

RED HAT INC  
Form DEFM14A  
December 12, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**  
**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))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

**RED HAT, INC.**

**(Name of Registrant as Specified In Its Charter)**

**N/A**

**(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:
  
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- (4) Proposed maximum aggregate value of transaction:
  
- (5) Total fee paid:

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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.:

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**MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT**

December 12, 2018

Dear Red Hat Stockholders,

It is my pleasure to invite you to a special meeting of stockholders, which we refer to as the special meeting, of Red Hat, Inc., which we refer to as Red Hat, to be held at 100 East Davie Street, Raleigh, North Carolina 27601 on January 16, 2019, at 9:00 a.m., Eastern time. I hope that you will be able to attend.

At the special meeting, you will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger (as it may be amended from time to time), dated as of October 28, 2018, which we refer to as the merger agreement, by and among Red Hat, International Business Machines Corporation, which we refer to as IBM, and Socrates Acquisition Corp., which we refer to as Sub, a wholly-owned subsidiary of IBM. Pursuant to the terms of the merger agreement, Sub will merge with and into Red Hat, with Red Hat surviving the merger as a wholly-owned subsidiary of IBM, which we refer to as the merger. You also will be asked to consider and vote on (i) a proposal to approve, by means of a non-binding, advisory vote, compensation that will or may become payable to the named executive officers of Red Hat in connection with the merger and (ii) a proposal to approve one or more adjournments of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the then-scheduled date and time of the special meeting.

If the merger is completed, you will be entitled to receive \$190.00 in cash, without interest, for each share of our common stock, par value \$0.0001, which we refer to as Red Hat common stock, you own (unless you have properly exercised your appraisal rights with respect to such shares), which represents a premium of (i) approximately 62.8% to Red Hat's closing stock price on October 26, 2018, the last trading day prior to the announcement of the merger, (ii) approximately 51.7% to the volume weighted average stock price of Red Hat common stock during the 30 days ended October 26, 2018 and (iii) approximately 7.8% to the highest closing stock price of Red Hat common stock during the 52-week period ended October 26, 2018.

The receipt of cash in exchange for shares of Red Hat common stock pursuant to the merger will generally be a taxable transaction to U.S. holders (as defined in the accompanying proxy statement) for United States federal income tax purposes. For a more complete description, see the section entitled Proposal 1: Adoption of the Merger Agreement The Merger U.S. Federal Income Tax Consequences of the Merger beginning on page 79 of the accompanying proxy statement.

**The Red Hat Board of Directors, after considering the reasons more fully described in this proxy statement and after consultation with independent legal and financial advisors, unanimously determined that the terms of the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to and in the best interests of Red Hat and its stockholders, and adopted, approved and declared advisable the execution, delivery and performance of the merger agreement, the merger and the other transactions contemplated by the merger agreement. The Red Hat Board of Directors recommends that you vote:**

- (i) FOR the proposal to adopt the merger agreement, thereby approving the merger and the other transactions contemplated by the merger agreement;**

- (ii) **FOR** the proposal to approve, by means of a non-binding, advisory vote, compensation that will or may become payable to the named executive officers of Red Hat in connection with the merger; and
  
- (iii) **FOR** the proposal to approve one or more adjournments of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the then-scheduled date and time of the special meeting.

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The enclosed proxy statement provides detailed information about the special meeting, the merger agreement and the merger. A copy of the merger agreement is attached as Annex A to the proxy statement. The proxy statement also describes the actions and determinations of our Board of Directors in connection with its evaluation of the merger agreement and the merger. We encourage you to read the proxy statement and its annexes, including the merger agreement, carefully and in their entirety. You may also obtain more information about Red Hat from documents we file with the U.S. Securities and Exchange Commission, which we refer to as the SEC, from time to time.

Whether or not you plan to attend the special meeting in person, please complete, sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying prepaid reply envelope or grant your proxy electronically over the Internet or by telephone. If you attend the special meeting and vote in person by ballot, your vote will revoke any proxy that you have previously submitted. If you hold your shares in street name, you should instruct your broker, bank or other nominee how to vote in accordance with the voting instruction form you will receive from your broker, bank or other nominee.

**Your vote is very important, regardless of the number of shares that you own. We cannot complete the merger unless the proposal to adopt the merger agreement is approved by the affirmative vote of a majority of the shares of Red Hat common stock outstanding and entitled to vote thereon. The failure of any stockholder to vote in person by ballot at the special meeting, to submit a signed proxy card or to grant a proxy electronically over the Internet or by telephone will have the same effect as a vote AGAINST the proposal to adopt the merger agreement. If you hold your shares in street name, the failure to instruct your broker, bank or other nominee on how to vote your shares will have the same effect as a vote AGAINST the proposal to adopt the merger agreement.**

If you have any questions or need assistance voting your shares of Red Hat common stock, please contact Innisfree M&A Incorporated, our proxy solicitor, by calling (888) 750-5835 toll-free.

On behalf of our Board of Directors, I thank you for your support and appreciate your consideration of this matter.

Sincerely,

James M. Whitehurst  
*President and Chief Executive Officer*

**Neither the SEC nor any state securities regulatory agency has approved or disapproved of the transactions described in this document, including the merger, or determined if the information contained in this document is accurate or adequate. Any representation to the contrary is a criminal offense.**

The accompanying proxy statement is dated December 12, 2018 and, together with the enclosed form of proxy card, is first being mailed to Red Hat stockholders on or about December 13, 2018.

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON JANUARY 16, 2019**

NOTICE IS HEREBY GIVEN that a special meeting of stockholders, which we refer to as the special meeting, of Red Hat, Inc., which we refer to as Red Hat, will be held:

**TIME AND DATE:** 9:00 a.m., Eastern time, on January 16, 2019

**PLACE:** 100 East Davie Street, Raleigh, North Carolina 27601

**ITEMS OF BUSINESS:**

1. To consider and vote on the proposal to adopt the Agreement and Plan of Merger (as it may be amended from time to time), dated as of October 28, 2018, which we refer to as the merger agreement, by and among Red Hat, International Business Machines Corporation, which we refer to as IBM, and Socrates Acquisition Corp., a wholly-owned subsidiary of IBM, a copy of which is attached as Annex A to the proxy statement accompanying this notice, which proposal we refer to as the merger proposal;
2. To consider and vote on the proposal to approve, by means of a non-binding, advisory vote, compensation that will or may become payable to the named executive officers of Red Hat in connection with the merger, which proposal we refer to as the merger-related compensation proposal; and
3. To consider and vote on the proposal to approve one or more adjournments of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the then-scheduled date and time of the special meeting, which proposal we refer to as the adjournment proposal.

**ADJOURNMENTS AND POSTPONEMENTS:** Any action on the items of business described above may be considered at the special meeting or at any time and date to which the special meeting may be properly adjourned or postponed.

**RECORD DATE:** Stockholders of record at the close of business on December 11, 2018 are entitled to notice of, and to vote at, the special 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 100 East Davie Street, Raleigh, North Carolina 27601, during ordinary business hours during the 10-day period before the special meeting.

**VOTING:** Whether or not you plan to attend the special meeting, we urge you to vote your shares via the toll-free telephone number or over the Internet as described in the proxy materials. You may also sign, date and mail the proxy card in the pre-paid envelope provided.

**IMPORTANT  
INFORMATION:**

Your vote is very important to us. The merger contemplated by the merger agreement, which we refer to as the merger, is conditioned on the receipt of, and we cannot consummate the merger unless the merger proposal receives, the



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affirmative vote of a majority of the shares of Red Hat's common stock, par value \$0.0001, which we refer to as Red Hat common stock, outstanding and entitled to vote thereon.

The affirmative vote of a majority of the shares of Red Hat common stock outstanding and entitled to vote thereon, provided a quorum is present, is required to approve the merger proposal. The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, and voting at the special meeting, provided a quorum is present, is required to approve, by means of a non-binding, advisory vote, the merger-related compensation proposal. The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting, whether or not a quorum is present, is required to approve the adjournment proposal.

The failure of any stockholder of record to submit a signed proxy card, grant a proxy electronically over the Internet or by telephone or to vote in person by ballot at the special meeting will have the same effect as a vote **AGAINST** the merger proposal but will not have any effect on the merger-related compensation proposal or the adjournment proposal. If you hold your shares in street name, the failure to instruct your broker, bank or other nominee on how to vote your shares will have the same effect as a vote **AGAINST** the merger proposal but will not have any effect on the merger-related compensation proposal or the adjournment proposal. Abstentions will have the same effect as a vote **AGAINST** the merger proposal and the adjournment proposal, but will not have any effect on the merger-related compensation proposal.

Stockholders who do not vote in favor of the merger proposal will have the right to seek appraisal of the fair value of their shares of Red Hat common stock if they deliver a demand for appraisal before the vote is taken on the merger proposal and comply with all applicable requirements under Delaware law, which are summarized herein and reproduced in their entirety in Annex D to the accompanying proxy statement.

**The Board of Directors recommends that you vote (i) FOR the merger proposal, (ii) FOR the merger-related compensation proposal and (iii) FOR the adjournment proposal.**

Raleigh, North Carolina

By Order of the Board of Directors,

December 12, 2018

Michael R. Cunningham

Secretary

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**YOUR VOTE IS IMPORTANT**

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, WE URGE YOU TO VOTE YOUR SHARES VIA THE TOLL-FREE TELEPHONE NUMBER OR OVER THE INTERNET AS DESCRIBED IN THE PROXY MATERIALS. YOU MAY ALSO SIGN, DATE AND MAIL THE PROXY CARD IN THE PRE-PAID ENVELOPE PROVIDED. You may revoke your proxy or change your vote at any time before the special meeting. If your shares are held in the name of a broker, bank or other nominee, please follow the instructions on the voting instruction card furnished to you by such broker, bank or other nominee, which is considered the stockholder of record, in order to vote. As a beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote the shares in your account. Your broker, bank or other nominee cannot vote on any of the proposals, including the proposal to adopt the merger agreement, without your instructions.

If you fail to return your proxy card, to grant your proxy electronically over the Internet or by telephone, or to vote by ballot in person at the special meeting, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting. If you are a stockholder of record, voting in person by ballot at the special meeting will revoke any proxy that you previously submitted. If you hold your shares through a broker, bank or other nominee, you must obtain from the record holder a valid proxy issued in your name in order to vote in person at the special meeting.

We encourage you to read the accompanying proxy statement, including all documents incorporated by reference into the accompanying proxy statement, and annexes to the accompanying proxy statement, carefully and in their entirety. If you have any questions concerning the merger, the special meeting or the accompanying proxy statement, would like additional copies of the accompanying proxy statement or need help voting your shares of common stock, please contact our proxy solicitor:

Innisfree M&A Incorporated

501 Madison Avenue, 20th Floor

New York, New York 10022

Toll-free: (888) 750-5835

Banks & Brokers may call collect: (212) 750-5833

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*This summary highlights selected information from this proxy statement related to the merger (as defined below). This summary may not contain all of the information that is important to you. To understand the merger more fully and for a more complete description of the legal terms of the merger, you should read carefully this entire proxy statement, the annexes to this proxy statement, including the merger agreement (as defined below), and the documents incorporated by reference in this proxy statement. You may obtain the documents and information incorporated by reference in this proxy statement without charge by following the instructions under the section entitled *Where You Can Find More Information* beginning on page 123. The merger agreement is attached as Annex A to this proxy statement.*

*Except as otherwise specifically noted in this proxy statement or as the context otherwise requires, Red Hat, the Company or we, our, us and similar words in this proxy statement refer to Red Hat, Inc. including, in certain cases, its subsidiaries. Throughout this proxy statement we refer to International Business Machines Corporation, a New York corporation, as IBM and to Socrates Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of IBM, as Sub . In addition, throughout this proxy statement we refer to the Agreement and Plan of Merger (as it may be amended from time to time), dated as of October 28, 2018, by and among Red Hat, IBM and Sub, as the merger agreement . All references to the merger refer to the merger of Sub with and into Red Hat with Red Hat surviving as a wholly-owned subsidiary of IBM. Red Hat, following completion of the merger, is sometimes referred to in this proxy statement as the surviving corporation .*

**Parties Involved in the Merger (page 31)*****Red Hat, Inc.***

Red Hat is a leading provider of open source software solutions, using a community-powered approach to develop and offer reliable and high-performing operating system, virtualization, management, middleware, cloud, mobile and storage technologies. Red Hat employs an open source development model, which allows Red Hat to use the collective input, resources and knowledge of a global community of contributors who can collaborate to develop, maintain and enhance software because the human-readable source code for that software is publicly available and licenses permit modification.

Red Hat's offerings are designed to provide customers with high-performing, scalable, flexible, reliable and secure infrastructure technologies that meet the information technology, which we refer to as IT, needs of enterprises and service providers. Our offerings enable our customers to optimize their IT environments to increase agility and flexibility while adding and managing hybrid cloud infrastructures and building modern applications. Hybrid cloud infrastructures enable customers to deploy their applications using off-premise (public cloud) and on-premise (private cloud, virtual or physical server) IT resources to create a hybrid cloud environment that is designed to enhance efficiency while providing increased security. Red Hat's offerings are designed to perform consistently across hybrid cloud environments to offer greater choices to our customers when deploying their applications.

Red Hat also offers a wide range of services that are designed to help customers receive additional value from Red Hat technologies.

Red Hat's corporate headquarters is located at 100 East Davie Street, Raleigh, North Carolina 27601.

Red Hat was formed in 1993 and is a corporation organized in the State of Delaware. Red Hat common stock, par value \$0.0001 per share, which we refer to as Red Hat common stock, is currently listed on the New York Stock

Exchange, which we refer to as the NYSE, under the symbol RHT.



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Additional information about Red Hat and its subsidiaries is included in documents incorporated by reference in this proxy statement (see the section entitled “Where You Can Find More Information” beginning on page 123) and on its website: [www.redhat.com](http://www.redhat.com). The information provided or accessible through Red Hat’s website is not part of, or incorporated by reference in, this proxy statement.

### ***International Business Machines Corporation***

IBM focuses on the intersection of business insight and technology innovation and creates value for clients through integrated solutions and products. These integrated solutions leverage innovative technologies, deep expertise in industries and business processes, and a commitment to security and trust. IBM solutions typically create value by enabling new capabilities for clients that optimize and transform their businesses and help them engage with their customers and employees in new ways. These solutions draw from an industry-leading portfolio of consulting and IT implementation services, cloud and cognitive offerings, and enterprise systems and software, one of the world’s leading research organizations—all bolstered by a commitment to the secure and responsible management of data and enterprise-grade security.

IBM’s corporate headquarters is located at 1 New Orchard Road, Armonk, New York 10504.

IBM was formed in 1911 as the Computing-Tabulating-Recording Company and is a corporation organized in the State of New York. IBM’s common stock, par value \$0.20 per share, is currently listed on the NYSE, under the symbol IBM.

Additional information about IBM and its subsidiaries is included on its website: [www.ibm.com](http://www.ibm.com). The information provided or accessible through IBM’s website is not part of, or incorporated by reference in, this proxy statement.

### ***Socrates Acquisition Corp.***

Sub is a Delaware corporation and a wholly-owned subsidiary of IBM, formed on October 25, 2018, solely for the purpose of engaging in the merger and the other transactions as contemplated under the merger agreement. Upon completion of the merger, Sub will cease to exist.

### **Certain Effects of the Merger on Red Hat (page 33)**

Upon the terms and subject to the conditions of the merger agreement and in accordance with the applicable provisions of the Delaware General Corporation Law, which we refer to as the DGCL, on the closing date and at the time at which the merger will become effective, which we refer to as the effective time, Sub will merge with and into Red Hat, with Red Hat continuing as the surviving corporation and a wholly-owned subsidiary of IBM.

### **Effect on Red Hat if the Merger is Not Completed (page 33)**

If the merger agreement is not adopted by Red Hat stockholders or if the merger is not completed for any other reason, Red Hat stockholders will not receive any payment for their shares of Red Hat common stock. Instead, Red Hat will remain a public company, Red Hat common stock will continue to be listed and traded on the NYSE and registered under the Securities Exchange Act of 1934, which we refer to as the Exchange Act, and Red Hat will continue to file periodic reports with the U.S. Securities and Exchange Commission, which we refer to as the SEC.

Under certain specified circumstances, Red Hat will be required to pay IBM a termination fee upon the termination of the merger agreement, as described under the section entitled “Terms of the Merger Agreement—Termination of the

Merger Agreement Termination Fees beginning on page 106.

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**Merger Consideration (page 84)**

If the merger is completed, at the effective time, and without any action on the part of the holder, each share of Red Hat common stock issued and outstanding immediately prior to the effective time (other than (i) shares of Red Hat common stock that are owned directly by Red Hat, including treasury stock, or owned by IBM or Sub immediately prior to the effective time, which we refer to as canceled shares, (ii) dissenting shares (as defined herein) and (iii) shares of Red Hat common stock that are owned by any direct or indirect wholly-owned subsidiary of Red Hat or IBM (other than Sub) immediately prior to the effective time, which we refer to as subsidiary converted shares), and certain equity awards, the treatment of which is described under the sections entitled Proposal 1: Adoption of the Merger Agreement The Merger Interests of the Non-Employee Directors and Executive Officers of Red Hat in the Merger Treatment of Equity Compensation and Terms of the Merger Agreement Merger Consideration Treatment of Equity Compensation beginning on pages 73 and 84, respectively, will be converted into the right to receive \$190.00 per share in cash, without interest, which we refer to as the merger consideration, less any applicable withholding taxes. All shares, when so converted into the right to receive the merger consideration, will automatically be canceled and will cease to exist.

As described under the section entitled Terms of the Merger Agreement Merger Consideration Exchange Procedures beginning on page 85, no later than substantially concurrently with the effective time, IBM will deposit, or cause to be deposited, with a designated paying agent (as defined herein) funds in an amount necessary for the payment of the merger consideration.

After the merger is completed, under the terms of the merger agreement, you will have the right to receive the merger consideration, but you no longer will have any rights as a Red Hat stockholder as a result of the merger (except for the right to receive the merger consideration and except that stockholders who properly exercise and perfect their demand for appraisal will instead have such rights as granted by Section 262 of the DGCL, as described under the section entitled Appraisal Rights beginning on page 116).

**The Special Meeting (page 26)**

***Date, Time and Place***

The special meeting of our stockholders, which we refer to as the special meeting, will be held at 100 East Davie Street, Raleigh, North Carolina 27601 on January 16, 2019, at 9:00 a.m., Eastern time.

***Purpose***

At the special meeting, we will ask our stockholders of record as of the close of business on December 11, 2018, which we refer to as the record date, to consider and vote on the following proposals:

the adoption of the merger agreement, a copy of which is attached as Annex A to the proxy statement accompanying this notice, which we refer to as the merger proposal;

the approval, by means of a non-binding, advisory vote, of compensation that will or may become payable to the named executive officers of Red Hat in connection with the merger, which we refer to as the merger-related compensation proposal; and

the approval of one or more adjournments of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the then-scheduled date and time of the special meeting, which we refer to as the adjournment proposal.

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### ***Record Date; Shares Entitled to Vote***

You are entitled to vote at the special meeting if you owned shares of Red Hat common stock as of the close of business on the record date. You will have one vote at the special meeting for each share of Red Hat common stock you owned as of the close of business on the record date.

### ***Quorum***

A majority in voting power of Red Hat common stock issued and outstanding and entitled to vote at the special meeting, represented in person or by proxy, constitutes a quorum at the special meeting. As of the close of business on the record date, there were 176,759,752 shares of Red Hat common stock issued and 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 will be counted for purposes of establishing a quorum. Broker non-votes will not be counted for purposes of establishing a quorum. As a result, 88,379,877 shares of Red Hat common stock must be represented in person or by proxy to have a quorum. If a quorum is not present, the special meeting will be adjourned until a quorum is obtained, subject to the terms of the merger agreement. The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting or the chairman of the special meeting, may adjourn the special meeting.

### ***Required Vote***

The affirmative vote of a majority of the shares of Red Hat common stock outstanding and entitled to vote thereon, provided a quorum is present, is required to approve the merger proposal, which we refer to as stockholder approval. This means that the proposal will be approved if the number of shares voted **FOR** that proposal is greater than 50% of the total number of the votes that can be cast in respect of our outstanding shares of common stock. Abstentions and broker non-votes will have the same effect as a vote **AGAINST** the merger proposal.

The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, and voting at the special meeting, provided a quorum is present, is required to approve, by means of a non-binding, advisory vote, the merger-related compensation proposal. This means that the proposal will be approved if the number of shares voted **FOR** that proposal is greater than 50% of the total number of shares of Red Hat common stock entitled to vote which are present, in person or by proxy, and vote at the special meeting, provided a quorum is present. Abstentions and broker non-votes will not have any effect on the merger-related compensation proposal.

The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting, whether or not a quorum is present, is required to approve the adjournment proposal. This means that the proposal will be approved if the number of shares voted **FOR** that proposal is greater than 50% of the total number of shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting, whether or not a quorum is present. Abstentions will have the same effect as a vote **AGAINST** the adjournment proposal. Broker non-votes will not have any effect on the adjournment proposal.

### ***Share Ownership of Red Hat Directors and Executive Officers***

As of the close of business on the record date, Red Hat directors and executive officers beneficially owned and were entitled to vote, in the aggregate, 898,713 shares of Red Hat common stock (excluding any shares of Red Hat common stock that would be delivered upon exercise or conversion of stock options or other equity-based awards), which

represented approximately 0.51% of the outstanding shares of Red Hat common stock on that date.

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It is expected that Red Hat's directors and executive officers will vote their shares **FOR** the merger proposal, **FOR** the merger related-related compensation proposal and **FOR** the adjournment proposal, although none of them has entered into any agreement requiring them to do so.

### ***Voting of Proxies***

Any Red Hat stockholder of record entitled to vote at the special meeting may submit a proxy by returning a signed proxy card by mail or voting electronically over the Internet or by telephone, or may vote in person by appearing at the special meeting. If your shares are held in a brokerage account at a brokerage firm, bank, broker-dealer, or similar organization, then you are the beneficial owner of shares held in street name, and you should instruct your broker, bank or other nominee on how you wish to vote your shares of Red Hat common stock using the instructions provided by your broker, bank or other nominee. Under applicable stock exchange rules, if you fail to instruct your broker, bank or other nominee on how to vote your shares, your broker, bank or other nominee only has discretion to vote your shares on discretionary matters. The merger proposal, the merger-related compensation proposal and the adjournment proposal are non-discretionary matters, and brokers, banks and other nominees therefore cannot vote on these proposals without your instructions. Therefore, it is important that you cast your vote or instruct your broker, bank or other nominee on how you wish to vote your shares.

If you are a stockholder of record, you may change your vote or revoke your proxy at any time before it is voted at the special meeting by submitting a new proxy electronically over the Internet or by telephone after the date of the earlier submitted proxy, signing another proxy card with a later date and returning it to us prior to the special meeting or attending the special meeting and voting in person. Proxies submitted electronically over the Internet or by telephone must be received by 11:59 pm, Eastern time, on January 15, 2019. If you hold your shares of Red Hat common stock in street name, you should contact your broker, bank or other nominee for instructions regarding how to change your vote.

### **Recommendation of Our Board of Directors and Reasons for the Merger (page 42)**

The Board of Directors, after considering various factors described under the section entitled Proposal 1: Adoption of the Merger Agreement The Merger Recommendation of Our Board of Directors beginning on page 42 and after consultation with independent legal and financial advisors, unanimously (i) determined that the terms of the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to and in the best interests of Red Hat and its stockholders; (ii) adopted, approved and declared advisable the execution, delivery and performance of the merger agreement, the merger and the other transactions contemplated by the merger agreement; (iii) approved, authorized and declared advisable the consummation by Red Hat of the transactions contemplated by the merger agreement; (iv) resolved to recommend that Red Hat stockholders vote in favor of the adoption and approval of the merger agreement, the merger and other transactions contemplated by the merger agreement; and (v) resolved to submit the merger agreement to Red Hat stockholders for adoption at a duly held meeting of such stockholders.

**The Red Hat Board of Directors unanimously recommends that you vote (i) **FOR** the merger proposal, (ii) **FOR** the merger-related compensation proposal and (iii) **FOR** the adjournment proposal.**

### **Opinions of Red Hat's Financial Advisors (page 47)**

#### ***Opinion of Guggenheim Securities, LLC***

Red Hat retained Guggenheim Securities, LLC, which we refer to as Guggenheim Securities, as its lead financial advisor in connection with the potential sale of or another extraordinary corporate transaction involving Red Hat, including the merger. Guggenheim Securities has had a long-standing investment banking relationship



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with Red Hat and had been retained by Red Hat since October 2016 in connection with Red Hat's exploration and consideration of various strategic and financial alternatives. In connection with the merger, Guggenheim Securities delivered an opinion to the Red Hat Board of Directors to the effect that, as of October 28, 2018 and based on and subject to the matters considered, the procedures followed, the assumptions made and various limitations of and qualifications to the review undertaken, the merger consideration was fair, from a financial point of view, to Red Hat stockholders. The full text of Guggenheim Securities' written opinion, which is attached as Annex B to this proxy statement and which you should read carefully and in its entirety, is subject to the assumptions, limitations, qualifications and other conditions contained in such opinion and is necessarily based on economic, capital markets and other conditions, and the information made available to Guggenheim Securities, as of the date of such opinion.

Guggenheim Securities' opinion was provided to the Red Hat Board of Directors (in its capacity as such) for its information and assistance in connection with its evaluation of the merger consideration. Guggenheim Securities' opinion and any materials provided in connection therewith did not constitute a recommendation to the Red Hat Board of Directors with respect to the merger, nor does Guggenheim Securities' opinion or the summary of its underlying financial analyses elsewhere in this proxy statement constitute advice or a recommendation to any Red Hat stockholder as to how to vote or act in connection with the merger or otherwise. Guggenheim Securities' opinion addresses only the fairness, from a financial point of view and as of the date of such opinion, of the merger consideration to Red Hat stockholders to the extent expressly specified in such opinion and does not address any other term, aspect or implication of the merger (including, without limitation, the form or structure of the merger), the merger agreement or any other agreement, transaction document or instrument contemplated by the merger agreement or to be entered into or amended in connection with the merger or any financing or other transactions related thereto.

For a more complete description, see the section entitled "Proposal 1: Adoption of the Merger Agreement - The Merger - Opinions of Red Hat's Financial Advisors - Opinion of Guggenheim Securities, LLC" beginning on page 47.

***Opinion of Morgan Stanley & Co. LLC***

Red Hat retained Morgan Stanley & Co. LLC, which we refer to as Morgan Stanley, to provide it with financial advisory services in connection with the merger. Red Hat selected Morgan Stanley to act as its financial adviser based on Morgan Stanley's qualifications, expertise and reputation, and its knowledge of Red Hat's business and affairs. On October 28, 2018, Morgan Stanley rendered its oral opinion, subsequently confirmed by delivery of a written opinion dated October 28, 2018, to the effect that, as of such date, and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the merger consideration to be received by Red Hat stockholders pursuant to the merger agreement was fair from a financial point of view to such Red Hat stockholders.

The full text of the written opinion of Morgan Stanley dated October 28, 2018, is attached as Annex C to this proxy statement, and is incorporated by reference herein in its entirety. The opinion sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion. The summary of the opinion of Morgan Stanley set forth in this proxy statement is qualified in its entirety by reference to the full text of the opinion. You are encouraged to read Morgan Stanley's opinion and the summary of Morgan Stanley's opinion below carefully and in their entirety. Morgan Stanley's opinion was directed to the Red Hat Board of Directors, in its capacity as such, and addressed only the fairness from a financial point of view of the merger consideration to be received by Red Hat stockholders pursuant to the merger agreement as of the date of the opinion and did not address any other aspects or implications of the merger. Morgan Stanley's opinion was not intended to, and



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does not, constitute advice or a recommendation to any Red Hat stockholder as to how to vote at the special meeting to be held in connection with the merger or whether to take any other action with respect to the merger.

For a more complete description, see the section entitled *Proposal 1: Adoption of the Merger Agreement – The Merger – Opinions of Red Hat’s Financial Advisors – Opinion of Morgan Stanley & Co. LLC* beginning on page 60.

**Financing of the Merger (page 79)**

The merger is not conditioned on IBM’s ability to obtain financing. IBM and Sub have represented to Red Hat that they will have available to them sufficient funds at the effective time to pay all amounts required to be paid by IBM and Sub pursuant to the terms of the merger agreement, including the amounts payable to the holders of Cash-Out Stock Options (as defined herein), Cash-Out Restricted Shares (as defined herein), Cash-Out RSUs (as defined herein) and Cash-Out PSUs (as defined herein) and to pay all associated fees, costs and expenses. IBM expects to finance the merger through cash on hand and proceeds from debt financing.

IBM has made available to Red Hat copies of a fully executed commitment letter, dated the date of the merger agreement, which we refer to as the commitment letter, with JPMorgan Chase Bank, N.A., Goldman Sachs Bank USA and Goldman Sachs Lending Partners LLC, which we refer to collectively as the commitment parties. Pursuant to the commitment letter, and subject to the terms and conditions set forth therein, the commitment parties have committed to provide IBM with loans under a 364-day senior unsecured bridge term loan facility in an aggregate principal amount of up to \$20.0 billion, which we refer to as the bridge facility. The funding of the bridge facility provided for in the commitment letter is contingent on the satisfaction of customary conditions, including (i) the execution and delivery of definitive documentation with respect to the bridge facility in accordance with the terms sets forth in the commitment letter, and (ii) the consummation of the merger in accordance with the merger agreement.

For a more complete description, see the section entitled *Proposal 1: Adoption of the Merger Agreement – Financing of the Merger* beginning on page 79.

**Treatment of Equity Compensation (page 84)**

Our executive officers and employees hold various types of compensatory awards with respect to Red Hat common stock. Our non-employee directors hold awards of restricted shares and deferred stock units, which we refer to as DSUs. The merger agreement provides for the treatment set forth below with respect to the awards described below. None of our non-employee directors or executive officers hold stock options.

*Exchange Ratio.* For purposes of the conversion of Red Hat equity awards described below, the *Exchange Ratio* is defined as a fraction, the numerator of which is the merger consideration and the denominator of which is the closing price per share of IBM common stock on the New York Stock Exchange Composite Transactions Tape on the trading day immediately preceding the date on which the merger effective time occurs.

*Restricted Shares.* Each restricted share award of Red Hat common stock that is held by a non-employee director, consultant or independent contractor of Red Hat or a subsidiary immediately prior to the effective time, which we refer to as a Cash-Out Restricted Share, will be converted at the effective time into the right to receive an amount in cash equal to the merger consideration multiplied by the number of shares of Red Hat common stock subject to the award. Each other restricted share award of Red Hat common stock (*i.e.*, those held by employees of Red Hat or a subsidiary immediately prior to the effective time), which we refer to as a Rollover Restricted Share, will be converted at the effective time into a restricted share award consisting of IBM common stock subject to substantially the same terms and conditions as were applicable to the Rollover Restricted Shares



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(other than any performance conditions, which will be deemed satisfied upon the effective time under the terms of the award) with respect to a number of shares of IBM common stock determined by multiplying the number of shares of Red Hat common stock subject to such Rollover Restricted Share award immediately prior to the effective time by the Exchange Ratio (rounded down to the nearest whole share).

*Restricted Stock Units; Deferred Stock Units.* Each restricted stock unit with respect to Red Hat common stock which is held by a non-employee director, consultant or independent contractor of Red Hat or a subsidiary immediately prior to the effective time, which, together with each DSU, we refer to as a Cash-Out RSU, will be converted at the effective time into the right to receive an amount in cash equal to the merger consideration multiplied by the number of shares of Red Hat common stock subject to the award. Each other restricted stock unit with respect to Red Hat common stock (*i.e.*, those held by employees of Red Hat or a subsidiary immediately prior to the effective time), which we refer to as a Rollover RSU, will be converted at the effective time into a restricted stock unit with respect to IBM common stock subject to substantially the same terms and conditions as were applicable to the Rollover RSUs with respect to a number of shares of IBM common stock determined by multiplying the number of shares of Red Hat common stock subject to such Rollover RSU award immediately prior to the effective time by the Exchange Ratio (rounded down to the nearest whole share).

*Performance Share Units.* At the effective time, each performance share unit with respect to Red Hat common stock that is held by a non-employee director, consultant or independent contractor of Red Hat or a subsidiary immediately prior to the effective time, which we refer to as a Cash-Out PSU, will be canceled and the holder thereof will be entitled to receive in consideration for such cancellation an amount in cash equal to the product of (i) the applicable PSU Share Number (as defined herein) and (ii) the merger consideration. Each other performance share unit (*i.e.*, those held by employees of Red Hat or a subsidiary immediately prior to the effective time), which we refer to as a Rollover PSU, will be converted at the effective time into a restricted share award consisting of IBM common stock subject to substantially the same terms and conditions as were applicable under such Rollover PSU (other than the performance-based vesting schedule, which will be converted into a service-based vesting schedule in accordance with the applicable award agreement), with respect to a number of shares of IBM common stock determined by multiplying the applicable PSU Share Number by the Exchange Ratio (rounded down to the nearest whole share). For purposes of the treatment of performance share units, the applicable PSU Share Number means, with respect to performance share units that were granted with performance goals relating to operating performance, either the target performance level if the effective time occurs in the first performance segment of the award, or the actual performance level based on the most recently completed fiscal quarter prior to the closing date if the effective time occurs in the second performance segment of the award. For performance share units with performance goals based on total shareholder return, the applicable PSU Share Number will be determined based on the total shareholder return represented by the merger consideration.

