

Hortonworks, Inc.
Form 10-Q
May 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-36780

Hortonworks, Inc.

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

37-1634325
(I.R.S. Employer
Identification No.)

5470 Great America Parkway

Santa Clara, CA
(Address of principal executive offices)

95054
(Zip Code)

Registrant's telephone number, including area code: (408) 916-4121

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a small reporting company) Small reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The number of shares of Registrant's Common Stock outstanding as of May 2, 2016 was 57,745,028.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****HORTONWORKS, INC.****Condensed Consolidated Balance Sheets****(In thousands, except share and per share data)****(Unaudited)**

	March 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 38,511	\$ 35,748
Short-term investments	86,059	58,553
Accounts receivable, net	64,932	53,913
Prepaid expenses and other current assets	9,236	5,276
Total current assets	198,738	153,490
Property and equipment, net	18,207	15,422
Long-term investments	24,402	2,592
Goodwill	34,333	34,333
Intangible assets, net	3,783	4,002
Other assets	953	872
Restricted cash	1,309	1,308
TOTAL ASSETS	\$ 281,725	\$ 212,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 8,995	\$ 6,365
Accrued compensation and benefits	12,971	12,685
Accrued expenses and other current liabilities	13,659	14,989
Deferred revenue	92,523	90,407
Total current liabilities	128,148	124,446
Long-term deferred revenue	26,598	16,372
Other long-term liabilities	3,162	3,610
TOTAL LIABILITIES	157,908	144,428
Commitments and contingencies (Note 4)		

STOCKHOLDERS' EQUITY:

Preferred stock, par value of \$0.0001 per share 25,000,000 shares authorized; none issued or outstanding as of March 31, 2016 and December 31, 2015

Common stock, par value of \$0.0001 per share 500,000,000 shares authorized as of March 31, 2016 and December 31, 2015; 56,359,426 shares issued and outstanding as of March 31, 2016 and 45,692,391 shares issued and outstanding as of December 31, 2015

	6	5
Additional paid-in capital	640,902	518,986
Accumulated other comprehensive loss	(485)	(546)
Accumulated deficit	(516,606)	(450,854)

TOTAL STOCKHOLDERS' EQUITY	123,817	67,591
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 281,725	\$ 212,019
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See accompanying notes to the condensed consolidated financial statements.

Table of Contents**HORTONWORKS, INC.****Condensed Consolidated Statements of Operations***(In thousands, except share and per share data)***(Unaudited)**

	Three Months Ended March 31,	
	2016	2015
Support subscription and professional services revenue:		
Support subscription	\$ 27,634	\$ 13,144
Professional services	13,708	9,173
Total support subscription and professional services revenue	41,342	22,317
Cost of revenue:		
Support subscription	4,901	2,549
Professional services	11,455	8,911
Total cost of revenue	16,356	11,460
Gross profit	24,986	10,857
Operating expenses:		
Sales and marketing	42,083	27,757
Research and development	22,151	14,980
General and administrative	26,054	9,052
Total operating expenses	90,288	51,789
Loss from operations	(65,302)	(40,932)
Other (expense) income, net	(295)	426
Loss before income tax expense	(65,597)	(40,506)
Income tax expense	155	84
Net loss	\$ (65,752)	\$ (40,590)
Net loss per share of common stock, basic and diluted	\$ (1.26)	\$ (0.98)
Weighted-average shares used in computing net loss per share of common stock, basic and diluted	52,067,608	41,479,563

See accompanying notes to the condensed consolidated financial statements.

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HORTONWORKS, INC.

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net loss	\$ (65,752)	\$ (40,590)
Items of other comprehensive income (loss):		
Unrealized gain on investments, net of tax of \$0 for all periods presented	56	30
Foreign currency translation adjustment	5	(148)
Total other comprehensive income (loss)	61	(118)
Total comprehensive loss	\$ (65,691)	\$ (40,708)

See accompanying notes to the condensed consolidated financial statements

Table of Contents**HORTONWORKS, INC.****Condensed Consolidated Statements of Cash Flows***(In thousands)***(Unaudited)**

	Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (65,752)	\$ (40,590)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,478	894
Amortization of premiums from investments	284	282
Amortization of intangible assets	219	
Stock-based compensation expense	29,442	5,194
Impairment of promissory note receivable	717	
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	219	
Provision for losses on accounts receivable	377	
Other	(25)	5
Changes in operating assets and liabilities:		
Accounts receivable	(11,147)	(1,607)
Prepaid expenses and other current assets	(3,468)	(2,895)
Other assets	(90)	(390)
Accounts payable	89	(447)
Accrued expenses and other current liabilities	335	3,438
Accrued compensation and benefits	303	464
Deferred revenue	11,686	5,784
Other long-term liabilities	(335)	1,139
Net cash used in operating activities	(35,668)	(28,729)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(73,754)	(42,057)
Proceeds from sale of investments	1,321	
Proceeds from maturities of investments	22,199	27,861
Issuance of promissory note receivable		(2,500)
Purchases of property and equipment	(2,359)	(5,263)
Change in restricted cash		31
Net cash used in investing activities	(52,593)	(21,928)
CASH FLOWS FROM FINANCING ACTIVITIES:		

Proceeds from follow-on public offering, net of issuance costs	87,848	
Proceeds from issuance of common stock	4,612	313
Payments of contingent consideration related to business combinations	(1,625)	
Payments of capital lease liability	(25)	
Net cash provided by financing activities	90,810	313
Effect of exchange rate changes on cash and cash equivalents	214	
Net increase (decrease) in cash and cash equivalents	2,763	(50,344)
Cash and cash equivalents Beginning of period	35,748	129,084
Cash and cash equivalents End of period	\$ 38,511	\$ 78,740

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:

Purchases of property and equipment included in accounts payable and accrued expenses and other current liabilities	\$ 3,260	\$ 1,350
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See accompanying notes to the condensed consolidated financial statements

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HORTONWORKS, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Hortonworks, Inc. (the "Company") was incorporated in Delaware in 2011 and is an industry leading innovator that creates, distributes and supports enterprise-ready open data platforms and modern data applications that deliver actionable intelligence from all data: data-in-motion and data-at-rest. The Company's mission is to enable transformational business outcomes powered by modern data architecture with Open Enterprise Hadoop at its foundation. The Company's Open Enterprise Hadoop solutions include the Hortonworks Data Platform ("HDP"), powered by Apache Hadoop®, and the Hortonworks DataFlow Platform ("HDF"), powered by Apache NiFi. HDP is an enterprise-scale data management platform that enables a centralized architecture for running batch, interactive and real-time applications simultaneously across shared datasets with the comprehensive security, governance and operational services enterprises require. HDF is complementary to HDP and accelerates the flow of Data in Motion from any data type into HDP for full fidelity analytics.

The Company is focused on the development, distribution and support of the Hadoop open source project and associated projects from the Apache Software Foundation ("Apache Hadoop" or "Hadoop"). Hadoop was originally developed in the early 2000s, when Yahoo! Inc. ("Yahoo!"), by partnering with the Apache Hadoop community, led major innovations in the technology to help tackle big data challenges and operate its business at scale. Hadoop and its associated projects are managed as open source software projects by the Apache Software Foundation.

Due to the increase in the volume and the variety of data, including new Internet of Things data types such as machine data, server log data, geo-location data, clickstream data, sentiment data and other data generated by documents and other file types, the Company's solutions (HDP and HDF) have emerged as critical enablers for the modern data center architecture. The Company's software development efforts are thus focused on creating open platforms by working in concert with the Apache community to develop HDP and HDF.

In December 2014, the Company completed its initial public offering and concurrent private placement (collectively, the "IPO") of 7,673,986 shares of common stock (including 486,486 shares in a concurrent private placement and 937,500 shares of common stock from the full exercise of the option to purchase additional shares granted to the underwriters) at a price of \$16.00 per share. The Company received net cash proceeds of \$109.6 million from the sale of shares of common stock. Immediately prior to the closing of the IPO, all shares of the Company's outstanding convertible preferred stock automatically converted into 21,949,525 shares of common stock.

In February 2016, the Company completed a follow-on public offering of an aggregate of 9,688,750 shares of its common stock, including 1,263,750 additional shares sold pursuant to the full exercise of the option to purchase additional shares by the underwriters, at a public offering price of \$9.50 per share. Net proceeds to the Company were approximately \$87.7 million after deducting underwriting discounts and commissions and offering expenses.

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States and applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. These financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all normal recurring adjustments, except as otherwise disclosed, that are necessary for a fair statement of the Company's results for the interim periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period.

The condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2015 was derived from the Company's audited financial statements for the year ended December 31, 2015, but does not include all disclosures required by U.S. GAAP as permitted by the applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. However, the Company believes the disclosures are adequate to make the information presented not be misleading.

Table of Contents**HORTONWORKS, INC.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

There have been no changes to the Company's significant accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 that have had a material impact on the Company's condensed consolidated financial statements and related notes.

Out-of-Period Adjustments

During the three months ended March 31, 2016, the Company recorded an out-of-period adjustment related to revenue recognition for customer contracts with acceptance clauses, resulting in an increase of total revenue by approximately \$0.7 million. The adjustment was primarily associated with the four quarterly periods ended December 31, 2015. The Company evaluated the adjustment considering both quantitative and qualitative factors and concluded the adjustment was not material to previously issued and current period financial statements.

Correction of an Error in Previously Issued Financial Statements

Subsequent to the initial filing of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, the Company identified misstatements in certain revenue accounts related to prior periods. See reconciliation of prior period for adjustments related to the recognition of revenue in the table below. Accordingly, the Company has corrected the misstatements for the period ended March 31, 2015 in the accompanying financial statements. The Company assessed the materiality of these misstatements quantitatively and qualitatively and has concluded that the correction of these errors are immaterial to the consolidated financial statements taken as a whole. The misstatements increased net loss by approximately \$0.5 million and had no impact on the balance sheet or cash flows from operating, investing or financing activities.

	Three Months Ended, March 31, 2015 (in thousands)
Previously filed support subscription and professional services revenue:	
Support subscription	\$ 13,575
Professional services	9,198
 Total previously filed support subscription and professional services revenue	 22,773
Adjustments to subscription and professional services revenue:	
Support subscription	(431)

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Professional services		(25)
Total adjustments to subscription and professional services revenue		(456)
Adjusted support subscription and professional services revenue:		
Support subscription		13,144
Professional services		9,173
Total adjusted support subscription and professional services revenue	\$	22,317

Table of Contents**HORTONWORKS, INC.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)*****Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, the related disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. The Company bases its estimates and judgments on its historical experience, knowledge of current conditions and its beliefs on what may occur in the future given available information. Estimates, assumptions and judgments are used for, but are not limited to, revenue recognition, stock-based awards and warrants, accounting for income taxes, allowance for doubtful accounts, valuation and determination of other-than-temporary impairments of notes receivable and certain accrued liabilities. Actual results may differ from these estimates.

Recently Issued Accounting Pronouncements

On March 30, 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements and footnote disclosures.

