Table of Contents

ITEM NO. 5 STOCKHOLDER PROPOSAL TO REPEAL CLASSIFIED BOARD

We expect the following proposal to be presented by a stockholder at our Annual Meeting. The address and shareholdings of the stockholder proponent will be supplied upon request.

Resolution Proposed by Stockholder

PROPOSAL TO REPEAL CLASSIFIED BOARD

RESOLVED, that shareholders of Red Hat, Inc. urge the Board of Directors to take all necessary steps (other than any steps that must be taken by shareholders) to eliminate the classification of the Board of Directors and to require that all directors elected at or after the annual meeting held in 2013 be elected on an annual basis. Implementation of this proposal should not prevent any director elected prior to the annual meeting held in 2013 from completing the term for which such director was elected.

Stockholder s Supporting Statement

This resolution was submitted by the Los Angeles County Employees Retirement Association. The Harvard Law School Shareholder Rights Project represented and advised the Los Angeles County Employees Retirement Association in connection with this resolution.

The resolution urges the board of directors to facilitate a declassification of the board. Such a change would enable shareholders to register their views on the performance of all directors at each annual meeting. Having directors stand for elections annually makes directors more accountable to shareholders, and could thereby contribute to improving performance and increasing firm value.

Over the past decade, many S&P 500 companies have declassified their board of directors. According to data from FactSet Research Systems, the number of S&P 500 companies with a classified board declined by more than 50%; and the average percentage of votes cast in favor of shareholder proposals to declassify the boards of S&P 500 companies during the period January 10, 2010 June 30, 2011 exceeded 75%.

The significant shareholder support for proposals to declassify boards is consistent with empirical studies reporting that classified boards could be associated with lower firm valuation and/or worse corporate decision-making. Studies report that:

Classified boards are associated with lower firm valuation (Bebchuk and Cohen, 2005; confirmed by Faleye (2007) and Frakes (2007));

Takeover targets with classified boards are associated with lower gains to shareholders (Bebchuk, Coates, and Subramanian, 2002);

Firms with classified boards are more likely to be associated with value-decreasing acquisition decisions (Masulis, Wang, and Xie, 2007); and

Classified boards are associated with lower sensitivity of compensation to performance and lower sensitivity of CEO turnover to firm performance (Falaye, 2007).

Please vote for this proposal to make directors more accountable to shareholders.

Statement of the Board of Directors in Opposition to Stockholder Proposal

After careful deliberation, the Board unanimously recommends that stockholders vote AGAINST this proposal. The Board believes that this proposal is not in the best interests of the Company or its stockholders at this time for the following reasons:

Red Hat has delivered solid financial results and increased stockholder value under its classified board structure.

Table of Contents

Longer, staggered director terms help us attract and retain committed directors who are able to develop a deeper knowledge of our business and the environment in which we operate and focus on long-term strategies.

A classified board structure enhances stability and allows the Board to protect the stockholder value that the Company delivers.

Annual director elections are not necessary as the Board already has in place good corporate governance practices designed to promote Board accountability.

The Board believes that there is no one size fits all approach that suits all companies, and that the appropriate standard by which to judge the classified board structure is whether it promotes stockholder interests in the Company. The Board believes that the classified board structure provides important benefits that advance and protect the interests of Red Hat stockholders. Given the unique nature of the Company's business and the dynamic economic environment in which Red Hat operates, the Board believes that these benefits are substantial.

Among the factors that the Board believes support the Company's classified board structure are:

Financial Results. The following table sets forth selected financial data for each of the Company's fiscal years in the five-year period ended February 29, 2012.