*Stock Options.* At the effective time, each option to acquire Red Hat common stock that is vested and unexercised immediately prior to the effective time, has an exercise price equal to or greater than the merger consideration or is held by a non-employee director, consultant or independent contractor of Red Hat or a subsidiary, which we refer to as a Cash-Out Stock Option, will be canceled and the holder thereof will be entitled to receive in consideration for such cancellation an amount in cash equal to the product of (i) the number of shares of Red Hat common stock that are subject to the Cash-Out Stock Option and (ii) the excess, if any, of the merger consideration over the exercise price per share of Red Hat common stock subject to the Cash-Out Stock Option. All other options to acquire Red Hat common stock (*i.e.*, options which are unvested, have an exercise price less than the merger consideration and are held by employees of Red Hat or a subsidiary immediately prior to the effective time), which we refer to as Rollover Stock Options, will be converted at the effective time into options to acquire, on substantially the same terms and conditions as were applicable under such Rollover Stock Option, the number of shares of IBM common stock (rounded down to the nearest whole share), determined by



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multiplying the number of shares of Red Hat common stock subject to such Rollover Stock Option immediately prior to the effective time by the Exchange Ratio, with an exercise price per share of IBM common stock (rounded up to the nearest whole cent) equal to (a) the exercise price per share of Red Hat common stock applicable to such Rollover Stock Option divided by (b) the Exchange Ratio.

### **Interests of the Non-Employee Directors and Executive Officers of Red Hat in the Merger (page 72)**

Red Hat non-employee directors and executive officers may have interests in the merger that are different from, or in addition to, your interests as a stockholder. The Red Hat Board of Directors was aware of and considered these interests to the extent such interests existed at the time, among other matters, in evaluating and overseeing the negotiation of the merger agreement, in approving the merger agreement and the merger and in recommending that the merger agreement be adopted by the stockholders of Red Hat.

For a more complete description, see the section entitled **Proposal 1: Adoption of the Merger Agreement** **The Merger Interests of the Non-Employee Directors and the Executive Officers of Red Hat in the Merger**, beginning on page 72.

### **Appraisal Rights (page 116)**

Any shares of Red Hat common stock that are issued and outstanding immediately prior to the effective time and as to which the holders thereof have not voted in favor of the merger proposal and are entitled to demand and properly demand appraisal of such shares of Red Hat common stock pursuant to Section 262 of the DGCL and, as of the effective time, have neither failed to perfect, nor effectively withdrawn or lost rights to appraisal under the DGCL, such shares we collectively refer to as the dissenting shares, will not be converted into the right to receive the merger consideration, unless and until such holder will have effectively withdrawn or lost such holder's right to appraisal under the DGCL, or if a court of competent jurisdiction determines that such holder is not entitled to the relief provided by Section 262 of the DGCL, at which time such shares of Red Hat common stock will be treated as if they had been converted into the right to receive, as of the effective time, the merger consideration, less applicable tax withholdings upon surrender of such certificates that formerly represented such shares of Red Hat common stock, and such Red Hat common stock will not be deemed dissenting shares, and such holder thereof will cease to have any other rights with respect to such Red Hat common stock. Each holder of dissenting shares will only be entitled to such consideration as may be due with respect to such dissenting shares pursuant to Section 262 of the DGCL.

To exercise your appraisal rights, you must submit a written demand for appraisal to Red Hat before the vote is taken on the merger proposal, you must not submit a blank proxy or otherwise vote in favor of the merger proposal and you must continue to hold the shares of Red Hat common stock of record through the effective time. Your failure to follow the procedures specified under the DGCL will result in the loss of your appraisal rights. The DGCL requirements for exercising appraisal rights are described in further detail in this proxy statement, and the relevant section of the DGCL regarding appraisal rights is reproduced and attached as Annex D to this proxy statement. If you hold your shares of Red Hat common stock through a broker, bank or other nominee and you wish to exercise appraisal rights, you should consult with your broker, bank or other nominee to determine the appropriate procedures for the making of a demand for appraisal by such broker, bank or other nominee. Stockholders should refer to the discussion under the section entitled **Appraisal Rights** beginning on page 116 and the DGCL requirements for exercising appraisal rights reproduced and attached as Annex D to this proxy statement.

### **U.S. Federal Income Tax Consequences of the Merger (page 79)**

The exchange of Red Hat common stock for cash pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. Accordingly, a U.S. holder (as defined herein) of Red Hat common stock who





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exchanges shares of Red Hat common stock for cash in the merger generally will recognize gain or loss in an amount equal to the difference, if any, between the amount of cash received with respect to such shares and the U.S. holder's adjusted tax basis in such shares. If you are a non-U.S. holder, the merger generally will not result in tax to you under U.S. federal income tax laws unless you have certain connections with the United States.

**This proxy statement contains a general discussion of U.S. federal income tax consequences of the merger. This description does not address any non-U.S. tax consequences, nor does it pertain to state, local or other tax consequences. Consequently, you are urged to contact your own tax advisor to determine the particular tax consequences to you of the merger.**

### **Regulatory Approvals (page 81)**

Red Hat and IBM have agreed to use their respective reasonable best efforts to take all actions and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws to consummate the merger and the other transactions contemplated by the merger agreement as soon as practicable and no later than the termination date (as defined herein), including obtaining any requisite approvals, subject to certain specified limitations under the merger agreement. These approvals include approvals under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which we refer to as the HSR Act, and the Council Regulation 139/2004 of the European Union, which we refer to as the Council Regulation. Red Hat and IBM filed their respective HSR Act notifications on November 21, 2018. Although we expect that all required regulatory clearances and approvals will be obtained, we cannot assure you that these regulatory clearances and approvals will be timely obtained or obtained at all, or that the granting of these regulatory clearances and approvals will not involve the imposition of additional conditions on the completion of the merger, including the requirement to divest assets. In furtherance thereof, IBM has agreed to effect certain divestitures and other dispositions and take other actions, including accepting certain restrictions on its operations and assets, if necessary to obtain all approvals and authorizations under antitrust laws. These conditions or changes could result in the conditions to the closing of the merger not being satisfied.

### **No Solicitation (page 92)**

As of the date of the merger agreement, Red Hat and its subsidiaries agreed to immediately cease any and all existing activities, discussions or negotiations with any third party with respect to any takeover proposal (as defined herein).

Under the merger agreement, Red Hat is generally not permitted to solicit or discuss takeover proposals with third parties, subject to certain exceptions.

Except as expressly permitted by the merger agreement, Red Hat will not, and will not authorize or permit any of its subsidiaries to, or any of its subsidiaries' directors, officers or employees to, and it will use its reasonable best efforts to cause the company representatives (as defined herein) not to, and will not publicly announce any intention to, directly or indirectly:

solicit, initiate or knowingly encourage, or knowingly take any other action to facilitate, any takeover proposal or any inquiries or the making of any proposal that would reasonably be expected to lead to a



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takeover proposal, except that ministerial acts that are not otherwise prohibited by the merger agreement (e.g., answering unsolicited phone calls) will not (in and of themselves) be deemed to facilitate for purposes of, or otherwise constitute a violation of, the merger agreement;

enter into, continue or otherwise participate in any discussions or negotiations regarding, or furnish to any person (or any representative thereof) any information with respect to any takeover proposal; or

execute or enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement or other agreement, each of which we refer to as an acquisition agreement, relating to any takeover proposal;

Notwithstanding the foregoing, under certain circumstances prior to obtaining the requisite stockholder approval at the special meeting, Red Hat may furnish information with respect to Red Hat and its subsidiaries subject to a confidentiality agreement and participate in discussions or negotiations with the person making a *bona fide*, written, unsolicited takeover proposal received after the date of the merger agreement if the Red Hat Board of Directors determines in good faith that such proposal constitutes, or could reasonably be expected to lead to, a superior proposal (as defined herein), and which takeover proposal did not result from a breach of the merger agreement.

Notwithstanding anything to the contrary in the merger agreement, Red Hat and the company representatives may, in response to a *bona fide* written unsolicited takeover proposal, contact the person who made such takeover proposal solely to determine whether such person intends to provide any documents (or additional documents) containing the terms and conditions of such takeover proposal.

For a more complete description, see the section entitled **Terms of the Merger Agreement – Additional Agreements – No Solicitation** beginning on page 92.

### **Change of Recommendation (page 94)**

As described under the section entitled **The Special Meeting – Board of Directors – Recommendation** beginning on page 28, the Red Hat Board of Directors has recommended that the holders of shares of Red Hat common stock vote **FOR** the merger proposal.

The merger agreement provides that the Red Hat Board of Directors will not (i) withhold, withdraw, qualify or modify, or propose publicly to take such actions, in a manner adverse to IBM or Sub, the recommendation of the Board of Directors to Red Hat stockholders that they vote **FOR** the adoption of the merger agreement, which we refer to as an adverse recommendation change, (ii) recommend, declare advisable or propose to recommend or declare advisable, the approval or adoption of any takeover proposal or resolve or agree to take any such action, or adopt or approve any takeover proposal, or (iii) cause or permit Red Hat to enter into any acquisition agreement constituting or related to, or which is intended to or would reasonably be expected to lead to, any takeover proposal (other than a confidentiality agreement referred to in, and in accordance with, the non-solicitation provisions of the merger agreement), or resolve or agree to take any such action.

However, prior to obtaining stockholder approval, the Red Hat Board of Directors, in certain circumstances and subject to certain limitations set forth in the merger agreement, may make an adverse recommendation change in connection with a takeover proposal that constitutes a superior proposal or in connection with an intervening event that was not known to the Red Hat Board of Directors or the consequences of which were not reasonably foreseeable as of the date of the merger agreement. If the Red Hat Board of Directors makes an adverse recommendation change

or delivers notice of a superior proposal or intervening event under the merger agreement, IBM may terminate the merger agreement and receive a termination fee from Red Hat as further described under Terms of the Merger Agreement Termination of the Merger Agreement Termination Fees beginning on page 106.

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Prior to obtaining stockholder approval, the Red Hat Board of Directors may also, in certain circumstances and subject to certain limitations set forth in the merger agreement, cause Red Hat to terminate the merger agreement in order to enter into a definitive agreement relating to a takeover proposal that constitutes a superior proposal, in each case, subject to specified obligations to IBM to negotiate and consider in good faith any revisions to the merger agreement proposed by IBM.

For a more complete description, see the sections entitled **Terms of the Merger Agreement** **Additional Agreements** **Change of Recommendations** beginning on page 94.

## **Conditions to the Closing of the Merger (page 102)**

The following are some of the conditions that must be satisfied or waived before the merger may be consummated:

receipt of Red Hat stockholder approval of the merger agreement and the transactions contemplated thereby;

(i) any waiting period (and any extension thereof) applicable to the merger under the HSR Act having been terminated or having expired and (ii) any other approval or waiting period under certain other applicable antitrust laws, as set out in the merger agreement, having been obtained or terminated or having expired, in each case without the imposition, individually or in the aggregate, of a burdensome condition (as defined herein);

(i) no order, injunction, judgment or law by certain courts of competent jurisdiction or other governmental entities being in effect that prohibits or makes illegal the consummation of the merger or imposes a burdensome condition, and (ii) no governmental entity having instituted any action or proceeding before any certain courts or other governmental entities of competent jurisdiction, which remains pending at what would otherwise be the closing date, seeking to enjoin, restrain or prohibit the consummation of the merger or impose a legal restraint (as defined herein);

the accuracy of the representations and warranties of Red Hat, IBM and Sub in the merger agreement, subject in some instances to materiality or material adverse effect qualifiers, as of the closing date of the merger;

the performance in all material respects by Red Hat, on the one hand, and IBM and Sub on the other hand, of their respective obligations under the merger agreement at or prior to the closing; and

since the date of the merger agreement, no effect having occurred that would reasonably be expected to have, individually or in the aggregate, a material adverse effect, of which the existence or consequences are continuing.

## **Termination of the Merger Agreement (page 104)**

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time:

by the mutual written consent of IBM, Sub and Red Hat;

by either IBM or Red Hat, if:

the merger has not been consummated by 11:59 p.m., Eastern time, on October 28, 2019, which we refer to as the initial termination date, which is subject to extension for two consecutive three month periods by either party if all conditions are satisfied other than receipt of regulatory approvals and absence of legal restraints, which date, after giving effect to any extensions, we

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refer to as the termination date; provided that a party will not be able to terminate the merger agreement if it is in breach of the merger agreement and such breach is a principal cause of the failure of the merger to occur on or before the termination date;

an order having the effect of making the merger illegal or otherwise prohibiting consummation of the merger becomes final and non-appealable; provided that a party will not be able to terminate the merger agreement if it is in breach of the merger agreement and such breach is a principal cause of the issuance of such legal restraint; or

the requisite affirmative vote of Red Hat stockholders for the merger proposal has not been obtained at the special meeting of Red Hat stockholders or any adjournment or postponement thereof.

by IBM:

prior to the special meeting of Red Hat stockholders, if the Red Hat Board of Directors makes an adverse recommendation change or has delivered a notice of an intervening event (as defined herein) or a notice of a superior proposal (as defined herein) and IBM has delivered a notice of its intent to terminate the merger agreement and publicly and irrevocably waived its matching rights; or

if Red Hat has breached any representation or warranty or failed to perform any covenant, such that the conditions relating to the accuracy of Red Hat's representations and warranties or performance of covenants would fail to be satisfied (subject to a 30 business day cure period); provided that IBM will not be able to terminate the merger agreement if IBM or Sub is in material breach of the merger agreement or if any representation or warranty of IBM or Sub has become untrue, resulting in the failure of a closing condition.

by Red Hat:

prior to receipt of the requisite stockholder approval at the special meeting, in order to enter into a definitive written agreement providing for a superior proposal, provided that Red Hat pays a termination fee of \$975 million to IBM simultaneously with, and as a condition to the validity of, such termination; or

if IBM has breached any representation or warranty or failed to perform any covenant, such that the conditions relating to the accuracy of IBM's or Sub's representations and warranties or performance of covenants would fail to be satisfied (subject to a 30 business day cure period); provided that Red Hat will not be able to terminate the merger agreement if Red Hat is in material breach of the merger agreement or if any representation or warranty of Red Hat has become untrue, resulting in the failure of a closing condition.

**Termination Fee (page 106)**

Under the merger agreement, Red Hat will be required to pay a termination fee of \$975 million in connection with a termination of the merger agreement under specified circumstances. In no event will Red Hat be required to pay the termination fee described above on more than one occasion.

**Market Prices and Dividend Data (page 111)**

On October 26, 2018, the last trading day prior to the announcement of the merger, the closing price of Red Hat common stock was \$116.68 per share. On December 11, 2018, the latest practicable trading day before the date of this proxy statement, the closing price of our common stock on the NYSE was \$176.53 per share.



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We have never declared or paid any cash dividends on our common stock. Under the terms of the merger agreement, from October 28, 2018, until the effective time, Red Hat may not declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, other equity interests or voting securities without IBM's prior written consent.

**Neither the SEC nor any state securities regulatory agency has approved or disapproved of the transactions described in this document, including the merger, or determined if the information contained in this document is accurate or adequate. Any representation to the contrary is a criminal offense.**

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**QUESTIONS AND ANSWERS**

The following questions and answers are intended to address some commonly asked questions regarding the merger, the merger agreement and the special meeting. These questions and answers may not address all questions that may be important to you as a Red Hat stockholder. We encourage you to read carefully the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement (including the merger agreement), and the documents we incorporate by reference in this proxy statement. You may obtain the documents and information incorporated by reference in this proxy statement without charge by following the instructions under the section entitled *Where You Can Find More Information* beginning on page 123. The merger agreement is attached as Annex A to this proxy statement.

***Q:* Why am I receiving these proxy materials?**

***A:*** On October 28, 2018, Red Hat entered into the merger agreement providing for the merger of Sub, with and into Red Hat, with Red Hat surviving the merger as a wholly-owned subsidiary of IBM. The Red Hat Board of Directors is furnishing this proxy statement and form of proxy card to the holders of Red Hat common stock in connection with the solicitation of proxies in favor of the proposal to adopt the merger agreement and to approve the other proposals to be voted on at the special meeting or any adjournments or postponements thereof. This proxy statement includes information that we are required to provide to you under the rules of the SEC and is designed to assist you in voting on the matters presented at the special meeting. Stockholders of record as of the close of business on December 11, 2018 may attend the special meeting and are entitled and requested to vote on the proposals described in this proxy statement.

***Q:* What is included in the proxy materials?**

***A:*** The proxy materials include the proxy statement and the annexes to the proxy statement, including the merger agreement, and a proxy card or voting instruction form.

***Q:* When and where is the special meeting?**

***A:*** The special meeting will take place on January 16, 2019, at 9:00 a.m., Eastern time, at 100 East Davie Street, Raleigh, North Carolina 27601.

***Q:* What is the proposed merger and what effects will it have on Red Hat?**

***A:*** The proposed merger is the acquisition of Red Hat by IBM through the merger of Sub with and into Red Hat pursuant to the merger agreement. If the proposal to adopt the merger agreement is approved by the requisite number of shares of Red Hat common stock and the other closing conditions under the merger agreement have been satisfied or waived, Sub will merge with and into Red Hat, with Red Hat continuing as the surviving

corporation. As a result of the merger, Red Hat will become a wholly-owned subsidiary of IBM and you will no longer own shares of Red Hat common stock. Red Hat expects to delist its common stock from the NYSE as promptly as practicable after the effective time and de-register its common stock under the Exchange Act as promptly as practicable after such delisting. Thereafter, Red Hat would no longer be a publicly-traded company.

**Q: What will I receive if the merger is completed?**

A: Upon completion of the merger, you will be entitled to receive the merger consideration of \$190.00 in cash, without interest and less applicable tax withholdings, for each share of Red Hat common stock that you own, unless you have properly exercised and perfected and not withdrawn your demand for appraisal rights under the DGCL with respect to such shares. For example, if you own 100 shares of Red Hat common stock, you will receive \$19,000.00 in cash, without interest and less any applicable withholding taxes, in exchange for your shares of Red Hat common stock. In no case will you own shares in the surviving corporation.

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**Q: Who is entitled to vote at the special meeting?**

A: If your shares of Red Hat common stock are registered in your name in the records of our transfer agent, Computershare Limited, which we refer to as Computershare, as of the close of business on the record date, you are a stockholder of record for purposes of the special 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 the question How do I vote my shares? below.

**Q: How many votes do I have?**

A: You will have one vote for each share of Red Hat common stock owned by you, as a stockholder of record or in street name, as of the close of business on the record date.

**Q: May I attend the special meeting and vote in person?**

A: Yes. All Red Hat stockholders as of the close of business on the record date may attend the special meeting and vote in person. All Red Hat stockholders will need to present government-issued photo identification to be admitted to the special meeting. The use of cameras, sound recording equipment, communication devices or any other similar equipment is prohibited at the special meeting without the express written permission of Red Hat. Even if you plan to attend the special meeting in person, we encourage you to complete, sign, date and return the enclosed proxy card or vote electronically over the Internet or via telephone to ensure that your shares will be represented at the special meeting. If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted. If you held your shares in street name, because you are not the stockholder of record, you may not vote your shares in person in the special meeting unless you request and obtain a valid proxy from your broker, bank or other nominee.

**Q: What am I being asked to vote on at the special meeting?**

A: You are being asked to consider and vote on the following proposals:

the adoption of the merger agreement, a copy of which is attached as Annex A to the proxy statement accompanying this notice;

the approval, by means of a non-binding, advisory vote, of compensation that will or may become payable to the named executive officers of Red Hat in connection with the merger; and

the approval of one or more adjournments of the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to adopt the merger agreement at the then-scheduled date and time of the special meeting.

**Q: How does Red Hat's Board of Directors recommend that I vote?**

A: The Red Hat Board of Directors, after considering various factors described under the section entitled "Proposal 1: Adoption of the Merger Agreement - The Merger - Recommendation of Our Board of Directors and Reasons for the Merger" beginning on page 42 and after consultation with independent legal and financial advisors, unanimously (i) determined that the terms of the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to and in the best interests of Red Hat and its stockholders; (ii) adopted, approved and declared advisable the execution, delivery and performance of the merger agreement, the merger and the other transactions contemplated by the merger agreement; (iii) approved, authorized and declared advisable the consummation by Red Hat of the transactions contemplated by the merger agreement; (iv) resolved to recommend that Red Hat stockholders vote in favor of the adoption and approval of the merger agreement, the merger and other transactions contemplated by the merger agreement; and (v) resolved to submit the merger agreement to Red Hat stockholders for adoption at a duly held meeting of such stockholders.

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**The Red Hat Board of Directors unanimously recommends that you vote**

**FOR the merger proposal;**

**FOR the merger-related compensation proposal; and**

**FOR the adjournment proposal.**

**Q: How does the merger consideration compare to the market price of Red Hat common stock prior to the date on which the transaction was announced?**

A: The merger consideration represents a premium of (i) approximately 62.8% to Red Hat's closing stock price on October 26, 2018, the last trading day prior to the announcement of the merger, (ii) approximately 51.7% to the volume weighted average stock price of Red Hat common stock during the 30 days ended October 26, 2018 and (iii) approximately 7.8% to the highest closing stock price of Red Hat common stock during the 52-week period ended October 26, 2018.

**Q: Will Red Hat pay a quarterly dividend before the completion of the merger?**

A: Under the terms of the merger agreement, from October 28, 2018 until the effective time, Red Hat may not declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, other equity interests or voting securities. See the section entitled "Terms of the Merger Agreement - Conduct of Business Pending the Merger" beginning on page 89.

**Q: Does IBM have the financial resources to complete the merger?**

A: IBM has secured committed debt financing from lenders providing IBM with sufficient funds, together with other sources of funds available to IBM at the effective time, to consummate the merger and pay all associated fees, costs and expenses with respect to the merger. Consummation of the merger is not conditioned on IBM or Sub obtaining financing. The funding of the bridge facility provided for in the commitment letter is contingent on the satisfaction of customary conditions, including (i) the execution and delivery of definitive documentation with respect to the bridge facility in accordance with the terms sets forth in the commitment letter, and (ii) the consummation of the merger in accordance with the merger agreement.

For a more complete description of sources of funding for the merger and related costs, see "Proposal 1: Adoption of the Merger Agreement - Financing of the Merger" beginning on page 79.

**Q: What do I need to do now?**

A: We encourage you to read this proxy statement, the annexes to this proxy statement (including the merger agreement), and the documents we refer to in this proxy statement carefully and consider how the merger affects you. Then complete, sign, date and return, as promptly as possible, the enclosed proxy card in the accompanying reply envelope or grant your proxy electronically over the Internet or by telephone, so that your shares can be voted at the special meeting. If you hold your shares in street name, please refer to the voting instruction forms provided by your broker, bank or other nominee to vote your shares.

**Q: How do I vote my shares?**

A: *For stockholders of record:* If you are eligible to vote at the special 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 with your proxy materials and on your proxy card. Proxies submitted via Internet must be received by 11:59 p.m., Eastern time, on January 15, 2019.

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**By Telephone** You can also submit your proxy by telephone by following the instructions provided with your proxy materials and on your proxy card. Proxies submitted via telephone must be received by 11:59 p.m., Eastern time, on January 15, 2019.

**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 Special Meeting** You can vote in person at our special meeting. In order to gain admittance, you must present 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 special 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 special meeting, you will need to present 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 special meeting. You will not be able to attend and vote your shares held in street name at the special meeting without 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.

If you submit your proxy by Internet, telephone or mail, and you do not subsequently revoke your proxy, your shares of Red Hat common stock will be voted in accordance with your instructions.

Even if you plan to attend the special meeting in person, you are strongly encouraged to vote your shares of Red Hat common stock by proxy. If you are a stockholder of record or if you obtain a valid proxy to vote shares which you beneficially own, you may still vote your shares of Red Hat common stock in person at the special meeting even if you have previously voted by proxy. If you are present at the special meeting and vote in person, your previous vote by proxy will not be counted.

### **Q: Can I change or revoke my proxy?**

**A:** *For stockholders of record:* Yes. A proxy may be changed or revoked at any time prior to the vote at the special meeting by submitting a later-dated proxy (including a proxy submitted via the Internet or by telephone) or by giving written notice to our Corporate Secretary at our corporate headquarters. You may not change your vote over the Internet or by telephone after 11:59 p.m., Eastern time, on January 15, 2019. You may also attend the special 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.

### **Q: How will my shares be voted if I do not provide specific instructions in the proxy card or voting instructions form that I submit?**



A: If you are a stockholder of record and if you sign, date and return your proxy card but do not provide specific voting instructions, your shares of Red Hat common stock will be voted **FOR** the merger proposal, **FOR** the merger-related compensation proposal and **FOR** the adjournment proposal.

If your shares are held in street name at a broker, bank or similar institution, your broker, bank or similar institution may under certain circumstances vote your shares on discretionary matters if you do not timely provide voting instructions in accordance with the instructions provided by them. However, if you do not provide timely instructions, your broker, bank or similar institution does not have the authority to vote on

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any non-discretionary proposals at the special meeting and a broker non-vote would occur, as explained in the following question and explanation.

**Q: What is broker discretionary voting ?**

A: 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. Because brokers, banks and other nominee holders of record do not have discretionary voting authority with respect to any of the three proposals, if a beneficial owner of shares of Red Hat common stock held in street name does not give voting instructions to the broker, bank or other nominee with respect to any of the proposals, then those shares will not be present in person or represented by proxy at the special meeting. If there are any broker non-votes, then such broker non-votes will be counted as a vote **AGAINST** the merger proposal, but will not have any effect on the merger-related compensation proposal or the adjournment proposal. **Therefore, it is important that you instruct your broker, bank or other nominee on how you wish to vote your shares.**

**Q: I understand that a quorum is required in order to conduct business at the special meeting. What constitutes a quorum?**

A: A majority in voting power of Red Hat common stock issued and outstanding and entitled to vote at the special meeting, represented in person or by proxy, constitutes a quorum at the special meeting. As of the close of business on the record date, there were 176,759,752 shares of Red Hat common stock issued and 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 will be counted for purposes of establishing a quorum. Broker non-votes will not be counted for purposes of establishing a quorum. As a result, 88,379,877 shares must be represented in person or by proxy to have a quorum. If a quorum is not present, the special meeting will be adjourned until a quorum is obtained, subject to the terms of the merger agreement. The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting or the chairman of the special meeting may adjourn the special meeting.

**Q: What is required to approve the proposals submitted to a vote at the annual meeting?**

A: *The merger proposal:* The affirmative vote of a majority of the shares of Red Hat common stock outstanding and entitled to vote thereon, provided a quorum is present, is required to approve the merger proposal. This means that the proposal will be approved if the number of shares voted **FOR** that proposal is greater than 50% of the total number of the votes that can be cast in respect of our outstanding shares of common stock. Abstentions and broker non-votes will have the same effect as a vote **AGAINST** the merger proposal.

*The merger-related compensation proposal:* The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, and voting at the special meeting, provided a quorum is present, is required to approve, by means of a non-binding, advisory vote, the merger-related compensation proposal. This means that the proposal will be approved if the number of shares voted **FOR** that

proposal is greater than 50% of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, and vote at the special meeting, provided a quorum is present. Abstentions and broker non-votes will not have any effect on the merger-related compensation proposal.

*The adjournment proposal:* The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting, whether or not a quorum is present, is required to approve the adjournment proposal. This means that the proposal will be approved if the number of shares voted **FOR** that proposal is greater than 50% of the total number of

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shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting, whether or not a quorum is present. Abstentions will have the same effect as a vote **AGAINST** the adjournment proposal. Broker non-votes will not have any effect on the adjournment proposal.

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

A: 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 1-888-542-4427.

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

**Q: Should I send in my stock certificates now?**

A: No. After the merger is completed, under the terms of the merger agreement, you will receive shortly thereafter the letter of transmittal instructing you to send your stock certificates to the paying agent in order to receive the cash payment of the merger consideration for each share of your Red Hat common stock represented by the stock certificates. You should use the letter of transmittal to exchange your stock certificates for the cash payment to which you are entitled upon completion of the merger. Please do not send in your stock certificates now.

**Q: I do not know where my stock certificates are, how will I get the merger consideration for my shares of Red Hat common stock?**

A: If the merger is completed, the transmittal materials you will receive after the completion of the merger will include the procedures that you must follow if you cannot locate your stock certificates. This will include an affidavit that you will need to sign attesting to the loss of your stock certificates. You may also be required to post a bond as indemnity against any potential loss.

**Q: What happens if I sell or otherwise transfer my shares of Red Hat common stock after the close of business on the record date but before the special meeting?**

A: The record date is earlier than the date of the special meeting and the date the merger is expected to be completed. If you sell or transfer your shares of Red Hat common stock after the close of business on the record date but before the special meeting, unless special arrangements (such as the provision of a proxy) are made between you and the person to whom you sell or otherwise transfer your shares and each of you notifies Red Hat in writing of such special arrangements, you will transfer the right to receive the merger consideration if the merger is completed to the person to whom you sell or transfer your shares of Red Hat common stock, but you

will retain your right to vote these shares at the special meeting. Even if you sell or otherwise transfer your shares of Red Hat common stock after the close of business on the record date, we encourage you to complete, date, sign and return the enclosed proxy card or vote via the Internet or telephone.

**Q: When do you expect the merger to be completed?**

A: We are working toward completing the merger as quickly as possible and currently expect to complete the merger in the latter half of 2019. However, the exact timing of completion of the merger cannot be predicted because the completion of the merger is subject to conditions, including the adoption of the merger agreement by our stockholders and the receipt of regulatory approvals.

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**Q: What happens if the merger is not completed?**

A: If the merger agreement is not adopted by Red Hat stockholders or if the merger is not completed for any other reason, Red Hat stockholders will not receive any payment for their shares of Red Hat common stock. Instead, Red Hat will remain a public company, Red Hat common stock will continue to be listed and traded on the NYSE and registered under the Exchange Act, and Red Hat will continue to file periodic reports with the SEC. Under certain specified circumstances, Red Hat will be required to pay IBM a termination fee upon the termination of the merger agreement, as described under the section entitled **Terms of the Merger Agreement Termination of the Merger Agreement Termination Fees** beginning on page 106.

**Q: Are there any other risks to me from the merger that I should consider?**

A: Yes. There are risks associated with all business combinations, including the merger. See the section entitled **Forward-Looking Statements** beginning on page 24.

**Q: Do any of Red Hat's directors or officers have interests in the merger that may differ from those of Red Hat stockholders generally?**

A: Yes. For a description of the interests of our directors and executive officers in the merger, see **Proposal 1: Adoption of the Merger Agreement The Merger Interests of the Non-Employee Directors and Executive Officers of Red Hat in the Merger** beginning on page 72.

**Q: What happens if the merger-related compensation proposal is not approved?**

A: Approval of the merger-related compensation proposal is not a condition to completion of the merger. The vote is an advisory vote and is not binding. Accordingly, regardless of the outcome of the advisory vote, if the merger is completed, Red Hat may still pay such compensation to its named executive officers in accordance with the terms and conditions applicable to such compensation.

**Q: What should I do if I receive more than one set of voting materials?**

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, date, sign and return (or vote via the Internet or telephone with respect to) each proxy card and voting instruction card that you receive.

**Q: Who counts the votes?**

A: Votes are counted by Computershare, our transfer agent and registrar, and are then certified by a representative of Computershare appointed by the Red Hat Board of Directors to serve as the inspector of election at the special meeting.

**Q: Who may attend the special meeting?**

A: Red Hat stockholders who held shares of Red Hat common stock as of the close of business on December 11, 2018.

**Q: How can I obtain directions to the special meeting?**

A: Red Hat stockholders may contact Red Hat Investor Relations at (919) 754-3700 to obtain directions to the special meeting.

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**Q: Who pays for the expenses of this proxy solicitation?**

A: Red Hat will bear the entire cost of this proxy solicitation, including the preparation, printing, mailing and distribution of these proxy materials. 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. 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.

**Q: Where can I find the vote results after the special meeting?**

A: 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 special meeting.

**Q: Will I be subject to U.S. federal income tax upon the exchange of Red Hat common stock for cash pursuant to the merger?**

A: The exchange of Red Hat common stock for cash pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. Accordingly, a U.S. holder of Red Hat common stock who exchanges shares of Red Hat common stock for cash in the merger generally will recognize gain or loss in an amount equal to the difference, if any, between the amount of cash received with respect to such shares and the U.S. holder's adjusted tax basis in such shares. If you are a non-U.S. holder, the merger generally will not result in tax to you under U.S. federal income tax laws unless you have certain connections with the United States.

For a more complete description of the U.S. federal income tax consequences of the merger, see Proposal 1: Adoption of the Merger Agreement The Merger U.S. Federal Income Tax Consequences of the Merger beginning on page 79.

**This proxy statement contains a general discussion of U.S. federal income tax consequences of the merger. This description does not address any non-U.S. tax consequences, nor does it pertain to state, local or other tax consequences. Consequently, you are urged to contact your own tax advisor to determine the particular tax consequences to you of the merger.**

**Q: What will the holders of outstanding Red Hat equity awards receive in the merger?**

A: For information regarding the treatment of Red Hat's outstanding equity awards, see the section entitled Terms of the Merger Agreement Merger Consideration Treatment of Equity Compensation beginning on page 84.