With the exception of the new standard discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2016 that are of significance or potential significance to the Company, as compared to the recent accounting pronouncements described in Note 2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

2. FAIR VALUE MEASUREMENTS

The following table summarizes the investments in available-for-sale securities (in thousands):

	March 31, 2016			Estimated
	Gross	Gross	Gross	Fair
	Amortized	Unrealized	Unrealized	Value
	Costs	Gains	Losses	
U.S. government securities	\$ 4,182	\$ 5	\$	\$ 4,187
Certificates of deposit	4,630			4,630
Commercial paper	28,263		(7)	28,256

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Corporate notes and bonds	78,538	40	(45)	78,533
Total investments in available-for-sale securities	\$ 115,613	\$ 45	\$ (52)	\$ 115,606

	Gross Amortized Costs	December 31, 2015 Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury bills	\$ 3,493	\$ 6	\$	\$ 3,499
U.S. government securities	2,071		(2)	2,069
Certificates of deposit	4,172		(1)	4,171
Commercial paper	10,727	2	(5)	10,724
Corporate notes and bonds	40,397		(62)	40,335
Total investments in available-for-sale securities	\$ 60,860	\$ 8	\$ (70)	\$ 60,798

Table of Contents**HORTONWORKS, INC.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The following table sets forth the fair value of the Company's financial assets and liabilities measured on a recurring basis by level within the fair value hierarchy (in thousands):

	March 31, 2016			
	Level			
	1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	\$ 8,751	\$	\$	\$ 8,751
Commercial paper		7,045		7,045
Short-term investments:				
U.S. government securities		2,050		2,050
Certificates of deposit		4,630		4,630
Commercial paper		21,211		21,211
Corporate notes and bonds		58,168		58,168
Long-term investments:				
U.S. government securities		2,137		2,137
Corporate notes and bonds		20,365		20,365
Total financial assets	\$ 8,751	\$ 115,606	\$	\$ 124,357

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	\$ 11,923	\$	\$	\$ 11,923
Certificates of deposit		245		245
Commercial paper		2,000		2,000
Short-term investments:				
U.S. Treasury bills	3,499			3,499
U.S. government securities		2,069		2,069
Certificates of deposit		3,926		3,926
Commercial paper		8,724		8,724
Corporate notes and bonds		40,335		40,335

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Total financial assets	\$ 15,422	\$ 57,299	\$	\$ 72,721
Liabilities				
Contingent consideration			1,651	1,651
Total financial liabilities	\$	\$	\$ 1,651	\$ 1,651

Where applicable, the Company uses quoted market prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments, which are composed of money market funds and U.S. Treasury bills. If quoted prices in active markets for identical assets are not available, then the Company uses quoted prices for similar assets or inputs other than quoted prices that are observable, either directly or indirectly. These investments are included in Level 2 and consist of commercial paper, certificates of deposit, corporate notes and bonds and United States government securities. Commercial paper is valued using market prices, if available, adjusting for accretion of the purchase price to face value at maturity.

The Company entered into a three-year, \$2.5 million promissory note receivable with a third-party service provider in February 2015, which bears interest at 4 percent per annum. The promissory note receivable is valued on a non-recurring basis and is classified as held-to-maturity within long-term investments. The carrying amounts of accounts receivable, prepaid expenses, accounts payable, accrued expenses and other current liabilities and accrued compensation and benefits approximate fair value. During the three months ended March 31, 2016, the Company recognized an impairment charge of \$0.7 million in operating expenses related to the promissory note receivable, decreasing the carrying value to \$1.9 million. The Company compared the amortized cost basis of the promissory note receivable to the present value of the future cash flows expected from the promissory note receivable to determine the impairment charge recognized.

Table of Contents**HORTONWORKS, INC.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified as Level 3 within the valuation hierarchy. Level 3 liabilities that were measured at estimated fair value on a recurring basis consisted of the contingent consideration in connection with the Company's acquisition of SequenceIQ, kft (SequenceIQ), which is contingent upon the achievement of certain product milestones.

The Company estimated the acquisition date fair value of the contingent consideration payable of \$1.6 million based on various estimates including a discount rate based on the estimated timing of achievement of product milestones, the probability of achievement and other risk factors, all of which the Company believes are appropriate and representative of market participant assumptions. Upon the achievement of product milestones in January 2016, the Company paid the fair value of the contingent consideration liability of \$1.7 million. As of March 31, 2016, there is no contingent consideration liability outstanding.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability. During the three months ended March 31, 2016 and the year ended December 31, 2015, the Company did not make any transfers between Level 1, Level 2 or Level 3 investments.

Gross unrealized gains and losses were not material as of March 31, 2016 and December 31, 2015. Realized gains and losses were not material for three months ended March 31, 2016 and 2015. As of March 31, 2016 and December 31, 2015, there were no securities that were in an unrealized loss position for more than 12 months.

3. INTANGIBLE ASSETS, NET

The following table summarizes the Company's intangible assets, net (in thousands):

	March 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets, net	\$ 4,395	\$ (612)	\$ 3,783

	December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets, net	\$ 4,395	\$ (393)	\$ 4,002

For the three months ended March 31, 2016, the Company recognized amortization expense for intangible assets of \$0.2 million in operating expenses. For the three months ended March 31, 2015, the Company had no amortization expense for intangible assets. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2016 and each of the succeeding years is as follows: nine months ending December 31, 2016: \$0.7 million; 2017: \$0.9 million; 2018: \$0.9 million; 2019: \$0.9 million and 2020: \$0.5 million.

4. COMMITMENTS AND CONTINGENCIES

The Company has a number of operating lease agreements primarily involving office space and data center equipment. These leases are non-cancelable with original lease periods up to 6 years and expire between 2016 and 2021. Lease expense is recognized on a straight-line basis over the lease term. The Company subleases some excess capacity to a subtenant under a non-cancelable operating lease.

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HORTONWORKS, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Rent expense incurred under operating leases was \$2.2 million and \$1.7 million for the three months ended March 31, 2016 and 2015, respectively.

Legal Proceedings

From time to time, the Company is party to various litigation and administrative proceedings relating to claims arising from its operations in the normal course of business. Based on the information presently available, including discussion with legal counsel, management believes that resolution of these matters will not have a material effect on the Company's business, results of operations, financial condition or cash flows.

On February 29, 2016, a putative class action lawsuit alleging violations of federal securities laws was filed in the U.S. District Court for the Northern District of California, naming as defendants the Company, Robert G. Bearden and Scott J. Davidson. The lawsuit alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by allegedly making materially false and misleading statements regarding the Company's business and operations. Plaintiff seeks to represent a class of persons who purchased or otherwise acquired Hortonworks' securities between November 4, 2015 and January 15, 2016, inclusive. Plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. Based on a review of the allegations, we believe that the plaintiff's allegations are without merit and intend to vigorously defend against the claims.

5. WARRANTS

In July 2011, the Company issued a warrant to purchase 6,500,000 shares of Series A preferred stock at an exercise price of \$0.005 per share. Upon consummation of the Company's IPO in December 2014, the warrant automatically converted into a warrant to purchase 3,250,000 shares of common stock. The warrant was issued to Yahoo! in connection with the Company's Series A financing and the transactions contemplated thereby, including commercial agreements with Yahoo! providing for support subscription offerings and certain rights to technology. The ability for Yahoo! to exercise the warrant was subject to the continuation of the commercial agreement for a period of two years, which has been satisfied.

On June 9, 2014, the Company issued a warrant to purchase a number of shares of common stock up to 1 percent of the sum of (i) 45,585,496, plus (ii) the number of shares of Series D preferred stock or shares of such stock issuable upon exercise of warrants to purchase such stock (on an as converted to common stock basis) issued or issuable upon exercise of warrants to purchase Series D Preferred Stock that were sold, if any, by the Company during the period commencing on June 9, 2014 and ending immediately prior to the occurrence of a corporate event at an exercise price of \$8.46 per share. The warrant was issued to Yahoo! in exchange for the amendment of the rights held by Yahoo! under Section 2.11 of the Investors' Rights Agreement to approve an acquisition of Hortonworks, which removed a competitor of Yahoo! from the list of companies over which Yahoo! has such blocking rights. As of March 31, 2016, the warrant was exercisable into 476,368 shares of common stock.

Each warrant expires nine years from the date of issuance. The warrants vested upon consummation of the Company's IPO in December 2014. As of March 31, 2016, neither warrant had been exercised into shares of common stock.

6. STOCKHOLDERS' EQUITY

Common Stock

Each share of common stock is entitled to one vote for matters to be voted on by the stockholders of the Company. The holders of common stock are also entitled to receive dividends whenever declared by the Board of Directors from legally available funds.

2014 Stock Option and Incentive Plan

The Company's 2014 Stock Option and Incentive Plan (the "2014 Plan") was adopted by the Company's Board of Directors in September 2014. The 2014 Plan was approved by the Company's stockholders in November 2014 and became effective immediately prior to the closing of the Company's IPO. All remaining shares available in the 2011 Stock Option and Grant Plan (the "2011 Plan") rolled into the 2014 Plan following the consummation of the IPO. The 2014 Plan allows the Compensation Committee to make equity-based incentive awards to the Company's officers, employees, directors and other key persons (including consultants).

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HORTONWORKS, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The Company initially reserved 6,000,000 shares of the Company's common stock for the issuance of awards under the 2014 Plan, and had 923,732 shares of the Company's common stock remaining available for issuance under the Company's 2011 Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2015, by 5 percent of the outstanding number of shares of the Company's common stock on the immediately preceding December 31 or such lesser number of shares as determined by the Company's compensation committee. This number is subject to adjustment in the event of a stock split, stock dividend or other change in the Company's capitalization. As of March 31, 2016, options to purchase and restricted stock units covering an aggregate 8,729,227 shares of common stock were outstanding under the 2014 Plan pursuant to their original terms.

On January 1, 2016, the shares reserved for issuance increased by 2,326,129, resulting in total shares reserved for issuance under the 2014 Plan of 11,386,102 as of March 31, 2016, of which 2,540,750 remained available for issuance.

Performance Stock Units

In June 2015, under the 2014 Plan, the Company granted 402,200 Performance Stock Units (PSUs) to certain executive and senior officers (the Grantees) that vest upon (a) the achievement of specified performance targets as set by the Compensation Committee and (b) the Grantee remaining employed during the respective six-month performance cycle over the three-year total service period. The performance target value for each performance cycle is based on an average of the applicable internal and external billings amounts for the respective performance cycle. The number of PSUs that vest for a given performance cycle is based on the Company's achievement percentile of actual billings relative to the performance target value.

In October 2015, under the 2014 Plan, the Company granted 266,084 PSUs to the Grantees that vest upon (a) the achievement of specified performance targets as set by the Compensation Committee and (b) the Grantee remaining employed during the respective two concurrent performance cycles of 14.5 months and 26.5 months. The number of PSUs that vest for a given performance cycle is based on the Company's achievement percentile for EBITDA growth and revenue growth relative to the linear ranking of a pre-selected group of the Company's peers.

2014 Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the ESPP) was adopted and approved by the Company's Board of Directors in September 2014, adopted and approved by the Company's stockholders in November 2014 and was amended in August 2015, to allow employees of certain of the Company's non-U.S. subsidiaries to participate in the ESPP. The ESPP initially reserved and authorized the issuance of up to a total of 2,500,000 shares of common stock to participating employees. The ESPP provides that the number of shares reserved and available for issuance will automatically increase each January 1, beginning on January 1, 2015, by the lesser of (i) 1,000,000 shares of common stock, (ii) 1 percent of the outstanding number of shares of the Company's common stock on the immediately preceding December 31, or (iii) such lesser number of shares as determined by the ESPP administrator. This number

is subject to adjustment in the event of a stock split, stock dividend or other change in the Company's capitalization. On January 1, 2016, the shares reserved for issuance increased by 465,225 resulting in total shares reserved for issuance under the ESPP of 3,392,473 as of March 31, 2016.