	February 29, 2012	February 28, 2011	Year Ended February 28, 2010 (in thousands)	February 28, 2009	February 29, 2008
SELECTED STATEMENT OF OPERATIONS DATA					
Revenue:					
Subscriptions	\$ 965,575	\$ 773,404	\$ 638,654	\$ 541,210	\$ 449,811
Training and services	167,528	135,873	109,582	111,362	73,205
Total subscription and training and services revenue	\$ 1,133,103	\$ 909,277	\$ 748,236	\$ 652,572	\$ 523,016
Gross profit	\$ 954,555	\$ 758,990	\$ 634,391	\$ 546,446	\$ 442,363
Income from operations	\$ 199,913	\$ 145,676	\$ 100,349	\$ 82,521	\$ 70,372
Net income	\$ 146,626	\$ 107,278	\$ 87,253	\$ 78,721	\$ 76,667

The selected financial data are derived from our Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended February 29, 2012 (the Annual Report), and should be read in conjunction with the Consolidated Financial Statements, related notes and other financial information contained in the Annual Report.

Stockholder Value. Set forth below is a comparison of cumulative total return (equal to dividends plus stock appreciation) during the period from February 28, 2007 through February 29, 2012 for:

Red Hat, Inc.;

Edgar Filing: RED HAT INC - Form DEF 14A

A peer group consisting of Adobe Systems Incorporated, Akamai Technologies, Inc., Ansys, Inc., Autodesk, Inc., BMC, Cadence Design Systems, Inc., Citrix, Compuware Corporation, Jack Henry & Associates, Inc., Micros Systems, Inc., NetApp, Nuance Communications, Inc., Progress Software Corporation, Salesforce.com, Inc., TIBCO Software, Inc., Verisign, Inc. and VMware, Inc.; and

the S&P 500 Index.

	2/28/07	2/29/08	2/28/09	2/28/10	2/28/11	2/29/12
RED HAT, INC.	\$ 100.00	\$ 79.42	\$ 60.98	\$ 124.94	\$ 183.88	\$ 220.31
PEER GROUP	\$ 100.00	\$ 88.35	\$ 51.82	\$ 96.09	\$ 146.34	\$ 152.44
S&P 500 INDEX	\$ 100.00	\$ 96.40	\$ 54.67	\$ 83.94	\$ 102.91	\$ 108.15

Table of Contents

Notes:

Assumes initial investment of \$100.00 on February 28, 2007. Total return includes reinvestment of dividends.

If the annual interval, based on the fiscal year-end, ends on a day that is not a trading day, the preceding trading day is used.

The stock price performance shown above is not necessarily indicative of future price performance.

Depth of Knowledge and Focus on the Long-Term. The nature of the Company's business and the environment in which it operates are unique and constantly evolving. We utilize an open source development model that leverages a global community of developers and users, whose collective resources and knowledge supplement the developers we employ. As a result, we believe we are able to offer enhancements, fixes and upgrades more quickly and with less development cost than is typical of many proprietary software vendors.

The Board believes that the continuity made possible by the classified board structure is essential to the proper oversight of a company operating in this environment. As a result of the existing structure, at any given time a majority of the Company's directors have prior experience as a Company director, which gives them solid knowledge of the Company's complex business and long-term strategy. The Board believes that the classified structure also has strengthened the ability of the Company to recruit high-quality directors who are willing to make a significant commitment to the Company and its stockholders for the long term. The Board believes that the Company has benefited from this long-term focus. Experienced directors who are knowledgeable about the Company's business environment are a valuable resource and are better positioned to make decisions that are in the best interests of the Company and its stockholders.

Increased Stability. The Board believes that the Company's reputation benefits from stability at the corporate level and that the classified board structure promotes that stability by buffering the Company from potential hostile acquirers or arbitrageurs that may have only a short-term focus and protecting against unfair or abusive takeover tactics. The classified board structure does not insulate the Company from potential acquisitions or changes in the composition of the Board, and it does not alter the fiduciary responsibility of directors in responding to any such efforts. Instead, it enhances the Board's ability to negotiate the best results for stockholders in a potential takeover situation. In this regard, a classified board structure gives incumbent directors additional opportunity to evaluate the adequacy and fairness of any takeover proposal, negotiate on behalf of all stockholders and weigh alternative methods of maximizing stockholder value. With nine out of ten members of the Board independent, and with a majority of our directors possessing a historical perspective of the Company's operations and experience in the industry in which the Company operates, the Board believes that it is well positioned to evaluate the Company's value and pursue a course of action designed to maximize stockholder value, particularly in the context of a hostile takeover.