**Q: Am I entitled to appraisal rights under the DGCL?**



- A: If the merger is adopted by Red Hat's stockholders, stockholders who do not vote (whether in person or by proxy) in favor of the adoption of the merger agreement and who properly exercise and perfect their demand for appraisal of their shares will be entitled to appraisal rights in connection with the merger under Section 262 of the DGCL. This means that holders of Red Hat common stock are entitled to have their shares appraised by the Court of Chancery of the State of Delaware and to receive payment in cash of the fair value of the shares of Red Hat common stock, exclusive of any elements of value arising from the accomplishment or expectation of the merger, together with interest to be paid upon the amount determined to be fair value, if any, as determined by the court. Stockholders who wish to seek appraisal of their shares are in any case encouraged to seek the advice of legal counsel with respect to the exercise of appraisal rights due to the complexity of the appraisal process. Stockholders should refer to the discussion under the section entitled Appraisal Rights beginning on page 116 and the DGCL requirements for exercising appraisal rights reproduced and attached as Annex D to this proxy statement.

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**Q: What is householding ?**

A: Some banks, brokers and similar institutions may be participating in the practice of householding proxy materials. This means that only one copy of our proxy materials may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of the proxy materials 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

100 East Davie Street

Raleigh, North Carolina 27601

Phone: Call (919) 754-3700 and ask to speak to Investor Relations.

To receive separate copies of the proxy materials 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 or you may contact us at the above address or telephone number.

**Q: How can I obtain more information about Red Hat?**

A: You can find more information about us from various sources described in the section entitled Where You Can Find Additional Information beginning on page 123.

**Q: Who can help answer my questions?**

A: If you have any questions concerning the merger, the special meeting or this proxy statement, would like additional copies of this proxy statement or need help voting your shares of Red Hat common stock, please contact our proxy solicitor:

Innisfree M&A Incorporated

501 Madison Avenue, 20th Floor

New York, New York 10022

Toll-free: (888) 750-5835

Banks & Brokers may call collect: (212) 750-5833



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**FORWARD-LOOKING STATEMENTS**

This proxy statement, and the documents to which we refer you in this proxy statement, as well as information included in oral statements or other written statements made or to be made by us or on our behalf, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements relating to the completion of the merger and statements that do not directly or exclusively relate to historical facts. You can typically identify forward-looking statements by the use of forward-looking words such as may, could, should, see, will, would, estimate, project, forecast, intend, anticipate, believe, target, plan, providing guidance and similar expressions and variations or negatives of these that are intended to identify information that is not historical in nature. Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about the consummation of the proposed merger and the anticipated benefits thereof. These and other forward-looking statements are not guarantees of future results and are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed in any forward-looking statements, including the failure to consummate the proposed merger or to make any filing or take other action required to consummate such merger in a timely matter or at all. The inclusion of such statements should not be regarded as a representation that any plans, estimates or expectations will be achieved. You should not place undue reliance on such statements.

These risks and uncertainties include, but are not limited to, the risks detailed in our filings with the SEC, including in our most recent filing on Form 10-K and subsequent periodic and interim reports, factors and matters described or incorporated by reference in this proxy statement, and the following factors:

Red Hat may be unable to obtain stockholder approval as required for the merger;

conditions to the closing of the merger, including obtaining required regulatory approvals, may not be satisfied or waived on a timely basis or otherwise;

a governmental entity or a regulatory body may prohibit, delay or refuse to grant approval for the consummation of the merger and may require conditions, limitations or restrictions in connection with such approvals that can adversely affect the anticipated benefits of the proposed merger or cause the parties to abandon the proposed merger;

the merger may involve unexpected costs, liabilities or delays;

Red Hat's business may suffer as a result of uncertainty surrounding the merger or the potential adverse changes to business relationships (including, without limitation, customers and partners) resulting from the proposed merger;

legal proceedings may be initiated related to the merger and the outcome of any legal proceedings related to the merger may be adverse to Red Hat;

Red Hat may be adversely affected by other general industry, economic, business and/or competitive factors;

there may be unforeseen events, changes or other circumstances that could give rise to the termination of the merger agreement or affect the ability to recognize benefits of the merger;

risks that the proposed merger may disrupt current plans and operations and present potential difficulties in employment retention as a result of the merger;

the risk that the merger may be terminated in certain circumstances that require us to pay IBM a termination fee of \$975 million;

risks related to diverting management's attention from the Red Hat's ongoing business operations;

the fact that Red Hat stockholders would forgo the opportunity to realize the potential long-term value of the successful execution of Red Hat's current strategy as an independent company; and

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there may be other risks to consummation of the merger, including the risk that the merger will not be consummated within the expected time period or at all which may affect Red Hat's business and the price of Red Hat common stock.

Consequences of material differences in results as compared with those anticipated in the forward-looking statements could include, among other things, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on Red Hat's financial condition, results of operations, credit rating or liquidity.

There can be no assurance that the merger will be completed, or if it is completed, that it will close within the anticipated time period or that the expected benefits of the merger will be realized. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which such statements were made.

All of the forward-looking statements we make in this proxy statement are qualified by the information contained or incorporated by reference herein, including, but not limited to, (i) the information contained under this heading and (ii) the information in our consolidated financial statements and notes thereto included in our most recent filing on Form 10-K and subsequent periodic and interim report filings (see the section entitled "Where You Can Find More Information" beginning on page 123).

Except as required by applicable law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. Red Hat stockholders are advised, however, to consult any future disclosures we make on related subjects as may be detailed in our other filings made from time to time with the SEC.

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**THE SPECIAL MEETING**

The enclosed proxy is solicited on behalf of the Board of Directors for use at the special meeting of stockholders or at any adjournments or postponements thereof.

**Date, Time and Place**

We will hold the special meeting on January 16, 2019, at 9:00 a.m., Eastern time, at 100 East Davie Street, Raleigh, North Carolina 27601.

**Purpose of the Special Meeting**

At the special meeting, we will ask our stockholders of record as of the close of business on the record date to consider and vote on the following proposals:

**Proposal 1 Adoption of the Merger Agreement.** To consider and vote on the merger proposal;

**Proposal 2 Approval, by Means of a Non-Binding, Advisory Vote, of Certain Compensatory Arrangements with Named Executive Officers.** To consider and vote on the merger-related compensation proposal; and

**Proposal 3 Adjournment of the Special Meeting.** To consider and vote on the adjournment proposal.

**Record Date; Shares Entitled to Vote; Quorum**

Only stockholders of record as of the close of business on December 11, 2018 are entitled to notice of the special meeting and to vote at the special meeting or at any adjournments or postponements thereof. A list of stockholders entitled to vote at the special meeting will be available in Red Hat's corporate headquarters located at 100 East Davie Street, Raleigh, North Carolina 27601, during regular business hours for a period of at least 10 days before the special meeting and at the place of the special meeting during the special meeting.

A majority in voting power of Red Hat common stock issued and outstanding and entitled to vote at the special meeting, represented in person or by proxy, constitutes a quorum at the special meeting. As of the close of business on the record date for the special meeting, there were 176,759,752 shares of Red Hat common stock issued and 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 will be counted for purposes of establishing a quorum. Broker non-votes will not be counted for purposes of establishing a quorum. As a result, 88,379,877 shares must be represented in person or by proxy to have a quorum. If a quorum is not present, the special meeting will be adjourned until a quorum is obtained, subject to the terms of the merger agreement. The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting or the chairman of the special meeting may adjourn the special meeting.

**Vote Required; Abstentions and Broker Non-Votes**

The affirmative vote of a majority of the shares of Red Hat common stock outstanding and entitled to vote thereon, provided a quorum is present, is required to approve the merger proposal. This means that the proposal will be approved if the number of shares voted **FOR** that proposal is greater than 50% of the total number of the votes that can be cast in respect of our outstanding shares of common stock. Abstentions and broker non-votes will have the same effect as a vote **AGAINST** the merger proposal.

The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, and voting at the special meeting, provided a quorum is present, is



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required to approve, by means of a non-binding, advisory vote, the merger-related compensation proposal. This means that the proposal will be approved if the number of shares voted **FOR** that proposal is greater than 50% of the total number of shares of Red Hat common stock entitled to vote which are present, in person or by proxy, and vote at the special meeting, provided a quorum is present. Abstentions and broker non-votes will not have any effect on the merger-related compensation proposal.

The affirmative vote of a majority of the voting power of the shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting, whether or not a quorum is present, is required to approve the adjournment proposal. This means that the proposal will be approved if the number of shares voted **FOR** that proposal is greater than 50% of the total number of shares of Red Hat common stock entitled to vote which are present, in person or by proxy, at the special meeting, whether or not a quorum is present. Abstentions will have the same effect as a vote **AGAINST** the adjournment proposal. Broker non-votes will not have any effect on the adjournment proposal.

Broker non-votes are shares held by a broker, bank or other nominee that are present in person or represented by proxy at the special meeting, but with respect to which the broker, bank or other nominee is not instructed by the beneficial owner of such shares on how to vote on a particular proposal and the broker does not have discretionary voting power on such proposal. Because brokers, banks and other nominee holders of record do not have discretionary voting authority with respect to any of the three proposals, if a beneficial owner of shares of Red Hat common stock held in street name does not give voting instructions to the broker, bank or other nominee with respect to any of the proposals, then those shares will not be present in person or represented by proxy at the special meeting. If there are any broker non-votes, then such broker non-votes will be counted as a vote **AGAINST** the merger proposal, but will have no effect on the merger-related compensation proposal and the adjournment proposal.

## **Shares Held by Red Hat's Directors and Executive Officers**

As of the close of business on the record date, Red Hat directors and executive officers beneficially owned and were entitled to vote, in the aggregate, 898,713 shares of Red Hat common stock (excluding any shares of Red Hat common stock that would be delivered upon exercise or conversion of stock options or other equity-based awards), which represented approximately 0.51% of the outstanding shares of Red Hat common stock on that date. It is expected that Red Hat's directors and executive officers will vote their shares **FOR** the merger proposal, **FOR** the merger-related compensation proposal and **FOR** the adjournment proposal, although none of them has entered into any agreement requiring them to do so.

## **Voting of Proxies**

If your shares are registered in your name with our transfer agent, Computershare, you may cause your shares to be voted by returning a signed proxy card, or you may vote in person at the special meeting. Additionally, you may submit electronically over the Internet or by phone a proxy authorizing the voting of your shares by following the instructions on your proxy card. You must have the enclosed proxy card available, and follow the instructions on the proxy card, in order to submit a proxy electronically over the Internet or by telephone. Based on your proxy cards or Internet and telephone proxies, the proxy holders will vote your shares according to your directions.

If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the meeting. If your shares are registered in your name, you are encouraged to vote by proxy even if you plan to attend the special meeting in person. If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted.

Voting instructions are included on your proxy card. All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in accordance with the instructions

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of the stockholder. Properly executed proxies that do not contain voting instructions will be voted (i) **FOR** the merger proposal, (ii) **FOR** the merger-related compensation proposal and (iii) **FOR** the adjournment proposal. No proxy that is specifically marked against the merger proposal will be voted in favor of the merger-related compensation, unless it is specifically marked **FOR** the approval of such proposal.

If your shares are held in street name through a broker, bank or other nominee, you may vote through your broker, bank or other nominee by completing and returning the voting form provided by your broker, bank or other nominee, or by the Internet or telephone through your broker, bank or other nominee if such a service is provided. To vote via the Internet or telephone through your broker, bank or other nominee, you should follow the instructions on the voting form provided by your broker, bank or other nominee. Under applicable stock exchange rules, brokers, banks or other nominees have the discretion to vote your shares on discretionary matters if you fail to instruct your broker, bank or other nominee on how to vote your shares with respect to such matters. The merger proposal, merger-related compensation proposal and the adjournment proposal are non-discretionary matters, and brokers, banks and other nominees therefore cannot vote on these proposals without your instructions. If you do not return your broker's, bank's or other nominee's voting form, do not vote via the Internet or telephone through your broker, bank or other nominee, if applicable, or do not attend the special meeting and vote in person with a proxy from your broker, bank or other nominee, such actions will have the same effect as if you voted **AGAINST** the merger proposal but will not have any effect on the adjournment proposal or the merger-related compensation proposal.

## **Revocability of Proxies**

If you are a stockholder of record, you may change your vote or revoke your proxy at any time before it is voted at the special meeting by:

submitting a new proxy electronically over the Internet or by telephone after the date of the earlier submitted proxy;

delivering a written notice of revocation to our Corporate Secretary;

signing another proxy card with a later date and returning it to us prior to the special meeting; or

attending the special meeting and voting in person.

Please note that to be effective, your new proxy card, Internet or telephonic voting instructions or written notice of revocation must be received by our Corporate Secretary prior to the special meeting and, in the case of Internet or telephonic voting instructions, must be received before 11:59 p.m., Eastern time, on January 15, 2019. If you have submitted a proxy, your appearance at the special meeting, in the absence of voting in person or submitting an additional proxy or revocation, will not have the effect of revoking your prior proxy.

If you hold your shares of Red Hat common stock in street name, you should contact your broker, bank or other nominee for instructions regarding how to change your vote. You may also vote in person at the special meeting if you obtain a valid proxy from your broker, bank or other nominee. Any adjournment of the special meeting for the purpose of soliciting additional proxies will allow Red Hat stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting, as adjourned.

**Board of Directors Recommendation**

The Board of Directors, after considering various factors described under the section entitled Proposal 1: Adoption of the Merger Agreement The Merger Recommendation of Our Board of Directors beginning on page 42 and after consultation with independent legal and financial advisors, unanimously (i) determined that the terms of the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to and in the best interests of Red Hat and its stockholders; (ii) adopted, approved and declared advisable the execution, delivery and performance of the merger agreement, the merger and the other transactions

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contemplated by the merger agreement; (iii) approved, authorized and declared advisable the consummation by Red Hat of the transactions contemplated by the merger agreement; (iv) resolved to recommend that Red Hat stockholders vote in favor of the adoption and approval of the merger agreement, the merger and other transactions contemplated by the merger agreement; and (v) resolved to submit the merger agreement to Red Hat stockholders for adoption at a duly held meeting of such stockholders.

**The Red Hat Board of Directors unanimously recommends that you vote (i) FOR the merger proposal, (ii) FOR the merger-related compensation proposal and (iii) FOR the adjournment proposal.**

## **Tabulation of Votes**

All votes will be tabulated by a representative of Computershare, who will act as the inspector of election appointed for the special meeting and will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

## **Solicitation of Proxies**

The expense of soliciting proxies in the enclosed form will be borne by Red Hat. We have retained Innisfree M&A Incorporated, a proxy solicitation firm, to solicit proxies in connection with the special meeting at a cost of approximately \$50,000 and an additional success fee of \$25,000 if the merger proposal is approved by our stockholders plus expenses. We have also agreed to indemnify Innisfree M&A Incorporated against losses arising out of its provision of these services as requested by Red Hat. In addition, we may reimburse brokers, banks and other custodians, nominees and fiduciaries representing beneficial owners of shares for their expenses in forwarding soliciting materials to such beneficial owners. Proxies may also be solicited by certain of our directors, officers and employees, personally or by telephone, facsimile or other means of communication. No additional compensation will be paid for such services.

## **Anticipated Date of Completion of the Merger**

Assuming timely satisfaction of necessary closing conditions, including the approval by our stockholders of the merger proposal, we anticipate that the merger will be consummated during the latter half of 2019.

## **Attending the Special Meeting**

Red Hat stockholders as of the close of business on the record date may attend the special meeting in person. All Red Hat stockholders should bring valid government-issued photo identification, such as a driver's license or passport.

If you hold your shares in street name and wish to vote your shares in person at our special 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 special meeting, you will need to present 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 special meeting. You will not be able to attend and vote your shares held in street name at the special meeting without 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.

The use of cameras, sound recording equipment, communication devices or any other similar equipment is prohibited at the special meeting without the express written permission of Red Hat.

Even if you plan to attend the special meeting in person, we encourage you to complete, sign, date and return the enclosed proxy card or vote electronically over the Internet or via telephone to ensure that your shares

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will be represented at the special meeting. If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted. If you hold your shares in street name, because you are not the stockholder of record, you may not vote your shares in person at the special meeting unless you follow the procedures set forth above.

## **Assistance**

If you need assistance in completing your proxy card or have questions regarding Red Hat's special meeting, please contact Innisfree M&A Incorporated by mail at 501 Madison Avenue, 20th Floor, New York, New York 10022 or by telephone. Stockholders may call toll-free at (888) 750-5834 and banks and brokers may call collect: (212) 750-5833.

## **Rights of Stockholders Who Seek Appraisal**

If the merger proposal is approved by Red Hat stockholders, stockholders who do not vote (whether in person or by proxy) in favor of the adoption of the merger agreement and who properly exercise and perfect their demand for appraisal of their shares will be entitled to appraisal rights in connection with the merger under Section 262 of the DGCL. This means that holders of Red Hat common stock are entitled to have their shares appraised by the Court of Chancery of the State of Delaware and to receive payment in cash of the fair value of the shares of Red Hat common stock, exclusive of any elements of value arising from the accomplishment or expectation of the merger, together with interest to be paid upon the amount determined to be fair value, if any, as determined by the court. Stockholders who wish to seek appraisal of their shares are in any case encouraged to seek the advice of legal counsel with respect to the exercise of appraisal rights due to the complexity of the appraisal process.

Stockholders considering seeking appraisal should be aware that the fair value of their shares as determined pursuant to Section 262 of the DGCL could be more than, the same as or less than \$190.00 per share consideration payable pursuant to the merger agreement if they did not seek appraisal of their shares.

To exercise your appraisal rights, you must submit a written demand for appraisal to Red Hat before the vote is taken on the merger proposal, you must not submit a blank proxy or otherwise vote in favor of the merger proposal and you must continue to hold the shares of Red Hat common stock of record through the effective time. Your failure to follow the procedures specified under the DGCL will result in the loss of your appraisal rights. The DGCL requirements for exercising appraisal rights are described in further detail in this proxy statement, and the relevant section of the DGCL regarding appraisal rights is reproduced and attached as Annex D to this proxy statement. If you hold your shares of Red Hat common stock through a broker, bank or other nominee and you wish to exercise appraisal rights, you should consult with your broker, bank or other nominee to determine the appropriate procedures for the making of a demand for appraisal by such broker, bank or other nominee. Stockholders should refer to the discussion under the section entitled Appraisal Rights beginning on page 116 and the DGCL requirements for exercising appraisal rights reproduced and attached as Annex D to this proxy statement.

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**PARTIES INVOLVED IN THE MERGER**

***Red Hat, Inc.***

Red Hat is a leading provider of open source software solutions, using a community-powered approach to develop and offer reliable and high-performing operating system, virtualization, management, middleware, cloud, mobile and storage technologies. Red Hat employs an open source development model, which allows Red Hat to use the collective input, resources and knowledge of a global community of contributors who can collaborate to develop, maintain and enhance software because the human-readable source code for that software is publicly available and licenses permit modification.

Red Hat's offerings are designed to provide customers with high-performing, scalable, flexible, reliable and secure infrastructure technologies that meet the information technology, which we refer to as IT, needs of enterprises and service providers. Our offerings enable our customers to optimize their IT environments to increase agility and flexibility while adding and managing hybrid cloud infrastructures and building modern applications. Hybrid cloud infrastructures enable customers to deploy their applications using off-premise (public cloud) and on-premise (private cloud, virtual or physical server) IT resources to create a hybrid cloud environment that is designed to enhance efficiency while providing increased security. Red Hat's offerings are designed to perform consistently across hybrid cloud environments to offer greater choices to our customers when deploying their applications.

Red Hat also offers a wide range of services that are designed to help customers receive additional value from Red Hat technologies.

Red Hat's corporate headquarters is located at 100 East Davie Street, Raleigh, North Carolina 27601.

Red Hat was formed in 1993 and is a corporation organized in the State of Delaware. Red Hat common stock is currently listed on the NYSE under the symbol RHT.

Additional information about Red Hat and its subsidiaries is included in documents incorporated by reference in this proxy statement (see the section entitled "Where You Can Find More Information" beginning on page 123) and on its website: [www.redhat.com](http://www.redhat.com). The information provided or accessible through Red Hat's website is not part of, or incorporated by reference in, this proxy statement.

***International Business Machines Corporation***

IBM focuses on the intersection of business insight and technology innovation and creates value for clients through integrated solutions and products. These integrated solutions leverage innovative technologies, deep expertise in industries and business processes, and a commitment to security and trust. IBM solutions typically create value by enabling new capabilities for clients that optimize and transform their businesses and help them engage with their customers and employees in new ways. These solutions draw from an industry-leading portfolio of consulting and IT implementation services, cloud and cognitive offerings, and enterprise systems and software, one of the world's leading research organizations all bolstered by a commitment to the secure and responsible management of data and enterprise-grade security.

IBM's corporate headquarters is located at 1 New Orchard Road, Armonk, New York 10504.

IBM was formed in 1911 as the Computing-Tabulating-Recording Company and is a corporation organized in the State of New York. IBM's common stock, par value \$0.20 per share, is currently listed on the NYSE, under the symbol



IBM.

Additional information about IBM and its subsidiaries is included on its website: [www.ibm.com](http://www.ibm.com). The information provided or accessible through IBM's website is not part of, or incorporated by reference in, this proxy statement.

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***Socrates Acquisition Corp.***

Sub is a Delaware corporation and a wholly-owned subsidiary of IBM, formed on October 25, 2018, solely for the purpose of engaging in the merger and the other transactions as contemplated under the merger agreement. Upon completion of the merger, Sub will cease to exist.

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**PROPOSAL 1: ADOPTION OF THE MERGER AGREEMENT**

**THE MERGER**

This discussion of the merger is qualified in its entirety by reference to the merger agreement, which is attached to this proxy statement as Annex A and incorporated into this proxy statement by reference. You should read the entire merger agreement carefully as it is the legal document that governs the merger.

**Certain Effects of the Merger on Red Hat**

Upon the terms and subject to the conditions of the merger agreement and in accordance with the applicable provisions of the DGCL, on the closing date and at the effective time, Sub will merge with and into Red Hat, with Red Hat continuing as the surviving corporation and a wholly-owned subsidiary of IBM. Red Hat expects to delist its common stock from the NYSE as promptly as practicable after the effective time and de-register its common stock under the Exchange Act as promptly as practicable after such delisting. Thereafter, Red Hat would no longer be a publicly-traded company. If the merger is completed, you will not own any shares of the capital stock of the surviving corporation, and instead will only be entitled to receive the merger consideration, as described under the section entitled **Terms of the Merger Agreement – Merger Consideration** beginning on page 84.

The effective time will occur upon the filing of a certificate of merger with the Secretary of State of the State of Delaware (or at such later time as Red Hat and IBM may agree and specify in the certificate of merger).

**Effect on Red Hat if the Merger is Not Completed**

If the merger agreement is not adopted by Red Hat stockholders or if the merger is not completed for any other reason, Red Hat stockholders will not receive any payment for their shares of Red Hat common stock. Instead, Red Hat will remain a public company, Red Hat common stock will continue to be listed and traded on the NYSE and registered under the Exchange Act and Red Hat will continue to file periodic reports with the SEC.

Furthermore, if the merger is not consummated, and depending on the circumstances that caused the merger not to be consummated, it is likely that the price of Red Hat common stock will decline significantly. If that were to occur, it is uncertain when, if ever, the price of Red Hat common stock would return to the price at which it trades as of the date of this proxy statement.

Accordingly, if the merger is not consummated, there can be no assurance as to the effect of these risks and opportunities on the future value of your shares of Red Hat common stock. If the merger is not consummated, the Board of Directors will continue to evaluate and review Red Hat's business operations, properties and capitalization, among other things, make such changes as are deemed appropriate and continue to seek to enhance stockholder value. If the merger agreement is not adopted by Red Hat stockholders or if the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to Red Hat or its stockholders will be offered or that Red Hat's business, prospects or results of operations will not be adversely impacted.

Under certain specified circumstances, Red Hat will be required to pay IBM a termination fee upon the termination of the merger agreement, as described under the section entitled **Terms of the Merger Agreement – Termination of the Merger Agreement – Termination Fees** beginning on page 106.

**Background of the Merger**

As part of Red Hat's strategic planning process, the Red Hat Board of Directors regularly reviews and discusses with Red Hat's senior management the company's performance, business strategy and competitive

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position in the industries in which it operates. In addition, the Red Hat Board of Directors and Red Hat's senior management regularly review and evaluate various strategic alternatives, including acquisitions, dispositions, major commercial partnerships and other strategic transactions, as part of ongoing efforts to strengthen Red Hat's overall business and enhance stockholder value.

As part of this ongoing process, the Red Hat Board of Directors has considered and implemented actions to enhance stockholder value, including executing a number of strategic acquisitions, including, among others, CoreOS, Inc. on January 30, 2018, Permabit Technology Corporation on July 31, 2017 and Codenvy S.A. on June 1, 2017. In the course of Red Hat's strategic planning process, representatives of Red Hat have, in the ordinary course and from time to time, discussed with various companies in the software and technology industries potential commercial partnerships that might expand their respective businesses, improve their respective customer offerings and create value for Red Hat stockholders.

Since October 2016, Guggenheim Securities has rendered advice to Red Hat regarding various strategic and financial matters. During the course of Guggenheim Securities' engagement, representatives of Guggenheim Securities interacted, on Red Hat's behalf, with various companies in the software and technology industries, including IBM, and offered general perspectives on the technology landscape and operating environment for Red Hat's offerings including hybrid multi-cloud solutions. During the period from October 2017 to December 2017, representatives of Guggenheim Securities met with representatives of IBM to discuss Red Hat, including regarding a potential commercial partnership and other strategic alternatives.

During this time period, certain members of Red Hat's senior management also met with representatives of IBM to discuss expanding the commercial partnership between the two parties. Thereafter, and until IBM and Red Hat announced the expansion of that partnership on May 8, 2018, representatives of both Red Hat and IBM were in contact regarding the implementation of the expanded commercial partnership.

In February 2018, James M. Whitehurst, Chief Executive Officer of Red Hat met the Chief Executive Officer of Party A, a technology company offering software, services, and other solutions, at a meeting of CEOs for the purposes of professional and leadership development. During the course of the discussion, the Chief Executive Officer of Party A indicated a possible interest in an acquisition of Red Hat through a transaction structured to maintain Red Hat's independence, potentially with Red Hat remaining a separate public company in which Party A would have a significant stake.

On March 22, 2018, representatives of Guggenheim Securities met with representatives of Party A (including its Chief Executive Officer) to discuss Red Hat, including regarding a potential commercial partnership and other strategic alternatives.

During the spring of 2018, representatives of Red Hat, including Paul Cormier, Executive Vice President and President, Products and Technologies, met with representatives of Party B, a technology company that specializes in Internet-related services and products, on several occasions to discuss a potential commercial partnership in the software industry.

On April 11, 2018, Mr. Whitehurst met with Ginni Rometty, Chairman, President and Chief Executive Officer of IBM, at Mrs. Rometty's invitation, to discuss the strategic landscape in which Red Hat and IBM operate, as well as ways in which the two companies could expand upon the commercial partnership that IBM and Red Hat planned to announce in May 2018.

On May 8, 2018, Red Hat and IBM announced an expansion of their existing commercial partnership in order to fuel hybrid cloud adoption in the enterprise.

On May 31, 2018, Mr. Whitehurst and Mr. Cormier met with representatives of Party A, as they had from time to time in the past, regarding commercial relationships and other potential strategic opportunities. During

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the course of these discussions, Party A reiterated an interest in pursuing an acquisition of Red Hat through a transaction structured to maintain Red Hat's independence, potentially with Red Hat remaining a separate public company in which Party A would have a significant stake. Thereafter, Mr. Whitehurst and the Chief Executive Officer of Party A planned to continue discussions later that summer. On August 1, 2018, Mr. Whitehurst contacted the Chief Executive Officer of Party A to discuss whether Party A was interested in continuing the discussion of commercial and strategic opportunities. The Chief Executive Officer of Party A indicated that Party A remained interested in pursuing a transaction with Red Hat and the two CEOs should continue the discussion about this opportunity towards the end of the year.

Thereafter, Mr. Cormier remained in contact with other representatives of Party A for purposes of discussing certain other commercial matters. Following these discussions, on September 19, 2018, Mr. Cormier and a representative of Party A agreed to schedule a meeting between senior executives of Party A (including its Chief Executive Officer) and Red Hat (including Messrs. Cormier and Whitehurst) to discuss with more specificity Party A's interest in pursuing a strategic transaction with Red Hat. This meeting was scheduled to occur and did occur on October 10, 2018.

On September 23, 2018, representatives of Guggenheim Securities met with a senior executive of IBM at the senior executive's request to discuss the businesses and prospects of each of IBM and Red Hat generally and more specifically, IBM's interest in potentially pursuing a strategic transaction with Red Hat.

On September 25, 2018, Mrs. Rometty contacted Mr. Whitehurst to schedule a meeting on the morning of September 27, 2018 when both would be in New York City, NY.

Also, on September 25, 2018, representatives of Guggenheim Securities met with the Chairman of Party A to discuss Party A's and Red Hat's commercial relationship and the potential for a strategic transaction between Party A and Red Hat.

On September 27, 2018, Mrs. Rometty and Mr. Whitehurst met in New York City, NY. At that meeting, Mrs. Rometty provided Mr. Whitehurst with a written proposal outlining IBM's offer to acquire 100% of the equity securities of Red Hat at a price of \$185 per share in cash, with the goal to preserve the independent brand and culture of Red Hat, including the goal of retaining substantially all of Red Hat's management team. Mrs. Rometty indicated that IBM was willing to work diligently to announce a transaction in approximately three weeks.

On September 30, 2018, the Red Hat Board of Directors held a special meeting to discuss IBM's proposal. Representatives of Red Hat's senior management and representatives of Guggenheim Securities and Skadden, Arps, Slate, Meagher & Flom LLP, Red Hat's external legal counsel, which we refer to as Skadden, were present during the meeting. Representatives of Skadden discussed with the Red Hat Board of Directors their fiduciary duties in considering IBM's offer and strategic alternatives. The Red Hat Board of Directors discussed, among other things, their initial views on IBM's offer, including the price offered relative to Red Hat's market valuation and recent trading history and the need to compare the value of IBM's offer to the value reflected in Red Hat's stand-alone business prospects to determine, among other things, whether any strategic third party transaction should be pursued at that time. The Red Hat Board of Directors sought the advice of Guggenheim Securities regarding IBM's offer and also potential additional counterparties that might be able to offer a compelling value in excess of the price offered by IBM. Representatives of Guggenheim Securities discussed with the Red Hat Board of Directors the industrial logic for IBM to pursue an acquisition of Red Hat and compared the industrial logic for a company like IBM to the logic that might be applicable to other potential counterparties. The Red Hat Board of Directors requested Guggenheim Securities and management to develop a list of potentially interested parties and an assessment of the parties' strategic rationale for potentially acquiring Red Hat. Following discussion among the Red Hat Board of Directors, the Red Hat Board of Directors concluded that the initial offer from IBM was inadequate. However, the Red Hat Board of

Directors authorized further exploration of a transaction with IBM and also authorized Red Hat's senior management to engage in limited, price-confirmatory due diligence discussions with IBM in order to provide IBM with information necessary to enable IBM to



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increase its offer price. The Red Hat Board of Directors also directed Red Hat management to review with the Red Hat Board of Directors management's view of Red Hat's stand-alone business prospects.

On October 1, 2018, Mr. Whitehurst called Mrs. Rometty to inform her that the Red Hat Board of Directors had evaluated IBM's proposal, but that IBM would need to present a more compelling price in order for the Red Hat Board of Directors to consider a transaction with IBM. Mr. Whitehurst also indicated that Red Hat was willing to provide limited, price-confirmatory due diligence to IBM to enable IBM to put forward a more compelling offer price. During the course of the discussion, Mrs. Rometty indicated that IBM would require that Red Hat enter into an exclusivity agreement prohibiting Red Hat from discussing or pursuing a strategic transaction with a third party for an agreed upon period, in consideration for IBM's evaluation of the transaction. On the same day, James Kavanaugh, Chief Financial Officer of IBM, called Eric Shander, Chief Financial Officer of Red Hat to discuss the scope of IBM's confirmatory due diligence process and the appropriate next steps required to facilitate information sharing, including execution of a confidentiality agreement.

Also, on October 1, 2018, a representative of Red Hat sent a draft confidentiality agreement, which we refer to as the confidentiality agreement, to a representative of IBM, which was negotiated over the ensuing days by representatives of Red Hat, IBM, Skadden and Paul, Weiss, Rifkind, Wharton, & Garrison LLP, counsel to IBM, which we refer to as Paul Weiss. On October 3, 2018, Red Hat and IBM executed the confidentiality agreement.

That same day, Paul Weiss, on behalf of IBM, provided Skadden with a draft exclusivity agreement, which provided for an exclusivity period of four weeks.

In the evening on October 1, 2018, the Red Hat Board of Directors held a special meeting, with certain members of Red Hat's senior management, Guggenheim Securities and Skadden in attendance, to continue its discussions regarding a potential transaction with IBM. During the meeting, Mr. Whitehurst and Mr. Shander reported on the discussions with Mrs. Rometty and Mr. Kavanaugh, including IBM's request for exclusivity. The Red Hat Board of Directors discussed and evaluated the benefits of contacting Party A in advance of a previously scheduled meeting with Party A on October 10, 2018, as well other third parties. Following discussion among the Red Hat Board of Directors, the Red Hat Board of Directors directed Mr. Whitehurst to call the Chief Executive Officer of Party A to inform the Chief Executive Officer of Party A that Red Hat was in the process of reviewing a potential business combination with another counterparty. The Red Hat Board of Directors also concluded that an exclusivity arrangement between IBM and Red Hat was premature under the circumstances.