Each employee who is a participant in the ESPP may purchase shares by authorizing payroll deductions of up to 15 percent of his or her base compensation during an offering period. Unless the participating employee has previously withdrawn from the offering, his or her accumulated payroll deductions will be used to purchase shares on the last business day of the offering period at a price equal to 85 percent of the fair market value of the shares on the first business day or the last business day of the offering period, whichever is lower. Under applicable tax rules, an employee may purchase no more than \$25,000 worth of shares of common stock, valued at the start of the purchase period, under the ESPP in any calendar year. There is no minimum holding period associated with shares purchased pursuant to this plan.

Table of Contents**HORTONWORKS, INC.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

As of March 31, 2016, there was \$2.4 million of unrecognized stock-based compensation expense related to the ESPP, which is expected to be recognized over a weighted-average period of 0.68 years.

Stock Options

A summary of information related to stock options for the three months ended March 31, 2016 is presented below:

		Number of Shares Underlying Outstanding Options	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding	December 31, 2015	11,552,487	\$ 9.80	7.82	\$ 140,873
Options granted					
Options exercised		(490,896)	2.23		
Options cancelled/forfeited		(1,418,939)	14.24		
Outstanding	March 31, 2016	9,642,652	\$ 9.54	7.59	\$ 38,873
Vested and expected to vest	March 31, 2016	9,323,157	\$ 9.38	7.56	\$ 38,449
Exercisable	March 31, 2016	4,991,689	\$ 6.74	7.07	\$ 28,763

Aggregate intrinsic value represents the difference between the exercise price of the options to purchase common stock and the fair value of the Company's common stock. The aggregate intrinsic value of options exercised for the three months ended March 31, 2016 and 2015 was \$4.7 million and \$8.6 million, respectively.

Restricted Stock

A summary of information related to restricted stock for the three months ended March 31, 2016 is presented below:

Number of Shares Issued	Number of Shares Issued	Weighted Average	Weighted Grant	Average Aggregate Intrinsic
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		Under the Stock Plans	Outside the Stock Plans	Exercise Price Per Share	Date Fair Value Per Share (*)	Value
						(In thousands)
Unvested balance	December 31, 2015	145,968	644,014	\$ 0.67	\$ 23.76	\$ 4,551
Granted						
Vested		(91,241)		1.11	23.76	
Canceled/forfeited						
Unvested balance	March 31, 2016	54,727	644,014	\$ 1.00	\$ 23.76	\$ 930

(*) The weighted-average grant-date fair value per share relates to 1,424,946 shares of restricted stock paid as part of the acquisition of Onyara, of which 503,303 shares are unvested as of March 31, 2016.

The fair value of the restricted stock vested during the three months ended March 31, 2016 and 2015 was \$1.4 million and \$3.0 million, respectively. As of March 31, 2016, there was \$34.6 million of unrecognized stock-based compensation expense related to unvested stock options and restricted stock to be recognized over a weighted-average period of 2.06 years.

Table of Contents**HORTONWORKS, INC.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)*****Restricted Stock Units and Performance Stock Units***

A summary of information related to restricted stock units (RSUs) and PSUs for the three months ended March 31, 2016 is presented below:

	Number of Shares issued Under the 2014 Plan	Weighted- Average Grant-Date Fair Value Per Share
Unvested balance December 31, 2015	5,852,619	\$ 23.33
Granted	1,988,407	8.74
Vested	(6,323)	24.98
Canceled/forfeited	(149,298)	21.96
Unvested balance March 31, 2016	7,685,405	\$ 19.54

The fair value of the RSUs and PSUs vested during the three months ended March 31, 2016 was \$62,000. There were no RSUs and PSUs vested for the three months ended March 31, 2015. As of March 31, 2016, there was \$95.2 million of unrecognized stock-based compensation expense related to RSUs and PSUs to be recognized over a weighted-average period of 1.96 years.

Restricted Stock and Stock Options Subject to Repurchase

The 2011 Plan allowed for the granting of options that may be exercised before the options have vested. Shares issued as a result of early exercise and shares that had not vested are deemed to be restricted stock and are subject to a vesting schedule identical to the vesting schedule of the related restricted stock and options, as well as certain other restrictions. Shares issued as a result of early exercise that have not vested are subject to repurchase by the Company upon termination of the purchaser's employment or services, at the price paid by the purchaser, and are not deemed to be issued for accounting purposes until those related shares vest. The amounts received in exchange for these shares have been recorded as a liability on the accompanying balance sheets and will be reclassified into common stock and additional paid-in-capital as the shares vest. The Company's right to repurchase these shares generally lapses 1/48 of the original grant date per month over four years.

The number of shares of restricted stock and early exercised options to purchase common stock outstanding subject to the Company's right of repurchase at prices ranging from \$0.18 to \$14.22 per share as of March 31, 2016 was 245,551. The liability for shares subject to repurchase as of March 31, 2016 was \$0.7 million, of which \$0.3 million is included in accrued expenses and other current liabilities and \$0.4 million is included in other long-term liabilities.

Stock-based Compensation Expense

Total stock-based compensation expense, including stock-based compensation expense to non-employees, by category was as follows (in thousands):

	Three Months Ended March 31,	
	2016	2015
Cost of revenue	\$ 1,358	\$ 270
Sales and marketing	5,619	1,417
Research and development	7,804	2,123
General and administrative	14,661	1,384
Total stock-based compensation expense	\$ 29,442	\$ 5,194

Table of Contents**HORTONWORKS, INC.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

In February 2016, one of the executives of the Company voluntarily cancelled a stock option to purchase 1,185,000 shares. As a result, the Company recognized \$10.0 million of stock-based compensation expense in the three months ended March 31, 2016.

7. NET LOSS PER SHARE OF COMMON STOCK

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period, less restricted common stock and common stock issued that is subject to repurchase, and excludes any dilutive effects of share based awards. Diluted net loss per share of common stock is computed giving effect to all potential dilutive common shares. As the Company had net losses for the three months ended March 31, 2016 and 2015, all potential common shares were determined to be anti-dilutive.

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2016	2015
Net loss	\$ (65,752)	\$ (40,590)
Weighted-average shares used in computing net loss per share of common stock	52,067,608	41,479,563
Net loss per share, basic and diluted	\$ (1.26)	\$ (0.98)

The following outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share of common stock for the periods presented since including them would have been anti-dilutive:

	Three Months Ended March 31,	
	2016	2015
Common stock warrants	3,250,000	3,250,000
Exercise and conversion of common stock warrants	476,368	476,368
Common stock subject to repurchase	245,551	275,087
Outstanding stock options	9,642,652	13,493,919
	8,384,146	975,798

Unvested restricted stock, restricted stock units and
performance stock units

Total	21,998,717	18,471,172
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8. INCOME TAXES

The effective tax rate for the both the three months ended March 31, 2016 and 2015 was (0.2) percent. The income tax expense for the three months ended March 31, 2016 and 2015 was determined based upon estimates of the Company's effective income tax rates in various jurisdictions. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to state income taxes, foreign income taxes, the effect of certain permanent differences and full valuation allowance against net deferred tax assets.

9. SEGMENT AND GEOGRAPHICAL INFORMATION

The Company's chief operating decision maker reviews financial information on consolidated basis for the purposes of allocating resources and evaluating financial performance. The Company's chief operating decision maker has direct reports responsible for various functions within the Company (e.g. business strategy, finance, legal, business development, products, etc.) on a consolidated basis. There are no segment managers who are held accountable for operations or operating results. The Company's primary growth strategy is predicated upon the growth of the support subscription business, and the Company's key business metrics reflect this strategy. Professional services are offered with the overall goal of securing and retaining support subscription customers and growing support subscription revenue. Accordingly, management has determined that the Company operates in one reportable segment.

Table of Contents**HORTONWORKS, INC.****Notes to the Condensed Consolidated Financial Statements****(Unaudited)**

The Company has international sales offices in Australia, Germany, Ireland, Japan, Netherlands, South Korea and the United Kingdom and research and development facilities in Hungary and India. The following presents revenue by country, determined by location of sales office (in thousands):

	Three Months Ended March 31,	
	2016	2015
United States	\$ 34,430	\$ 20,234
Rest of world	6,912	2,083
Total revenue	\$ 41,342	\$ 22,317

The Company's long-lived assets are primarily located in the United States and not allocated to any specific region. Therefore, geographic information is presented only for total revenue.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis of our financial condition and results of operations should be read together with the condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission. This discussion contains statements that are not historical in nature, are predictive, that depend upon or refer to future events or conditions or contain forward-looking statements. Such statements are based upon current expectations that involve risks and uncertainties, as well as assumptions that, if they never materialize or if they prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Various factors could cause or contribute to such a difference, including, but not limited to, those identified below and discussed in Risk Factors and in other parts of this quarterly report.

Overview

Hortonworks, Inc. (Hortonworks, the Company, we, or us) seeks to advance the market adoption of Hadoop and provide enterprises with a new data management solution that enables them to harness the power of big data to transform their businesses through more effective and efficient management of their valuable data assets. A Hadoop cluster combines commodity servers with local storage and an open source software distribution to create a reliable distributed compute and storage platform for large data sets scalable up to petabytes with thousands of servers or nodes. We have two solutions in the market today to address the needs of enterprises for their data: Hortonworks Data Platform (HDP) and Hortonworks DataFlow Platform (HDF). HDP is an enterprise-scale data management platform built entirely on open source technology including Apache Hadoop. At its core is the next generation computing and resource management framework called YARN, which uniquely enables a centralized data architecture for batch, interactive and real-time workloads to be executed simultaneously on a single cluster and dataset while extending consistent security, governance and operation across the platform. HDF is complementary to HDP, by automating and securing data flows that collect, conduct and curate real-time business insights and actions derived from sensors, machines, geolocation devices, clicks, logs and social feeds. Our approach is differentiated in that we are committed to serving the Apache Software Foundation open source ecosystem and to sharing all of our product developments with the open source community. We distribute the HDP and HDF software under the Apache open source license in order to provide broad rights for recipients of the software to use, copy, modify and redistribute the software. Consistent with our open source approach, we generally make HDP and HDF available free of charge.

We generate revenue predominantly by selling support subscription offerings and professional services. Our support subscription agreements are typically annual arrangements but we also have customers with multi-year arrangements. On occasion, we sell engineering services as well as a premium subscription agreement that provides a customer with development input and the opportunity to work more closely with our developers. We price our support subscription offerings based on the number of servers in a cluster, or nodes, data under management and/or the scope of support provided. Accordingly, our support subscription revenue varies depending on the scale of our customers' deployments and the scope of the support agreement. Professional services revenue is derived from consulting services engagements and training services. Our consulting services are provided primarily on a time and materials basis, and to a lesser extent, a fixed fee basis, and training services are priced based on attendance. The growth of our total revenue is dependent upon (i) new customer acquisition, (ii) expansion of sales within our existing customers, (iii) the annual renewal of our support subscription agreements by our existing support subscription customers and (iv) professional services fees from consulting and training. Our revenue is subject to fluctuations based upon our success in addressing these factors but may also be impacted by the revenue recognition requirements of our multiple-element customer arrangements. Our early growth strategy has been aimed at acquiring customers for our support subscription offerings via a direct sales force and delivering consulting services. As we grow our business, our

longer-term strategy will be to expand our partner network and leverage our partners to deliver a larger proportion of professional services to our customers on our behalf. The implementation of this strategy is expected to result in an increase in upfront costs in order to establish and further cultivate such strategic partnerships, but we expect that it will increase gross margins in the long term as the percentage of our revenue derived from professional services, which has a lower gross margin than our support subscriptions, decreases.