Accountability to Stockholders. The Board believes that the Company's directors are accountable to stockholders and that the performance of the Board and the Company demonstrate the Board's commitment to enhancing stockholder value. The Company has adopted a number of governance practices that enhance director accountability and the Board's ability to provide independent oversight. Red Hat applies a majority voting standard in the election of directors. Every year, stockholders can elect approximately one-third of our directors and each director must be elected every three years by a majority vote of the stockholders. Directors elected to three-year terms are equally as accountable to stockholders as directors elected annually because all directors must fulfill their fiduciary duties to the Company and its stockholders, regardless of the length of their term of office. The Board has an independent chair, which allows our CEO to focus on the management of the Company and the Chairman to focus on oversight responsibilities. The Board believes this structure promotes open discussion among the independent directors and enhances the Board's ability to provide independent oversight of the Company's management and its business. In addition, each committee is chaired by a different independent director, which the Board believes promotes a diversity of ideas and more effective governance.

Table of Contents

Based on the foregoing, the Board has concluded that the Company's classified board structure continues to promote the best interests of the stockholders, and recommends that stockholders vote AGAINST this proposal.

Procedural Matters

Stockholder approval of this proposal would not in itself declassify the Board. The proposal is non-binding and requests that the Board take the steps necessary to eliminate the classified board structure. In order to declassify our Board, a formal amendment to our Certificate of Incorporation would need to be recommended by the Board and submitted to stockholders for approval at a future meeting. Approval of such an amendment would require the affirmative vote of the holders of at least 75% of the outstanding shares of our stock entitled to vote in the election of directors at a subsequent meeting. In addition, the Board or our stockholders would have to approve an amendment to our by-laws.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE
AGAINST THE STOCKHOLDER PROPOSAL TO REPEAL CLASSIFIED BOARD**

Table of Contents**BENEFICIAL OWNERSHIP OF OUR COMMON STOCK**

The tables below set forth, as of May 31, 2012 (unless otherwise indicated), certain information regarding beneficial ownership of our common stock. We determine beneficial ownership of our common stock in accordance with the rules of the SEC. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting power or investment power and includes any shares of common stock which the individual has the right to acquire on or before July 30, 2012 through the exercise of options or through the conversion of DSUs. DSUs are described in more detail below in the section entitled "Corporate Governance and Board of Directors Information - Compensation of Directors." Any reference in the footnotes to this table to shares subject to options or DSUs refers only to shares of common stock underlying options that vest on or before July 30, 2012 and DSUs that are convertible into shares of common stock on or before July 30, 2012. As of May 31, 2012, we had 192,888,824 shares of common stock outstanding. For purposes of computing the percentage and amount of outstanding shares of common stock held by each individual or entity, any shares which that individual or entity has the right to acquire on or before July 30, 2012 are deemed to be outstanding for the individual or entity but such shares are not deemed to be outstanding for the purpose of computing the percentage ownership of any other individual, entity or group.

Ownership by Our Directors and Executive Officers

As of the end of Fiscal 2012, our Chief Executive Officer, Chief Financial Officer and other three most highly compensated executive officers who were serving as of February 29, 2012 were James M. Whitehurst, Charles E. Peters, Jr., Paul J. Cormier, Michael R. Cunningham and DeLisa K. Alexander. These individuals together with Alex Pinchev, our former Executive Vice President and President, Global Sales, Services and Field Marketing, are our named executive officers ("Named Officers"). The following table includes information regarding the number of shares of our common stock beneficially owned by each of our directors, director nominees and Named Officers, as well as all of our directors and executive officers as a group, as of May 31, 2012.