On October 2, 2018, Mr. Whitehurst, at the direction of the Red Hat Board of Directors, called the Chief Executive Officer of Party A. Mr. Whitehurst informed the Chief Executive Officer of Party A that, since Red Hat's discussions with Party A, Red Hat had continued to evaluate commercial and strategic alternatives and that Red Hat was in discussions regarding a potential business combination transaction with another counterparty. Mr. Whitehurst encouraged the Chief Executive Officer of Party A to prepare any proposals for potential strategic opportunities for the previously scheduled meeting on October 10, 2018.

Also, on October 2, 2018, an executive of Party A contacted representatives of Guggenheim Securities to determine whether Red Hat had established a formal sale process. Representatives of Guggenheim Securities informed the executive of Party A that Red Hat was considering a potential business combination transaction.

On October 3, 2018, a representative of Party B contacted Mr. Cormier of Red Hat to arrange a meeting, as they had from time to time in the past.

On October 4, 2018, Mr. Kavanaugh sent a written confirmatory due diligence list to Mr. Shander.

On October 5, 2018, Mr. Cormier met with senior executives from Party B. Mr. Cormier and the executives from Party B discussed the commercial relationship between Party B and Red Hat and other potential strategic opportunities as they had discussed from time to time in the past. One of the senior executives of Party B requested that Red Hat notify Party B if Red Hat was to ever explore other strategic opportunities.

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On October 7, 2018, a member of the board of Party B contacted representatives of Guggenheim Securities to determine whether Red Hat had established a formal sale process. Representatives of Guggenheim Securities informed the board member of Party B that Red Hat was considering a potential business combination transaction. The board member of Party B asked that Red Hat afford Party B sufficient time to assess its interest in pursuing a strategic transaction with Red Hat and indicated that Party B would revert promptly.

On October 8, 2018, the Red Hat Board of Directors held a special meeting with certain representatives of Red Hat's senior management, Guggenheim Securities and Skadden in attendance. Mr. Shander reviewed with the Red Hat Board of Directors Red Hat's historical performance and, in response to the Red Hat Board of Directors' request to understand Red Hat management's view of Red Hat's stand-alone business prospects, presented three long-term forecasts, including the methodology used to create the forecasts, the assumptions underlying each forecast and the perceived challenges and risks associated with Red Hat's ability to meet such forecasts, including, among other things, the challenges of maintaining high rates of growth in the rapidly evolving technology sector. Representatives of Guggenheim Securities then discussed with the Red Hat Board of Directors matters relating to, among other things, the competitive landscape in which Red Hat operates and a preliminary review of the financial aspects of IBM's proposal, including trading multiples of peer companies, recent M&A activity in the technology and software sectors, the increased competitive and pricing pressures that Red Hat could expect to confront as enterprises moved to public, private and hybrid cloud solutions and preliminary financial analyses with respect to Red Hat based on the forecasts. Thereafter, Skadden reviewed the current regulatory environment and provided a preliminary assessment of the regulatory considerations associated with completing a transaction with either IBM or Party A. Finally, the Red Hat Board of Directors discussed and considered whether Red Hat should engage a second financial advisor. Following discussion among the directors the Red Hat Board of Directors directed Mr. Whitehurst to contact Morgan Stanley.

Also, on October 8, 2018, Mr. Whitehurst contacted Morgan Stanley to discuss engaging Morgan Stanley to act as a financial advisor in connection with a potential transaction. Red Hat retained Morgan Stanley as its financial advisor based on Morgan Stanley's qualifications, expertise and reputation, its knowledge of and involvement in recent transactions in the software industry and its knowledge of Red Hat's business and affairs.

On October 10, 2018, Red Hat senior management met with representatives from Party A. During that meeting Party A presented the high-level framework of a possible expanded commercial partnership arrangement with Red Hat. Party A indicated that it was not prepared to pursue a strategic transaction with Red Hat, citing concerns about securing regulatory approvals of a strategic transaction in the US and Europe.

On October 11, 2018, senior management from Red Hat and IBM met at the offices of Paul Weiss in New York City, NY for business due diligence sessions.

Also, on October 11, 2018, representatives from Morgan Stanley had two separate conversations with senior executives at Party B to inform the senior executives at Party B that Red Hat was in discussions regarding a potential business combination transaction with another counterparty and to ascertain Party B's interest in pursuing an acquisition.

Also, on October 11, 2018, senior executives of Party B discussed with representatives of Guggenheim Securities the process regarding a potential acquisition of Red Hat.

On October 12, 2018, the Red Hat Board of Directors held a special meeting with certain members of Red Hat's senior management, Guggenheim Securities, Morgan Stanley and Skadden in attendance. During the meeting, Mr. Whitehurst provided an update regarding the status of discussions with Party A and Party B. Thereafter, the Red Hat Board of Directors discussed whether to contact Party C, a technology company that specializes in Internet-related

services and products, to ascertain whether Party C might be interested in a strategic transaction. Following the discussion, the Red Hat Board of Directors determined that it would be in the best interests of Red Hat for Mr. Whitehurst to contact Party C regarding its interest in a potential strategic transaction and directed Mr. Whitehurst to contact Party C.

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Also, on October 12, 2018, at the direction of the Red Hat Board of Directors, Mr. Whitehurst contacted a senior executive of Party C. Mr. Whitehurst informed the senior executive of Party C that Red Hat was in discussions regarding a potential business combination transaction. That same day, a senior executive of Party C called Morgan Stanley to discuss the situation and understand the process for a potential acquisition of Red Hat.

On October 13, 2018, a senior executive of Party B discussed with representatives of Morgan Stanley, the process regarding a potential acquisition of Red Hat. Morgan Stanley advised Party B that if they were interested in pursuing an acquisition, they would need to meet Red Hat management promptly and should they submit any proposal it would need to be in excess of the 52 week high of \$176.27 in order for it to be considered by the Red Hat Board of Directors.

Also, on October 13, 2018, a senior executive from Party C spoke with Morgan Stanley and indicated that Party C was working quickly to evaluate the viability of a potential acquisition of Red Hat. Morgan Stanley advised Party C that if they were interested in pursuing an acquisition, they would need to meet Red Hat management promptly and should they submit any proposal it would need to be in excess of the 52 week high of \$176.27 in order for it to be considered by the Red Hat Board of Directors.

On October 14, 2018, representatives of Morgan Stanley sent to a senior executive of Party C a document outlining the strategic rationale of a potential acquisition of Red Hat by Party C.

On October 15, 2018, representatives of Red Hat and IBM met telephonically to discuss additional price confirmatory due diligence matters.

On October 16, 2018, the CEO of Party B contacted Mr. Whitehurst to express interest in exploring a strategic transaction between Red Hat and Party B and requested an in-person meeting with representatives of Red Hat management later that week.

Also, on October 16, 2018, the Red Hat Board of Directors held a special meeting with certain representatives of Red Hat's senior management, Guggenheim Securities, Morgan Stanley and Skadden in attendance. During the meeting, Mr. Whitehurst provided an update regarding the status of discussions with Party B, Party C and IBM. Representatives of Morgan Stanley then reviewed with the Red Hat Board of Directors the potential accretive effects of the transaction on IBM, and Morgan Stanley's preliminary assessment of IBM's capability and willingness to pay more than its then current offer of \$185 per share. Thereafter, representatives of Guggenheim Securities discussed with the Red Hat Board of Directors the potential strategic benefits to IBM of acquiring Red Hat, including the realization by incumbent technology providers, such as IBM, that Kubernetes-based orchestration platforms such as Red Hat's OpenShift are a key element of the emerging hybrid multi-cloud architecture and infrastructure.

On October 17, 2018, a senior executive from Party C called Mr. Whitehurst to share Party C's interest in pursuing an acquisition. Separately, a senior executive from Party C called representatives of Morgan Stanley to schedule an in-person meeting with representatives of Red Hat senior management later that week.

Also, on October 17, 2018, a representative of Red Hat sent a draft mutual confidentiality agreement, which we refer to as the Party B confidentiality agreement, to Party B. The Party B confidentiality agreement was negotiated over the ensuing days by representatives of Red Hat, Party B, Skadden and Party's B counsel. On October 18, 2018, Red Hat and Party B executed the Party B confidentiality agreement.

Also, on October 18, 2018, executives of Red Hat and Party B met to discuss a possible transaction. Representatives of Red Hat provided Party B with an overview of Red Hat's products, go-to-market strategy and certain financial information. Party B received information that was substantially similar to the information previously provided to

IBM.

Also, on October 17, 2018, a representative of Morgan Stanley sent a draft mutual confidentiality agreement, which we refer to as the Party C confidentiality agreement, to a senior executive of Party C. The Party C

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confidentiality agreement was negotiated over the ensuing days by representatives of Red Hat, Party C and Skadden. On October 19, 2018, Red Hat and Party C executed the Party C confidentiality agreement. Thereafter, executives of Red Hat and Party C met to discuss a possible transaction. Representatives of Red Hat provided Party C with an overview of Red Hat's products, go-to-market strategy and certain financial information. Party C received information that was substantially similar to the information previously provided to IBM.

Also, on October 19, 2018, Mrs. Rometty contacted Mr. Whitehurst to present a revised proposal to acquire all outstanding shares of Red Hat common stock at a price of \$190.00 per share in cash. The offer was conditioned upon IBM and Red Hat finalizing and announcing the transaction early in the week of October 29, 2018 and entering into an exclusivity agreement through the end of that week.

That same day, Paul Weiss, on behalf of IBM, provided Skadden with a revised draft of the exclusivity agreement, which provided for an exclusivity period through 11:59 p.m. on Friday, November 2, 2018.

Also, on October 18 and October 19, 2018, Morgan Stanley had various conversations with representatives of Party B and Party C to reiterate the necessary timing of any proposal by Party B or Party C if they were to be considered by the Red Hat Board of Directors in light of Red Hat's ongoing discussions with other parties.

On October 20, 2018, a senior executive of Party C contacted Mr. Whitehurst and indicated that Party C would not pursue an acquisition of Red Hat.

Also, on October 20, 2018, a senior executive of Party C also contacted representatives of Morgan Stanley to confirm that Party C would not pursue an acquisition of Red Hat. Party C stated it was not in a position to submit a proposal that exceeded the 52 week high of \$176.27.

That same day, a representative of Party B contacted Mr. Cormier and indicated that Party B would decline to make a proposal to acquire Red Hat; however, Party B remained interested in exploring a commercial partnership with a minority equity investment in Red Hat. Separately, a senior executive from Party B contacted Morgan Stanley and indicated that Party B would decline to make a proposal to acquire Red Hat. Party B stated it was not in a position to submit a proposal that exceeded the 52 week high of \$176.27.

On October 21, 2018, the Red Hat Board of Directors held a special meeting with certain representatives of Red Hat's senior management, Guggenheim Securities, Morgan Stanley and Skadden in attendance. During the meeting, Mr. Whitehurst and Mr. Cormier provided an update regarding the status of discussions with Party B and Party C. Thereafter, Mr. Whitehurst reviewed with the Red Hat Board of Directors Red Hat management's view of Red Hat's stand-alone business prospects. Representatives of Skadden then provided an update regarding the preliminary antitrust analysis of a potential transaction with IBM and the likely timeline for completing such a transaction. Following discussion among the Red Hat Board of Directors, Mr. Whitehurst recommended that Red Hat pursue the negotiation of a transaction with IBM at \$190 per share and grant IBM exclusivity for a limited duration through the morning of October 29, 2018. After further discussion, the Red Hat Board of Directors decided to work towards a definitive agreement on terms and conditions which maximized value for Red Hat's stockholders.

Following the special meeting, on October 21, 2018, Skadden, on behalf of Red Hat provided Paul Weiss with a revised draft of the exclusivity agreement. Red Hat and IBM executed the exclusivity agreement on October 21, 2018, which provided for an exclusivity period through 7:30 a.m. on October 29, 2018. Later that day, Paul Weiss, on behalf of IBM, provided Skadden with a draft merger agreement, which included, among other provisions, a proposed termination fee in an amount to equal 4% of Red Hat's fully diluted equity value payable by Red Hat in connection with accepting a superior proposal from a third party and no termination fee payable by IBM in the event that the

parties could not complete the transaction due to a failure to obtain antitrust and competition approvals.

During the week of October 22, 2018, certain members of Red Hat's senior management held a series of diligence calls with IBM and its representatives relating to various aspects of Red Hat's business.



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On October 22, 2018, a senior executive of IBM indicated to Mr. Whitehurst that IBM expected certain members of Red Hat's management team to execute a holder agreement, containing restrictive covenants, including a non-compete and non-solicit. On October 23, 2018, a representative of IBM provided a draft of the holder agreement to Mr. Shander.

On October 23, 2018, Skadden, on behalf of Red Hat, provided Paul Weiss with a revised draft of the merger agreement, which included a termination fee payable by Red Hat equal to 2.5% of Red Hat's fully diluted equity value and a regulatory termination fee, in an amount equal to 6% of Red Hat's fully diluted equity value, payable by IBM in the event that the parties could not complete the transaction due to a failure to obtain antitrust and competition approvals.

On October 24, 2018, Paul Weiss, on behalf of IBM, provided Skadden with a revised draft of the merger agreement. Late in the evening on October 24, 2018, representatives of Skadden and Paul Weiss discussed the merger agreement. The revised draft merger agreement did not include a regulatory termination fee and proposed a termination fee equal to 3.75% payable by Red Hat of Red Hat's fully diluted equity value.

On October 25, 2018, Skadden, on behalf of Red Hat, provided Paul Weiss with a revised draft of the merger agreement, which included a termination fee payable by Red Hat equal to 2.5% of Red Hat's fully diluted equity value and a regulatory termination fee payable by IBM, in an amount equal to 6% of Red Hat's fully diluted equity value.

Also, on October 25, 2018, a senior executive of IBM provided Red Hat with a summary proposal outlining the key terms of retention arrangements with key executives of Red Hat.

On October 25, 2018, the Red Hat Board of Directors held a special meeting with certain representatives of Red Hat's senior management, Guggenheim Securities, Morgan Stanley and Skadden in attendance. During the meeting, Mr. Whitehurst provided an update regarding the status of discussions with IBM. Thereafter, Skadden again discussed with the Red Hat Board of Directors the fiduciary duties of directors in connection with evaluating Red Hat's other strategic alternatives. Skadden also provided the Red Hat Board of Directors with an update on the antitrust analysis of a potential transaction with IBM, including anticipated timing and areas of risk. Thereafter, representatives of Skadden reviewed the key terms of the proposed merger agreement relating to deal certainty and the parties' required efforts to obtain applicable regulatory approvals, including certain open issues between the parties, including whether IBM would be required to pay a regulatory termination fee in the event that the parties could not complete the transaction due to a failure to obtain antitrust and competition approvals and the size of the termination fee payable by Red Hat in connection with accepting a superior proposal from a third party. Thereafter, Mr. Whitehurst reviewed with the Red Hat Board of Directors the proposed provisions regarding employee retention and the amount of retention awards available, as well as the retention arrangements offered by IBM to certain executive officers, which were conditional upon the closing of the merger, in consideration for such executive officer entering into the holder agreements requested by IBM. Representatives of Guggenheim Securities then discussed with the Red Hat Board of Directors matters relating to, among other things, the price per share offered by IBM compared to certain precedent transactions based upon certain valuation metrics and delivered a presentation to the Red Hat Board of Directors regarding preliminary financial analyses with respect to Red Hat based on the forecasts. Representatives of Morgan Stanley also discussed with the Red Hat Board of Directors matters relating to the premium offered by IBM compared with premiums paid in other software transactions during the past five years and delivered a presentation to the Red Hat Board of Directors regarding preliminary financial analyses with respect to Red Hat based on the forecasts.

On October 25, 2018, Mr. Whitehurst and Mrs. Rometty spoke to discuss the terms of the proposed transaction, including the regulatory termination fee and other key provisions. During this call, Mrs. Rometty indicated that IBM was unwilling to proceed with any transaction on terms that provided for a regulatory termination fee and informed

Mr. Whitehurst that if the Red Hat Board of Directors ultimately insisted on the inclusion of a regulatory termination fee IBM would terminate discussions.

On October 26, 2018, Paul Weiss, on behalf of IBM, provided Skadden with a revised draft of the merger agreement. The revised draft merger agreement did not include a regulatory termination fee and proposed a termination fee equal to 3.75% of Red Hat's fully diluted equity value.

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Late in the evening on October 26, 2018, Skadden, on behalf of Red Hat, provided Paul Weiss with a revised draft of the merger agreement. The revised draft of the merger agreement indicated that the regulatory termination fee payable by IBM remained an open issue between the principals and proposed a termination fee equal to 2.5% of Red Hat's fully diluted equity value. In the morning of October 27, 2018, representatives of Skadden and Paul Weiss discussed the merger agreement.

On October 27, 2018, the Red Hat Board of Directors held a special meeting with certain representatives of Red Hat's senior management, Guggenheim Securities, Morgan Stanley and Skadden in attendance. Representatives of Skadden reviewed with the Red Hat Board of Directors the current status of discussions regarding the inclusion of a regulatory termination fee, the parties' required efforts to obtain applicable regulatory approvals, and a clear market provision, which would prohibit IBM from acquiring any assets or business, if such acquisition would reasonably be expected to increase the risk of not obtaining, or the risk of materially delaying the obtaining of, regulatory approvals. Thereafter, the Red Hat Board of Directors considered the terms of the proposed merger agreement relating to deal certainty, including the reasonable likelihood of the consummation of the transactions contemplated by the merger agreement in light of the conditions in the merger agreement and the fact that the proposed merger agreement required that IBM use its reasonable best efforts to take certain actions necessary to obtain regulatory clearance and satisfy the regulatory conditions, including the fact that IBM agreed to accept potential structural and behavioral remedies in order to obtain regulatory approval up to a level of a material adverse effect on Red Hat or IBM (measured on a scale relative to the size of Red Hat). In light of the totality of the terms then available for the Red Hat Board of Directors' consideration and Mrs. Rometty's statement that IBM would not proceed with a transaction that provided for a regulatory termination fee, the Red Hat Board concluded that the proposed merger agreement offered a sufficiently high level of transaction certainty such that the Red Hat Board of Directors need not risk the substantial benefits of the transaction by conditioning the transaction on the inclusion of a regulatory termination fee, which was likely unobtainable from IBM, and concluded that a regulatory termination fee was not required. Mr. Whitehurst then reviewed with the Red Hat Board of Directors the status of the retention arrangements and holders agreements for certain executive officers of Red Hat.

During the day on October 27, 2018 and into October 28, 2018, representatives of the parties further negotiated, and reached resolution on, the remaining open points of the merger agreement, which included issues with respect to the parties' required efforts to obtain applicable regulatory approvals, the size of the termination fee and obligations under the interim operating covenants, including Red Hat's ability to make certain grants of equity awards prior to closing.

During the morning of October 28, 2018, the Red Hat Board of Directors met to consider IBM's offer and the terms of the merger agreement. Representatives of Red Hat senior management and representatives of Guggenheim Securities, Morgan Stanley and Skadden also were in attendance. Representatives of Skadden discussed with the Red Hat Board of Directors the fiduciary duties of directors in connection with evaluating Red Hat's strategic alternatives and the terms of the merger agreement, including, among other things, the parties' respective termination rights (including Red Hat's right to terminate the merger agreement to enter into an alternative acquisition agreement with respect to a superior proposal), the termination fee, the obligations of the parties to obtain applicable regulatory approvals, the definition of a material adverse effect and the applicable closing conditions. Also at this meeting, Guggenheim Securities reviewed with the Red Hat Board of Directors Guggenheim Securities' financial analysis of the merger consideration, as more fully described below under the section entitled Proposal 1: Adoption of the Merger Agreement

The Merger Opinions of Red Hat's Financial Advisors' Opinion of Guggenheim Securities, LLC beginning on page 47, and rendered an oral opinion, confirmed by delivery of a written opinion dated October 28, 2018, to the Red Hat Board of Directors to the effect that, as of that date and based on and subject to the matters considered, the procedures followed, the assumptions made and various limitations of and qualifications to the review undertaken, the merger consideration was fair, from a financial point of view, to Red Hat stockholders. Representatives of Morgan Stanley then reviewed with the Red Hat Board of Directors Morgan Stanley's financial analysis of the merger consideration, as

more fully described below under the section entitled "Proposal 1: Adoption of the Merger Agreement - The Merger Opinions of Red Hat's Financial Advisors - Opinion of Morgan Stanley & Co. LLC" beginning on page 60, and rendered to the Red Hat Board of Directors its oral opinion that, as of October 28, 2018 and based upon and subject to the

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assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the merger consideration to be received by Red Hat stockholders pursuant to the merger agreement was fair, from a financial point of view, to such Red Hat stockholders (such opinion was subsequently confirmed by delivery of a written opinion dated October 28, 2018 following the meeting). After discussing the proposed transaction and considering the presentations by Skadden, Guggenheim Securities and Morgan Stanley, the Red Hat Board of Directors unanimously (i) determined that the terms of the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to and in the best interests of Red Hat and its stockholders; (ii) adopted, approved and declared advisable the execution, delivery and performance of the merger agreement, the merger and the other transactions contemplated by the merger agreement; (iii) approved, authorized and declared advisable the consummation by Red Hat of the transactions contemplated by the merger agreement; (iv) resolved to recommend that Red Hat stockholders vote in favor of the adoption and approval of the merger agreement, the merger and other transactions contemplated by the merger agreement; and (v) resolved to submit the merger agreement to Red Hat stockholders for adoption at a duly held meeting of such stockholders. In connection with the execution of the merger agreement, certain of Red Hat's executive officers entered into retention arrangements with IBM and new restrictive covenant agreements with IBM.

On October 28, 2018, Red Hat and IBM issued a joint press release announcing the execution of the merger agreement.

**Recommendation of Our Board of Directors and Reasons for the Merger*****Recommendation of the Red Hat Board of Directors to Adopt the Merger Agreement, thereby Approving the Transactions Contemplated by the Merger Agreement.***

On October 28, 2018, the Red Hat Board of Directors, after considering various factors described below, and after consultation with independent legal and financial advisors, unanimously (i) determined that the terms of the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to and in the best interests of Red Hat and its stockholders; (ii) adopted, approved and declared advisable the execution, delivery and performance of the merger agreement, the merger and the other transactions contemplated by the merger agreement; (iii) approved, authorized and declared advisable the consummation by Red Hat of the transactions contemplated by the merger agreement; (iv) resolved to recommend that Red Hat stockholders vote in favor of the adoption and approval of the merger agreement, the merger and other transactions contemplated by the merger agreement; and (v) resolved to submit the merger agreement to Red Hat stockholders for adoption at a duly held meeting of such stockholders.

**The Red Hat Board of Directors unanimously recommends that you vote FOR the proposal to adopt the merger agreement, thereby approving the transactions contemplated by the merger agreement, including the merger.**

***Reasons for the Merger***

In recommending that Red Hat's stockholders vote in favor of the merger proposal, the Red Hat Board of Directors considered a number of potentially positive factors, including, but not limited to, the following (which factors are not necessarily presented in order of relative importance):

*Premium to Market Price.* The fact that the merger consideration of \$190.00 per share in cash to be received by the holders of shares of Red Hat common stock in the merger represents a significant premium over the market price at which shares of Red Hat common stock traded prior to the announcement of the execution of the merger agreement, including the fact that the merger consideration represents a premium of:

approximately 62.8% over the closing stock price on October 26, 2018, the last trading day prior to the announcement of the transaction;

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approximately 51.7% over the volume weighted average stock price of shares of Red Hat common stock during the 30 days ended October 26, 2018; and

approximately 7.8% over the highest closing stock price of shares of Red Hat common stock during the 52-week period ended October 26, 2018.

*Form of Consideration.* The fact that the proposed merger consideration is all cash, which provides stockholders certainty of value and liquidity for their shares of Red Hat common stock while eliminating long term business and execution risks.

*Opinion of Guggenheim Securities, LLC.* The opinion of Guggenheim Securities, dated October 28, 2018, to the Red Hat Board of Directors as to the fairness, from a financial point of view and as of the date of the opinion, of the merger consideration to the holders of Red Hat common stock, which opinion was based on and subject to the matters considered, the procedures followed, the assumptions made and various limitations of and qualifications to the review undertaken as more fully described below in the section entitled Proposal 1: Adoption of the Merger Agreement The Merger Opinions of Red Hat s Financial Advisors Opinion of Guggenheim Securities, LLC beginning on page 47.

*Opinion of Morgan Stanley & Co. LLC.* The opinion of Morgan Stanley to the Red Hat Board of Directors on October 28, 2018, which was subsequently confirmed in writing on such date, that, as of such date and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the merger consideration to be received by Red Hat stockholders pursuant to the merger agreement was fair, from a financial point of view, to such Red Hat stockholders as more fully described below in the section entitled Proposal 1: Adoption of the Merger Agreement The Merger Opinions of Red Hat s Financial Advisors Opinion of Morgan Stanley & Co. LLC beginning on page 60.

*Fair Value.* The Red Hat Board of Directors believed that the merger represents fair value for the shares of Red Hat common stock, taking into account the Red Hat Board of Directors familiarity with Red Hat s current and historical financial condition, results of operations, business, competitive position and prospects, as well as Red Hat s future business plan and potential long-term value.

*Loss of Opportunity.* The Red Hat Board of Directors considered the possibility that, if it declined to adopt the merger agreement, there may not be another opportunity for Red Hat s stockholders to receive a comparably priced transaction.

*Market Check.* In addition to continuing then ongoing discussions with Party A, after receipt of IBM s merger proposal, the Red Hat Board of Directors, with the assistance of Guggenheim Securities and Morgan Stanley, considered other parties that would be most likely to have an interest in acquiring Red Hat. After considering advice that Party A, Party B and Party C were the most likely of the strategic buyers considered to have a strategic interest in, and be willing to pay a competitive price for, Red Hat, the Red Hat Board of

Directors solicited the interest of Party A, Party B and Party C. The Red Hat Board of Directors considered the fact that, following discussions with each of Party A, Party B and Party C, Party A was only willing to pursue a commercial partnership arrangement with Red Hat on terms to be developed by Party A and Red Hat, Party B only offered to explore a commercial partnership with an investment in Red Hat and that none of the parties contacted were willing to pursue a strategic transaction with Red Hat at a price more favorable than the price offered by IBM.

*Arms-Length Negotiations.* The fact that the Red Hat Board of Directors and Red Hat's senior management, in coordination with Red Hat's outside legal and financial advisors, vigorously negotiated on an arms-length basis with IBM with respect to price and other terms and conditions of the merger agreement, including obtaining a price increase by IBM from its initial price of \$185.00 per share to a price of \$190.00 per share as well as the stated position of IBM that the agreed price was the highest price per share to which IBM was willing to agree. In addition, the Red Hat Board of Directors noted that as to matters related to retention arrangements for key executives, arrangements were not discussed with IBM until after discussions with Party A, Party B and Party C ceased, IBM increased its



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price per share to a price of \$190.00 per share and substantially all terms of the merger agreement were agreed.

*Review of Strategic Alternatives.* The Red Hat Board of Directors considered, after a thorough review of Red Hat's long-term strategic goals and opportunities, competitive environment and short- and long-term performance in light of Red Hat's strategic plan, and discussions with Red Hat's senior management and Red Hat's outside legal and financial advisors, the challenges and risks of continuing as a stand-alone public company and the potential strategic alternatives available to Red Hat including the potential commercial partnerships proposed by Party A and Party B. Following such review, the Red Hat Board of Directors determined that the value offered to Red Hat's stockholders pursuant to the merger agreement is more favorable to Red Hat's stockholders than the alternative of remaining an independent public company and pursuing Red Hat's long-term plan (taking into account the potential risks, rewards and uncertainties associated therewith) and/or exploring the terms and scope of any potential commercial partnership with either Party A or Party B.

*Risks Inherent in Red Hat's Business Plan.* The Red Hat Board of Directors considered Red Hat's short-term and long-term financial projections and the perceived challenges and risks associated with Red Hat's ability to meet such projections, including the challenges of maintaining high rates of growth in the rapidly evolving technology sector, as well as the risks and uncertainties described in the risk factors and forward looking statements sections of Red Hat's disclosures filed with the SEC, including the fact that Red Hat's actual financial results in future periods could differ materially and adversely from the projected results.

*Board Carefully Studied the Transaction.* The fact that the Red Hat Board of Directors met, along with Red Hat's financial and legal advisors, to evaluate and discuss the material terms and conditions of, and other matters related to, the merger, in person and telephonically nine times between September 27, 2018, the date that representatives of IBM first proposed a business transaction to representatives of Red Hat, and October 28, 2018, the date the merger agreement was signed.

*Best Value Reasonably Available.* The Red Hat Board of Directors considered, after a thorough review of the process conducted, that \$190.00 per share in cash and the terms of the merger agreement offer the best value reasonably attainable for holders of Red Hat common stock.

*Terms of the Merger Agreement.* The Red Hat Board of Directors considered that the provisions of the merger agreement, including the respective representations, warranties and covenants and termination rights of the parties and termination fees payable by Red Hat, are reasonable and customary. The Red Hat Board of Directors also believed that the terms of the merger agreement include the most favorable terms reasonably attainable from IBM.

*Conditions to the Consummation of the Merger; Likelihood of Closing.* The Red Hat Board of Directors considered the reasonable likelihood of the consummation of the transactions contemplated by the merger agreement in light of the conditions in the merger agreement to the obligations of IBM, as well as Red Hat's ability to seek specific performance to prevent breaches of the merger agreement, including to cause the

merger to be consummated if all of the conditions to IBM's obligations to effect the merger closing have been satisfied or waived.

*Regulatory Approvals.* The Red Hat Board of Directors considered the fact that the merger agreement requires that IBM use its reasonable best efforts to take certain actions necessary to obtain regulatory clearance and satisfy the regulatory conditions, including the fact that IBM agreed to accept potential structural and behavioral remedies in order to obtain regulatory approval, including IBM's commitment to divest certain assets or businesses of Red Hat and other additional remedies on Red Hat or IBM, unless such additional remedies would result in, or would reasonably be expected to result in a material adverse effect on Red Hat or IBM (measured on a scale relative to the size of Red Hat). The Red Hat Board of Directors also considered the fact that actions taken to maintain Red Hat as an open and neutral platform would not be taken into account when determining whether a remedy would result in a material adverse effect. For a more complete description of IBM's obligations to obtain required regulatory approvals, see the section below entitled "Terms of the Merger Agreement - Additional Agreements - Efforts to Complete the Merger" beginning on page 97. The merger agreement also provides an appropriate termination date by which time

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it is reasonable to expect that the regulatory conditions are likely to be satisfied. For a more complete description of the termination date, see the section below entitled "Terms of the Merger Agreement Termination of the Merger Agreement Termination" beginning on page 104.

*No Financing Condition.* The Red Hat Board of Directors considered IBM's representations and covenants contained in the merger agreement relating to IBM's financing commitments and the fact that the merger is not subject to a financing condition. The Red Hat Board of Directors also considered the delivery by IBM of a debt commitment letter by banks of international reputation and reviewed the terms and conditions thereof.

*Ability to Respond to Certain Unsolicited Takeover Proposals.* The Red Hat Board of Directors considered the fact that, while the merger agreement restricts Red Hat's ability to actively solicit competing bids to acquire it, the Red Hat Board of Directors has rights, under certain circumstances, to engage in discussions with, and provide information to, third parties submitting written unsolicited takeover proposals and to terminate the merger agreement in order to enter into an alternative acquisition agreement that the Red Hat Board of Directors determines to be a superior proposal, provided that Red Hat concurrently pays a \$975,000,000 termination fee. The Board further considered that the timing of the merger would provide ample opportunity for such third parties to submit proposals, that other companies in the cloud and/or technology industry, including Party A, Party B and Party C, have significant resources which would make them highly capable of submitting such a proposal if they so chose and that the terms of the merger agreement, including the size of the termination fee, would be unlikely to deter such third parties from submitting such proposals.

*Change of Recommendation.* The Red Hat Board of Directors considered the fact that it has the right to make an adverse recommendation change to Red Hat stockholders if a superior proposal is available or an intervening event has occurred, provided that Red Hat pays a \$975,000,000 termination fee if IBM terminates the merger agreement.

*Retention of Key Employees.* The Red Hat Board of Directors' belief that a retention plan for certain employees of Red Hat that Red Hat would be permitted to implement in connection with the merger would help assure the continuity of management, and increase the likelihood of the successful operation of Red Hat during the period prior to closing.

*Appraisal Rights.* The Red Hat Board of Directors considered the availability of appraisal rights with respect to the merger for Red Hat stockholders who properly exercise their rights under the DGCL, which would give these stockholders the ability to seek and be paid a judicially determined appraisal of the fair value of their shares at the completion of the merger.

*Recommendation of Senior Management.* The Red Hat Board of Directors considered the recommendation of Red Hat's senior management in favor of the merger.