Our ability to successfully implement these strategies is subject to challenges, risks and uncertainties and our net losses have been increasing year over year. In our efforts to achieve profitability, we have placed and will continue to place an emphasis on investing within our support subscription sales efforts to try to drive increased revenue in both support subscriptions and professional services. If these support subscription sales efforts are not successful, due to unsuccessful execution by us, increased competition in our markets, or other factors, we will find it difficult to add new support subscription customers, and our revenue will not grow as quickly as we would like, and may decline. In addition, our longer-term strategy of leveraging our partners to provide an increasing proportion of professional services to our customers presents certain challenges. This strategy requires us to make upfront expenditures and devote time and attention to cultivating relationships. If we are unable to identify and engage suitable partners that are able to provide such services, or if our partners are unable to provide professional services at the quality level that our customers

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expect, we may not be able to achieve this transition as quickly as we would like, or at all. We expect that our ability to successfully implement this strategy will have a material impact on whether we can achieve profitability, due to the difference in gross margins on our support subscriptions versus our professional services. If the percentage of our total revenue that comes from professional services does not decrease over time as we expect, or we are not able to establish vendor-specific objective evidence (VSOE) for professional services revenue, then our ability to achieve profitability will be negatively impacted.

We have achieved significant growth in recent periods. Our revenue for the three months ended March 31, 2016 and 2015 was \$41.3 million and \$22.3 million, respectively. Our gross billings for the three months ended March 31, 2016 and 2015 were \$53.7 million and \$28.1 million, respectively. We incurred net losses for the three months ended March 31, 2016 and 2015 of \$65.8 million and \$40.6 million, respectively. See **Key Business Metrics** **Gross Billings** for more information and a reconciliation of gross billings to total revenue, the most directly comparable generally accepted accounting principles (GAAP) financial measure, and an explanation of why management uses this non-GAAP financial measure.

Key Factors Affecting Our Performance

Support Subscription Customers. Growth of our revenue from our support subscription offerings is driven by agreements with new support subscription customers, renewals of existing support subscription agreements and increased revenue from existing support subscription customers who are expanding their usage of HDP and HDF. The number of agreements with new support subscription customers signed may vary from period to period for several reasons, including the length of our sales cycle, the effectiveness of our sales and marketing efforts and overall adoption rates of Hadoop-based solutions. The contract value of our support subscriptions with individual support subscription customers varies substantially among customers, and our results of operations may fluctuate from period to period depending on the timing and composition of particular large support subscriptions including engineering services or premium subscription agreements that provide a customer with development input and the opportunity to work more closely with our developers. Our results of operations may also fluctuate, in part, due to the resource-intensive nature of our sales efforts, the length and variability of the sales cycle of our support subscription offerings and the difficulty in making short-term adjustments to our operating expenses. The length of our sales cycle from initial evaluation to payment for our support subscription offerings is generally six to nine months, but can extend to one year or more for some customers. In addition, as our professional services engagements frequently relate to initial new support subscription customer deployments of HDP and HDF, growth in our professional services revenue is driven primarily by adding new support subscription customers and the associated sales of engagements relating to customer deployment.

Additional Sales to Existing Support Subscription Customers. Our existing support subscription customers continue to represent a large opportunity for us to expand our revenue base. Growth of our revenue from existing support subscription customers typically comes when customers increase the scale of their existing deployment of HDP as well as complement their deployment with HDF. We price our support subscription offerings based on the number of nodes, data under management and/or the scope of support services provided. Accordingly, our revenue from our support subscription offerings varies but primarily depends upon the scale of our support subscription customers deployments and the breadth and scope of their support agreement.

Investing for Growth. We will continue to focus on long-term growth. We believe that our market opportunities (HDP and HDF) are large and underpenetrated, and we will continue to invest significantly in sales and marketing to grow our customer base, expand within existing support subscription customers and grow internationally to drive additional revenue. We also expect to invest in research and development to enhance HDP, HDF, Apache Hadoop and other key Apache Open Source projects including Apache NiFi. To enable our growth, we plan to further invest in other

operational and administrative functions including, but not limited to, our customer support organization that provides the basis for customer retention and further expansion. We expect to continue to use the proceeds from our IPO, the concurrent private placement and our follow-on public offering to fund these growth strategies and do not expect to be profitable in the near future. We also intend to leverage business partners for the delivery of professional services. We believe that our sales and marketing, research and development and general and administrative costs will decrease as a percentage of revenue in the long term as we are able to reach economies of scale and achieve process improvements and other operational efficiencies. With this increased operating leverage, we expect our gross and operating margins to increase in the long term.

Revenue Recognition Policies. We typically enter into sales arrangements pursuant to which we provide both support subscription offerings and professional services. On occasion, we sell engineering services as well as a premium subscription offering which allows a higher level of access and development input. Pursuant to software revenue recognition rules under GAAP, for arrangements providing both support subscription offerings and professional services, we typically recognize as revenue the entire arrangement fee ratably over the subscription period once the support subscription and professional services have commenced. The appropriate timing of revenue recognition must be evaluated on an arrangement-by-arrangement basis. The costs associated with our support subscription and professional services revenue are expensed as we incur the delivery costs. However, in many cases, the related revenue is deferred and recognized ratably over a later period. Thus, during times of rapid customer growth and accompanying delivery of professional services, our gross margin is expected to be negatively impacted.

Table of Contents**Key Business Metrics**

We review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. These key business metrics include the following:

Dollar-Based Net Expansion Rate. We believe that our ability to retain our customers and expand their support subscription revenue over time will be an indicator of the stability of our revenue base and the long-term value of our customer relationships. Maintaining customer relationships allows us to sustain and increase revenue to the extent customers maintain or increase the number of nodes, data under management and/or the scope of the support subscription agreements. To date, only a small percentage of our customer agreements have reached the end of their original terms and, as a result, we have not observed a large enough sample of renewals to derive meaningful conclusions. We calculate dollar-based net expansion rate as of a given date as the aggregate annualized subscription contract value as of that date from those customers that were also customers as of the date 12 months prior, divided by the aggregate annualized subscription contract value from all customers as of the date 12 months prior. We calculate annualized support subscription contract value for each support subscription customer as the total subscription contract value as of the reporting date divided by the number of years for which the support subscription customer is under contract as of such date. We report the trailing four-quarter average dollar-based net expansion rate as of each period end. The dollar-based net expansion rate as of both March 31, 2016 and December 31, 2015 was 159 percent.

Total subscription contract value for a support subscription customer account is a legal and contractual determination calculated as of a given date by aggregating the subscription fees that we expect to receive for each support subscription, assuming no changes to the subscription. The total subscription contract value is not determined by reference to historical or future revenue, deferred revenue or any other GAAP financial measure over any period. It is forward-looking and contractually derived as of the date of determination, and the period over which any associated revenue is recognized is affected by our revenue recognition policies under GAAP.

Total Support Subscription Customers. We believe total support subscription customers is a key indicator of our market penetration, growth and future revenue. In order to grow our customer base, we have aggressively invested in and intend to continue to invest in our direct sales team, as well as to pursue additional partnerships within our indirect sales channel. We generally define a support subscription customer as an entity with an active support subscription as of the measurement date. In situations where there are multiple contracts with multiple subsidiaries or divisions, universities, or governmental organizations of a single entity, the entity is counted once.

Gross Billings. We have included gross billings, a non-GAAP financial measure, because it is a key measure used by our Board of Directors and management to monitor our near term cash flows and manage our business. Gross billings is calculated as total non-GAAP revenue plus the change in deferred revenue for the same period. We primarily employ a subscription based business model for support services and in more instances customers purchase both a support subscription and professional services engagements at the same time. Since we have not yet established VSOE of fair value for our support subscriptions, we recognize most of our revenue ratably over the period beginning when both the support subscription and professional services have commenced. The accounting treatment for our agreements coupled with the lack of VSOE causes the recognition of our revenue to be delayed and creates significant deferred revenue balances.

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We have provided a reconciliation between total revenue, the most directly comparable GAAP financial measure, and gross billings in the table below. We believe gross billings provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our Board of Directors and management.

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Gross billings:		
Total revenue	\$ 41,342	\$ 22,317
Contra revenue		
Total non-GAAP revenue	41,342	22,317
Total deferred revenue, end of period	119,121	68,707
Less: Total deferred revenue, beginning of period	(106,779)	(62,923)
Total change in deferred revenue	12,342	5,784
Gross billings	\$ 53,684	\$ 28,101

Components of Results of Operations***Revenue***

We generate revenue primarily under multiple-element arrangements that include support subscription offerings combined with consulting and/or training services. On occasion, we sell engineering services as well as a premium subscription offering which allows a higher level of access and development input. We have not yet established VSOE of fair value, for our support subscriptions. Accordingly, for our multiple-element arrangements, we generally recognize revenue on a ratable basis over the period beginning when both the support subscription and professional services have commenced, and ending at the conclusion of the support subscription or professional services period, whichever is longer.

Cost of Revenue

Cost of support subscription revenue consists primarily of personnel costs (including salaries, benefits and stock-based compensation expense) for employees, including support engineers, associated with our support subscription offerings mainly related to technology support and allocated shared costs. Cost of professional services revenue consists primarily of personnel costs (including salaries, benefits and stock-based compensation expense) for employees and fees to subcontractors associated with our professional service contracts, travel costs and allocated shared costs.

We allocate shared costs such as rent, information technology and employee benefits to all departments based on headcount. As such, allocated shared costs are reflected in cost of revenue and each operating expense category. Cost of revenue for support subscription and professional services is expensed as incurred.

Operating Expenses

Sales and Marketing. Sales and marketing expenses consist primarily of personnel costs (including salaries, benefits and stock-based compensation expense) for our sales and marketing employees. In addition, sales and marketing expenses include the cost of advertising, online marketing, promotional events, corporate communications, product marketing and other brand-building activities, plus allocated shared costs. We expect our sales and marketing expenses to continue to increase for the foreseeable future as we continue to invest in our selling and marketing activities, build brand awareness, attract new customers and sponsor additional marketing events. However, we expect our sales and marketing expenses to decrease as a percentage of our total revenue over the long term.

Research and Development. Research and development expenses consist primarily of personnel costs (including salaries, benefits and stock-based compensation expense) for our research and development employees, costs associated with subcontractors and equipment lease expenses, plus allocated shared costs. Our research and development expenses include costs for development related to the distribution of our solutions, including security updates, fixes, functionality enhancements, upgrades to the technology and new versions of the software, quality assurance personnel, technical documentation personnel and at times expenses related to engineering

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resources for our subscription and professional services offerings. We expect to continue to focus our research and development efforts on enhancing and adding new features and functionality to our offerings. As a result, we expect our research and development expenses to continue to increase for the foreseeable future. However, we expect our research and development expenses to decrease as a percentage of our total revenue over the long term.