Name and Address of Beneficial Owner (1)	Title(s)	Amount and Nature of Beneficial Ownership (2)	Percent of Common Stock Outstanding
James M. Whitehurst (3)	Class III Director and President and Chief Executive Officer	589,501	*
William S. Kaiser (4)	Class III Director	350,246	*
Charles E. Peters, Jr. (5)	Executive Vice President and Chief Financial Officer	85,488	*
Paul J. Cormier (6)	Executive Vice President and President, Products and Technologies	77,284	*
Michael R. Cunningham (7)	Executive Vice President, General Counsel and Secretary	64,914	*
Marye Anne Fox (8)	Class I Director	59,480	*
DeLisa K. Alexander (9)	Executive Vice President, Chief People Officer	53,481	*
Micheline Chau (10)	Class I Director	36,793	*

Table of Contents

Name and Address of Beneficial Owner (1)	Title(s)	Amount and Nature of Beneficial Ownership (2)	Percent of Common Stock Outstanding
Narendra K. Gupta (11)	Class III Director	29,393	*
Alex Pinchev (12)	Former Executive Vice President and President, Global Sales, Services & Field Marketing	29,247	*
H. Hugh Shelton (13)	Chairman of the Board and Class II Director	27,148	*
Jeffrey J. Clarke (14)	Class II Director	23,936	*
Donald H. Livingstone (15)	Class I Director	14,862	*
Sohaib Abbasi (16)	Class III Director	8,789	*
W. Steve Albrecht (17)	Class II Director	7,985	*
All executive officers and directors as a group (16 persons) (18)		1,458,547	*

* Less than one percent of the outstanding common stock.

- (1) The address for each beneficial owner is c/o Red Hat, Inc., 1801 Varsity Drive, Raleigh, North Carolina 27606.
- (2) Each person named in the table reported that he or she has sole voting and investment power (or shares such power with his or her spouse) with respect to all shares shown as beneficially owned by him or her, except as noted in the footnotes below and subject to community property laws, if applicable. The inclusion herein of any shares of common stock does not constitute an admission of direct or indirect beneficial ownership of those shares.
- (3) Consists of (i) 154,915 shares of common stock, (ii) 300,000 shares of common stock issuable upon exercise of stock options and (iii) 134,586 shares of restricted stock vesting over four years from the date of grant.
- (4) Consists of (i) 256,376 shares of common stock, (ii) 12,500 shares of common stock issuable upon exercise of stock options, (iii) 4,066 shares of restricted stock vesting one year from the date of grant, (iv) 7,190 shares of common stock issuable upon conversion of DSUs and (v) 70,114 shares of common stock held of record by Greylock X GP Limited Partnership and Greylock X-A Limited Partnership (the Greylock Partnerships). Mr. Kaiser, a general partner of the Greylock Partnerships, disclaims beneficial ownership of shares held by the Greylock Partnerships except as to his proportionate partnership interest in these partnerships.
- (5) Consists of (i) 22,154 shares of common stock and (ii) 63,334 shares of restricted stock vesting over four years from the date of grant.
- (6) Consists of (i) 13,326 shares of common stock and (ii) 63,958 shares of restricted stock vesting over four years from the date of grant.
- (7) Consists of (i) 14,913 shares of common stock and (ii) 50,001 shares of restricted stock vesting over four years from the date of grant.
- (8) Consists of (i) 29,701 shares of common stock, (ii) 20,000 shares of common stock issuable upon exercise of stock options, (iii) 2,033 shares of restricted stock vesting one year from the date of grant and (iv) 7,746 shares of common stock issuable upon conversion of DSUs.
- (9) Consists of (i) 17,271 shares of common stock and (ii) 36,210 shares of restricted stock vesting over four years from the date of grant.
- (10) Consists of (i) 20,242 shares of common stock and (ii) 16,551 shares of common stock issuable upon conversion of DSUs.