*Distinct Unit.* The Red Hat Board of Directors considered that it was the intention of the parties that, following the effective time, Red Hat would remain an open and neutral platform, partnering broadly with information technology participants and continuing to support the open source community and the joint statement of the parties that Red Hat will join IBM's Hybrid Cloud team as a distinct unit, preserving the independence and neutrality of Red Hat's open source development heritage and commitment, current product portfolio and go-to-market strategy, and unique development culture and will continue to be led by Mr. Whitehurst and Red Hat's current management team. In addition, the Red Hat Board of Directors also considered IBM's statement in the joint press release that IBM remained committed to Red Hat's open governance, open source contributions, participation in the open source community and development model, and fostering Red Hat's widespread developer ecosystem. The Red Hat Board of Directors also considered the impact of such statements on Red Hat's employees, customers and partners prior to closing of the merger. The Red Hat Board of Directors also considered and balanced against the potentially positive factors a number of uncertainties, risks and other potentially negative factors in its deliberations concerning the merger

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and the other transactions contemplated by the merger agreement, including, but not limited to, the following (not necessarily in order of relative importance):

*No Stockholder Participation in Future Growth or Earnings.* The fact that Red Hat's stockholders will lose the opportunity to realize the potential long-term value of the successful execution of Red Hat's current strategy as an independent public company.

*Impact of Announcement on Red Hat.* The fact that the announcement and pendency of the merger, or the failure to complete the merger, may result in significant costs to Red Hat and cause substantial harm to Red Hat's relationships with its employees (including making it more difficult to attract and retain key personnel and the possible loss of key management and other personnel) and its customers, partners, providers and suppliers.

*Diversion of Management Attention.* The Red Hat Board of Directors considered the substantial time and effort of management required to consummate the merger, which could disrupt Red Hat's business operations and may divert employees' attention away from Red Hat's day-to-day operations.

*Tax Treatment.* The fact that the all-cash transaction would be taxable to holders of Red Hat common stock for U.S. federal income tax purposes.

*Closing Certainty.* The fact that there can be no assurance that all conditions to the parties' obligations to consummate the merger will be satisfied, including approval by the holders of Red Hat common stock and the approval of certain regulatory authorities.

*Pre-Closing Covenants.* The Red Hat Board of Directors considered the restrictions on Red Hat's conduct of business prior to completion of the merger contained in the merger agreement, which could delay or prevent Red Hat from undertaking business opportunities that may arise or taking other actions with respect to its operations during the pendency of the merger without IBM's consent.

*No Solicitation.* The Red Hat Board of Directors considered the restrictions in the merger agreement on Red Hat's ability to actively solicit competing bids to acquire it.

*Termination Fee.* The Red Hat Board of Directors considered the termination fee of \$975,000,000 that could become payable to IBM under specified circumstances, including upon the termination of the merger agreement in order to enter into an alternative acquisition agreement with respect to a superior proposal and concluded that the termination fee is reasonable in amount, consistent with or below fees in comparable transactions and will not unduly deter any other party that might be interested in acquiring Red Hat.

*No Reverse Termination Fee.* The Red Hat Board of Directors considered the fact that if the merger is not completed as a result of regulatory impediments, IBM will not be obligated to pay any reverse termination fee to Red Hat.

*Loss of Key Personnel.* The Red Hat Board of Directors considered the risk that, despite retention efforts prior to consummation of the merger, Red Hat may lose personnel.

*Timing of Closing.* The Red Hat Board of Directors considered the amount of time it could take from the date of its deliberations and the special meeting to complete the transactions, including that an extended period of time may exacerbate the impact of other risks considered by the Red Hat Board of Directors described herein.

After taking into account all of the factors set forth above, as well as others, the Red Hat Board of Directors concluded that the risks, uncertainties, restrictions and potentially negative factors associated with the merger were outweighed by the potential benefits of the merger to Red Hat's stockholders.

*The foregoing discussion of factors considered by the Red Hat Board of Directors is not intended to be exhaustive, but summarizes the material factors considered by the Red Hat Board of Directors. In light of the variety of factors considered in connection with their evaluation of the merger agreement and the merger, the*

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*Red Hat Board of Directors did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching their determinations and recommendations. Moreover, each member of the Red Hat Board of Directors applied his or her own personal business judgment to the process and may have given different weight to different factors. The Red Hat Board of Directors did not undertake to make any specific determination as to whether any factor, or any particular aspect of any factor, supported or did not support their ultimate determinations. The Red Hat Board of Directors based their recommendations on the totality of the information presented, including thorough discussions with, and questioning of, Red Hat's senior management and the Red Hat Board of Directors' financial advisors and outside legal counsel. It should be noted that this explanation of the reasoning of the Red Hat Board of Directors and certain information presented in this section is forward-looking in nature and should be read in light of the factors set forth in Forward-Looking Statements beginning on page 24.*

**Opinions of Red Hat's Financial Advisors*****Opinion of Guggenheim Securities, LLC******Overview***

Red Hat retained Guggenheim Securities as its lead financial advisor in connection with the potential sale of or another extraordinary corporate transaction involving Red Hat, including the merger. In selecting Guggenheim Securities as its lead financial advisor, Red Hat considered that, among other things, Guggenheim Securities has had a long-standing investment banking relationship with Red Hat and had been retained by Red Hat since October 2016 in connection with Red Hat's exploration and consideration of various strategic and financial alternatives. Guggenheim Securities is an internationally recognized investment banking, financial advisory and securities firm whose senior professionals have substantial experience advising companies in, among other industries, the technology and software sectors. Guggenheim Securities, as part of its investment banking, financial advisory and capital markets businesses, is regularly engaged in the valuation and financial assessment of businesses and securities in connection with mergers and acquisitions, recapitalizations, spin-offs/split-offs, restructurings, securities offerings in both the private and public capital markets and valuations for corporate and other purposes.

At the October 28, 2018 meeting of the Red Hat Board of Directors, Guggenheim Securities rendered an oral opinion, which was confirmed by delivery of a written opinion, to the Red Hat Board of Directors to the effect that, as of October 28, 2018 and based on and subject to the matters considered, the procedures followed, the assumptions made and various limitations of and qualifications to the review undertaken, the merger consideration was fair, from a financial point of view, to Red Hat stockholders.

This description of Guggenheim Securities' opinion is qualified in its entirety by the full text of the written opinion, which is attached as Annex B to this proxy statement and which you should read carefully and in its entirety. Guggenheim Securities' written opinion sets forth the matters considered, the procedures followed, the assumptions made and various limitations of and qualifications to the review undertaken by Guggenheim Securities. Guggenheim Securities' written opinion, which was authorized for issuance by the Fairness Opinion and Valuation Committee of Guggenheim Securities, is necessarily based on economic, capital markets and other conditions, and the information made available to Guggenheim Securities, as of the date of such opinion. Guggenheim Securities has no responsibility for updating or revising its opinion based on facts, circumstances or events occurring after the date of the rendering of the opinion.

In reading the discussion of Guggenheim Securities' opinion set forth below, you should be aware that such opinion (and, as applicable, any materials provided in connection therewith or the summary of Guggenheim Securities

underlying financial analyses elsewhere in this proxy statement):

was provided to the Red Hat Board of Directors (in its capacity as such) for its information and assistance in connection with its evaluation of the merger consideration;

did not constitute a recommendation to the Red Hat Board of Directors with respect to the merger;



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does not constitute advice or a recommendation to any Red Hat stockholder as to how to vote or act in connection with the merger or otherwise;

did not address Red Hat's underlying business or financial decision to pursue the merger, the relative merits of the merger as compared to any alternative business or financial strategies that might exist for Red Hat, the financing or funding of the merger by IBM or the effects of any other transaction in which Red Hat might engage;

addressed only the fairness, from a financial point of view and as of the date of such opinion, of the merger consideration to Red Hat stockholders to the extent expressly specified in such opinion;

expressed no view or opinion as to (i) any other term, aspect or implication of (A) the merger (including, without limitation, the form or structure of the merger) or the merger agreement or (B) any other agreement, transaction document or instrument contemplated by the merger agreement or to be entered into or amended in connection with the merger or (ii) the fairness, financial or otherwise, of the merger to, or of any consideration to be paid to or received by, the holders of any class of securities (other than as expressly specified in such opinion), creditors or other constituencies of Red Hat;

(i) did not address the individual circumstances of specific holders of Red Hat's securities (including convertible notes, stock options and warrants) with respect to rights or aspects which may distinguish such holders or Red Hat's securities (including convertible notes, stock options and warrants) held by such holders, (ii) did not address, take into consideration or give effect to any rights, preferences, restrictions or limitations or other attributes of any such securities (including convertible notes, stock options and warrants) and (iii) did not in any way address proportionate allocation or relative fairness; and

expressed no view or opinion as to the fairness, financial or otherwise, of the amount or nature of any compensation payable to or to be received by any of Red Hat's directors, officers or employees, or any class of such persons, in connection with the merger relative to the merger consideration.

In the course of performing its reviews and analyses for rendering its opinion, Guggenheim Securities:

reviewed a draft of the merger agreement dated October 27, 2018;

reviewed certain publicly available business and financial information regarding Red Hat;

reviewed certain non-public business and financial information regarding Red Hat's business and prospects (including Red Hat management's forecasts (as defined herein) for Red Hat for the fiscal years ending February 28, 2019 through February 29, 2024 and Red Hat management's illustrative extrapolations thereof through the fiscal year ending February 28, 2034, with such forecasts and illustrative extrapolations reflecting three alternative scenarios (for more detail regarding the forecasts, see the section entitled "Proposal

1: Adoption of the Merger Agreement (The Merger Financial Forecast)), all as prepared and approved for Guggenheim Securities use by Red Hat's senior management;

discussed with Red Hat's senior management their strategic and financial rationale for the merger as well as their views of Red Hat's business, operations, historical and projected financial results and future prospects and the commercial, competitive and regulatory dynamics in the technology and software sectors;

reviewed the historical prices, trading multiples and trading activity of Red Hat common stock;

compared the financial performance of Red Hat and the trading multiples and trading activity of Red Hat common stock with corresponding data for certain other publicly-traded companies that Guggenheim Securities deemed relevant in evaluating Red Hat;

reviewed the valuation and financial metrics of certain mergers and acquisitions that Guggenheim Securities deemed relevant in evaluating the merger;

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performed discounted cash flow analyses based on the forecasts; and

conducted such other studies, analyses, inquiries and investigations as Guggenheim Securities deemed appropriate.

With respect to the information used in arriving at its opinion, Guggenheim Securities noted that:

Guggenheim Securities relied upon and assumed the accuracy, completeness and reasonableness of all industry, business, financial, legal, regulatory, tax, accounting, actuarial and other information (including, without limitation, the forecasts, any other estimates and any other forward-looking information) provided by or discussed with Red Hat or obtained from public sources, data suppliers and other third parties.

Guggenheim Securities (i) did not assume any responsibility, obligation or liability for the accuracy, completeness, reasonableness, achievability or independent verification of, and Guggenheim Securities did not independently verify, any such information (including, without limitation, the forecasts, any other estimates and any other forward-looking information), (ii) expressed no view, opinion, representation, guaranty or warranty (in each case, express or implied) regarding the reasonableness or achievability of the forecasts, such other estimates and such other forward-looking information or the assumptions upon which they are based and (iii) relied upon the assurances of Red Hat's senior management that they were unaware of any facts or circumstances that would make such information (including, without limitation, the forecasts, such other estimates and such other forward-looking information) incomplete, inaccurate or misleading.

Specifically, with respect to (i) the forecasts, any other estimates and any other forward-looking information provided by or discussed with Red Hat, (A) Guggenheim Securities was advised by Red Hat's senior management, and Guggenheim Securities assumed, that the forecasts, such other estimates and such other forward-looking information utilized in its analyses had been reasonably prepared on bases reflecting the best then-currently available estimates and judgments of Red Hat's senior management as to the expected future performance of Red Hat and (B) Guggenheim Securities assumed that the forecasts, such other estimates and such other forward-looking information had been reviewed by the Red Hat Board of Directors with the understanding that such information would be used and relied upon by Guggenheim Securities in connection with rendering its opinion and (ii) any forecasts, other estimates and/or other forward-looking information obtained by Guggenheim Securities from public sources, data suppliers and other third parties, Guggenheim Securities assumed that such information was reasonable and reliable. Furthermore, in assessing and utilizing the forecasts for purposes of its financial analyses and opinion, Guggenheim Securities took into account its various discussions with the Red Hat Board of Directors and senior management regarding the risks and uncertainties of achieving the forecasts, including the three alternative scenarios described therein, in light of (i) the current and prospective industry conditions and competitive dynamics facing Red Hat, (ii) Red Hat's recent financial performance, (iii) the key commercial, operational and financial drivers of the scenarios described in the forecasts and (iv) various other facts and circumstances regarding the forecasts.

Guggenheim Securities also noted certain other considerations with respect to its engagement and the rendering of its opinion:

During the course of its engagement, Guggenheim Securities assisted the Red Hat Board of Directors and senior management in connection with their discussions with certain potential strategic acquirors, and Guggenheim Securities considered the nature and outcome of such discussions in rendering its opinion.

Guggenheim Securities did not perform or obtain any independent appraisal of the assets or liabilities (including any contingent, derivative or off-balance sheet assets and liabilities) of Red Hat or any other entity or the solvency or fair value of Red Hat or any other entity, nor was Guggenheim Securities furnished with any such appraisals.

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Guggenheim Securities' professionals are not legal, regulatory, tax, consulting, accounting, appraisal or actuarial experts and Guggenheim Securities' opinion should not be construed as constituting advice with respect to such matters; accordingly, Guggenheim Securities relied on the assessments of Red Hat's senior management and Red Hat's other professional advisors with respect to such matters. Guggenheim Securities did not express any view or render any opinion regarding the tax consequences of the merger to Red Hat or its securityholders.

Guggenheim Securities further assumed that:

In all respects meaningful to its analyses, (i) the final executed form of the merger agreement would not differ from the draft that Guggenheim Securities reviewed, (ii) each of Red Hat, IBM and Merger Sub will comply with all terms and provisions of the merger agreement and (iii) the representations and warranties of each of Red Hat, IBM and Merger Sub contained in the merger agreement were true and correct and all conditions to the obligations of each party to the merger agreement to consummate the merger will be satisfied without any waiver, amendment or modification thereof; and

The merger will be consummated in a timely manner in accordance with the terms of the merger agreement and in compliance with all applicable laws, documents and other requirements, without any delays, limitations, restrictions, conditions, divestiture or other requirements, waivers, amendments or modifications (regulatory, tax-related or otherwise) that would have an effect on Red Hat or the merger in any way meaningful to Guggenheim Securities' analyses or opinion.

Guggenheim Securities did not express any view or opinion as to the price or range of prices at which the shares of common stock or other securities or financial instruments of or relating to Red Hat may trade or otherwise be transferable at any time, including subsequent to the announcement or consummation of the merger.

### ***Summary of Financial Analyses***

#### *Overview of Financial Analyses*

This Summary of Financial Analyses presents a summary of the principal financial analyses performed by Guggenheim Securities and presented to the Red Hat Board of Directors in connection with Guggenheim Securities rendering of its opinion. Such presentation to the Red Hat Board of Directors was supplemented by Guggenheim Securities' oral discussion, the nature and substance of which may not be fully described herein.

Some of the financial analyses summarized below include summary data and information presented in tabular format. In order to understand fully such financial analyses, the summary data and tables must be read together with the full text of the summary. Considering the summary data and tables alone could create a misleading or incomplete view of Guggenheim Securities' financial analyses.

The preparation of a fairness opinion is a complex process and involves various judgments and determinations as to the most appropriate and relevant financial analyses and the application of those methods to the particular circumstances involved. A fairness opinion therefore is not readily susceptible to partial analysis or summary description, and taking portions of the financial analyses set forth below, without considering such analyses as a

whole, would in Guggenheim Securities' view create an incomplete and misleading picture of the processes underlying the financial analyses considered in rendering Guggenheim Securities' opinion.

In arriving at its opinion, Guggenheim Securities:

based its financial analyses on various assumptions, including assumptions concerning general business, economic and capital markets conditions and industry-specific and company-specific factors, all of which are beyond the control of Red Hat and Guggenheim Securities;

did not form a view or opinion as to whether any individual analysis or factor, whether positive or negative, considered in isolation, supported or failed to support its opinion;

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considered the results of all of its financial analyses and did not attribute any particular weight to any one analysis or factor; and

ultimately arrived at its opinion based on the results of all of its financial analyses assessed as a whole and believes that the totality of the factors considered and the various financial analyses performed by Guggenheim Securities in connection with its opinion operated collectively to support its determination as to the fairness, from a financial point of view and as of the date of such opinion, of the merger consideration to the extent expressly specified in such opinion.

With respect to the financial analyses performed by Guggenheim Securities in connection with rendering its opinion:

Such financial analyses, particularly those based on estimates and projections, are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by these analyses.

None of the selected precedent merger and acquisition transactions used in the selected precedent merger and acquisition transactions analysis described below is identical or directly comparable to the merger, and none of the selected publicly-traded companies used in the selected publicly-traded companies analysis described below is identical or directly comparable to Red Hat. However, such transactions and companies were selected by Guggenheim Securities, among other reasons, because they involved target companies or represented publicly-traded companies which may be considered broadly similar, for purposes of Guggenheim Securities' financial analyses, to Red Hat based on Guggenheim Securities' familiarity with the technology and software sectors.

In any event, selected precedent merger and acquisition transactions analysis and selected publicly-traded companies analysis are not mathematical. Rather, such analyses involve complex considerations and judgments concerning the differences in business, financial, operating and capital markets-related characteristics and other factors regarding the selected precedent merger and acquisition transactions to which the merger was compared and the selected publicly-traded companies to which Red Hat was compared.

Such financial analyses do not purport to be appraisals or to reflect the prices at which any securities may trade at the present time or at any time in the future.

*Certain Definitions*

Throughout this Summary of Financial Analyses, the following financial terms and miscellaneous abbreviations are used in connection with Guggenheim Securities' various financial analyses:

CY: means the calendar year ended December 31.

EBITDA: means the relevant company's operating earnings before interest, taxes, depreciation and amortization.

EBITDA multiple: represents the relevant company's enterprise value divided by its historical or projected EBITDA.

Enterprise value: represents the relevant company's net equity value (as defined below) plus (i) the principal or face amount of total debt and non-convertible preferred stock, (ii) the estimated net present value of any deemed-repatriation transition tax liabilities pursuant to the Tax Cuts and Jobs Act of 2017 and (iii) the estimated fair market value (as available) or book value of any non-controlling/minority interests less (iv) cash, cash equivalents and short- and long-term marketable investments, (v) the estimated fair market value (as available) or book value of any non-consolidated investments and (vi) the estimated net present value of any tax-related net operating losses.

FY: means Red Hat's fiscal year ending February 28/29.

FY1: means the fiscal year immediately following the fiscal year in which the relevant transaction was announced.



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FY2: means the second fiscal year immediately following the fiscal year in which the relevant transaction was announced.

LFCF: means the relevant company's levered free cash flow, defined as after-tax levered operating cash flow minus capital expenditures.

NA: means not available.

Net equity value: represents the relevant company's (i) gross equity value as calculated (A) based on outstanding common stock plus shares issuable upon the conversion or exercise of all in-the-money convertible securities, stock options and/or stock warrants times (B) the relevant company's stock price less (ii) the cash proceeds from the assumed exercise of all in-the-money stock options and stock warrants. For Red Hat, the in-the-money value of its convertible notes was fully hedged by Red Hat's purchase of call options with respect to the number of shares of Red Hat common stock underlying the convertible notes and the cash take-out value of its outstanding warrants was estimated using a Black-Scholes model.

NM: means not meaningful (in Guggenheim Securities' professional judgment).

Pre-SBC: means the relevant financial metric unburdened by the deduction for SBC (as defined below).

Post-SBC: means the relevant financial metric burdened by the deduction for SBC.

SBC: means stock-based compensation.

VWAP: means volume-weighted average share price over the indicated period of time.

*Recap of Implied Merger Financial Metrics*

Based on the all-cash merger consideration of \$190.00 per share of Red Hat common stock, Guggenheim Securities calculated various implied merger-related premia (relative to Red Hat's stock prices as of October 26, 2018, the last trading day prior to the announcement of the merger) and merger-implied multiples as outlined in the table below. With respect to such merger-implied multiples, each of revenue, EBITDA and LFCF were based on the base case forecast (as defined herein) as reflected in, or derived from, the forecasts for Red Hat as provided and approved for Guggenheim Securities' use by Red Hat's senior management.

**Table of Contents****Merger-Implied Premia and Merger-Implied Multiples**

<b>Merger Consideration per Share of Red Hat Common Stock</b>	<b>\$ 190.00</b>	
	<b>Red Hat Stock Price @ 10/26/18</b>	
<b>Acquisition Premium/(Discount) Relative to Red Hat s:</b>		
Closing Stock Price	\$ 116.68	62.8%
VWAPs:		
5-Day	120.30	57.9
10-Day	121.88	55.9
20-Day	124.42	52.7
60-Day	135.40	40.3
Past Year s High Closing Stock Price	176.27	7.8
Past Year s Low Closing Stock Price	116.68	62.8
<b>Transaction Enterprise Value / Revenue for Red Hat:</b>		
FY19E		10.1x
FY20E		8.6
FY21E		7.4
<b>Transaction Enterprise Value / EBITDA (Pre-SBC) for Red Hat:</b>		
FY19E		39.0x
FY20E		33.2
FY21E		27.9
<b>Transaction Enterprise Value / EBITDA (Post-SBC) for Red Hat:</b>		
FY19E		51.4x
FY20E		43.4
FY21E		35.8
<b>Transaction Net Equity Value / LFCF (Pre-SBC) for Red Hat:</b>		
FY19E		36.1x
FY20E		30.0
FY21E		25.1
<b>Transaction Net Equity Value / LFCF (Post-SBC) for Red Hat:</b>		
FY19E		46.0x
FY20E		37.6
FY21E		31.0

*Red Hat Change-of-Control Financial Analyses*

*Recap of Red Hat Change-of-Control Financial Analyses.* In evaluating Red Hat in connection with rendering its opinion, Guggenheim Securities performed various financial analyses which are summarized in the table below and

described in more detail elsewhere herein, including discounted cash flow analyses and selected precedent merger and acquisition transactions analysis. Solely for informational reference purposes, Guggenheim Securities also performed selected publicly-traded companies analysis and reviewed the historical trading price range for Red Hat common stock and Wall Street equity research analysts price targets for Red Hat common stock. Guggenheim Securities change-of-control financial analyses were rounded to the nearest \$0.50 (with the exception of Red Hat's stock price range during the past year and Wall Street equity research analysts price targets, both of which were as reported).

In assessing and utilizing the risk forecast, the base case forecast and the outperform forecast for purposes of its financial analyses and opinion, Guggenheim Securities took into account its various discussions with the Red

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Hat Board of Directors and senior management regarding the risks and uncertainties of achieving the risk forecast, the base case forecast and the outperform forecast, respectively, in light of (i) the current and prospective industry conditions and competitive dynamics facing Red Hat, (ii) Red Hat's recent financial performance, (iii) the key commercial, operational and financial drivers of the risk forecast, the base case forecast and the outperform forecast, respectively, and (iv) various other facts and circumstances regarding the risk forecast, the base case forecast and the outperform forecast. For more detail regarding the forecasts, see the section entitled "Proposal 1: Adoption of the Merger Agreement – The Merger – Financial Forecast."

**Recap of Red Hat Change-of-Control Financial Analyses**

<b>Merger Consideration per Share of Red Hat Common Stock</b>	<b>\$190.00</b>
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	<b>Reference Range for Red Hat on a Change-of-Control Basis</b>	
	<b>Low</b>	<b>High</b>
<b>Financial Analyses</b>		
<b>Discounted Cash Flow Analyses:</b>		
Based on the Base Case Forecast	\$ 108.00	\$ 140.00
Based on the Risk Forecast	82.50	107.00
Based on the Outperform Forecast	134.00	179.50
<b>Selected Precedent M&amp;A Transactions Analysis Based on Red Hat Revenue for FY20E – The Base Case Forecast</b>	\$ 146.50	\$ 207.50

**For Informational Reference Purposes****Selected Publicly-Traded Companies Analysis**

Based on Red Hat Revenue for FY20E – The Base Case Forecast	\$ 105.00	\$ 136.00
Based on Red Hat LFCF (Pre-SBC) for FY20E – The Base Case Forecast	116.00	140.50

<b>Red Hat's Stock Price Range During Past Year</b>	\$ 116.68	\$ 176.27
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<b>Wall Street Equity Research Price Targets</b>	\$ 125.00	\$ 186.00
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*Red Hat Discounted Cash Flow (DCF) Analyses.* Guggenheim Securities performed stand-alone discounted cash flow analyses of Red Hat based on projected after-tax unlevered free cash flows (after deduction of SBC) for Red Hat and an estimate of its terminal/continuing value at the end of the projection horizon. In performing its discounted cash flow analyses with respect to Red Hat:

Guggenheim Securities utilized Red Hat management's forecasts for Red Hat for the fiscal years ending February 28, 2019 through February 29, 2024 and Red Hat management's illustrative extrapolations thereof through the fiscal year ending February 28, 2034 (with such forecasts and illustrative extrapolations reflecting three alternative scenarios), as provided and approved for Guggenheim Securities' use by Red Hat's senior management. Guggenheim Securities notes the previous description of and caveats regarding the forecasts for Red Hat in Guggenheim Securities' section entitled "Recap of Red Hat Change-of-Control

Financial Analyses. For more detail regarding the forecasts, see the section entitled Proposal 1: Adoption of the Merger Agreement The Merger Financial Forecast beginning on page 69.

Guggenheim Securities used a discount rate range of 9.25% 11.00% based on its estimate of Red Hat's weighted average cost of capital.

In estimating Red Hat's terminal/continuing value, Guggenheim Securities used a reference range of perpetual growth rates of Red Hat's terminal year (*i.e.*, FY34E) normalized after-tax unlevered free cash flow of 1.50% 2.50%, which range was selected based on Guggenheim Securities' professional

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judgment and experience. The terminal/continuing values implied by the foregoing perpetual growth rate reference range were cross-checked for reasonableness by reference to Red Hat's implied terminal year (*i.e.*, FY34E) EBITDA (Post-SBC) multiples (*i.e.*, 8.0x – 11.3x with a midpoint of approximately 9.4x).

Guggenheim Securities' discounted cash flow analyses resulted in overall per share reference ranges (rounded to the nearest \$0.50) for purposes of evaluating Red Hat common stock on a stand-alone intrinsic-value basis as outlined in the table below:

**Recap of Red Hat Stand-Alone DCF Analyses**

	<b>Low</b>	<b>High</b>
The Base Case Forecast	\$ 108.00	\$ 140.00
The Risk Forecast	82.50	107.00
The Outperform Forecast	134.00	179.50

Guggenheim Securities noted that the all-cash merger consideration of \$190.00 per share of Red Hat common stock exceeded the foregoing stand-alone DCF-based reference ranges for Red Hat, which in Guggenheim Securities' view supported its assessment of the financial fairness of the merger consideration.

*Red Hat Selected Precedent Merger and Acquisition Transactions Analysis.* Guggenheim Securities reviewed and analyzed certain financial metrics associated with selected precedent merger and acquisition transactions that Guggenheim Securities deemed relevant for purposes of this analysis. Guggenheim Securities characterized these selected precedent merger and acquisition transactions as Enterprise SaaS transactions or Enterprise Cloud/Infrastructure transactions based on the business characteristics of the relevant target companies. Guggenheim Securities calculated, among other things and to the extent publicly available, certain implied change-of-control transaction multiples for the selected precedent merger and acquisition transactions (based on Wall Street equity research consensus estimates, each company's most recent publicly available financial filings and certain other publicly available information), which are summarized in the table below:

**Red Hat Selected Precedent Merger and Acquisition (M&A) Transactions Analysis**

<b>Date</b>	<b>Announced</b>	<b>Acquiror</b>	<b>Target Company</b>	<b>Transaction Enterprise Value / Revenue</b>	
				<b>FY1</b>	<b>FY2</b>
<b><u>Enterprise SaaS Precedent M&amp;A Transactions</u></b>					
1/30/18		SAP SE	Callidus Software, Inc.	6.4x	NA
7/28/16		Oracle Corporation	NetSuite, Inc.	7.6	6.2x
6/13/16		Microsoft Corporation	LinkedIn Corporation	5.9	5.0
6/1/16		salesforce.com, inc.	Demandware, Inc.	7.4	6.0
5/31/16		Vista Equity Partners LLC	Marketo, Inc.	4.9	3.9
9/18/14		SAP SE	Concur Technologies, Inc.	9.2	7.4
12/20/13		Oracle Corporation	Responsys, Inc.	6.5	5.3
6/4/13		salesforce.com, inc.	ExactTarget, Inc.	5.5	NA
8/27/12		IBM	Kenexa Corp	3.1	2.6
5/22/12		SAP SE	Ariba, Inc.	7.0	5.7

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2/9/12	Oracle Corporation	Taleo Corporation	4.4	3.8
12/3/11	SAP SE	SuccessFactors, Inc.	8.3	7.0
10/24/11	Oracle Corporation	Rightnow Technologies, Inc.	6.0	5.1

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Date	Announced	Acquiror	Target Company	Transaction Enterprise Value / Revenue	
				FY1	FY2
<b>Enterprise Cloud/Infrastructure Precedent M&amp;A Transactions</b>					
6/4/18		Microsoft Corporation	GitHub, Inc.	25.0x	16.7x
10/3/18		Cloudera, Inc.	Hortonworks, Inc.	4.7	3.8
3/20/18		salesforce.com, inc.	MuleSoft, Inc.	11.8	9.0
10/21/15		Silver Lake Partners & Thoma Bravo, LLC	SolarWinds, Inc.	7.2	6.4
4/7/15		The Permira Funds & Canada Pension Plan Investment Board	Informatica Corporation	3.9	3.5
7/23/13		Cisco Systems, Inc.	Sourcefire, Inc.	7.0	6.1
5/6/13		Private investor group led by Bain Capital Partners, LLC, Golden Gate Private Equity, Inc., Insight Venture Partners and GIC Special Investments Pte. Ltd.	BMC Software, Inc.	2.7	2.6

**Statistical Summary****Enterprise SaaS Precedent M&A Transactions:**

High	9.2x	7.4x
Mean	6.4	5.3
Median	6.5	5.5
Low	3.1	2.6

**Enterprise Cloud/Infrastructure Precedent M&A Transactions:**

High	25.0x	16.7x
Mean	8.9	6.9
Median	7.0	6.1
Low	2.7	2.6

**IBM/Red Hat Merger****8.6x**      **7.4x**

In performing its selected precedent merger and acquisition transactions analysis with respect to Red Hat:

Guggenheim Securities used Red Hat's projected revenue for FY20E – the base case forecast because, in the assessment of Red Hat management, the base case forecast reflected the most likely standalone financial forecast of Red Hat's business and because the differences between the three cases were not material for FY20; and

Guggenheim Securities selected a reference range of transaction multiples for purposes of evaluating Red Hat on a change-of-control basis based on a transaction enterprise value / FY1 revenue multiple range of 6.5x – 9.5x based on Red Hat's projected revenue for FY20E – the base case forecast (which equates to an implied enterprise value / FY2 revenue multiple range of 5.5x – 8.1x based on Red Hat's projected revenue for FY21E – the base case forecast).



Guggenheim Securities' selected precedent merger and acquisition transactions analysis resulted in an overall reference range of \$146.50 - \$207.50 per share (rounded to the nearest \$0.50) for purposes of evaluating Red Hat common stock on a change-of-control basis.

In connection with its selected precedent merger and acquisition transactions analysis with respect to Red Hat, Guggenheim Securities noted the following factors which in its view supported its assessment of the financial fairness of the merger consideration:

The merger-implied enterprise value / FY1 revenue multiple (*i.e.*, 8.6x) and the merger-implied enterprise value / FY2 revenue multiple (*i.e.*, 7.4x) for Red Hat were toward the upper end of the

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observed transaction enterprise value / FY1 revenue multiples and the observed transaction enterprise value / FY2 revenue multiples, respectively, based on Guggenheim Securities' selected precedent merger and acquisition transactions analysis; and

The all-cash merger consideration of \$190.00 per share of Red Hat common stock was toward the upper end of the foregoing change-of-control transaction reference range (*i.e.*, \$146.50 – \$207.50 per share) based on Guggenheim Securities' selected precedent merger and acquisition transactions analysis.

*Other Financial Reviews and Analyses Solely for Informational Reference Purposes*

In order to provide certain context for the financial analyses in connection with its opinion as described above, Guggenheim Securities undertook various additional financial reviews and analyses as summarized below solely for informational reference purposes. As a general matter, Guggenheim Securities did not consider such additional financial reviews and analyses to be determinative methodologies for purposes of its opinion.

*Premia/(Discounts) Paid in Selected Precedent Merger and Acquisition Transactions.* Guggenheim Securities reviewed, based on publicly available information, the implied premia/(discounts) paid or proposed to be paid in connection with the selected precedent merger and acquisition transactions listed above in Guggenheim Securities' section entitled "Red Hat Selected Precedent Merger and Acquisition Transactions Analysis." Guggenheim Securities noted that such precedent M&A transaction-related premia/(discounts) ranged from (i) 1.9% – 64.2% based on the target company's unaffected spot closing stock price and (ii) (4.1%) – 70.9% based on the target company's unaffected 20-day VWAP. Guggenheim Securities further noted that, in connection with the merger, the merger-implied premia (based on the all-cash merger consideration of \$190.00 per share of Red Hat common stock) were 62.8% versus Red Hat's spot closing stock price of \$116.68 on October 26, 2018 (the last trading day prior to the announcement of the merger) and 52.7% based on Red Hat's 20-day VWAP of \$124.42 as of such date, thereby ranking the merger-implied premia at the upper end of the transaction-related premia observed in such selected precedent merger and acquisition transactions.