General and Administrative. General and administrative expenses consist primarily of personnel costs (including salaries, benefits and stock-based compensation expense) for our executive, finance, human resources, IT and other administrative employees. In addition, general and administrative expenses include fees for third-party professional services, including consulting, legal and accounting services and other corporate expenses and allocated overhead. We expect our general and administrative expenses to continue to increase for the foreseeable future as we continue to invest in the growth of our business. However, we expect our general and administrative expenses to decrease as a percentage of our total revenue over the long term.

Table of Contents**Results of Operations**

The following table sets forth selected consolidated statements of operations data for each of the periods indicated:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Support subscription and professional services revenue:		
Support subscription	\$ 27,634	\$ 13,144
Professional services	13,708	9,173
Total support subscription and professional services revenue	41,342	22,317
Cost of revenue:		
Support subscription	4,901	2,549
Professional services	11,455	8,911
Total cost of revenue	16,356	11,460
Gross profit	24,986	10,857
Operating expenses:		
Sales and marketing	42,083	27,757
Research and development	22,151	14,980
General and administrative	26,054	9,052
Total operating expenses	90,288	51,789
Loss from operations	(65,302)	(40,932)
Other (expense), income, net	(295)	426
Loss before income tax	(65,597)	(40,506)
Income tax expense	155	84
Net loss	\$ (65,752)	\$ (40,590)

Table of Contents**Comparison of the Three Months Ended March 31, 2016 and 2015*****Revenue***

	Three Months Ended March 31,		\$ Change	% Change
	2016	2015		
	(in thousands)			
Support subscription and professional services revenue:				
Support subscription	\$ 27,634	\$ 13,144	\$ 14,490	110%
Professional services	13,708	9,173	4,535	49
 Total support subscription and professional services revenue	 \$ 41,342	 \$ 22,317	 \$ 19,025	 85%

Support subscription revenue increased by \$14.5 million or 110 percent, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase of \$14.5 million was primarily due to the growth in our support subscription customer base as well as sales of additional support subscriptions to our existing customers.

Professional services revenue increased \$4.5 million or 49 percent, for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase of \$4.5 million was primarily due to the growth in our support subscription customer base.

Cost of Revenue

	Three Months Ended March 31,		\$ Change	% Change
	2016	2015		
	(in thousands)			
Cost of revenue:				
Cost of support subscription	\$ 4,901	\$ 2,549	\$ 2,352	92%
Cost of professional services	11,455	8,911	2,544	29
 Total cost of revenue	 \$ 16,356	 \$ 11,460	 \$ 4,896	 43%

Cost of support subscription revenue increased \$2.4 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase was primarily attributable to a \$2.0 million increase in employee-related expenses, primarily as a result of an increase in headcount to support new customer growth.

Cost of professional services revenue increased \$2.5 million for three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase was primarily attributable to a \$2.2 million increase in employee-related expenses as a result of an increase in headcount.

Sales and Marketing

	Three Months Ended March 31,		\$ Change	% Change
	2016	2015		
	(in thousands)			
Sales and marketing	\$ 42,083	\$ 27,757	\$ 14,326	52%

Sales and marketing expenses increased \$14.3 million in the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase was primarily attributable to an increase in employee-related expenses of \$12.1 million, which included \$4.2 million of stock-based compensation expense, primarily as a result of an increase in headcount. In addition, travel expenses increased by \$1.0 million primarily due to increased headcount to support the growth in our business.

Table of Contents***Research and Development***

	Three Months Ended March 31,			
	2016	2015	\$ Change	% Change
	(in thousands)			
Research and development	\$ 22,151	\$ 14,980	\$ 7,171	48%

Research and development expenses increased \$7.2 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase was primarily attributable to an increase in employee-related expenses of \$6.4 million, which included \$5.7 million of stock-based compensation expense, primarily due to an increase in headcount.

General and Administrative

	Three Months Ended March 31,			
	2016	2015	\$ Change	% Change
	(in thousands)			
General and administrative	\$ 26,054	\$ 9,052	\$ 17,002	188%

General and administrative expenses increased \$17.0 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015. The increase was primarily attributable to an increase in employee-related expenses of \$15.6 million partly due to an increase in headcount, which includes \$13.3 million of stock-based compensation expense. The increase in stock-based compensation expense was primarily due to the accelerated recognition of \$10.0 million in stock-based compensation expense related to the cancellation of stock options to purchase 1,185,000 shares from one of our executives in February 2016. In addition, general and administrative expenses increased due to the impairment charge of \$0.7 million on our promissory note receivable.

Table of Contents**Liquidity and Capital Resources**

As of March 31, 2016, our principal sources of liquidity were cash and cash equivalents and investments totaling \$149.0 million, which were held for working capital purposes. Cash and cash equivalents are comprised primarily of cash deposits, money market funds and commercial paper. Our short-term and long-term investments are primarily comprised of treasury bills, commercial paper, certificates of deposits, corporate notes and bonds, U.S. government securities and our promissory note receivable.

The following table summarizes our cash flows for the periods indicated:

	Three Months Ended	
	March 31,	
	2016	2015
	(in thousands)	
Cash used in operating activities	\$ (35,668)	\$ (28,729)
Cash used in investing activities	(52,593)	(21,928)
Cash provided by financing activities	90,810	313

To date, we have financed our operations primarily through private placements of preferred stock, our IPO, the concurrent private placement of our common stock, our follow-on public offering and cash collected from sales of our support subscriptions and professional services to customers. We believe that our existing cash and cash equivalents and investments totaling \$149.0 million will be sufficient to meet our working capital and capital expenditure requirements for the next 12 months.

Our expected future capital requirements may depend on many factors including customer retention and expansion, the timing and extent of spending on platform development efforts, the expansion of sales, marketing and product management activities and ongoing investments to support the growth of our business in the United States and internationally. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies and intellectual property rights. We may be required to seek additional equity or debt financing in order to meet these future capital requirements. In the event that additional financing is required from outside sources, we may not be able to raise it on terms that are acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations and financial condition would be adversely affected.

Operating Activities

Our largest source of operating cash inflows is from sales of our support subscriptions and professional services. Our primary uses of cash from operating activities are for personnel costs, which are allocated across cost of sales, sales and marketing, research and development and general and administrative costs.

Operating activities for the three months ended March 31, 2016 used \$35.7 million of cash compared to \$28.7 million for the three months ended March 31, 2015. The increase was primarily driven by our net loss of \$65.8 million for the three months ended March 31, 2016 compared to a net loss of \$40.6 million for the three months ended March 31, 2015, adjusted for the non-cash charges of \$29.4 million in stock-based compensation expense, primarily due to an increase in headcount and the accelerated recognition of \$10.0 million in stock-based compensation expense related to the cancellation of stock options to purchase 1,185,000 shares from one of our executives in February 2016, and \$0.7 million for the impairment charge on the promissory note receivable. In addition, accounts receivable increased by

\$11.1 million, which was primarily attributable to the overall increase in billings, and prepaid expenses and other current assets increased by \$3.5 million, due in part to the purchase of software licenses and annual Hadoop Summit conferences, during the three months ended March 31, 2016. These factors were partially offset by increases in deferred revenue of \$11.7 million due to the increase in our support subscription customer base coupled with our ratable revenue recognition as a result of our lack of VSOE for support subscription revenue.

Investing Activities

Investing activities for the three months ended March 31, 2016 used \$52.6 million of cash compared to the \$21.9 million of cash used in investing activities for the three months ended March 31, 2015. The increase in cash used was primarily driven by an increase in purchases of investments of \$31.7 million principally due to the investing of the proceeds from the follow-on offering for the three months ended March 31, 2016. The increase in cash used also resulted from maturities of investments of \$5.7 million in support of our growth. These factors were offset by a decrease in purchases of property and equipment of \$2.9 million, due to a large amount of unpaid property and equipment, and cash provided from the sale of investments of \$1.3 million in support of our growth.

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Financing Activities

Financing activities for the three months ended March 31, 2016 generated \$90.8 million of cash compared to \$0.3 million for the three months ended March 31, 2015. The increase in cash provided by financing activities primarily driven by the sale of follow-on public offering and issuance of common stock, which generated net proceeds of \$87.8 million and \$4.3 million, respectively, during the three months ended March 31, 2016. These factors were partially offset by payments of contingent consideration related to business combinations of \$1.6 million.

Contractual Obligations and Other Commitments

As of March 31, 2016, there have been no material changes outside the normal course of business in contractual obligations from the information provided in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Off-Balance Sheet Arrangements

Through March 31, 2016, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Segment Information

We operate in one reportable segment.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in accordance with GAAP. In the preparation of these condensed consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. To the extent that there are material differences between these estimates and actual results, our financial condition or operating results would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Recently Issued Accounting Pronouncements

See Note 1 Description of Business and Summary of Significant Accounting Policies in the Notes to our condensed consolidated financial statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our primary exposure to market risk relates to interest rate changes. We had cash and cash equivalents and investments totaling \$149.0 million and \$96.9 million as of March 31, 2016 and December 31, 2015, respectively. Cash and cash equivalents are comprised primarily of cash deposits, money market funds and commercial paper. Our short-term and long-term investments are primarily comprised of treasury bills, commercial paper, certificates of deposits, corporate notes and bonds, United States government securities and our promissory note receivable. The cash and cash equivalents are held for working capital purposes. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes. Due to the predominantly short-term nature of the instruments in our portfolio, a sudden change in market interest rates would not be expected to have a material impact on our consolidated financial statements.

Our promissory note receivable is with a third-party service provider. During the three months ended March 31, 2016, we recognized in general and administrative expense an impairment charge on the promissory note receivable of \$0.7 million, decreasing the carrying value to \$1.9 million. We compared the amortized cost basis of the promissory note receivable to the present value of the future cash flows expected from the promissory note receivable to determine the impairment charge recognized. Our maximum exposure to credit risk is the principal remaining amount of the note of \$1.9 million plus accrued and unpaid interest. We will continue to monitor the receivable for collectability going forward.

Item 4. Controls and Procedures
Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms at the reasonable assurance level. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were not effective at the reasonable assurance level due to a material weakness in our internal control over financial reporting related to the recognition of revenue and deferred revenue for a subset of non-standard license transactions where renewal rates for post-contract support were stated upon commencement of the arrangement. Notwithstanding the identified material weakness, management has determined that the financial statements and other information included in this Quarterly Report on Form 10-Q and other periodic filings present fairly in all material respects the financial position and results of operations for the periods presented in accordance with GAAP.

In our 10-K filing for the fiscal year ended December 31, 2015, we determined a secondary review of specific agreements was not performed at a sufficiently detailed level. Such review would have provided oversight related to the recognition of revenue and deferred revenue for a subset of non-standard license transactions where renewal rates for post-contract support were stated upon commencement of the arrangement. These findings were related to the design effectiveness of the control. Although the adjustments identified and recorded during the year related to the subset of non-standard license transactions were not material, we concluded the deficiency presented a reasonable possibility that a material misstatement of the consolidated financial statements would not have been prevented or detected. Accordingly, management determined the design deficiency constituted a material weakness.