Table of Contents

- (11) Consists of (i) 7,345 shares of common stock and (ii) 22,048 shares of common stock issuable upon conversion of DSUs.
- (12) Consists of 29,247 shares of common stock.
- (13) Consists of (i) 21,778 shares of common stock, (ii) 2,033 shares of restricted stock vesting one year from the date of grant and (iii) 3,337 shares of common stock issuable upon conversion of DSUs.
- (14) Consists of 23,936 shares of common stock issuable upon conversion of DSUs.
- (15) Consists of (i) 2,685 shares of common stock, (ii) 3,493 shares of restricted stock vesting over three years from the date of grant and (iii) 8,684 shares of common stock issuable upon conversion of DSUs.
- (16) Consists of (i) 2,209 shares of common stock, (ii) 60 shares of common stock held of record by the Abbasi Family 2003 Charitable Remainder Unitrust for which Mr. Abbasi is the trustee, (iii) 4,420 shares of restricted stock vesting over three years from the date of grant, (iv) 1,356 shares of restricted stock vesting one year from the date of grant and (v) 744 shares of common stock issuable upon conversion of DSUs.
- (17) Consists of (i) 2,209 shares of common stock, (ii) 4,420 shares of restricted stock vesting over three years from the date of grant and (iii) 1,356 shares of common stock issuable upon conversion of DSUs.
- (18) Consists of (i) 664,545 shares of common stock, (ii) 332,500 shares of common stock issuable upon exercise of stock options, (iii) 369,910 shares of restricted stock vesting over either one year, three years, or four years from the date of grant and (iv) 91,592 shares of common stock issuable upon conversion of DSUs.

Ownership of More than 5% of Our Common Stock

The following table sets forth information on each person or entity who we believe, based on our review of public filings by such persons or entities, beneficially owns more than 5% of our common stock as of May 31, 2012.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Common Stock Outstanding (1)
FMR LLC (2) 82 Devonshire Street Boston, MA 02109	24,344,699	12.62%
T. Rowe Price Associates, Inc. (3) 100 East Pratt Street Baltimore, MD 21202	19,708,348	10.22%
BlackRock, Inc. (4) 40 East 52nd Street New York, NY 10022	14,203,255	7.36%
Prudential Financial, Inc. (5) 751 Broad Street Newark, NJ 07102	11,538,759	5.98%
The Vanguard Group, Inc. (6) 100 Vanguard Blvd.	10,321,922	5.35%

- (1) Percentages are calculated based on our common stock outstanding as of May 31, 2012.
- (2) Based on a Schedule 13G/A filed with the SEC on February 14, 2012 by FMR LLC. FMR LLC reports sole power to vote or direct the vote over 410,231 shares and sole power to dispose or direct the disposition of 24,344,699 shares. Includes 23,929,268 shares beneficially owned by Fidelity Management & Research Company (Fidelity) in its capacity as an investment advisor; 62,053 shares beneficially owned by Fidelity Management Trust Company (a bank as defined in Section 3(a)(6) of the Exchange Act) (FMTC), as a result of its serving as investment manager of one or more institutional accounts; 297,098 shares beneficially owned by Strategic Advisers, Inc. (SAI) in its capacity as an investment advisor; and 56,280