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*Red Hat Selected Publicly-Traded Companies Analysis.* Guggenheim Securities reviewed and analyzed Red Hat's historical stock price performance, trading metrics and historical and projected/forecasted financial performance compared to corresponding data for selected publicly-traded companies that Guggenheim Securities deemed relevant for purposes of this analysis. Guggenheim Securities characterized these selected publicly-traded companies as Public Cloud Platforms, Private/Hybrid Cloud Providers, SaaS and Incumbent Technology Providers based on the business characteristics of the relevant companies. Guggenheim Securities calculated, among other things, various public market trading multiples for Red Hat and the selected publicly-traded companies (in the case of the selected publicly-traded companies, based on Wall Street equity research consensus estimates and each company's most recent publicly available financial filings), which are summarized in the table below:

**Red Hat Selected Publicly-Traded Companies Analysis**

	<b>Trading Enterprise Value / Revenue CY19E</b>	<b>Trading Net Equity Value / LFCF (Pre-SBC) CY19E</b>
<b><u>Public Cloud Platforms</u></b>		
Amazon.com, Inc.	3.0x	30.7x
Microsoft Corporation	6.2	22.4
Alphabet, Inc.	4.1	23.8
<b><u>Private/Hybrid Cloud Providers</u></b>		
VMware, Inc.	5.3x	16.9x
ServiceNow, Inc.	9.2	34.6
Citrix Systems, Inc.	4.6	13.7
Pivotal Software, Inc.	5.8	NM
New Relic, Inc.	8.7	NM
<b><u>SaaS</u></b>		
Adobe, Inc.	11.5x	26.9x
salesforce.com, inc.	6.7	32.4
Workday, Inc.	8.2	NM
<b><u>Incumbent Technology Providers</u></b>		
Cisco Systems, Inc.	3.7x	14.2x
Oracle Corporation	4.8	12.5
SAP SE	4.3	25.2
IBM	1.6	9.7
Hewlett Packard Enterprise Co.	0.9	12.9
<b><u>Red Hat</u></b>		
<b>Trading Basis (FY20E The Base Case Forecast)</b>	<b>5.1x</b>	<b>19.3x</b>
<b>Merger Basis (FY20E The Base Case Forecast)</b>	<b>8.6</b>	<b>30.0</b>

In performing its selected publicly-traded companies analysis with respect to Red Hat:

Guggenheim Securities used Red Hat's projected revenue for FY20E the base case forecast and Red Hat's projected LFCF (Pre-SBC) for FY20E the base case forecast because, in the assessment of Red Hat management, the base case forecast reflected the most likely standalone financial forecast of Red Hat's business and because the differences between the three cases were not material for FY20; and

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Guggenheim Securities selected reference ranges of trading multiples for purposes of evaluating Red Hat on a stand-alone public market trading basis as follows: (i) trading enterprise value / forward revenue multiple range of 4.5x - 6.0x based on Red Hat's projected revenue for FY20E - the base case forecast and (ii) trading net equity value / forward LFCF (Pre-SBC) multiple range of 18.0x - 22.0x based on Red Hat's projected LFCF (Pre-SBC) for FY20E - the base case forecast.

Guggenheim Securities' selected publicly-traded companies analysis resulted in an overall reference range of \$105.00 - \$140.50 per share (rounded to the nearest \$0.50) for purposes of evaluating Red Hat common stock on a stand-alone public market trading basis, as compared to Red Hat's spot closing stock price of \$116.68 on October 26, 2018 (the last trading day prior to the announcement of the merger) and Red Hat's 20-day VWAP of \$124.42 as of such date. Guggenheim Securities noted that the foregoing evaluation of Red Hat common stock did not reflect any acquisition premium that typically is paid in connection with change-of-control transactions such as the merger.

*Red Hat Stock Price Trading History.* Guggenheim Securities reviewed Red Hat's stock price trading history from October 26, 2013 through October 26, 2018 (the last trading day prior to the announcement of the merger). Among other things, Guggenheim Securities noted that the all-cash merger consideration of \$190.00 per share of Red Hat common stock exceeded Red Hat's all-time high spot closing stock price of \$176.27 on June 18, 2018 and exceeded Red Hat's spot closing stock price of \$116.68 on October 26, 2018 and Red Hat's 20-day VWAP of \$124.42 as of such date.

*Red Hat Wall Street Equity Research Analyst Stock Price Targets.* Guggenheim Securities reviewed selected Wall Street equity research analyst stock price targets for Red Hat as published prior to October 26, 2018 (the last trading day prior to the announcement of the merger). Guggenheim Securities noted that such Wall Street equity research analyst stock price targets for Red Hat common stock ranged from \$125.00 to \$186.00 per share, with the average price target being \$159.62. For comparison purposes, Guggenheim Securities noted that the all-cash merger consideration was \$190.00 per share of Red Hat common stock, Red Hat's spot closing stock price was \$116.68 on October 26, 2018 and Red Hat's 20-day VWAP was \$124.42 as of such date.

**Other Considerations**

Except as described in the summary above, Red Hat did not provide specific instructions to, or place any limitations on, Guggenheim Securities with respect to the procedures to be followed or factors to be considered in performing its financial analyses or providing its opinion. The type and amount of consideration payable in the merger were determined through negotiations between Red Hat and IBM and were approved by the Red Hat Board of Directors. The decision to enter into the merger agreement was solely that of the Red Hat Board of Directors. Guggenheim Securities' opinion was just one of the many factors taken into consideration by the Red Hat Board of Directors. Consequently, Guggenheim Securities' financial analyses should not be viewed as determinative of the decision of the Red Hat Board of Directors with respect to the fairness, from a financial point of view, of the merger consideration to Red Hat stockholders.

Pursuant to the terms of Guggenheim Securities' engagement, Red Hat has agreed to pay Guggenheim Securities a cash transaction fee (based on a percentage of the aggregate value associated with the merger) upon consummation of the merger, which cash transaction fee currently is estimated to be approximately \$79.5 million. Red Hat has previously paid Guggenheim Securities a cash milestone fee of approximately \$11.9 million that became payable upon delivery of Guggenheim Securities' opinion and which will be credited against the foregoing cash transaction fee. In addition, Red Hat has agreed to reimburse Guggenheim Securities for certain expenses and to indemnify Guggenheim Securities against certain liabilities arising out of its engagement.

During the two years prior to the rendering of its opinion, Guggenheim Securities had previously been engaged by each of Red Hat and IBM to provide financial advisory or investment banking services in connection

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with matters unrelated to the merger, for which Guggenheim Securities received compensation. Specifically, during the past two years Guggenheim Securities was engaged as a consultant to Red Hat with respect to various strategic and financial alternatives and received agreed upon fees (including, among other matters, in respect of Red Hat's acquisition of CoreOS, Inc. in 2018). In addition, Guggenheim Securities acted as financial advisor to IBM in connection with its acquisition of Promontory Financial Group, LLC, which closed in November 2016 and for which Guggenheim Securities received an agreed upon fee. Guggenheim Securities may seek to provide Red Hat, IBM and their respective affiliates with certain financial advisory and investment banking services unrelated to the merger in the future, for which services Guggenheim Securities would expect to receive compensation.

Guggenheim Securities and its affiliates and related entities engage in a wide range of financial services activities for its and their own accounts and the accounts of customers, including but not limited to: asset, investment and wealth management; insurance services; investment banking, corporate finance, mergers and acquisitions and restructuring; merchant banking; fixed income and equity sales, trading and research; and derivatives, foreign exchange and futures. In the ordinary course of these activities, Guggenheim Securities and its affiliates and related entities may (i) provide such financial services to Red Hat, IBM, other participants in the merger and their respective affiliates, for which services Guggenheim Securities and its affiliates and related entities may have received, and may in the future receive, compensation and (ii) directly and indirectly hold long and short positions, trade and otherwise conduct such activities in or with respect to loans, debt and equity securities and derivative products of or relating to Red Hat, IBM, other participants in the merger and their respective affiliates. Furthermore, Guggenheim Securities and its affiliates and related entities and its or their respective directors, officers, employees, consultants and agents may have investments in Red Hat, IBM, other participants in the merger and their respective affiliates.

Consistent with applicable legal and regulatory guidelines, Guggenheim Securities has adopted certain policies and procedures to establish and maintain the independence of its research departments and personnel. As a result, Guggenheim Securities' research analysts may hold views, make statements or investment recommendations and publish research reports with respect to Red Hat, IBM, other participants in the merger and their respective affiliates and the merger that differ from the views of Guggenheim Securities' investment banking personnel.

***Opinion of Morgan Stanley & Co. LLC***

Morgan Stanley was retained by Red Hat to act as its financial advisor in connection with the merger and to provide financial advisory services in connection with the merger. Red Hat selected Morgan Stanley to act as its financial advisor based on Morgan Stanley's qualifications, expertise and reputation, and its knowledge and understanding of Red Hat's business and affairs. On October 28, 2018, Morgan Stanley rendered its oral opinion, subsequently confirmed by delivery of a written opinion dated October 28, 2018, to the effect that, as of such date, and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the merger consideration to be received by Red Hat stockholders pursuant to the merger agreement was fair from a financial point of view to such Red Hat stockholders.

**The full text of the written opinion of Morgan Stanley dated October 28, 2018, is attached as Annex C to this proxy statement, and is incorporated by reference herein in its entirety. The opinion sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion. The summary of the opinion of Morgan Stanley set forth in this proxy statement is qualified in its entirety by reference to the full text of the opinion. You are encouraged to read Morgan Stanley's opinion and the summary of Morgan Stanley's opinion below carefully and in their entirety. Morgan Stanley's opinion was directed to the Red Hat Board of Directors, in its capacity as such, and addressed only the fairness from a**





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**financial point of view of the merger consideration to be received by Red Hat stockholders pursuant to the merger agreement as of the date of the opinion and did not address any other aspects or implications of the merger. Morgan Stanley's opinion was not intended to, and does not, constitute advice or a recommendation to any Red Hat stockholder as to how to vote at the special meeting to be held in connection with the merger or whether to take any other action with respect to the merger.**

For purposes of rendering its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other business and financial information of Red Hat;

reviewed certain internal financial statements and other financial and operating data concerning Red Hat;

reviewed certain financial projections prepared by the management of Red Hat;

discussed the past and current operations and financial condition and the prospects of Red Hat with senior executives of Red Hat;

reviewed the reported prices and trading activity for Red Hat common stock;

compared the financial performance of Red Hat and the prices and trading activity of Red Hat common stock with that of certain other publicly-traded companies comparable with Red Hat, and their securities;

reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

participated in discussions and negotiations among representatives of Red Hat and IBM and their financial and legal advisors;

reviewed the merger agreement, the draft commitment letters from certain lenders substantially in the form of the drafts dated October 26, 2018 and certain related documents; and

performed such other analyses, reviewed such other information and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon, without independent verification, the accuracy and completeness of the information that was publicly available or supplied or otherwise made available to it by Red Hat, and formed a substantial basis for its opinion. With respect to the financial projections, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best then-currently available estimates and judgments

of the management of Red Hat of the future financial performance of Red Hat. In addition, Morgan Stanley assumed that the merger will be consummated in accordance with the terms set forth in the merger agreement without any waiver, amendment or delay of any terms or conditions, including, among other things, that IBM will obtain financing in accordance with the terms set forth in the commitment letter, and that the definitive merger agreement would not differ in any material respect from the draft thereof furnished to it, except as would not be material to Morgan Stanley's opinion. Morgan Stanley assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents required for the merger, no delays, limitations, conditions or restrictions will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the merger. Morgan Stanley is not a legal, tax, regulatory or actuarial advisor. Morgan Stanley is a financial advisor only and relied upon, without independent verification, the assessment of Red Hat and its legal, tax, or regulatory advisors with respect to legal, tax, or regulatory matters. Morgan Stanley expressed no opinion with respect to the fairness of the amount or nature of the compensation to any of Red Hat's officers, directors or employees, or any class of such persons, relative to the merger consideration to be received by Red Hat stockholders in the merger. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of Red Hat, nor was it furnished with any such valuations or appraisals. Morgan Stanley's opinion was necessarily based on financial, economic, market and

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other conditions as in effect on, and the information made available to Morgan Stanley as of, October 28, 2018. Events occurring after such date may affect Morgan Stanley's opinion and the assumptions used in preparing it, and Morgan Stanley did not assume any obligation to update, revise or reaffirm its opinion.

***Summary of Financial Analyses***

The following is a summary of the material financial analyses performed by Morgan Stanley in connection with its oral opinion and the preparation of its written opinion letter dated October 28, 2018 to the Red Hat Board of Directors. The following summary is not a complete description of Morgan Stanley's opinion or the financial analyses performed and factors considered by Morgan Stanley in connection with its opinion, nor does the order of analyses described represent the relative importance or weight given to those analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before October 26, 2018, which we refer to as the unaffected date, which was the last trading day prior to the meeting of the Red Hat Board of Directors on October 28, 2018 to approve the merger agreement and the transactions contemplated thereby, including the merger and determine and declare the advisability of the merger agreement and the transactions contemplated thereby, including the merger. The various analyses summarized below were based, as applicable, on the closing price of \$116.68 per share of Red Hat common stock as of the unaffected date, the last trading day preceding the October 28, 2018 presentation by Morgan Stanley to the Red Hat Board of Directors, and are not necessarily indicative of current market conditions.

Some of the financial analyses summarized below are included in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. The analyses listed in the tables and described below must be considered as a whole. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Morgan Stanley's opinion.

In performing the financial analyses summarized below and arriving at its opinion, Morgan Stanley used and relied upon the base case forecast, risk forecast and outperform forecast provided by Red Hat management. For more information, see the section entitled "Proposal 1: Adoption of the Merger Agreement - The Merger - Financial Forecast" beginning on page 69. In accordance with discussions with Red Hat, Morgan Stanley also used and relied upon certain financial projections based on Wall Street research reports, which we refer to as the street case.

***Public Trading Comparables Analysis***

Morgan Stanley performed a public trading comparables analysis, which attempts to provide an implied value of a company by comparing it to similar companies that are publicly traded.

Morgan Stanley reviewed and compared certain publicly available and internal financial information (including the forecasts and certain financial projections from Wall Street research reports) for Red Hat with comparable publicly available consensus equity analyst research estimates for companies, selected based on Morgan Stanley's professional judgment and experience, that share similar business characteristics and have certain comparable operating characteristics with Red Hat, including similar lines of business, market capitalizations and/or other similar operating characteristics. For purposes of this analysis, with respect to the forecasts, Morgan Stanley used the base case forecast because, in the assessment of Red Hat management, the base case forecast reflected the most likely standalone financial forecast of Red Hat's business and because the differences between the three cases were not material in calendar years 2019 and 2020. For purposes of this analysis, Morgan Stanley used Red Hat's fiscal year ending February 2020 as a proxy for calendar year 2019 and Red Hat's fiscal year ending February 2021 as a proxy for

calendar year 2020. The publicly-traded comparable companies that were reviewed in connection with this analysis were: Adobe Inc., which we refer to as Adobe, salesforce.com, inc., which we refer to as salesforce, Microsoft Corporation, which we refer to as Microsoft,

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Pivotal Software Inc., which we refer to as Pivotal, VMware, Inc., which we refer to as VMware, Citrix Systems, Inc., which we refer to as CTXS, Oracle Corporation, which we refer to as Oracle, SAP SE, which we refer to as SAP, Symantec Corporation, which we refer to as Symantec, and IBM (which collectively we refer to as the comparable companies). Morgan Stanley characterized a subset of these comparable companies, comprised of Adobe, salesforce, Microsoft, Pivotal and VMware, that share similar business, financial and operating characteristics with Red Hat as the business comparable companies.

For purposes of this analysis, Morgan Stanley analyzed the ratio of aggregate value, which we refer to as AV, defined as the fully diluted market capitalization plus total debt and non-controlling interests, less cash and equivalents, to an estimate of revenue and unlevered free cash flow, which we refer to as UFCF, defined as operating cash flow (excluding net interest income and expenses) less capital expenditures, for calendar years 2019 and 2020, in each case, for each of the comparable companies, based on publicly available financial data and Wall Street research reports.

The following table presents the results of this analysis:

<b>Comparable Company</b>	<b>CY2019E AV/Revenue</b>	<b>CY2020E AV/Revenue</b>	<b>CY2019E AV/UFCF</b>	<b>CY2020E AV/UFCF</b>
Adobe	11.1x	9.5x	26.6x	23.0x
Salesforce	6.8x	5.7x	32.2x	25.2x
Microsoft	6.0x	5.4x	20.9x	18.3x
Pivotal	5.8x	4.7x	N.M. <sup>(1)</sup>	N.M. <sup>(1)</sup>
VMware	5.3x	4.9x	14.2x	12.8x
CTXS	4.6x	4.3x	13.4x	13.1x
Oracle	4.6x	4.4x	11.7x	10.7x
SAP	4.3x	4.0x	26.5x	22.6x
Symantec	3.1x	3.0x	10.7x	9.7x
IBM	1.9x	1.9x	11.6x	11.2x

(1) N.M. indicates a negative UFCF or a multiple above 60x.

Based on the results of this analysis and its professional judgment and experience, Morgan Stanley applied:

a calendar year 2019 AV/revenue range of 5.0x – 6.0x to the base case forecast for calendar year 2019 revenue, which resulted in an implied per share equity value range of \$116.25 to \$136.69, and to the street case for calendar year 2019 revenue, which resulted in an implied per share equity value range of \$114.53 to \$134.63;

a calendar year 2019 AV/UFCF range of 16.0x – 22.5x to the base case forecast for calendar year 2019 UFCF, which resulted in an implied per share equity value range of \$110.74 to \$150.01, and to the street case for calendar year 2019 UFCF, which resulted in an implied per share equity value range of \$104.11 to \$140.70;

a calendar year 2020 AV/revenue range of 4.5x – 5.5x to the base case forecast for calendar year 2020 revenue, which resulted in an implied per share equity value range of \$122.07 to \$146.07, and to the street case for calendar year 2020 revenue, which resulted in an implied per share equity value range of \$115.43 to \$137.96; and

a calendar year 2020 AV/UFCF range of 14.5x – 18.5x to the base case forecast for calendar year 2020 UFCF, which resulted in an implied per share equity value range of \$118.48 to \$147.28, and to the street case for calendar year 2020 UFCF, which resulted in an implied per share equity value range of \$104.07 to \$128.90.

No company utilized in the public trading comparables analysis is identical to Red Hat. In evaluating and selecting comparable companies, Morgan Stanley made judgments and assumptions with respect to industry

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performance, general business, regulatory, economic, market and financial conditions and other matters, which are beyond Red Hat's control. These include, among other things, the impact of competition on Red Hat's businesses and the industry generally, industry growth and the absence of any material change in Red Hat's financial condition and prospects and the industry, and in the financial markets in general. Mathematical analysis (such as determining the average or median) is not in itself a meaningful method of using comparable company data.

*Discounted Cash Flow Analysis*

Morgan Stanley performed a discounted cash flow analysis, which is designed to provide an implied value of a company by calculating the present value of the estimated future cash flows and terminal value of such company. Morgan Stanley calculated a range of equity values per share for Red Hat common stock based on this discounted cash flow analysis to value Red Hat on a standalone basis.

Morgan Stanley performed a discounted cash flow analysis for each of the three scenarios composing the forecasts (including the extrapolated forecast). For each of the base case forecast, the risk forecast and the outperform forecast, Red Hat management's projections were prepared for the fiscal years ending February 28, 2019 through February 28, 2034.

Morgan Stanley first calculated the estimated unlevered free cash flows of Red Hat based on the forecasts for the period from fiscal year 2019 through fiscal year 2034. The estimated unlevered cash flows were calculated as earnings before interest, taxes, depreciation and amortization, less (i) stock based compensation, (ii) less taxes at the effective tax rate, (iii) less capital expenditures, (iv) less capital expenditures for acquisitions, (v) plus or less changes in net working capital. Morgan Stanley also calculated a range of terminal values by applying perpetuity growth rates ranging from 2.0% to 3.0%, selected by Morgan Stanley based upon the application of its professional judgment and experience, to the estimated unlevered free cash flows of Red Hat after February 28, 2034. Relying on the forecasts, Morgan Stanley also calculated the amount of net operating losses and other tax shield benefits that Red Hat management projected would accrue and/or be utilized for the period from fiscal year 2019 through fiscal year 2034 (we refer to such net operating losses and other tax shield benefits as tax attributes).

Morgan Stanley then discounted the unlevered free cash flows, terminal values and tax attributes to their present values as of December 31, 2018, using the mid-year discount convention and discount rates ranging from 9.5% to 10.5%. These discount rates were selected, upon the application of Morgan Stanley's professional judgment and experience, to reflect Red Hat's estimated weighted average cost of capital.

Based on the number of shares of Red Hat common stock outstanding and the dilutive securities schedule provided to Morgan Stanley by Red Hat management as of October 19, 2018, Morgan Stanley calculated the estimated implied value per share of Red Hat common stock as follows:

<b>Projections Scenario</b>	<b>Implied Value Per Share</b>	
Base case forecast	\$117.62	\$140.26
Risk forecast	\$90.45	\$107.57
Outperform forecast	\$147.37	\$180.08

*Precedent Transactions Analysis*

Morgan Stanley performed a precedent transactions analysis, which is designed to imply a value of a company based on publicly available financial terms and premiums of selected transactions. Morgan Stanley compared publicly

available statistics for select software company transactions, selected based upon Morgan Stanley's professional judgment and experience, that were announced since 2013 and where the aggregate transaction value was greater than \$2.5 billion.



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The following is a list of the precedent software transactions reviewed:

<b>Announcement Date</b>	<b>Target</b>	<b>Acquiror</b>
June 13, 2016	LinkedIn Corporation	Microsoft
June 2, 2016	Qlik Technologies, Inc.	Thoma Bravo, LLC
September 29, 2014	TIBCO Software Inc.	Vista Equity Partners LLC
September 13, 2015	Solera Holdings Inc.	Vista Equity Partners LLC
April 7, 2015	Informatica Corporation	The Permira Funds
		Canada Pension Plan Investment Board
February 2, 2015	Advent Software, Inc.	SS&C Technologies Holdings, Inc.
October 21, 2015	SolarWinds Inc.	Silver Lake Partners
		Thoma Bravo, LLC
December 15, 2014	Riverbed Technology, Inc.	Thoma Bravo, LLC
		Ontario Teachers Pension Plan International Investments
July 11, 2018	CA, Inc.	Broadcom Inc.
May 6, 2013	BMC Software, Inc.	Private investor group led by Bain Capital Partners, LLC, Golden Gate Private Equity, Inc., Insight Venture Partners and GIC Special Investments Pte. Ltd.
March 20, 2018	MuleSoft, Inc.	salesforce
July 28, 2016	NetSuite Inc.	Oracle Corporation
July 1, 2016	Demandware, Inc.	salesforce
September 18, 2014	Concur Technologies, Inc.	SAP SE
June 4, 2013	ExactTarget, Inc.	salesforce

Morgan Stanley reviewed the transactions above for, among other things, the ratio of the AV of each transaction to each target company's revenue for the 12-month period following the announcement date, which we refer to as NTM revenue, and each target company's UFCF for the 12-month period following the announcement date, which we refer to as NTM UFCF. Morgan Stanley determined that, with respect to all such transactions, the bottom quartile, median, mean and top quartile for each of NTM AV/UFCF and NTM AV/revenue were as set out in the table below:

<b>Quartile (x)</b>	<b>NTM AV / UFCF</b>	<b>NTM AV / Revenue</b>
Bottom Quartile	18.2x	3.9x
Median	22.6x	6.4x
Mean	23.0x	6.5x
Top Quartile	28.2x	8.4x

Based on the results of this analysis and its professional judgment and experience, Morgan Stanley applied a NTM AV/UFCF range of 22.5x – 28.5x to the street case projections for Red Hat’s NTM UFCF, which resulted in an implied per share equity value reference range for a share of Red Hat common stock of \$136.20 to \$168.77 (as compared to Red Hat’s closing share price of \$116.68 as at the unaffected date and the merger consideration under the merger agreement of \$190.00 per share). Based on the results of this analysis and its professional judgment and experience, Morgan Stanley applied a NTM AV/revenue range of 6.5x – 8.5x to the street case projections for Red Hat’s NTM revenue, which resulted in an implied per share equity value reference range for a share of Red Hat common stock of \$139.01 to \$177.45 (as compared to Red Hat’s closing share price of \$116.68 as at the unaffected date and the merger consideration under the merger agreement of \$190.00 per share).

No company or transaction utilized in the precedent transactions analysis is identical to Red Hat or the merger. In evaluating the precedent transactions, Morgan Stanley made judgments and assumptions with respect

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to industry performance, general business, regulatory, economic, market and financial conditions and other matters, many of which are beyond Red Hat's control. These include, among other things, the impact of competition on Red Hat's business and the industry generally, industry growth, and the absence of any material change in the financial condition and prospects of Red Hat and the industry, and in the financial markets in general, which could affect the public trading value of the companies and the aggregate value and equity value of the transactions to which they are being compared. The fact that points in the range of Red Hat's implied value per share of Red Hat common stock derived from the valuation of precedent transactions were less than or greater than the merger consideration is not necessarily dispositive in connection with Morgan Stanley's analysis of the merger consideration, but is one of many factors Morgan Stanley considered.

*Premiums Paid Analysis*

For reference only, and not as a component of its fairness analysis, Morgan Stanley considered, based on publicly available transaction information, the premiums paid in the precedent transactions listed in the section above captioned "Precedent Transactions Analysis".

Morgan Stanley measured the premiums paid in the transactions described above over: (i) the closing price of the target company's stock on the unaffected date (*i.e.*, the day prior to a public announcement related to the transaction or prior to the share price being affected by acquisition rumors or similar merger-related news), which we refer to as the 1-Day Prior Price Premium; and (ii) the arithmetic average of the closing price of the target company's stock for the 30 trading days preceding the target's unaffected date, which we refer to as the 30-Day Average Price Premium. Morgan Stanley determined that, with respect to all such transactions, the top quartile, the median and the bottom quartile of the 1-Day Prior Price Premiums were 43.5%, 26.1% and 14.5% respectively. Based on the results of this analysis and its professional judgment and experience, Morgan Stanley applied a 1-Day Prior Price Premium range of 25% to 45% to Red Hat's closing share price as at the unaffected date resulting in an implied price per share range of \$145.85 to \$169.19. Morgan Stanley also noted that the merger consideration under the merger agreement implied a 1-Day Prior Price Premium of 63% for Red Hat, as at the unaffected date.

Morgan Stanley determined that, with respect to all such transactions, the top quartile, the median, and the bottom quartile of the 30 Day Average Price Premiums were 50.2%, 35.6% and 15.1% respectively. Based on the results of this analysis and its professional judgment and experience, Morgan Stanley applied a 30-Day Average Price Premium range of 35% to 50% to Red Hat's 30-day average share price (calculated as the arithmetic average of Red Hat's closing share price for the 30 trading days preceding the unaffected date, resulting in an implied price per share range of \$172.90 to \$192.12. Morgan Stanley also noted that the merger consideration under the merger agreement implied a 30-Day Average Price Premium of 48% for Red Hat.

No company or transaction utilized in the premiums paid analysis is identical to Red Hat or the merger. In evaluating the precedent transactions used for the premiums paid analysis, Morgan Stanley made assumptions with respect to industry performance, general business, regulatory, economic, market and financial conditions and other matters, many of which are beyond Red Hat's control. These include, among other things, the impact of competition on Red Hat's business and the industry generally, industry growth, and the absence of any material change in the financial condition and prospects of Red Hat and the industry, and in the financial markets in general, which could affect the public trading value of the companies and the aggregate value and equity value of the transactions to which they are being compared. The fact that points in the range of implied value per share of Red Hat common stock derived from the premiums paid analysis were less than or greater than the merger consideration is not necessarily dispositive in connection with Morgan Stanley's analysis of the merger consideration, but is one of many factors Morgan Stanley considered.

*Equity Research Analysts Price Target Analysis*

For reference only, and not as a component of its fairness analysis, Morgan Stanley reviewed the future public trading price targets for shares of Red Hat common stock prepared and published by selected equity

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research analysts prior to the unaffected date. These future share price targets reflected each analyst's estimate as of the date of publication of the future public market trading price of shares of Red Hat common stock and were not discounted to reflect present values. Morgan Stanley observed that the range between the 25<sup>th</sup> percentile to the 75<sup>th</sup> percentile of undiscounted analysts' unaffected price targets for shares of Red Hat common stock prior to the unaffected date was \$150.00 to \$169.75, as compared to the merger consideration under the merger agreement of \$190.00 per share of Red Hat common stock. In order to better compare the equity research analysts' future share price targets with the merger consideration payable under the merger agreement, Morgan Stanley discounted the range of analysts' future share price targets for Red Hat using a 10.1% discount rate (which rate was selected based on Morgan Stanley's professional judgment and experience to reflect Red Hat's cost of equity). This analysis indicated an implied range of equity values per share of Red Hat common stock of \$136.21 to \$154.15.

The public market trading price targets published by equity research analysts do not necessarily reflect current market trading prices for shares of Red Hat common stock and these estimates are subject to uncertainties, including the future financial performance of Red Hat and future financial market conditions.

*Historical Trading Range Analysis*

For reference only, and not as a component of its fairness analysis, Morgan Stanley reviewed the historical trading range of shares of Red Hat common stock for the period commencing on Red Hat's initial public offering date of August 11, 1999 and ending on the unaffected date, and observed that the merger consideration under the merger agreement of \$190 per share of Red Hat common stock was higher than the all-time daily closing high of \$176.27 per share during this period.

For reference only, and not as a component of its fairness analysis, Morgan Stanley also reviewed the historical trading range of shares of Red Hat common stock for: (i) the three month period commencing on July 28, 2018 and ending on the unaffected date, noting the daily closing price per share of Red Hat common stock ranged from \$116.68 to \$151.90 during this period; (ii) the six month period commencing April 26, 2018 and ending on the unaffected date, noting that the daily closing price per share of Red Hat common stock ranged from \$116.68 to \$176.27 during this period; and (iii) the 12-month period commencing October 26, 2017 and ending on the unaffected date, noting that the daily closing price per share of Red Hat common stock ranged from \$116.68 to \$176.27 during this period.

*General*

Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a financial opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor it considered. Morgan Stanley believes that selecting any portion of its analyses, without considering all analyses as a whole, would create an incomplete view of the process underlying its analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions. As a result, the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley's view of the actual value of Red Hat.

In performing its analyses, Morgan Stanley made numerous assumptions with regard to industry performance, general business, regulatory, economic, market and financial conditions and other matters, which are beyond the control of Red Hat. These include, among other things, the impact of competition on the business of Red Hat and the industry generally, industry growth, and the absence of any material change in the financial condition and prospects of Red Hat and the industry, and in the financial markets in general. Any estimates contained in Morgan Stanley's analyses are not

necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates.

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Morgan Stanley conducted the analyses described above solely as part of its analysis of the fairness, from a financial point of view, of the merger consideration pursuant to the merger agreement to Red Hat stockholders, and in connection with the delivery of its opinion to the Red Hat Board of Directors. These analyses do not purport to be appraisals or to reflect the prices at which shares of Red Hat common stock might actually trade.

The merger consideration was determined through arm's-length negotiations between Red Hat and IBM and was approved by the Red Hat Board of Directors. Morgan Stanley acted as financial advisor to Red Hat during these negotiations but did not, however, recommend any specific form or amount of merger consideration to Red Hat or the Red Hat Board of Directors, nor opine that any specific consideration constituted the only appropriate consideration for the merger. In addition, Morgan Stanley's opinion did not address the relative merits of the merger as compared to any other alternative business transactions, and Morgan Stanley's opinion expressed no opinion or recommendation as to how Red Hat stockholders should act or vote at the special meeting to be held in connection with the merger or whether to take any other action with respect to the merger. In addition, Morgan Stanley's opinion did not in any manner address the prices at which shares of Red Hat common stock will trade following consummation of the merger or at any time.

Morgan Stanley's opinion and its presentation to the Red Hat Board of Directors was one of many factors taken into consideration by the Red Hat Board of Directors in deciding to approve the execution, delivery and performance by Red Hat of the merger agreement and the transaction contemplated thereby. Consequently, the analyses as described above should not be viewed as determinative of the opinion of the Red Hat Board of Directors with respect to the merger consideration pursuant to the merger agreement or whether the Red Hat Board of Directors would have been willing to agree to different consideration. Morgan Stanley's opinion was approved by a committee of Morgan Stanley investment banking and other professionals in accordance with its customary practice.

Red Hat retained Morgan Stanley based on Morgan Stanley's qualifications, experience and expertise and its familiarity with Red Hat. Morgan Stanley is a global financial services firm engaged in the securities, investment management and individual wealth management businesses. Its securities business is engaged in securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trading, prime brokerage, as well as providing investment banking, financing and financial advisory services. Morgan Stanley, its affiliates, directors and officers may at any time invest on a principal basis or manage funds that invest, hold long or short positions, finance positions, and may trade or otherwise structure and effect transactions, for their own account or the accounts of its customers, in debt or equity securities or loans of IBM, Red Hat, or any other company, or any currency or commodity, that may be involved in the merger, or any related derivative instrument.