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Remediation Steps Taken to Address the Material Weakness

During the first quarter of 2016, with the oversight of our management and our audit committee, we have taken or are taking the following measures which we believe will address the underlying causes of the material weakness described above.

We are tracking and monitoring non-standard license transactions while also obtaining approvals for these transactions from management;

We have implemented multiple levels of review for non-standard license transactions relative to proper revenue recognition accounting treatment;

We have enhanced the documentation related to our identification and assessment of non-standard license transactions;

We added resources to assist with preparation and review of the revenue recognition treatment documented for non-standard license transactions; and

We conducted discussions with external accounting experts on large amount and non-standard transactions regarding revenue recognition treatment.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as described below:

During the first quarter of 2016, we undertook efforts to redesign and enhance our internal controls related to our revenue recognition review process. Specifically, we implemented additional levels of review and tracking related to our revenue recognition treatment of transactions and added a separate control for non-standard license transactions.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are involved in legal proceedings and subject to claims arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

On February 29, 2016, a putative class action lawsuit alleging violations of federal securities laws was filed in the U.S. District Court for the Northern District of California, naming as defendants the Company, Robert G. Bearden and Scott J. Davidson. The lawsuit alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by allegedly making materially false and misleading statements regarding the Company's business and operations. Plaintiff seeks to represent a class of persons who purchased or otherwise acquired Hortonworks securities between November 4, 2015 and January 15, 2016, inclusive. Plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. Based on a review of the allegations, we believe that the plaintiff's allegations are without merit, and intend to vigorously defend against the claims.

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Item 1A. Risk Factors.

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this report and in our other public filings, before making a decision to invest in our common stock. If any of the risks actually occur, our business, financial condition, results of operations and prospects could be harmed. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business

We have a history of losses, and we may not become profitable in the future.

We have incurred net losses since our inception, including net losses of \$65.8 million and \$40.6 million for the three months ended March 31, 2016 and 2015, respectively. As a result, we had an accumulated deficit of \$516.6 million at March 31, 2016. It is difficult for us to predict our future results of operations since the market for our solutions is rapidly evolving and has not yet reached widespread adoption. We may not achieve sufficient revenue to attain and maintain profitability. We expect our operating expenses to increase over the next several years as we hire additional personnel, particularly in sales and marketing, expand and improve the effectiveness of our distribution channels, and continue to invest in the development of the Hortonworks Data Platform (HDP) and Hortonworks DataFlow Platform (HDF) offerings. In addition, as we grow and as a result of being a public company, we will incur additional significant legal, accounting and other expenses that we did not incur as a private company. As a result of these increased expenses, we will have to generate and sustain increased revenue to be profitable in future periods. Any failure by us to sustain or increase profitability on a consistent basis could cause the value of our common stock to decline.

We have a limited operating history, which makes it difficult to predict our future results of operations.

We were incorporated in 2011 and introduced our first solution in 2012. As a result of our limited operating history, our ability to forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth has been inconsistent, has benefited from transactions with related parties and should not be considered indicative of our future performance. Further, in future periods, our revenue growth could slow or our revenue could decline for a number of reasons, including slowing demand for our support subscription offerings and our professional services, increasing competition, a decrease in the growth of our overall market, or our failure, for any reason, to continue to capitalize on growth opportunities. We have also encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties and our future revenue growth (each of which we use to plan our business) are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

We do not have an adequate history with our support subscription offerings or pricing models to accurately predict the long-term rate of support subscription customer renewals or adoption or the impact these renewals and adoption will have on our revenue or results of operations.

We have limited experience with respect to determining the optimal prices for our support subscription offerings. As the market for open source distributed data platforms matures, or as competitors introduce new products or services that compete with ours, we may be unable to attract new support subscription customers at the same price or based on the same pricing model as we have used historically. Moreover, large support subscription customers, which are the focus of our sales efforts, may demand greater price concessions. As a result, in the future, we may be required to

reduce our prices, which could harm our revenue, gross margins, financial position and cash flows. Furthermore, while the terms of our support subscription agreements limit the number of supported nodes or the size of supported data sets, such limitations may be improperly circumvented or otherwise bypassed by certain users.

We expect to derive a significant portion of our revenue from renewals of existing support subscription agreements. As a result, customers renewing and expanding their support subscription relationships with us will be critical to our business. Our support subscription customers have no obligation to renew their support subscriptions after the expiration of the initial support subscription period and may renew for fewer elements of our support subscription offerings or on different pricing terms. We have limited historical data with respect to support subscription customer renewals, including those support subscription arrangements which also allow the customer the ability to potentially impact the direction and development of the underlying open source solution, and to date, the majority of our support subscription agreements have not reached the end of their original term, so we cannot accurately predict support subscription customer renewals. Our support subscription customers' renewals may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our pricing or our product offerings and their ability to continue their operations and spending levels. If our support subscription customers do not renew their support subscriptions on similar pricing terms, our revenue may decline and our business could suffer. In addition, over time the average term of our contracts could change based on renewals or for other reasons.

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Because we derive our revenue and cash flows primarily from supporting HDP and services and training related to it, failure of these offerings or our new product offerings to satisfy customer requirements or to achieve increased market acceptance would harm our business, results of operations, financial condition and growth prospects.

We derive and expect to continue to derive primarily all of our revenue and cash flows from customer fees for support subscription offerings and professional services in support of HDP. As such, the market acceptance of HDP is critical to our continued success. Demand for HDP is affected by a number of factors beyond our control, including market acceptance of open source distributed data platforms by referenceable accounts for existing and new use cases, the continued enhancement of HDP to incorporate features and functionality desired by our support subscription customers, the timing of development and release of new products by our competitors, technological change and growth or contraction in our market. We expect the proliferation of unstructured data to lead to an increase in the data storage and processing demands of our customers, and HDP may not be able to perform to meet those demands. If we are unable to continue to meet support subscription customer requirements or to achieve more widespread market acceptance of HDP, our business, results of operations, financial condition and growth prospects will be harmed. We launched HDF in September 2015 and general availability of HDF only commenced towards the end of the third fiscal quarter of 2015. As such, we cannot predict how quickly customer subscriptions will increase, to what degree this new product offering will satisfy customer requirements or the rate at which market acceptance will occur.

Our success is highly dependent on our ability to penetrate the existing market for open source distributed data platforms and data ingest platforms as well as the growth and expansion of the market for open source distributed data platforms and data ingest platforms.

The market for Hadoop and open source distributed data platforms and the market for NiFi and open source data ingest platforms are relatively new, rapidly evolving and unproven. Our future success will depend in large part on Hadoop's ability to penetrate the existing market for open source distributed data platforms, as well as the continued growth and expansion of the market for open source distributed data platforms, and it will also depend on NiFi's ability to penetrate the existing market for open source data ingest platforms as well as the continued growth and expansion of the market for open source data ingest platforms. It is difficult to predict support subscription customer adoption and renewals, support subscription customer demand for our offerings, the size, growth rate and expansion of these markets, the entry of competitive products or the success of existing competitive products. Our ability to penetrate the existing markets for open source distributed data platforms and data ingest platforms and any expansion of such markets depends on a number of factors, including the cost, performance and perceived value associated with our offerings, as well as support subscription customers' willingness to adopt an alternative approach to data collection, storage and processing. Furthermore, many potential support subscription customers have made significant investments in legacy data collection, storage and processing software and may be unwilling to invest in new solutions. If the markets for open source distributed data platforms or data ingest platforms fail to grow or expand or decrease in size, or if we do not succeed in further penetrating such markets, our business would be harmed.

If we are unable to maintain successful relationships with our partners, our business, results of operations and financial condition could be harmed.

In addition to our direct sales force and our website, we use strategic partners, such as distribution partners and resellers, to sell our support subscription offerings and our professional services. We expect that sales through partners will continue to grow as a proportion of our revenue for the foreseeable future.

Our agreements with our partners are generally non-exclusive, meaning our partners may offer customers the products and services of several different companies, including products and services that compete with ours, or may themselves be or become competitors. If our partners do not effectively market and sell our support subscription

offerings and our professional services, choose to use greater efforts to market and sell their own products and services or those of our competitors, or fail to meet the needs of our customers, our ability to grow our business and sell our support subscription offerings and our professional services may be harmed. Our partners may cease marketing our support subscription offerings or professional services with limited or no notice and with little or no penalty. The loss of a substantial number of our partners, our possible inability to replace them, or the failure to recruit additional partners could harm our results of operations.

Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our partners, and in helping our partners enhance their ability to independently sell our support subscription offerings and deliver professional services. If we are unable to maintain our relationships with these partners, or otherwise develop and expand our indirect distribution channel, our business, results of operations, financial condition or cash flows could be harmed.

Table of Contents***If we are unable to effectively compete, our business and operating results could be harmed.***

We face substantial competition from Hadoop distribution vendors such as Cloudera, Inc. and MapR Technologies, Inc., as well as enterprise software and infrastructure vendors that offer Hadoop distributions such as International Business Machines Corporation and Oracle Corporation. Further, other established system providers not currently focused on Hadoop, including traditional data warehouse solution providers such as Teradata Corporation (Teradata), SAP AG (SAP) and EMC Corporation (EMC), or open source distributed data platform providers, including non-relational NoSQL database providers such as MongoDB, Inc. (MongoDB) and Datastax, Inc. (DataStax) may expand their products and services to compete with us. Additionally, some potential customers may elect to implement and self-support Hadoop deployments internally, thus not purchasing a support subscription from us. Some of the companies that compete with us, or that may compete with us in the future, have greater name recognition, substantially greater financial, technical, marketing and other resources, the ability to devote greater resources to the promotion, sale and support of their solutions, more extensive customer bases and broader customer relationships and longer operating histories than we have.

We expect competition to increase as other companies continue to evolve their offerings and as new companies enter our market. Increased competition is likely to result in pricing pressures on our support subscription offerings and our professional services, which could negatively impact our gross margins. If we are unable to effectively compete, our revenue could decline and our business, operating results and financial condition could be adversely affected.

The competitive position of our product offerings depends in part on their ability to operate with third-party products and services, including those of our partners, and, if we are not successful in maintaining and expanding the compatibility of HDP and HDF with such products and services, our business will suffer.

The competitive position of HDP and HDF depends in part on their ability to operate with products and services of third parties, including software companies that offer applications designed for various business intelligence applications, software services and infrastructure, and it must be continuously modified and enhanced to adapt to changes in hardware, software, networking, browser and database technologies. In the future, one or more technology companies, whether our partners or otherwise, may choose not to support the operation of their software, software services and infrastructure with HDP or HDF, or our offerings may not support the capabilities needed to operate with such software, software services and infrastructure. In addition, to the extent that a third party were to develop software or services that compete with ours, that provider may choose not to support HDP or HDF. We intend to facilitate the compatibility of our product platforms with various third party software, software services and infrastructure offerings by maintaining and expanding our business and technical relationships. If we are not successful in achieving this goal, our business, financial condition and results of operations may suffer.

If open source software programmers, many of whom we do not employ, or our own internal programmers do not continue to develop and enhance open source technologies, we may be unable to develop new technologies, adequately enhance our existing technologies or meet customer requirements for innovation, quality and price.