Table of Contents

- shares beneficially owned by Pyramis Global Advisors Trust Company (PGATC) as a result of its serving as an investment manager of institutional accounts owning such shares. Fidelity, FMTC and SAI are wholly owned subsidiaries of FMR LLC. PGATC is an indirect wholly owned subsidiary of FMR LLC. Edward C. Johnson 3d, Chairman of FMR LLC, and members of his family, directly or through trusts, own approximately 49% of the voting power of FMR LLC, and have certain other rights to influence the management of FMR LLC. The address of Fidelity, FMTC and SAI is 82 Devonshire Street, Boston, Massachusetts 02109. The address of PGATC is 900 Salem Street, Smithfield, Rhode Island 02917.
- (3) Based on a Schedule 13G/A filed with the SEC on February 13, 2012 by T. Rowe Price Associates, Inc. (Price Associates). Price Associates reports sole power to vote or direct the vote over 5,716,370 shares and sole power to dispose or direct the disposition of 19,708,348 shares. Price Associates reports that these securities are owned by various individual and institutional investors which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (4) Based on a Schedule 13G/A filed with the SEC on February 10, 2012 by BlackRock, Inc. and includes shares held by certain of its subsidiaries. Blackrock, Inc. reports sole power to vote or direct the vote over 14,203,255 shares and sole power to dispose or direct the disposition of 14,203,255 shares.
- (5) Based on a Schedule 13G/A filed with the SEC on February 14, 2012 by Prudential Financial, Inc. (Prudential) and includes shares held by certain of its subsidiaries. Prudential reports sole power to vote or direct the vote over 258,078 shares, shared power to vote or direct the vote over 6,653,630 shares, sole power to dispose or direct the disposition of 258,078 shares and shared power to dispose or direct the disposition of 11,280,681 shares. Jennison Associates LLC (Jennison) filed a separate Schedule 13G/A with the SEC on February 13, 2012 reporting beneficial ownership of 11,266,675 shares. However, these shares have not been listed separately because they are included in the shares reported by Prudential, which indirectly owns 100% of the equity interest in Jennison. Jennison furnishes investment advice to several investment companies, insurance separate accounts and institutional clients (Managed Portfolios). As a result of its role as investment adviser of the Managed Portfolios, Jennison may be deemed to be the beneficial owner of the shares held by such Managed Portfolios.
- (6) Based on a Schedule 13G/A filed with the SEC on February 10, 2012 by The Vanguard Group, Inc. reporting sole power to vote or direct the vote over 270,040 shares, sole power to dispose or direct the disposition of 10,051,882 shares and shared power to dispose or direct the disposition of 270,040 shares. Includes 270,040 shares beneficially owned by Vanguard Fiduciary Trust Company (VFTC) as a result of its serving as an investment manager of collective trust accounts. VFTC directs the voting of these shares. VFTC is a wholly owned subsidiary of The Vanguard Group, Inc.

Table of Contents

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS INFORMATION

Our Board believes that good corporate governance is an important element in managing Red Hat for the longer-term benefit of stockholders. Regular review and assessment of existing governance practices is an ongoing process for our Board. This section describes a number of our key corporate governance policies and practices. Copies of our current corporate governance documents and policies, including our Corporate Governance Guidelines, Code of Business Conduct and Ethics and committee charters, are available at www.redhat.com.

Key Governance Policies

Code of Business Conduct and Ethics

The Board has adopted a written Code of Business Conduct and Ethics that applies to our directors, officers and employees. We have posted our Code of Business Conduct and Ethics on our website, www.redhat.com. In addition, we intend to post on our website all disclosures that are required by law or by New York Stock Exchange (NYSE) listing standards with respect to amendments to, or waivers from, any provision of the Code of Business Conduct and Ethics.

Corporate Governance Guidelines

The Board has adopted written Corporate Governance Guidelines which provide a framework for the conduct of the Board's business. Highlights of our Corporate Governance Guidelines include, among other things, that:

the principal responsibility of the directors is to oversee the management of the Company;

a majority of the members of the Board must be independent directors;

the independent directors are to meet regularly in executive session;

the non-management directors are to meet regularly in executive session;

directors have full and free access to management and, as necessary and appropriate, independent advisors;

directors who reach the age of 75 will retire from the Board effective at the end of his or her then current term;

Edgar Filing: RED HAT INC - Form DEF 14A

new directors participate in an orientation program and all directors are expected to participate in continuing director education on an ongoing basis; and

at least annually the Board and its committees will conduct a self-evaluation to determine whether they are functioning effectively.

Related Person Transactions

We have a written Related Person Transaction Policy that provides for the review of transactions, arrangements or relationships between related persons and Red Hat. A related person is defined under SEC regulations to include our directors, director nominees, executive officers and 5% stockholders (or their immediate family members). Related person transactions are transactions, arrangements or relationships in which Red Hat is a participant, the amount involved exceeds \$120,000, and a related person (as defined above) has a direct or indirect material interest.