Under the terms of its engagement letter, Morgan Stanley provided Red Hat financial advisory services and a financial opinion, described in this section and attached to this proxy statement as Annex C, in connection with the merger. Red Hat has agreed to pay Morgan Stanley a fee of not less than approximately \$43.3 million for its services, approximately \$6.5 million of which was paid in connection with the delivery of the fairness opinion and approximately \$36.8 million of which is contingent upon consummation of the merger. Red Hat has also agreed to reimburse Morgan Stanley for its reasonable and documented expenses, including fees of outside counsel and other professional advisors, incurred from time to time in connection with this engagement. In addition, Red Hat has agreed to indemnify Morgan Stanley and its affiliates, its and their respective directors, officers, employees and agents and each other person, if any, controlling Morgan Stanley or any of its affiliates, against any losses, claims, damages or liabilities, relating to, arising out of or in connection with Morgan Stanley's engagement.

In the two years prior to the date of its opinion, Morgan Stanley or its affiliates have provided financing services for Red Hat and has received fees in connection with such services of approximately less than \$1 million in the aggregate. In addition, Morgan Stanley is a counterparty to Red Hat with respect to certain convertible note hedge and warrants

transactions entered into in connection with Red Hat's issuance of \$805 million principal



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amount of convertible notes due in 2019. The consummation of the merger, to the extent it occurs prior to the expiration of the warrants transactions, will result in the unwind of warrants, and an expected payment to be made by Red Hat to Morgan Stanley, in an amount to be calculated at the time of closing of the merger. As of the date hereof, in connection with early conversions by holders of the convertible notes, a substantial portion of the convertible note hedge transaction has been exercised by Red Hat. Based on the current share price of Red Hat and remaining time to maturity of the convertible notes in 2019, all or a substantial portion of the remaining convertible note hedge transaction may be exercised prior to closing of the merger.

In the two years prior to the date of its opinion, Morgan Stanley has not been engaged on any financial advisory or financing assignments for IBM, and has not received any fees for such services from IBM during this time. Morgan Stanley may also seek to provide financial advisory and financing services to IBM and Red Hat and their respective affiliates in the future and would expect to receive fees for the rendering of these services.

**Financial Forecast**

In connection with Red Hat's evaluation of the merger, Red Hat management prepared non-public financial forecasts as to the potential future performance of Red Hat for the fiscal years 2019-2024, which we refer to as the base case forecast. In addition, Red Hat management prepared two alternative forecasts for the years 2019-2024, which we refer to collectively as the alternative forecasts. The first alternative forecast, which we refer to as the risk forecast, used significantly more negative assumptions about the performance of Red Hat, including lower revenue growth and pricing pressures than the base case forecast. The second alternative forecast, which we refer to as the outperform forecast, used significantly more positive assumptions about the performance of Red Hat than the base case forecast, including pervasive adoption of Red Hat's products and increased investments in both organic and inorganic growth opportunities. Red Hat provided the Red Hat Board of Directors, and its advisors, including Guggenheim Securities and Morgan Stanley, with each of the base case forecast and the alternative forecasts in connection with their financial analyses summarized under Proposal 1: Adoption of the Merger Agreement – The Merger – Opinions of Red Hat's Financial Advisors – beginning on page 47. The base case forecast, the alternative forecasts and the extrapolated forecasts (as defined herein) are collectively referred to herein as the forecasts.

Red Hat does not normally publicly disclose long-term forecasts or projections as to future revenue, earnings or other results due to, among other reasons, the uncertainty, unpredictability and subjectivity of the underlying assumptions and estimates, including the difficulty of predicting general economic and market conditions. The forecasts were not prepared with a view to public disclosure and are included in this proxy statement only because such information was made available as described above. The forecasts were not prepared with a view to compliance with generally accepted accounting principles as applied in the United States, which we refer to as GAAP, the published guidelines of the SEC regarding projections and forward-looking statements or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The prospective financial information included in this proxy statement has been prepared by, and is the responsibility of, Red Hat's management. PricewaterhouseCoopers LLP has not audited, reviewed, examined, compiled nor applied agreed-upon procedures with respect to the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in this proxy statement relates to Red Hat's previously issued financial statements. It does not extend to the prospective financial information and should not be read to do so.

Although a summary of the forecasts is presented with numerical specificity, the forecasts reflect numerous assumptions and estimates as to future events made by our management, including with respect to demand for Red Hat's products and services, capital expenditure levels for the applicable periods, acquisition related expenditure levels for the applicable periods and other matters, many of which are difficult to predict and subject to significant economic

and competitive uncertainties beyond Red Hat's control, that our management believed in good faith were reasonable at the time the forecasts were prepared, taking into account the relevant

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information available to management at the time. However, this information is not fact and should not be relied upon as necessarily indicative of actual future results. Important factors that may affect actual results and cause the forecasts not to be achieved include general economic and financial conditions, industry performance, accuracy of certain accounting assumptions, changes in actual or projected cash flows, competitive pressures and other factors described or referenced under the section entitled *Forward-Looking Statements* beginning on page 24. In addition, the forecasts do not take into account any circumstances or events occurring after the date that they were prepared and do not give effect to the merger. As a result, there can be no assurance that the forecasts will or would be realized, and actual results may be materially better or worse than those contained in the forecasts.

The forecasts are not a reliable indication of future results, and Red Hat and its management team and advisors do not endorse the forecasts as such, and they do not make any representation to readers of this document concerning the ultimate performance of Red Hat or the combined company compared to the forecasts. Red Hat is including these forecasts in this document solely because they were among the financial information made available to the Red Hat Board of Directors, Guggenheim Securities and Morgan Stanley in connection with their evaluation of the merger, and not to influence your decision on how to vote on any proposal.

The forecasts should be evaluated, if at all, in conjunction with the historical financial statements and other information regarding Red Hat contained in our public filings with the SEC. Our management reviewed the forecasts with the Board of Directors, which considered the forecasts in connection with its evaluation and approval of the merger agreement and the merger.

The forecasts constitute forward-looking statements. For information on factors that may cause Red Hat's future results to materially vary, see the section entitled *Forward-Looking Statements* beginning on page 24.

Except to the extent required by applicable federal securities laws, we do not intend, and expressly disclaim any responsibility, to update or otherwise revise the forecasts to reflect circumstances existing after the date when Red Hat prepared the forecasts or to reflect the occurrence of future events or changes in general economic or industry conditions, even in the event that any of the assumptions underlying the forecasts are shown to be in error.

Certain of the measures included in the forecasts may be considered non-GAAP financial measures, including EBITDA and unlevered free cash flow. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as used by Red Hat may not be comparable to similarly titled amounts used by other companies.

Guggenheim Securities and Morgan Stanley derived Unlevered Free Cash Flow for purposes of their respective financial analyses based on the forecasts provided by Red Hat management. Unlevered Free Cash Flow was calculated as EBITDA plus or less changes in net working capital, less stock-based compensation, capital expenditures, acquisition related expenditures and cash taxes.

**Table of Contents***Base Case Forecast*

The following table reflects selected metrics reflected in, or derived from, the base case forecast:

	<b>Fiscal Year Ending February 28</b>					
	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Red Hat Forecast</b>						
Revenue	\$ 3,380	\$ 3,949	\$ 4,638	\$ 5,445	\$ 6,345	\$ 7,281
EBITDA	\$ 875	\$ 1,025	\$ 1,220	\$ 1,429	\$ 1,677	\$ 1,940
<b>Derived by Guggenheim Securities</b>						
Unlevered Free Cash Flow	\$ 740	\$ 827	\$ 1,012	\$ 1,219	\$ 1,433	\$ 1,618
<b>Derived by Morgan Stanley</b>						
Unlevered Free Cash Flow	\$ 791	\$ 827	\$ 1,013	\$ 1,219	\$ 1,433	\$ 1,619

Note: Dollars in millions.

*Risk Forecast*

The following table reflects selected metrics reflected in, or derived from, the risk forecast:

	<b>Fiscal Year Ending February 28</b>					
	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Red Hat Forecast</b>						
Revenue	\$ 3,380	\$ 3,916	\$ 4,518	\$ 5,156	\$ 5,772	\$ 6,286
EBITDA	\$ 875	\$ 1,040	\$ 1,199	\$ 1,358	\$ 1,516	\$ 1,654
<b>Derived by Guggenheim Securities</b>						
Unlevered Free Cash Flow	\$ 740	\$ 819	\$ 932	\$ 1,038	\$ 1,108	\$ 1,108
<b>Derived by Morgan Stanley</b>						
Unlevered Free Cash Flow	\$ 791	\$ 819	\$ 933	\$ 1,038	\$ 1,108	\$ 1,109

Note: Dollars in millions.

*Outperform Forecast*

The following table reflects selected metrics reflected in, or derived from, the outperform forecast:

	<b>Fiscal Year Ending February 28</b>					
	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>

**Red Hat Forecast**

Revenue	\$ 3,380	\$ 3,946	\$ 4,647	\$ 5,517	\$ 6,584	\$ 7,864
EBITDA	\$ 875	\$ 969	\$ 1,147	\$ 1,366	\$ 1,639	\$ 1,995

**Derived by Guggenheim Securities**

Unlevered Free Cash Flow	\$ 740	\$ 672	\$ 831	\$ 1,056	\$ 1,339	\$ 1,692
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**Derived by Morgan Stanley**

Unlevered Free Cash Flow	\$ 791	\$ 672	\$ 831	\$ 1,056	\$ 1,340	\$ 1,693
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Note: Dollars in millions.

**Table of Contents***Certain Extrapolated Forecasts*

Red Hat management also prepared certain extrapolations for the fiscal years 2025 through 2034 for each of the base case forecast and the alternative forecasts, which we refer to as the extrapolated forecasts, and shared such extrapolations with the Red Hat Board of Directors, Guggenheim Securities and Morgan Stanley in connection with their financial analyses summarized under Proposal 1: Adoption of the Merger Agreement The Merger Opinions of Red Hat's Financial Advisors beginning on page 47. Red Hat management prepared the extrapolated forecasts by applying an assumed growth rate to Red Hat's forecasted revenue for 2024E for each of the base case forecast and the alternative forecasts. Red Hat management selected an assumed growth rate on the assumption that growth will slow in future years as Red Hat reaches steady state by 2034E. The extrapolated forecasts do not otherwise reflect Red Hat management's expectations, estimates or assumptions regarding prospective industry conditions or other commercial, operational and financial judgments or assessments regarding the future prospects of Red Hat. The extrapolated forecasts are not fact and should not be relied upon as necessarily indicative of actual future results.

The following table reflects selected metrics reflected in, or derived from, the extrapolated forecasts:

	<b>Fiscal Year Ending February 28</b>									
	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>	<b>2034E</b>
<b><u>Base Case Forecast</u></b>										
<b>Red Hat Forecast</b>										
Revenue	\$ 8,228	\$ 9,206	\$ 10,199	\$ 11,184	\$ 12,141	\$ 13,045	\$ 13,871	\$ 14,596	\$ 15,196	\$ 15,652
EBITDA	\$ 2,240	\$ 2,507	\$ 2,779	\$ 3,046	\$ 3,299	\$ 3,541	\$ 3,766	\$ 3,965	\$ 4,130	\$ 4,248
<b>Derived by Guggenheim Securities</b>										
Unlevered Free Cash Flow										
	\$ 1,808	\$ 1,966	\$ 2,124	\$ 2,263	\$ 2,372	\$ 2,459	\$ 2,519	\$ 2,545	\$ 2,533	\$ 2,472
<b>Derived by Morgan Stanley</b>										
Unlevered Free Cash Flow										
	\$ 1,809	\$ 1,968	\$ 2,125	\$ 2,265	\$ 2,374	\$ 2,461	\$ 2,522	\$ 2,548	\$ 2,537	\$ 2,476
<b><u>Risk Forecast</u></b>										
<b>Red Hat Forecast</b>										
Revenue	\$ 6,830	\$ 7,378	\$ 7,926	\$ 8,466	\$ 8,990	\$ 9,489	\$ 9,956	\$ 10,382	\$ 10,760	\$ 11,083
EBITDA	\$ 1,807	\$ 1,973	\$ 2,145	\$ 2,317	\$ 2,485	\$ 2,657	\$ 2,832	\$ 3,004	\$ 3,171	\$ 3,322
<b>Derived by Guggenheim Securities</b>										
Unlevered Free Cash Flow										
	\$ 1,170	\$ 1,257	\$ 1,341	\$ 1,421	\$ 1,490	\$ 1,559	\$ 1,627	\$ 1,689	\$ 1,744	\$ 1,781

**Derived by  
Morgan  
Stanley**

Unlevered Free

Cash Flow	\$ 1,171	\$ 1,258	\$ 1,342	\$ 1,423	\$ 1,492	\$ 1,561	\$ 1,629	\$ 1,692	\$ 1,747	\$ 1,784
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**Outperform**

**Forecast**

**Red Hat**

**Forecast**

Revenue	\$ 9,310	\$ 10,865	\$ 12,495	\$ 14,158	\$ 15,800	\$ 17,361	\$ 18,779	\$ 19,990	\$ 20,934	\$ 21,562
EBITDA	\$ 2,451	\$ 2,902	\$ 3,380	\$ 3,868	\$ 4,348	\$ 4,814	\$ 5,246	\$ 5,621	\$ 5,920	\$ 6,110

**Derived by  
Guggenheim  
Securities**

Unlevered Free

Cash Flow	\$ 2,093	\$ 2,431	\$ 2,755	\$ 3,051	\$ 3,301	\$ 3,500	\$ 3,632	\$ 3,680	\$ 3,634	\$ 3,468
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**Derived by  
Morgan  
Stanley**

Unlevered Free

Cash Flow	\$ 2,094	\$ 2,432	\$ 2,756	\$ 3,053	\$ 3,304	\$ 3,503	\$ 3,636	\$ 3,684	\$ 3,638	\$ 3,473
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Note: Dollars in millions.

**Interests of the Non-Employee Directors and Executive Officers of Red Hat in the Merger**

When considering the recommendation of the Red Hat Board of Directors that you vote to approve the proposal to adopt the merger agreement, you should be aware that our non-employee directors and executive officers may have interests in the merger that are different from, or in addition to, your interests as a stockholder. The Red Hat Board of Directors was aware of and considered these interests to the extent such interests existed at

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the time, among other matters, in evaluating and overseeing the negotiation of the merger agreement, in approving the merger agreement and the merger and in recommending that the merger agreement be adopted by the stockholders of Red Hat.

***Treatment of Equity Compensation***

Our executive officers hold various types of compensatory awards with respect to Red Hat common stock. Our non-employee directors hold awards of restricted shares and DSUs. None of our non-employee directors or executive officers holds stock options. The merger agreement provides for the treatment set forth below with respect to the awards held by our non-employee directors and executive officers:

*Restricted Shares.* Each Cash-Out Restricted Share will be converted at the effective time into the right to receive an amount in cash equal to the merger consideration multiplied by the number of shares of Red Hat common stock subject to the award. Each Rollover Restricted Share will be converted at the effective time into a restricted share award consisting of IBM common stock subject to substantially the same terms and conditions as were applicable to the Rollover Restricted Shares (other than any performance conditions, which will be deemed satisfied upon the effective time under the terms of the award) with respect to a number of shares of IBM common stock determined by multiplying the number of shares of Red Hat common stock subject to such Rollover Restricted Share award immediately prior to the effective time by the Exchange Ratio (rounded down to the nearest whole share).

*Restricted Stock Units; Deferred Stock Units.* Each Cash-Out RSU will be converted at the effective time into the right to receive an amount in cash equal to the merger consideration multiplied by the number of shares of Red Hat common stock subject to the award. Each Rollover RSU will be converted at the effective time into a restricted stock unit with respect to IBM common stock subject to substantially the same terms and conditions as were applicable to the Rollover RSUs with respect to a number of shares of IBM common stock determined by multiplying the number of shares of Red Hat common stock subject to such Rollover RSU award immediately prior to the effective time by the Exchange Ratio (rounded down to the nearest whole share).

*Performance Share Units.* At the effective time, each Cash-Out PSU will be canceled and the holder thereof will be entitled to receive in consideration for such cancellation an amount in cash equal to the product of (i) the applicable PSU Share Number and (ii) the merger consideration. Each Rollover PSU will be converted at the effective time into a restricted share award consisting of IBM common stock subject to substantially the same terms and conditions as were applicable under such Rollover PSU (other than the performance-based vesting schedule, which will be converted into a service-based vesting schedule in accordance with the applicable award agreement), with respect to a number of shares of IBM common stock determined by multiplying the applicable PSU Share Number by the Exchange Ratio (rounded down to the nearest whole share).

***Accelerated Vesting of Equity Compensation Upon Certain Terminations***

Pursuant to the terms of Red Hat's stock plans and award agreements, the vesting of each IBM award attributable to a Rollover Restricted Share, Rollover RSU or Rollover PSU, including such awards held by our executive officers, will accelerate in the event of a termination of employment of the holder other than for cause or good cause (as applicable) or, in some cases, a resignation for good reason (in each case to the extent applicable and as defined in the award agreement) during the one-year period immediately following the effective time. In addition, pursuant to Mr. Whitehurst's employment agreement, all of Mr. Whitehurst's outstanding equity awards will also vest in full upon a termination of employment without cause (as defined in his employment agreement) within either three months prior to, or 24 months after, the effective time, or if Mr. Whitehurst terminates his employment for good reason (as defined in his employment agreement) within 24 months after the effective time. The descriptions in this paragraph are subject



to the discussions below under the section entitled New Retention Arrangements with IBM.

**Table of Contents****Summary of Equity and Equity Compensation held by Red Hat Non-Employee Directors and Executive Officers**

The table below sets forth the estimated value of shares and equity compensation awards held as of December 7, 2018 by non-employee directors, named executive officers and other executive officers of Red Hat based on the merger consideration of \$190.00 per share of Red Hat common stock (without subtraction of applicable withholding taxes). Depending on when the merger is completed, certain outstanding equity awards shown in the table below may become vested in accordance with their terms without regard to the merger.

**Equity and Equity Compensation Held by Non-Employee Directors and Executive Officers (as of December 7, 2018)**

	Shares (#)	Value of Shares (\$)	Performance Share Units <sup>(1)</sup> (#)	Value of Performance Share Units (\$)	Restricted Stock Units/ Restricted Shares <sup>(2)</sup> (#)	Value of Restricted Stock Units/ Restricted Shares (\$)	Total Value (\$)
<b>Board of Directors</b>							
Narendra K. Gupta, Board Chair	7,345	1,395,550			46,284 <sup>(3)</sup>	8,793,960	10,189,510
Sohaib Abbasi	8,045	1,528,550			31,671 <sup>(4)</sup>	6,017,490	7,546,040
W. Steve Albrecht	15,644	2,972,360			15,392 <sup>(5)</sup>	2,924,480	5,896,840
Charlene T. Begley	8,144	1,547,360			1,710	324,900	1,872,260
Kimberly L. Hammonds	9,551	1,814,690			1,710	324,900	2,139,590
William S. Kaiser	61,652	11,713,880			8,900 <sup>(6)</sup>	1,691,000	13,404,880
Kevin M. Murai					2,429 <sup>(7)</sup>	461,510	461,510
Alfred W. Zollar					2,337 <sup>(8)</sup>	444,030	444,030
<b>Named Executive Officers</b>							
James M. Whitehurst	287,856	54,692,640	293,646	55,792,740	71,258	13,539,020	124,024,400
Eric R. Shander	5,711	1,085,090	46,773	8,886,870	21,106	4,010,140	13,982,100
Paul J. Cormier	160,955	30,581,450	144,315	27,419,850	34,656	6,584,640	64,585,940
Arun Oberoi	86,274	16,392,060	145,158	27,580,020	30,830	5,857,700	49,829,780
Michael R. Cunningham	33,100	6,289,000	72,861	13,843,590	17,538	3,332,220	23,464,810
<b>Other Executive Officers</b>							
DeLisa K. Alexander	15,000	2,850,000	71,493	13,583,670	17,257	3,278,830	19,712,500
Michael A. Kelly			18,906	3,592,140	14,801	2,812,190	6,404,330

- (1) The Performance Share Unit column includes (i) performance share units that were granted with performance goals based on total shareholder return, which are shown at 200% of target, or the maximum level of performance, and (ii) performance share units that were granted with performance goals relating to operating performance, which are shown at 200% of target for those performance share units granted in May 2016, and at

target for those performance share units granted in subsequent years, assuming that the merger had been completed on December 7, 2018.

- (2) Amounts in this column reflect: (i) unvested and outstanding restricted share awards granted to our non-employee directors vesting over either one year or three years from the date of grant, (ii) unvested and outstanding restricted share awards granted to our executive officers vesting over four years from the date of grant, (iii) unvested and outstanding restricted stock units granted to Mr. Shander and Mr. Kelly prior to becoming executive officers, vesting over four years from the date of grant, and (iv) outstanding DSUs, which represent the right to receive shares of our common stock, issued to our non-employee directors and paid only at the time a director's board service ends.
- (3) Includes 46,284 shares of common stock issuable upon payout of DSUs.
- (4) Includes 31,671 shares of common stock issuable upon payout of DSUs.
- (5) Includes 15,392 shares of common stock issuable upon payout of DSUs.
- (6) Includes 7,190 shares of common stock issuable upon payout of DSUs.
- (7) Consists of 2,429 shares of an initial restricted share award vesting ratably over three years from the date of grant.

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- (8) Consists of (i) 2,052 shares of an initial restricted share award vesting ratably over three years from the date of grant and (ii) 285 shares of a pro-rated annual restricted share award vesting on the first anniversary of the date of grant.

***Potential Payments to Executive Officers upon Termination in Connection with a Change in Control***

Our executive officers, including our named executive officers, are covered by arrangements which could provide them with severance payments and benefits in the event of a termination of employment in connection with the merger. Mr. Whitehurst is party to an executive employment agreement with Red Hat, which generally provides (subject to the discussion below under the section entitled *New Retention Arrangements with IBM*) that if his employment is terminated without cause (as defined in his agreement) within either three months prior to, or 24 months after, a change in control (a change in control will occur upon the merger), or if Mr. Whitehurst terminates his employment for good reason (as defined in his agreement) within 24 months after a change in control, Mr. Whitehurst will be entitled to a payment equal to 200% of his annual base salary and target bonus, a pro-rata bonus (also at target) for the year of termination, a payment in respect of 24 months of premiums for health care and life insurance continuation and, if necessary, a gross-up for any excise taxes imposed pursuant to the golden parachute tax provisions of the Code. Our other executive officers (including our other named executive officers) are participants in our Senior Management Change in Control Severance Policy, which provides (subject to the discussion below under the section entitled *New Retention Arrangements with IBM*) that if within one year after a change in control, the officer is terminated without good cause or the officer terminates employment with good reason (each as defined in the policy), the officer will be entitled to a severance payment equal to 200% of the officer's base salary and average bonus earned for the preceding two years, a pro-rata bonus based on either actual achievement or target (to the extent such achievement does not lend itself to an interim fiscal year calculation) for the year of termination, a payment in respect of premiums for 24 months of health care continuation and for Ms. Alexander and Messrs. Cormier and Cunningham, a gross-up for any excise taxes imposed pursuant to the golden parachute tax provisions of the Code.

***Future Red Hat Equity Grants***

Red Hat may grant equity awards in the form of restricted share awards, restricted stock units or DSUs prior to the merger in the ordinary course of business consistent with past practice, up to an aggregate grant date fair value of \$350 million per year. Such awards may include awards to non-employee directors and executive officers, although whether such awards will be made and the extent of such awards has not yet been determined. It is anticipated that any such awards will provide for accelerated vesting in the event of qualifying terminations of employment during the one-year period immediately following the merger.

***Retention Bonus Pools***

In connection with the merger, it is anticipated that each of Red Hat and IBM will establish special bonus programs to assist in retaining key employees in the period through and after the merger. Executive officers may receive retention bonus awards under such programs, although the extent and recipients of such awards have not yet been determined.

**Table of Contents*****Potential Change-in-Control Payments to Executive Officers Other than Named Executive Officers***

The following table shows the estimated amounts that each executive officer other than the named executive officers would receive upon a qualifying termination of employment assuming that such event occurred on December 7, 2018. The table does not include information regarding payments described under the section entitled New Retention Arrangements with IBM, which are described below, any retention awards or new Red Hat equity awards that may be made to the executives between the execution date of the merger agreement and the closing of the merger or amounts that the executives were already entitled to receive that were or would be vested as of December 7, 2018. In addition to these assumptions, these estimated amounts are based on certain other assumptions that are described in the footnotes accompanying the table below. Accordingly, the ultimate values to be received by an executive officer in connection with the merger may differ from the amounts set forth below.

<b>Officer</b>	<b>Cash<sup>(1)</sup></b> <b>(\$)</b>	<b>Equity<sup>(2)</sup></b> <b>(\$)</b>	<b>Perquisites/ Benefits<sup>(3)</sup></b> <b>(\$)</b>	<b>Tax Reimbursement<sup>(4)</sup></b> <b>(\$)</b>	<b>Total</b> <b>(\$)</b>
DeLisa K. Alexander	2,162,308	16,862,500	44,163		19,068,971
Michael A. Kelly	1,646,626	6,404,330	44,163	N/A	8,095,119

- (1) *Cash*. This column includes the value of the cash severance payments payable to each executive officer, which is equal to 200% of the officer's base salary and average bonus earned for the preceding two years, plus a prorated bonus based on either actual achievement or target (to the extent such achievement does not lend itself to an interim fiscal year calculation) for the year of termination. The amounts in this column are further explained in the chart immediately below.

<b>Name</b>	<b>Severance Payment (\$)</b>	<b>Prorated Bonus (\$)</b>
DeLisa K. Alexander	1,854,363	307,945
Michael A. Kelly	1,438,763	207,863

The severance and prorated bonuses described above are all double trigger in nature, which means that payment of these amounts is conditioned upon a qualifying termination of employment on or within the 12 months following the completion of the merger.

- (2) *Equity*. The amounts in this column represent the aggregate value of the Rollover Restricted Shares, Rollover RSUs and Rollover PSUs, which would vest in the event the executive's employment was terminated in a qualifying termination immediately following the closing of the merger. Performance share units included in this column are composed of (i) performance share units that were granted with performance goals based on total shareholder return, which are shown at 200% of target, or the maximum level of performance, and (ii) performance share units that were granted with performance goals relating to operating performance, which are shown at 200% of target for those performance share units granted in May 2016, and at target for those performance share units granted in subsequent years. The amounts in this column are double trigger in nature, which means that payment of these amounts is conditioned upon a qualifying termination of employment on or within the 12 months following the completion of the merger.

- (3) *Perquisites/Benefits*. This column includes payments in respect of welfare benefit premiums for 24 months of post-termination coverage. The amounts in this column are double trigger in nature, which means that payment of these amounts is conditioned upon a qualifying termination of employment on or within the 12 months following the completion of the merger.
- (4) *Tax Reimbursements*. The Senior Management Change in Control Severance Policy for Ms. Alexander provides that she is eligible for a gross-up payment relating to any golden parachute excise tax to which she is subject, which would have resulted in a gross-up payment being payable to her if the merger had been completed as of December 7, 2018. However, if the merger is completed as anticipated in the latter half of 2019, no gross-up payment is expected to be payable to Ms. Alexander based on the arrangements described in this proxy statement. Any amounts payable in this column would be single trigger in nature.

**Table of Contents*****New Retention Arrangements with IBM***

In connection with the execution of the merger agreement, certain of our executive officers (Ms. Alexander and Messrs. Cormier, Oberoi and Whitehurst) have entered into new retention arrangements with IBM which are conditional upon the closing of the merger. The retention arrangements generally provide that each executive will participate in a retention program following the closing and further provide that each executive's base salary and target cash incentive bonus will continue in effect following the closing during the period of the retention program. The retention program generally provides each executive with cash retention payments if the executive remains employed for a specified period after the closing (three years for Ms. Alexander and Mr. Whitehurst, two years for Messrs. Cormier and Oberoi), and in the case of Mr. Whitehurst, subject to the achievement of performance milestones to be determined by Mr. Whitehurst and IBM. The retention payments are payable in installments with respect to a series of retention periods within the overall retention period. The aggregate individual retention bonuses are \$8,500,000 for Mr. Cormier, \$6,000,000 for Messrs. Oberoi and Whitehurst and \$3,000,000 for Ms. Alexander. If the executive's employment is terminated without cause or due to death or disability, then, subject to the executive's execution of a release, the executive will be entitled to the portion of the retention bonus due for the then current retention period, payable in a lump sum within a reasonable period after termination. In addition, Mr. Whitehurst's retention arrangement provides that he will receive a new award of IBM restricted stock units with a grant date fair value as of the closing equal to \$15,000,000. This restricted stock unit award vests one-third on the third anniversary of the closing and two-thirds on the fourth anniversary of the closing, subject to Mr. Whitehurst's continued employment, and is not subject to accelerated vesting. The new retention arrangements generally preserve each executive's existing change in control severance protections from Red Hat for 12 months following the closing (except that good reason has been modified to reflect certain aspects of the executive's role in the combined business, and the severance benefits are also payable upon a death or disability of the executive) and the retention arrangements with Messrs. Cormier and Oberoi also provide that if the executive resigns after the 12-month period immediately following the closing, the executive will be offered the opportunity to enter into a post-termination consulting arrangement with IBM, during which the executive's legacy Red Hat equity awards will continue to vest in accordance with their terms, consistent with existing Red Hat practices. In connection with entering into the retention arrangements, each of the executives also entered into a new restrictive covenant agreement with IBM, which will also be effective upon the closing, and generally includes non-competition and non-solicitation covenants for the longer of three years post-closing and two years post-termination and perpetual confidentiality covenants. Mr. Cunningham also entered into an extension of his existing non-competition agreement for the same period described in the immediately preceding sentence.

***Golden Parachute Compensation***

The following table shows the estimated amounts that each named executive officer would receive upon a qualifying termination of employment assuming that such event occurred on December 7, 2018. The table does not include information regarding payments described under the section entitled *New Retention Arrangements with IBM*, which are described above, any retention awards or new Red Hat equity awards that may be made to the executives between the execution date of the merger agreement and the closing of the merger or amounts that the executives were already entitled to receive that were or would be vested as of December 7, 2018. In addition to these assumptions, these estimated amounts are based on certain other assumptions that are described in the footnotes accompanying the table below. Accordingly, the ultimate values to be received by a named executive officer in connection with the merger may differ from the amounts set forth below.

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The table below, along with its footnotes, sets forth the information required by Item 402(t) of Regulation S-K regarding the compensation payable to Red Hat's named executive officers (as identified by Red Hat in its most recent annual proxy statement). This compensation is subject to a vote of Red Hat's stockholders on an advisory non-binding basis, as described below under the section entitled "Proposal 2: Advisory Vote on Merger-Related Executive Compensation Arrangements" beginning on page 109.

<b>Officer</b>	<b>Cash<sup>(1)</sup> (\$)</b>	<b>Equity<sup>(2)</sup> (\$)</b>	<b>Perquisites/ Benefits<sup>(3)</sup> (\$)</b>	<b>Tax Reimbursement<sup>(4)</sup> (\$)</b>	<b>Total (\$)</b>
James M. Whitehurst	6,770,274	69,331,760	109,763		76,211,797
Eric R. Shander	2,364,370	12,897,010	44,163	N/A	15,305,543
Paul J. Cormier	3,587,451	34,004,490	33,133		37,625,074
Arun Oberoi	2,840,415	33,437,720	44,163	N/A	36,322,298
Michael R. Cunningham	2,219,705	17,175,810	44,163		19,439,678

- (1) *Cash*. This column includes the value of the cash severance payments payable to each named executive officer. For Mr. Whitehurst, this is equal to 200% of his annual base salary and target bonus, plus a prorated bonus (also at target) for the year of termination. For the other named executive officers, this is equal to 200% of the officer's base salary and average bonus earned for the preceding two years, plus a prorated bonus based either on actual achievement or target (to the extent such achievement does not lend itself to an interim fiscal year calculation) for the year of termination. The amounts in this column are further explained in the chart immediately below.

<b>Name</b>	<b>Severance Payment (\$)</b>	<b>Prorated Bonus (\$)</b>
James M. Whitehurst	5,500,000	1,270,274
Eric R. Shander	1,940,945	423,425
Paul J. Cormier	3,048,547	538,904
Arun Oberoi	2,397,744	442,671
Michael R. Cunningham	1,911,760	307,945

The severance and prorated bonus described above are all "double trigger" in nature, which means that payment of these amounts is conditioned upon a qualifying termination of employment on or within the 12 months following the completion of the merger.

- (2) *Equity*. The amounts in this column represent the aggregate value of the Rollover Restricted Shares, Rollover RSUs and Rollover PSUs, which would vest in the event the named executive officer's employment was terminated in a qualifying termination immediately following the closing of the merger. Performance share units included in this column are composed of (i) performance share units that were granted with performance goals based on total shareholder return, which are shown at 200% of target, or the maximum level of performance, and (ii) performance share units that were granted with performance goals relating to operating performance, which are shown at 200% of target for those performance share units granted in May 2016, and at target for those performance share units granted in subsequent years. The amounts in this column are "double trigger" in nature, which means that payment of these amounts is conditioned upon a qualifying termination of employment on or



within the 12 months following the completion of the merger.

- (3) *Perquisites/Benefits*. This column includes payments in respect of welfare benefit premiums for 24 months of post-termination coverage. The amounts in this column are double trigger in nature, which means that payment of these amounts is conditioned upon a qualifying termination of employment on or within the 12 months following the completion of the merger.
  