We rely to a significant degree on a number of independent open source software programmers, or Hadoop committers and contributors, to develop and enhance Apache Hadoop and its related technologies. Additionally, members of the corresponding Apache Software Foundation Project Management Committees (PMCs), many of whom are not employed by us, are primarily responsible for the oversight and evolution of the codebases of Hadoop and its related technologies. If the Hadoop committers and contributors fail to adequately further develop and enhance open source technologies, or if the PMCs fail to oversee and guide the evolution of Hadoop-related technologies in the manner that we believe is appropriate to maximize the market potential of our offerings, then we would have to rely on other parties, or we would need to expend additional resources, to develop and enhance our offerings. We also

must devote adequate resources to our own internal programmers to support their continued development and enhancement of open source technologies, and if we do not do so, we may have to turn to third parties or experience delays in developing or enhancing open source technologies. We cannot predict whether further developments and enhancements to these technologies would be available from reliable alternative sources. In either event, our development expenses could be increased and our technology release and upgrade schedules could be delayed. Delays in developing, completing or delivering new or enhanced offerings could cause our offerings to be less competitive, impair customer acceptance of our offerings and result in delayed or reduced revenue for our offerings.

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Our subscription-based business model may encounter customer resistance or we may experience a decline in the demand for our offerings.

We provide our support subscription offerings primarily under annual or multi-year subscriptions. A support subscription generally entitles a support subscription customer to a specified scope of support, as well as security updates, fixes, functionality enhancements and upgrades to the technology and new versions of the software, if and when available, and compatibility with an ecosystem of certified hardware and software applications. We may encounter support subscription customer resistance to this distribution model or support subscription customers may fail to honor the terms of our support subscription agreements. To the extent we are unsuccessful in promoting or defending this distribution model, our business, financial condition, results of operations and cash flows could be harmed.

Demand for our offerings may fluctuate based on numerous factors, including the spending levels and growth of our current and prospective support subscription customers, and general economic conditions. In addition, our support subscription customers generally undertake a significant evaluation process that may result in a prolonged sales cycle. We spend substantial time, effort and money on our sales efforts, including developing and implementing appropriate go-to-market strategies and training our sales force and ecosystem partners in order to effectively market new solutions, without any assurance that our efforts will produce any sales. The purchase of our offerings may be discretionary and can involve significant expenditures. If our current and prospective support subscription customers cut costs, then they may significantly reduce their enterprise software expenditures.

As technologies and the marketplace for our offerings change, our subscription-based business model may no longer meet the needs of our support subscription customers. Consequently, we may need to develop new and appropriate marketing and pricing strategies for our solutions. If we are unable to adapt our business model to changes in the marketplace or if demand for our solutions declines, our business, financial condition, results of operations and cash flows could be harmed.

If we are unable to expand sales to existing customers, our growth could be slower than we expect and our business and results of operations may be harmed.

Our future growth depends in part upon expanding sales of our support subscription offerings and our professional services to our existing customers. If our existing customers do not purchase additional or incremental support subscription offerings and professional services, our revenue may grow more slowly than expected, may not grow at all or may decline. Additionally, increasing incremental sales to our current customer base requires increasingly sophisticated and costly sales efforts. There can be no assurance that our efforts will result in increased sales to existing customers and additional revenue. If our efforts to expand sales to our existing customers are not successful, our business and operating results would be harmed.

Revenue from our largest customers has accounted for a significant percentage of our revenue, and the loss of one or more of our significant customers would harm our business.

A significant portion of our revenue has been concentrated among a relatively small number of large customers. The revenue from our three largest customers as a group accounted for approximately 14 percent and 23 percent of our total revenue for the three months ended March 31, 2016 and 2015, respectively. While we expect that the revenue from our largest customers will continue to decrease over time as a percentage of our total revenue as we generate more revenue from other customers, we expect that revenue from a relatively small group of customers will continue to account for a significant portion of our revenue, at least in the near term. Our customer agreements generally do not contain long-term commitments from our customers, and our customers may be able to terminate their agreements

with us prior to expiration of the term.

We may not be able to continue our relationships with any of our largest customers on the same or more favorable terms in future periods or our relationships may not continue beyond the terms of our existing contracts with them. Our revenue and operating results would suffer if, among other things, any of our largest customers were to renegotiate, terminate, renew on less favorable terms or fail to renew their agreements with us.

Our future results of operations may fluctuate significantly, and our recent results of operations may not be a good indication of our future performance.

Our revenue and results of operations could vary significantly from period to period as a result of various factors, many of which are outside of our control. At the beginning of each quarter, we do not know the number of new support subscriptions that we will enter into during the quarter. In addition, the contract value of our support subscriptions varies substantially among customers, and a single, large support subscription in a given period could distort our results of operations. Comparing our revenue and results of operations on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance.

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We may not be able to accurately predict our future revenue or results of operations on a quarterly or longer-term basis. We base our current and future expense levels on our operating plans and sales forecasts, and our operating costs are expected to be relatively fixed in the short-term. As a result, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in billings or revenue, and even a small shortfall in revenue in a quarter could harm our financial results for that quarter and cause our financial results to fall short of analyst expectations, which could cause the market price of our common stock to decline substantially.

In addition to other risk factors described in this **Risk Factors** section, factors that may cause our results of operations to fluctuate from quarter to quarter include:

the timing of new customer contracts for support subscription offerings and professional services, and the extent to which we earn additional revenue from existing customers as they expand their deployment of the HDP and the HDF offerings;

the renewals of our support subscription arrangements with our customers;

changes in the competitive dynamics of our market;

customers delaying purchasing decisions in anticipation of new software or software enhancements;

the timing of satisfying revenue recognition criteria and our ability to obtain VSOE, for our support subscription offerings;

our ability to control costs, including our operating expenses;

the proportion of revenue attributable to larger transactions as opposed to smaller transactions and the impact that a change in such proportion may have on the overall average selling price of our support subscription offerings;

the proportion of revenue attributable to support subscription offerings and professional services, which may impact our gross margins and operating income;

the reduction or elimination of support of the Apache Hadoop Project or the Apache NiFi Project by the Apache Software Foundation, migration of Hadoop technology or NiFi technology to an organization other than the Apache Software Foundation, or any other actions taken by the Apache Software Foundation or the Apache Hadoop Project or the Apache NiFi Project that may impact our business model;

changes in customers' budgets and in the timing of their purchasing decisions;

the collectability of receivables from customers and resellers, which may be hindered or delayed if these customers or resellers experience financial distress; and

general economic conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers participate.

Many of these factors are outside of our control, and the variability and unpredictability of such factors could result in our failing to meet or exceed our financial expectations for a given period. We believe that quarter-to-quarter comparisons of our revenue, results of operations and cash flows may not necessarily be indicative of our future performance.

Our sales cycle is long and unpredictable, particularly with respect to large support subscription customers, and our sales efforts require considerable time and expense.

Our results of operations may fluctuate, in part, because of the resource-intensive nature of our sales efforts, the length and variability of the sales cycle of our support subscription offerings and the difficulty in making short-term adjustments to our operating expenses. Our results of operations depend in part on sales to large support subscription customers and increasing sales to existing customers. The length of our sales cycle, from initial evaluation to payment for our support subscription offerings is generally six to nine months, but can vary substantially from customer to customer. Our sales cycle can extend to more than a year for some customers. It is difficult to predict exactly when, or even if, we will make a sale to a potential customer or if we can increase sales to our existing customers. As a result, large individual sales have, in some cases, occurred in quarters subsequent to those we anticipated, or have not occurred at all. The loss or delay of one or more large transactions in a quarter could impact our results of operations for that quarter and any future quarters for which revenue from that transaction is lost or delayed. As a result of these factors, it is difficult for us to forecast our revenue accurately in any quarter. Because a substantial proportion of our expenses are relatively fixed in the short term, our results of operations will suffer if revenue falls below our expectations in a particular quarter, which could cause the price of our common stock to decline.

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We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, we may be unable to execute our business plan or maintain high levels of service and our financial results could be negatively impacted.

We have increased our number of full-time employees to 941 at March 31, 2016 from 653 at March 31, 2015 and have increased our revenue to \$41.3 million in the three months ended March 31, 2016 from \$22.3 million in the three months ended March 31, 2015. Our recent growth and expansion has placed, and our anticipated growth may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to continue to expand our overall business, customer base, headcount and operations. Continued growth increases the challenges involved in:

recruiting, training and retaining sufficient skilled technical, marketing, sales and management personnel;

preserving our culture, values and entrepreneurial environment;

developing and improving our internal administrative infrastructure, particularly our financial, operational, compliance, recordkeeping, communications and other internal systems;

managing our international operations and the risks associated therewith;

maintaining high levels of satisfaction with our solutions among our customers; and

effectively managing expenses related to any future growth.

If we fail to manage our growth effectively, our business, results of operations and financial condition could suffer.

Our future success depends in large part on the growth of the market for big data applications and an increase in the desire to ingest, store and process big data, and we cannot be sure that the market for big data applications will grow as expected or, even if such growth occurs, that our business will grow at similar rates, or at all.

Our ability to increase the adoption of HDP and HDF, increase sales of support subscription offerings and professional services and grow our business depends on the increased adoption of big data services and applications by enterprises. While we believe that big data services and applications can offer a compelling value proposition to many enterprises, the broad adoption of big data applications and services also presents challenges to enterprises, including developing the internal expertise and infrastructure to manage big data applications and services effectively, coordinating multiple data sources, defining a big data strategy that delivers an appropriate return on investment and implementing an information technology infrastructure and architecture that enables the efficient deployment of big data solutions. Accordingly, our expectations regarding the potential for future growth in the market for big data applications and services, and the third-party growth estimates for this market in this Quarterly Report on Form 10-Q, are subject to significant uncertainty. If the market for big data applications and services does not grow as expected, our business prospects may be adversely affected. Even if the market for big data applications and services increases, we cannot be sure that our business will grow at a similar rate, or at all.

Because of the characteristics of open source software, there are few technological barriers to entry into the open source market by new competitors and it may be relatively easy for competitors, some of which may have greater resources than we have, to enter our markets and compete with us.

One of the characteristics of open source software is that anyone may modify and redistribute the existing open source software and use it to compete in the marketplace. Such competition can develop without the degree of overhead and lead time required by traditional proprietary software companies. It is possible for competitors with greater resources than ours to develop their own open source software, including software based on one or more components of Hadoop, NiFi, HDP or HDF, potentially reducing the demand for our solutions and putting price pressure on our support subscription offerings and our professional services. We cannot guarantee that we will be able to compete successfully against current and future competitors or that competitive pressure or the availability of new open source software will not result in price reductions, reduced operating margins and loss of market share, any one of which could harm our business, financial condition, results of operations and cash flows.

Our software development and licensing model could be negatively impacted if the Apache License, Version 2.0 is not enforceable or is modified so as to become incompatible with other open source licenses.

HDP and HDF have been provided under the Apache License 2.0. This license states that any work of authorship licensed under it, and any derivative work thereof, may be reproduced and distributed provided that certain conditions are met. It is possible that a court would hold this license to be unenforceable or that someone could assert a claim for proprietary rights in a program developed and distributed under it. Any ruling by a court that this license is not enforceable, or that open source components of HDP or HDF may not be reproduced or distributed, may negatively impact our distribution or development of all or a portion of HDP and HDF. In addition, at some time in the future it is possible that Apache Hadoop or Apache NiFi may be distributed under a different license or

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the Apache License 2.0 may be modified, which could, among other consequences, negatively impact our continuing development or distribution of the software code subject to the new or modified license. Further, full utilization of HDP and HDF may depend on applications and services from various third parties, and in the future these applications or services may not be available to our customers on commercially reasonable terms, or at all, which could harm our business.