Related persons must notify our General Counsel of any proposed transaction with us. The General Counsel will then refer the proposed related person transaction to our Audit Committee for review and approval prior to entry into the transaction, whenever practicable. If advance review and approval is not practicable, the Audit Committee will review, and in its discretion, may ratify the related person transaction at its next regularly scheduled meeting. The Chairman of the Audit Committee may also review and approve transactions between meetings subject to ratification by the Audit Committee at its next regularly scheduled meeting. Transactions which are ongoing will be reviewed annually.

Table of Contents

In reviewing the proposed transactions, the Committee will take into account those factors it considers appropriate, which may include the following:

the related person's interest in the related person transaction;

the approximate dollar value of the amount involved in the related person transaction;

the approximate dollar value of the amount of the related person's interest in the transaction without regard to the amount of any profit or loss;

whether the transaction was undertaken in the ordinary course of business of the Company;

whether the terms of the transaction are, in the aggregate, no less favorable to the Company than terms that could have been reached with an unrelated third party;

the purpose of, and the potential benefits to the Company of, the transaction; and

any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The Audit Committee may approve or ratify the transaction only if it determines that, in light of all of the circumstances, the transaction is in, or is not inconsistent with, the Company's best interests. The Audit Committee may impose any conditions on the related person transaction that it deems appropriate. The Related Person Transaction Policy provides that transactions involving compensation of executive officers will be reviewed and approved by the Compensation Committee of the Board in accordance with its charter.

In 2012, the Audit Committee reviewed and ratified the following transactions:

FMR LLC beneficially owns 24,344,699 shares (approximately 12.62%) of our outstanding common stock based on its holdings reported in a Schedule 13G/A filed with the SEC on February 14, 2012. During Fiscal 2012, we paid an affiliate of FMR LLC approximately \$30,000 to provide 401(k) plan administration and other services to us. Affiliates of FMR LLC purchased approximately \$827,000 in goods and services from us during Fiscal 2012. We believe that the transactions described above were carried out on terms that were in the aggregate no less favorable to us than those that would have been obtained by an unrelated third party in transactions of similar size. In addition to the payments described above, fees were paid to one or more affiliates of FMR LLC by participants in our equity compensation and 401(k) plans in the form of commissions and brokerage fees generated on various transactions.

Blackrock, Inc. beneficially owns 14,203,255 shares (approximately 7.36%) of our outstanding common stock based on its holdings reported in a Schedule 13G/A filed with the SEC on February 10, 2012. During Fiscal 2012, Blackrock, Inc. purchased approximately \$461,000 in goods and services from us. We believe that the transactions described above were carried out on terms that were in the aggregate no less favorable to us than those that would have been obtained by an unrelated third party in transactions of similar size.

Edgar Filing: RED HAT INC - Form DEF 14A

Prudential Financial, Inc. beneficially owns 11,538,759 shares (approximately 5.98%) of our outstanding common stock based on its holdings reported in a Schedule 13G/A filed with the SEC on February 14, 2012. During Fiscal 2012, Prudential Financial, Inc. purchased approximately \$673,000 in goods and services from us. We believe that the transactions described above were carried out on terms that were in the aggregate no less favorable to us than those that would have been obtained by an unrelated third party in transactions of similar size.

The Vanguard Group, Inc. beneficially owns 10,321,922 shares (approximately 5.35%) of our outstanding common stock based on its holdings reported in a Schedule 13G/A filed with the SEC on February 10, 2012. During Fiscal 2012, The Vanguard Group, Inc. purchased approximately \$403,000 in goods and services from us. We believe that the transactions described above were carried out on terms that were in the aggregate no less favorable to us than those that would have been obtained by an unrelated third party in transactions of similar size.