- (4) *Tax Reimbursements*. The employment agreement for Mr. Whitehurst and the Senior Management Change in Control Severance Policy for Messrs. Cormier and Cunningham provide that they are eligible for a

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gross-up payment relating to any golden parachute excise tax to which they are subject, which would have resulted in a gross-up payment being payable to them if the merger had been completed as of December 7, 2018. However, if the merger is completed as anticipated in the latter half of 2019, no gross-up payment is expected to be payable to Messrs. Whitehurst, Cormier and Cunningham based on the arrangements described in this proxy statement. Any amounts payable in this column would be single trigger in nature.

**Financing of the Merger**

The merger is not conditioned on the ability of IBM or Sub to obtain financing. IBM and Sub have represented to Red Hat that they will have available to them sufficient funds at the effective time to pay all amounts required to be paid by IBM and Sub pursuant to the terms of the merger agreement, including the amounts payable to the holders of Cash-Out Stock Options, Cash-Out Restricted Shares, Cash-Out RSUs and Cash-Out PSUs and to pay all associated fees, costs and expenses. IBM expects to finance the merger through cash on hand and proceeds from debt financing.

IBM has made available to Red Hat copies of the fully executed commitment letter. Pursuant to the commitment letter, and subject to the terms and conditions set forth therein, the commitment parties have committed to provide IBM with the bridge facility.

The funding of the bridge facility provided for in the commitment letter is contingent on the satisfaction of customary conditions, including (i) the execution and delivery of definitive documentation with respect to the bridge facility in accordance with the terms sets forth in the commitment letter, and (ii) the consummation of the merger in accordance with the merger agreement.

The bridge facility commitments will terminate on the earliest of (i) the execution and delivery of the applicable definitive credit documentation with respect to the bridge facility, (ii) the closing of the merger without borrowing of the bridge facility, (iii) the date on which the merger agreement is terminated in accordance with its terms and such termination has either been publicly announced by a party to the merger agreement or the committed parties have received written notice thereof from IBM, (iv) receipt by the committed parties of written notice from IBM of its election to terminate all commitments under the bridge facility in full and (v) the termination date (as it may be extended in accordance with the terms of the merger agreement as in effect on the signing date).

**U.S. Federal Income Tax Consequences of the Merger**

The following is a summary of the U.S. federal income tax consequences of the merger to U.S. holders and non-U.S. holders (each as defined below) of Red Hat common stock who hold their stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, which we refer to as the Code. This summary is based on the Code, the U.S. Treasury Department regulations issued under the Code, which we refer to as the Treasury Regulations, and administrative rulings and court decisions in effect as of the date of this proxy statement, all of which are subject to change at any time, possibly with retroactive effect. This summary is not binding on the Internal Revenue Service, which we refer to as the IRS, or a court and there can be no assurance that the tax consequences described in this summary will not be challenged by the IRS or that they would be sustained by a court if so challenged. No ruling has been or will be sought from the IRS, and no opinion of counsel has been or will be rendered, as to the U.S. federal income tax consequences of the merger.

For purposes of this discussion, the term U.S. holder means a beneficial owner of Red Hat common stock that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) a trust if (A) a court within the

United States is able to exercise primary supervision over the administration

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of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (B) the trust has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes. A non-U.S. holder means a beneficial owner of Red Hat common stock that is neither a U.S. holder nor a partnership for U.S. federal income tax purposes.

This summary is not a complete description of all of the U.S. federal income tax consequences of the merger and, in particular, may not address U.S. federal income tax considerations applicable to holders of Red Hat common stock who are subject to special treatment under U.S. federal income tax law including, for example, partnerships (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) and partners therein, financial institutions, dealers in securities, insurance companies, tax-exempt entities, mutual funds, real estate investment trusts, personal holding companies, regulated investment companies, securities or currency dealers, traders in securities who elect to use the mark-to-market method of accounting, non-U.S. holders that hold, directly or constructively (or that held, directly or constructively, at any time during the five-year period ending on the date of the merger), 5% or more of the outstanding Red Hat common stock, tax-exempt investors, S corporations, holders whose functional currency is not the U.S. dollar, tax-deferred or other retirement accounts, U.S. expatriates, former long-term residents of the United States, holders who acquired Red Hat common stock pursuant to the exercise of an employee stock option or right or otherwise as compensation, and holders who hold Red Hat common stock as part of a hedge, straddle, constructive sale, conversion transaction, or other integrated investment. Also, this summary does not address U.S. federal income tax considerations applicable to holders of Red Hat common stock who exercise appraisal rights under Delaware law. In addition, no information is provided with respect to the tax consequences of the merger under any U.S. federal law other than income tax laws (including, for example the U.S. federal estate, gift, Medicare, and alternative minimum tax laws), or any applicable state, local, or foreign tax laws. This summary does not address the tax consequences of any transaction other than the merger.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Red Hat common stock, the tax treatment of a partner in such a partnership generally will depend on the status of the partner and the activities of the partnership. Any entity treated as a partnership for U.S. federal income tax purposes that holds Red Hat common stock, and any partners in such partnership, should consult their own independent tax advisors regarding the tax consequences of the merger to their specific circumstances.

**The tax consequences of the merger will depend on a holder's specific situation. Holders should consult their tax advisor as to the tax consequences of the merger relevant to their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local, non-U.S. or other tax laws and of changes in those laws.**

***Tax Consequences to U.S. Holders***

The receipt of cash by U.S. holders in exchange for shares of Red Hat common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, for U.S. federal income tax purposes, a U.S. holder who receives cash in exchange for shares of Red Hat common stock pursuant to the merger will recognize capital gain or loss in an amount equal to the difference, if any, between (i) the amount of cash received in the merger and (ii) the U.S. holder's adjusted tax basis in its Red Hat common stock exchanged therefor.

A U.S. holder's adjusted tax basis in its shares of Red Hat common stock will generally equal the price the U.S. holder paid for such shares. If a U.S. holder's holding period in the shares of Red Hat common stock surrendered in the merger is greater than one year as of the date of the merger, the gain or loss will be long-term capital gain or loss. Long-term capital gains of certain non-corporate holders, including individuals, are generally subject to U.S. federal income tax at preferential rates. The deductibility of a capital loss recognized on the exchange is subject to limitations.

If a U.S. holder acquired different blocks of Red Hat common stock at different times or different prices, such U.S. holder must determine its adjusted tax basis and holding period separately with respect to each block of Red Hat common stock.

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### ***Tax Consequences to Non-U.S. Holders***

Payments made to a non-U.S. holder in exchange for shares of Red Hat common stock pursuant to the merger generally will not be subject to U.S. federal income tax unless:

the gain, if any, on such shares of Red Hat common stock is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to the non-U.S. holder's permanent establishment in the United States) in which case such gain will generally be subject to U.S. federal income tax at rates applicable to U.S. holders and, if such non-U.S. holder is a corporation, such gain may also be subject to an additional branch profits tax at a 30% rate (or lower applicable treaty rate); or

the non-U.S. holder is an individual who is present in the U.S. for 183 days or more in the taxable year of the exchange of shares of Red Hat common stock for the merger consideration pursuant to the merger and certain other conditions are met, in which case the gain, if any, on such shares of Red Hat common stock will be subject to tax at a rate of 30% (or lower applicable treaty rate) and such gain may be offset by U.S. source capital losses recognized in the same taxable year.

### ***Information Reporting and Backup Withholding***

Payments of cash to a U.S. holder of Red Hat common stock pursuant to the merger may, under certain circumstances, be subject to information reporting and backup withholding, unless the holder provides proof of an applicable exemption or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Certain holders (such as corporations and non-U.S. holders) are exempt from backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against a holder's U.S. federal income tax liability, if any, provided that such holder furnishes the required information to the IRS in a timely manner. Non-U.S. holders may be required to comply with certification requirements and identification procedures in order to establish an exemption from information reporting and backup withholding.

**Holders of Red Hat common stock are urged to consult their own tax advisors with respect to the tax consequences of the merger in their particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local, non-U.S. or other tax laws and of changes in those laws.**

### **Regulatory Approvals**

#### ***General***

Red Hat and IBM have agreed to use their respective reasonable best efforts to take all actions and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws to consummate the merger and the other transactions contemplated by the merger agreement as soon as practicable and no later than the termination date, including obtaining any requisite approvals, subject to certain specified limitations under the merger agreement. These approvals include approvals under the HSR Act and the Council Regulation. Although we expect that all required regulatory clearances and approvals will be obtained, we cannot assure you that these regulatory clearances and

approvals will be timely obtained or obtained at all, or that the granting of these regulatory clearances and approvals will not involve the imposition of additional conditions on the completion of the merger, including the requirement to divest assets. In furtherance thereof, IBM has agreed to effect certain divestitures and other dispositions and take other actions, including accepting certain restrictions on its operations and assets, if necessary to obtain all approvals and authorizations under antitrust laws. For a more complete description, see the section entitled "Terms of the Merger Agreement - Additional Agreements - Efforts to Complete the Merger" beginning on page 97. These conditions or changes could result in the conditions to the closing of the merger not being satisfied.

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Other than these approvals and notifications described below, neither Red Hat nor IBM is aware of any material regulatory approvals required to be obtained, or waiting periods required to expire, to consummate the merger. If the parties discover that other approvals or filings and waiting periods are necessary, they will seek to obtain or comply with them, although, as is the case with the regulatory approvals described above, there can be no assurance that they will be obtained on a timely basis, if at all.

***HSR Act and Other Antitrust Matters***

Under the HSR Act and the rules promulgated thereunder, the merger cannot be completed until Red Hat and IBM each file a notification and report form with the U.S. Federal Trade Commission, which we refer to as the FTC, and the Antitrust Division of the U.S. Department of Justice, which we refer to as the DOJ, and the applicable waiting period thereunder has expired or been terminated. Red Hat and IBM filed their respective HSR Act notifications on November 21, 2018.

Completion of the merger is further subject to receipt of certain other regulatory approvals, including notification, clearance and/or expiration or termination of any applicable waiting period in the European Union.

At any time before or after consummation of the merger, notwithstanding the expiration or termination of the applicable waiting period under the HSR Act or the equivalent under the Council Regulation, the Antitrust Division of the DOJ, the FTC or the European Union, as applicable, could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger, seeking divestiture of substantial assets of the parties or requiring the parties to license, or hold separate, assets or terminate existing relationships and contractual rights. In addition, at any time before or after the completion of the merger, and notwithstanding the expiration or termination of the applicable waiting period under the HSR Act, or the equivalent under the Council Regulation, non-U.S. regulatory bodies and U.S. state attorneys general could take action under other applicable regulatory laws as they deem necessary or desirable in the public interest. Such action could include seeking to enjoin the completion of the merger or seeking divestiture of substantial assets of the parties. Private parties may also seek to take legal action under the antitrust laws under certain circumstances.



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**Table of Contents****TERMS OF THE MERGER AGREEMENT**

*The following summary describes certain material provisions of the merger agreement. This summary is not complete and is qualified in its entirety by reference to the merger agreement, which is attached to this proxy statement as Annex A and incorporated into this proxy statement by reference. We encourage you to read the merger agreement carefully in its entirety because this summary may not contain all the information about the merger agreement that is important to you. The rights and obligations of the parties are governed by the express terms of the merger agreement and not by this summary or any other information contained in this proxy statement.*

*The representations, warranties, covenants and agreements described below and included in the merger agreement were made for purposes of the merger agreement and as of specific dates, were for the benefit of the parties to the merger agreement except as expressly stated therein and may be subject to important qualifications, limitations and supplemental information agreed to by Red Hat, IBM and Sub in connection with negotiating the terms of the merger agreement, including certain qualifications, limitations and supplemental information disclosed in the confidential disclosure schedules to the merger agreement. In addition, the representations and warranties were included in the merger agreement for the purpose of allocating contractual risk between Red Hat, IBM and Sub, and may be subject to standards of materiality applicable to such parties that differ from those generally applicable to investors. In reviewing the representations, warranties, covenants and agreements contained in the merger agreement or any description thereof in this summary, it is important to bear in mind that such representations, warranties, covenants and agreements or any descriptions were not intended by the parties to the merger agreement to be characterizations of the actual state of facts or condition of Red Hat, IBM and Sub or any of their respective affiliates or businesses except as expressly stated in the merger agreement. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the merger agreement. In addition, you should not rely on the covenants in the merger agreement as actual limitations on the respective businesses of Red Hat, IBM and Sub because the parties to the merger agreement may take certain actions that are either expressly permitted in the confidential disclosure schedules to the merger agreement or as otherwise consented to by the appropriate party, which consent may be given without prior notice to the public. The merger agreement is described below, and attached as Annex A hereto, with the intention of providing you with information regarding the terms of the merger. Accordingly, the representations, warranties, covenants and other agreements in the merger agreement should not be read alone, and you should read the information provided elsewhere in this document and in our filings with the SEC regarding Red Hat and our business. Please see the section entitled *Where You Can Find More Information* beginning on page 123.*

**Structure of the Merger**

Upon the terms and subject to the conditions of the merger agreement and in accordance with the applicable provisions of the DGCL, on the closing date and at the effective time, Sub will merge with and into Red Hat, with Red Hat continuing as the surviving corporation and as a wholly-owned subsidiary of IBM. The merger will have the effects set forth in the merger agreement and the applicable provisions of the DGCL.

**Closing and the Effective Time of the Merger**

The closing of the merger will take place at 7:45 a.m., Eastern time, on a date to be specified by the parties, which will not be later than the fourth business day after satisfaction or, to the extent permitted by applicable law, waiver of the conditions set forth in the merger agreement (as described below under the section entitled *Terms of the Merger Agreement – Conditions to the Closing of the Merger* beginning on page 102) (other than those conditions that by their terms are to be satisfied or waived at the closing of the merger, but subject to the satisfaction or, to the extent permitted by applicable law, waiver of such conditions at the closing), or on such other date as IBM and Red Hat may

mutually agree.

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As soon as practicable on the closing date, the parties will file a certificate of merger with the Secretary of State of the State of Delaware in accordance with the relevant provisions of the DGCL. The merger will become effective upon the filing of the certificate of merger, or at such later time as is agreed by Red Hat and IBM and specified in the certificate of merger.

## **Directors and Officers; Certificate of Incorporation; Bylaws**

The directors of Sub immediately prior to the effective time will be the initial directors of the surviving corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified. The officers of Red Hat immediately prior to the effective time will be the officers of the surviving corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified.

At the effective time, the certificate of incorporation and bylaws of the surviving company will be amended and restated in their entirety to be the certificate of incorporation and bylaws of Sub as in effect immediately prior to the effective time, except that (i) references to Sub's name, date of incorporation, registered office and registered agent will be automatically amended and become references to the surviving corporation's name, date of incorporation, registered office and registered agent as provided in the certificate of incorporation and bylaws of Red Hat immediately prior to the effective time, (ii) provisions of the certificate of incorporation relating to the incorporator of Sub will be omitted and (iii) changes necessary in order to give full effect to the provisions described under the section entitled "Terms of the Merger Agreement" Additional Agreements Directors and Officers Indemnification and Insurance beginning on page 101 will be made.

## **Merger Consideration**

### ***Common Stock***

At the effective time and without any action on the part of the holder, each share of Red Hat common stock issued and outstanding immediately prior to the effective time (other than canceled shares, dissenting shares and subsidiary converted shares), will be converted into the right to receive \$190.00 in cash, without interest. All shares, when so converted into the right to receive the merger consideration, will no longer be outstanding, will automatically be canceled and will cease to exist, and each holder of a certificate or evidence of shares in book-entry form that immediately prior to the effective time represented any such shares, which we refer to as a certificate, will cease to have any rights with respect thereto, except the right to receive the merger consideration in accordance with the terms of the merger agreement.

If, during the period between the date of the merger agreement and the effective time, any change in the outstanding shares of Red Hat common stock occurs as a result of any reclassification, recapitalization, stock split (including reverse stock split) or combination, exchange or readjustment of shares, or any stock dividend, or any record date for any such purpose is established, the merger consideration and any other amounts payable pursuant the merger agreement will be appropriately adjusted.

### ***Treatment of Equity Compensation***

Our executive officers and employees hold various types of compensatory awards with respect to Red Hat common stock. Our non-employee directors hold awards of restricted shares and DSUs. The merger agreement provides for the treatment set forth below with respect to the awards described below. None of our executive officers or directors hold stock options.

*Restricted Shares.* Each Cash-Out Restricted Share will be converted at the effective time into the right to receive an amount in cash equal to the merger consideration multiplied by the number of shares of Red Hat common stock subject to the award. Each Rollover Restricted Share will be converted at the effective time into a

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restricted share award consisting of IBM common stock subject to substantially the same terms and conditions as were under such Rollover Restricted Shares (other than any performance conditions, which will be deemed satisfied upon the effective time under the terms of the award) with respect to a number of shares of IBM common stock determined by multiplying the number of shares of Red Hat common stock subject to such Rollover Restricted Share award immediately prior to the effective time by the Exchange Ratio (rounded down to the nearest whole share).

*Restricted Stock Units; Deferred Stock Units.* Each Cash-Out RSU will be converted at the effective time into the right to receive an amount in cash equal to the merger consideration multiplied by the number of shares of Red Hat common stock subject to the award. Each Rollover RSU will be converted at the effective time into a restricted stock unit with respect to IBM common stock subject to substantially the same terms and conditions as were applicable to the Rollover RSUs with respect to a number of shares of IBM common stock determined by multiplying the number of shares of Red Hat common stock subject to such Rollover RSU award immediately prior to the effective time by the Exchange Ratio (rounded down to the nearest whole share).

*Performance Share Units.* At the effective time, each Cash-Out PSU will be canceled and the holder thereof will be entitled to receive in consideration for such cancellation an amount in cash equal to the product of (i) the applicable PSU Share Number and (ii) the merger consideration. Each Rollover PSU will be converted at the effective time into a restricted share award consisting of IBM common stock subject to substantially the same terms and conditions as were applicable under such Rollover PSU (other than the performance-based vesting schedule, which will be converted into a service-based vesting schedule in accordance with the applicable award agreement), with respect to a number of shares of IBM common stock determined by multiplying the applicable PSU Share Number by the Exchange Ratio (rounded down to the nearest whole share).

*Stock Options.* At the effective time, each Cash-Out Stock Option will be canceled and the holder thereof will be entitled to receive in consideration for such cancellation an amount in cash equal to the product of (i) the number of shares of Red Hat common stock that are subject to the Cash-Out Stock Option and (ii) the excess, if any, of the merger consideration over the exercise price per share of Red Hat common stock subject to the Cash-Out Stock Option. All Rollover Stock Options will be converted at the effective time into options to acquire, on substantially the same terms and conditions as were applicable under such Rollover Stock Option, the number of shares of IBM common stock (rounded down to the nearest whole share), determined by multiplying the number of shares of Red Hat common stock subject to such Rollover Stock Option immediately prior to the effective time by the Exchange Ratio, with an exercise price per share of IBM common stock (rounded up to the nearest whole cent) equal to (a) the exercise price per share of Red Hat common stock applicable to such Rollover Stock Option divided by (b) the Exchange Ratio.

All amounts payable to the holders of the various compensatory awards above who are employees will be paid through the payroll system or payroll provider of the surviving corporation or its applicable affiliate.

***Exchange Procedures***

Prior to the effective time, IBM will designate a bank or trust company reasonably acceptable to Red Hat to act as agent for the payment of the merger consideration to holders of Red Hat common stock upon surrender of the certificates, which we refer to as the paying agent. No later than substantially concurrently with the effective time, IBM will deposit, or cause to be deposited, with the paying agent funds in an amount necessary for the payment of the merger consideration as described above under the section entitled **Terms of the Merger Agreement** **Merger Consideration** **Common Stock** beginning on page 84 upon surrender of the certificates.

As soon as reasonably practicable after the effective time (and in any event within five business days after the closing date of the merger), IBM or the surviving corporation will cause the paying agent to mail to each

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holder of record of a certificate whose shares of Red Hat common stock were converted into the right to receive the merger consideration:

a form of letter of transmittal (including customary provisions regarding delivery of an agent's message with respect to shares held in book-entry form); and

instructions for use in effecting the surrender of the certificates in exchange for the merger consideration. Upon surrender of a certificate for cancellation to the paying agent or to such other agent or agents as may be appointed by IBM, together with such letter of transmittal, duly completed and validly executed, and such other documents as may reasonably be required by the paying agent, the holder of such certificate will be entitled to receive in exchange therefor the amount of cash equal to the merger consideration that such holder has the right to receive, and the certificate so surrendered will be canceled immediately.

In the event of a transfer of ownership of Red Hat common stock that is not registered in the stock transfer books of Red Hat, payment of the merger consideration in exchange therefor may be made to a person other than the person in whose name the certificate so surrendered is registered, if such certificate will be properly endorsed or otherwise be in proper form for transfer, and the person requesting such payment will pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of such certificate or establish to the satisfaction of the surviving corporation that such tax has been paid or is not applicable. No interest will be paid or will accrue on the cash payable upon surrender of any certificate.

### *No Transfers Following Effective Time*

At the close of business on the day on which the effective time occurs, the stock transfer books of Red Hat will be closed, and there will be no further registration of transfers on the stock transfer books of the surviving corporation of the shares that were outstanding immediately prior to the effective time.

### *Termination of Payment Fund*

At any time following the one year anniversary of the closing date, the surviving corporation will be entitled to require the paying agent to deliver to it any funds (including any interest received with respect thereto) that had been made available to the paying agent and that have not been disbursed to holders of certificates, and, thereafter, subject to specified time limitations, such holders will be entitled to look only to IBM and the surviving corporation (subject to abandoned property, escheat or other similar laws) as general creditors thereof with respect to the payment of any merger consideration that may be payable upon surrender of any certificates held by such holders, as determined pursuant to the merger agreement, without any interest thereon.

### *Lost, Stolen or Destroyed Certificates*

If any certificate has been lost, stolen, defaced or destroyed, and the claimant makes of an affidavit of that fact and, if required by the surviving corporation, posts a bond in such amount as the surviving corporation may direct as indemnity against any claim that may be made against it with respect to such certificate, then the paying agent or the surviving corporation will pay the merger consideration in respect of such lost, stolen, defaced or destroyed certificate.

### *Withholding Rights*

Each of Red Hat, IBM, the surviving corporation and the paying agent will be entitled to deduct and withhold from the merger consideration and any other amounts payable pursuant to the merger agreement (including amounts payable to any holder of Red Hat common stock, stock options, restricted shares, RSUs, PSUs or DSUs) such amounts as are required to be deducted and withheld with respect to the making of such payment under the Code or any provision of state, local or foreign tax law.



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### ***Appraisal Rights***

Any dissenting shares will not be converted into the right to receive the merger consideration. Instead, the holders of such dissenting shares will be entitled to such rights as are granted by Section 262 of the DGCL, unless and until any such holder fails to perfect, withdraws or otherwise loses such holder's appraisal rights under the DGCL with respect to such shares or if a court of competent jurisdiction determines that such holder is not entitled to the relief provided by Section 262 of the DGCL, in which case, such shares of Red Hat common stock will be treated as if they had been converted as of the effective time into the right to receive the merger consideration upon surrender of such certificates that formerly represented such shares of Red Hat common stock. Red Hat has agreed to provide IBM prompt written notice of any demands received by Red Hat for appraisal of shares of Red Hat common stock (or written threats thereof), any written withdrawal or purported withdrawal of any such demand and any other demand, notice or instrument delivered to Red Hat prior to the effective time pursuant to the laws of the State of Delaware that relates to such demand, and IBM will have the opportunity and right to participate in and direct all negotiations and any litigation, suit, action or other proceeding with respect to such demands. Prior to the effective time, Red Hat has agreed not to make any payment with respect to, or offer to settle or settle, or approve the withdrawal of, any such demands or agree to do any of the foregoing, in each case without the prior written consent of IBM.

### **Representations and Warranties**

The merger agreement contains a number of representations and warranties made by the parties thereto that are subject in some cases to exceptions and qualifications, including material adverse effect qualifications. Please see the definition of material adverse effect in this section beginning on page 88. The representations and warranties of Red Hat in the merger agreement relate to, among other things:

due organization, valid existence, good standing and qualification to do business;

subsidiaries;

capitalization, including the number of shares of Red Hat common stock, options and other stock-based awards outstanding and ownership of subsidiaries;

the absence of restrictions with respect to the capital stock of Red Hat and its subsidiaries;

corporate authorization of the merger agreement and the transactions contemplated by the merger agreement and the valid and binding nature of the merger agreement;

the approval and recommendation by the Board of Directors of the merger agreement and the transactions contemplated by the merger agreement;

the absence of any conflicts with or violations of organizational documents and other agreements or laws;

required filings with, and consents from, governmental entities in connection with the transactions contemplated by the merger agreement;

compliance with applicable laws, the possession of required permits necessary for the conduct of Red Hat's business and absence of governmental investigations;

compliance with SEC filing requirements, including the accuracy of the information contained in such documents and compliance with GAAP, and the rules and regulations of the SEC with respect to consolidated financial statements contained therein;

absence of undisclosed liabilities;

internal controls and disclosure controls and procedures relating to financial reporting;

the absence of certain material changes or events in the business of Red Hat, including that, from February 28, 2018 to the date of the merger agreement, there has not been a material adverse effect;

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absence of litigation;

material contracts;

environmental matters;

labor relations;

employee benefit matters;

tax matters;

real properties;

intellectual property;

insurance matters;

regulatory matters, including compliance with (i) anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act of 1977 and the U.K. Bribery Act 2010, (ii) money laundering related laws, such as the U.S. Currency and Foreign Transaction Reporting Act of 1970 and the U.S. Money Laundering Control Act of 1986, and (iii) economic sanctions/trade laws;

inapplicability of anti-takeover statutes;

voting requirements;

the absence of any undisclosed brokers' fee; and

the receipt by the Red Hat Board of Directors of opinions of Red Hat's financial advisors as to the fairness, from a financial point of view, of the merger consideration to be received by Red Hat stockholders pursuant to the merger agreement.

The representations and warranties of IBM and Sub in the merger agreement relate to, among other things:

due organization, valid existence, good standing and power and authority to do business;

corporate authorization of the merger agreement and the transactions contemplated by the merger agreement and the valid and binding nature of the merger agreement;

the absence of any conflicts with or violations of organizational documents and other agreements or laws;

required filings with, and consents from, governmental entities in connection with the transactions contemplated by the merger agreement;

operations of Sub;

financing; and

inapplicability of anti-takeover statutes.

Certain of the representations and warranties made by the parties are qualified as to knowledge, materiality or a material adverse effect, as applicable. For purposes of the merger agreement, a material adverse effect, means any state of facts, change, development, event, effect, condition, occurrence, action or omission, each an effect, that, individually or in the aggregate, would reasonably be expected to (i) result in a material adverse effect on the business, assets, properties, financial condition or results of operations of Red Hat and its subsidiaries, taken as a whole or (ii) prevent, materially impede or materially delay the consummation by Red Hat of the merger or the other transactions contemplated by the merger agreement. However, in no event will any of the following effects, alone or in combination, be deemed to constitute, or be taken into account, in determining whether there has been, or would be, a material adverse effect:

any change in general economic, market or political conditions affecting the United States economy, or any other national or regional economy or the global economy generally that does

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not disproportionately affect Red Hat and its subsidiaries, taken as a whole, relative to other participants of a similar size in its industry, in which case only the incremental disproportionate effect will be taken into account;

any change in GAAP or applicable law that does not disproportionately affect Red Hat and its subsidiaries, taken as a whole, relative to other participants of a similar size in its industry, in which case only the incremental disproportionate effect will be taken into account;

any act of terrorism, war (whether or not declared), national disaster, cyber-attack or any national or international calamity affecting the United States or any other country or region of the world that does not disproportionately affect Red Hat and its subsidiaries, taken as a whole, relative to other participants of a similar size in its industry, in which case only the incremental disproportionate effect will be taken into account;

changes in the financial, credit, banking or securities markets in the United States or any other country or region in the world (including any disruption thereof and any decline in the price of any security or any market index) and including changes or developments in or relating to currency exchange or interest rates that does not disproportionately affect Red Hat and its subsidiaries, taken as a whole, relative to other participants of a similar size in its industry, in which case only the incremental disproportionate effect will be taken into account;

any failure to meet internal or published projections, forecasts or revenue or earnings predictions for any period (provided that the underlying causes of such failures may constitute or be taken into account in determining whether there has been, or would be, a material adverse effect);

any change in the price or trading volume of Red Hat common stock in and of itself (provided that the underlying causes of such change may constitute or be taken into account in determining whether there has been, or would be, a material adverse effect);

the negotiation, execution or delivery of the merger agreement or the public announcement (including as to the identity of the parties thereto) or pendency of the merger or the other transactions contemplated by the merger agreement, any loss of or adverse change in the relationship of Red Hat and its subsidiaries with their respective employees, customers, distributors, licensors, partners or suppliers attributable to the announcement or pendency of the merger agreement or the transactions contemplated thereby; provided that this clause will not apply to any representation or warranty (or any condition to the consummation of the merger relating to such representation and warranty) to the extent the purpose of such representation and warranty is to address the consequences resulting from the execution and delivery of the merger agreement or the consummation of the merger;

the occurrence of natural disasters, force majeure events or weather conditions adverse to the business being carried on by Red Hat and its subsidiaries;

any action or omission of Red Hat or any of its subsidiaries taken with the prior written consent of IBM (or any action not taken as a result of a failure of IBM to consent to an action otherwise requiring IBM's consent); or

any public statement by IBM regarding the open and neutral platform model or those matters set forth in paragraphs 9-12 included in the press release issued by Red Hat and IBM on October 28, 2018.

None of the representations and warranties contained in the merger agreement survive the consummation of the merger.

**Conduct of Business Pending the Merger**

From the date of the merger agreement until the effective time, except (i) with the prior written consent of IBM (such consent not to be unreasonably withheld, conditioned or delayed), (ii) as required by applicable law or

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(iii) as specifically contemplated by the merger agreement or set forth in the confidential disclosure schedules, Red Hat will, and will cause each Red Hat subsidiary to, use commercially reasonable efforts to carry on their respective business in all material respects in the ordinary course, and consistent with past practice, use commercially reasonable efforts to keep available the services of their present officers, software developers and other employees and to substantially preserve their relationships with customers, suppliers, licensors, licensees, distributors and others having material business dealings with them.

In addition, except (i) with the prior written consent of IBM (such consent not to be unreasonably withheld, conditioned or delayed), (ii) as required by applicable law or (iii) as specifically contemplated by the merger agreement or set forth in the confidential disclosure schedules, Red Hat will not and will not permit any of its subsidiaries to, subject to certain exceptions:

declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock or property) in respect of, any of its capital stock or other equity or voting interests, except for dividends or distributions paid by any of Red Hat's wholly-owned subsidiaries to Red Hat or other wholly-owned subsidiaries of Red Hat;

split, combine or reclassify any of Red Hat's capital stock or other equity or voting interests, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock or other equity or voting interests;

other than as expressly contemplated by the convertible notes, call options and warrants provision of the merger agreement, purchase, redeem or otherwise acquire any shares of capital stock, other equity or voting interests or any other securities of Red Hat or any of its subsidiaries or any options, restricted shares, warrants, calls or rights to acquire any such shares or other securities;

take any action that would result in any amendment, modification or change of any term of any indebtedness of Red Hat or any of its subsidiaries;

issue, deliver, sell, pledge or otherwise encumber any shares of Red Hat's capital stock, other equity or voting interests or certain equity equivalents, or securities convertible into, or exchangeable or exercisable for, or any options, warrants, calls or rights to acquire, any such stock, interest or Equity Equivalent other than grants of equity compensation in the ordinary course consistent with past practice having an aggregate grant date fair value not to exceed \$350 million per annum;

amend or propose to amend its certificate of incorporation or bylaws (or similar organizational documents);

acquire or agree to acquire (i) by merging or consolidating with, or by purchasing all or a substantial portion of the assets of, or by purchasing all or a substantial equity or voting interest in, or by any other manner, any business or person or division thereof or (ii) any other assets outside the ordinary course of business

consistent with past practice; provided that Red Hat will be permitted to take the actions contemplated by this bullet point, so long as (a) the value of any individual acquisition is not greater than \$50,000,000 and (b) the aggregate value of all acquisitions is not greater than \$150,000,000; provided further that Red Hat will make no acquisition under this bullet point, if such acquisition could reasonably be expected to increase the risk of not obtaining, or the risk of materially impeding or delaying the obtaining of, any approvals from a governmental entity with respect to the merger;

sell, lease, license, sell and lease back, mortgage or otherwise dispose of any of its material properties or assets, except for (i) grants of FOSS licenses or other non-exclusive licenses in the ordinary course of business consistent with past practice or (ii) sales in the ordinary course of business;

subject any of its assets, properties or rights, or any part thereof, to any material lien or suffer such to exist (other than permitted liens) if the obligations supported by such lien other than in the ordinary course of business;

repurchase, prepay or incur any indebtedness in an amount greater than \$15,000,000 or make any loans, advances or capital contributions to, or investments in excess of \$5,000,000, individually or in



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the aggregate, in any other person other than (i) Red Hat or any indirect wholly-owned subsidiary of Red Hat, (ii) advances of travel and similar expenses to directors and employees in the ordinary course of business consistent with past practice or (iii) settling notices of conversions with respect to the convertible notes;

incur or commit to incur any capital expenditures, or any obligations or liabilities in connection therewith, in excess of \$18,000,000 per fiscal quarter in the aggregate or as may be necessary in connection with any emergency repair, maintenance or replacement;