Table of Contents

In October 2011, Red Hat acquired Gluster, Inc. ("Gluster") for approximately \$136.2 million in cash (the "Gluster Acquisition"). Dr. Gupta was a director of Gluster and is the Managing Director of Nexus Venture Partners ("Nexus"), a venture capital fund that was a principal investor in Gluster. Nexus held approximately 36.4% percent of the shares of Gluster capital stock and vested options outstanding on the closing date and therefore received approximately \$49.5 million of the purchase consideration paid in the Gluster Acquisition. Dr. Gupta did not attend the meeting at which Red Hat's Board approved the transaction and recused himself from Board deliberations with respect to the transaction. The purchase price in the transaction was determined through arms-length negotiations between Red Hat and Gluster and we believe that the transaction was carried out on terms that were in the aggregate no less favorable to us than those that would have been obtained by an unrelated third party in transactions of similar size.

We employ M. W. Vincent, the brother-in-law of DeLisa K. Alexander, our Executive Vice President, Chief People Officer. In Fiscal 2012, Mr. Vincent's total compensation, including salary, commissions, bonus and the amount of share-based compensation expense that we recognized for financial statement reporting purposes for equity compensation previously granted to him, was \$236,490.

Board Independence

Our Board is composed of at least a majority of directors who are considered independent. As described below, the Board has determined that nine of our ten current directors are independent directors. For a director to be considered independent under the NYSE rules, the Board must determine that a director does not have a direct or indirect material relationship with Red Hat (other than as a director) that would interfere with the director's exercise of independent judgment in carrying out his or her responsibilities. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. The Board makes independence determinations on a case-by-case basis in light of all relevant facts and circumstances.

The Board makes its independence determination on an annual basis at the time it approves director nominees for inclusion in the annual Proxy Statement and, if a director joins the Board in the interim, at such time. On an annual basis we require each member of our Board to complete a questionnaire designed to provide information to assist the Board in determining whether the director is independent under NYSE rules and our Corporate Governance Guidelines. In making the independence determinations in connection with the preparation of this Proxy Statement, the Board considered relationships between the directors and Red Hat, specifically noting the following:

Mr. Clarke was the President and CEO of Travelport, Inc., the parent company of the Travelport group of companies that offer broad-based services to businesses operating in the global travel industry, for a portion of Fiscal 2012. Travelport, Inc. and its subsidiaries purchased goods and services from us in the amount of approximately \$1,684,000 during Fiscal 2012. The transactions were conducted in the ordinary course of business on customary commercial terms and represented less than 2% of the revenues of each company in its most recently completed fiscal year.

Dr. Gupta's brother is Chief Risk Officer and President, Risk, Information Management & Banking Group of American Express Company. American Express Company purchased goods and services from us in the amount of approximately \$1,556,000 during Fiscal 2012. We paid an affiliate of American Express Company approximately \$92,000 for travel-related services during Fiscal 2012. The transactions were conducted in the ordinary course of business on customary commercial terms and represented less than 2% of the revenues of each company in its most recently completed fiscal year.

After considering relationships between the directors and Red Hat, the Board affirmatively determined that all of the following directors meet the criteria as outlined by the NYSE and our Corporate Governance Guidelines and in the judgment of our Board are independent: Mr. Abbasi, Dr. Albrecht, Ms. Chau, Mr. Clarke, Dr. Fox, Dr. Gupta, Mr. Kaiser, Mr. Livingstone and General Shelton. Mr. Whitehurst, who is our current President and CEO, is not considered independent.

Table of Contents

Key Board Practices

Board Meetings and Attendance

The Board met ten times during Fiscal 2012, either in person or by teleconference. As stated in our Corporate Governance Guidelines, directors are responsible for attending all meetings of the Board, the Board committees on which they sit and the Annual Meeting. During Fiscal 2012, each member of our Board attended at least 75% of the aggregate of the meetings of the Board and the committees on which he or she served. Other than Dr. Albrecht, who was out of the country, each member of our Board attended our 2011 Annual Meeting of Stockholders.

Executive Sessions

Our independent directors meet in separate regularly scheduled executive sessions, without management. During Fiscal 2012, General Shelton chaired these sessions.

Director Stock Ownership Policy

Our Stock Ownership Policy as it relates to our directors is described below in the section entitled Compensation of Directors Director Stock Ownership Requirements.

Election of Directors