We do not currently have vendor-specific objective evidence of fair value for support subscription offerings, and we may offer certain contractual provisions to our customers that result in delayed recognition of revenue under GAAP, which could cause our results of operations to fluctuate significantly from period-to-period in ways that do not correlate with our underlying business performance.

In the course of our selling efforts, we typically enter into sales arrangements pursuant to which we provide support subscription offerings and professional services. We refer to each individual product or service as an element of the overall sales arrangement. These arrangements typically require us to deliver particular elements in a future period. We apply software revenue recognition rules under United States generally accepted accounting principles (GAAP). In certain cases, when we enter into more than one contract with a single customer, the group of contracts may be so closely related that they are viewed under GAAP as one multiple-element arrangement for purposes of determining the appropriate amount and timing of revenue recognition. As we discuss further in Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates, because we do not have VSOE for our support subscription offerings, and because we may offer certain contractual provisions to our customers, such as delivery of support subscription offerings and professional services, or specified functionality, or because multiple contracts signed in different periods may be viewed as giving rise to multiple elements of a single arrangement, we may be required under GAAP to defer revenue to future periods. Typically, for arrangements providing for support subscription offerings and professional services, we have recognized as revenue the entire arrangement fee ratably over the support subscription period, although the appropriate timing of revenue recognition must be evaluated on an arrangement-by-arrangement basis and may differ from arrangement to arrangement. If we are unexpectedly required to defer revenue to future periods for a significant portion of our sales, our revenue and overall operating results for a particular period could fall below our expectations or those of securities analysts and investors, resulting in a decline in our stock price.

Because we recognize revenue from subscriptions for our services over the term of the subscription, downturns or upturns in sales may not be immediately reflected in our results of operations.

We generally recognize subscription revenue from support subscription customers ratably over the term of their subscription agreements, which are generally 12 months, with some support subscription customers having subscription agreements with longer terms. As a result, much of the revenue we report in each quarter is derived from deferred revenue from subscription agreements entered into during previous quarters. Consequently, a decline in the value of new support subscription agreements entered into within any one quarter, will not necessarily be fully reflected in the revenue we record for that quarter and will harm our revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect this reduced revenue. Accordingly, the effect of significant downturns in sales and market acceptance of our services may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new support subscription customers are recognized over the applicable subscription term.

Any failure to offer high-quality support subscription offerings may harm our relationships with our support subscription customers and results of operations.

Once HDP and HDF are deployed, our support subscription customers depend on our software support organization to resolve technical issues relating to the deployment. We may be unable to respond quickly enough to accommodate short-term increases in support subscription customer demand for support subscription offerings. We also may be unable to modify the format of our support subscription offerings to compete with changes in offerings provided by our competitors. Increased support subscription customer demand for our support subscription offerings, without corresponding revenue, could increase costs and harm our results of operations. In addition, our sales process is highly dependent on our business reputation and on positive references from our existing support subscription customers. Any failure to maintain high-quality support subscription offerings, or a market perception that we do not maintain high-quality support subscription offerings, could harm our reputation, our ability to sell our support subscription offerings to existing and prospective support subscription customers and our results of operations.

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If we fail to comply with our customer contracts, our business could be harmed.

Any failure by us to comply with the specific provisions in our customer contracts could result in the imposition of various penalties, which may include termination of contracts, forfeiture of profits and suspension of payments. Further, any negative publicity related to our customer contracts or any proceedings surrounding them, regardless of its accuracy, may damage our business and affect our ability to compete for new contracts. If our customer contracts are terminated, or if our ability to compete for new contracts is adversely affected, our business, financial condition, results of operations and cash flows could be harmed.

HDP or HDF may contain errors that may be costly to correct, delay market acceptance of our solutions and expose us to claims and litigation.

Despite our testing procedures, errors, including security vulnerabilities or incompatibilities with third-party software and hardware, have been and may continue to be found in HDP or HDF after deployment. This risk is increased by the fact that much of the code in HDP and HDF are developed by independent parties over whom we may not exercise supervision or control. If errors are discovered, we may have to make significant expenditures of capital and devote significant technical resources to analyze, correct, eliminate or manage them, and we may not be able to successfully do so in a timely manner, or at all. Errors and failures in HDP or HDF could result in a loss of, or delay in, market acceptance of our enterprise technologies, loss of existing or potential customers and delayed or lost revenue and could damage our reputation and our ability to convince enterprise users of the benefits of HDP, the HDF Platform and our other offerings.

In addition, errors in HDP or HDF could cause system failures, loss of data or other adverse effects for our customers who may assert warranty and other claims for substantial damages against us. Furthermore, the mere allegation of such errors and adverse effects could expose us to warranty and other claims for substantial damages. Although our agreements with our customers often contain provisions that seek to limit our exposure to such claims, it is possible that these provisions may not be effective or enforceable under the laws of some jurisdictions or may not significantly limit our exposure to certain claims. While we seek to insure against these types of claims, our insurance policies may not adequately limit our exposure to such claims or may not apply to certain claims. These claims, even if unsuccessful, could be costly and time consuming to defend and could harm our business, financial condition, results of operations and cash flows.

Incorrect or improper implementation or use of HDP or HDF could result in customer dissatisfaction and harm our business, results of operations, financial condition and growth prospects.

HDP and HDF are deployed in a wide variety of technology environments, including in large-scale, complex technology environments, and we believe our future success will depend at least in part on our ability to support such deployments. Hadoop and NiFi are technically very complicated, and it is not easy to maximize the value of our offerings without proper implementation and training. We often must assist our customers in achieving successful implementations for large, complex deployments. If our customers are unable to implement HDP or HDF successfully, or in a timely manner, customer perceptions of our company and our offerings may be impaired, our reputation and brand may suffer, and customers may choose not to renew their subscriptions or increase their purchases of our support subscription offerings or professional services.

Our customers and partners may need training in the proper use of and the variety of benefits that can be derived from HDP or HDF to maximize their potential. HDP or HDF may perform inadequately if they are not implemented or used correctly or as intended. The incorrect or improper implementation or use of our product offerings, our failure to train customers on how to efficiently and effectively use HDP or HDF, or our failure to provide effective support

subscription offerings or professional services to our customers, may result in negative publicity or legal claims against us. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our support subscription offerings and professional services.

Interruptions or performance problems associated with our technology and infrastructure may harm our business and results of operations.

Our website and internal technology infrastructure may experience performance issues due to a variety of factors, including infrastructure changes, human or software errors, website or third-party hosting disruptions or capacity constraints due to a number of potential causes, including technical failures, natural disasters or fraud or security attacks. If our security is compromised, our website is unavailable or our users are unable to download our tools or order support subscription offerings or professional services within a reasonable amount of time or at all, our business could be harmed. We expect to continue to make significant investments to maintain and improve website performance and to enable rapid releases of new features and applications for HDP and HDF. To the extent that we do not effectively upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and results of operations may be harmed.

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In addition, we rely on SaaS technologies from third parties in order to operate critical functions of our business, including financial management services from NetSuite Inc., customer relationship management services from salesforce.com, inc. and lead generation management services from Marketo, Inc. If these services become unavailable due to extended outages or interruptions or because they are no longer available on commercially reasonable terms or prices, our expenses could increase, our ability to manage our finances could be interrupted, our processes for managing sales of our support subscription offerings and professional services and supporting our customers could be impaired, and our ability to generate and manage sales leads could be weakened until equivalent services, if available, are identified, obtained and implemented, all of which could harm our business and results of operations.

We depend on our executive officers and other key employees, and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could harm our business.

Our success depends largely upon the continued services of our executive officers and other key employees, including many Hadoop committers. We rely on our leadership team in the areas of research and development, operations, security, marketing, sales, support and general and administrative functions, and on individual contributors in our research and development. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. We do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss of one or more of our key employees or executive officers could harm our business.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for such personnel in the San Francisco Bay Area, where our headquarters is located, and in other locations where we maintain offices, is intense, especially for engineers experienced in designing and developing software and Apache Hadoop applications and experienced sales professionals. The Apache Hadoop Project relies on Hadoop committers for the project's technical management. While we currently employ a large number of Hadoop core committers and innovators, one becomes a committer by invitation only. As a result, the market to hire such individuals is very competitive. If our employees who are Hadoop core committers terminate their employment with us, we could lose our ability to innovate the core open source technology, define the roadmap for the future of Hadoop, distribute predictable and reliable enterprise quality releases and provide comprehensive support to our customers. We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached legal obligations, resulting in a diversion of our time and resources. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, it may harm our ability to recruit and retain highly skilled employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be harmed.

If we do not effectively expand and train our sales force, we may be unable to add new customers or increase sales to our existing customers and our business will be harmed.

We continue to be substantially dependent on our sales force to obtain new customers and to drive additional use cases among our existing customers. We believe that there is significant competition for sales personnel, including enterprise sales representatives and sales engineers and professional services employees, with the skills and technical knowledge that we require. In particular, there is significant demand for sales engineers with Hadoop expertise. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and

retaining sufficient numbers of sales personnel to support our growth. New hires require significant training and may take significant time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, as we continue to grow rapidly, a large percentage of our sales force will have relatively little experience working with us, our support subscription offerings and our business model. If we are unable to hire and train sufficient numbers of effective sales personnel, or our sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base, our business will be harmed.

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If we are not successful in expanding our international business, we may incur additional losses and our revenue growth could be harmed.

Our future results depend, in part, on our ability to expand into international markets. We also have a number of distributor and reseller relationships for our support subscription offerings and professional services in international markets. Our ability to expand internationally will depend upon our ability to deliver functionality and foreign language translations that reflect the needs of the international clients that we target. Our ability to expand internationally involves various risks, including the need to invest significant resources in such expansion, and the possibility that returns on such investments will not be achieved in the near future or at all in these less familiar competitive environments. We may also choose to conduct our international business through strategic alliances. If we are unable to identify strategic alliance partners or negotiate favorable alliance terms, our international growth may be harmed. In addition, we have incurred and may continue to incur significant expenses in advance of generating material revenue as we attempt to establish our presence in particular international markets.

Expanding our business internationally will also require significant attention from our management and will require us to add additional management and other resources in these markets. Our ability to expand our business, attract talented employees and enter into strategic alliances in an increasing number of international markets requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal systems, alternative dispute systems, regulatory systems, commercial infrastructures and technology infrastructure. If we are unable to grow our international operations in a timely manner, we may incur additional losses and our revenue growth could be harmed.

As we expand internationally, our business will become more susceptible to risks associated with international operations.

We principally sell our offerings through sales personnel in the United States, Australia, Brazil, Canada, France, Germany, India, Ireland, Japan, South Korea, the Netherlands, Sweden and the United Kingdom and currently have operations in the United States, Hungary, India, Ireland and the United Kingdom. We also have development teams in Budapest, Hungary, Bangalore, India and Kiev, Ukraine and a number of distributor and reseller relationships for our support subscription offerings and our professional services in other international markets. Conducting international operations subjects us to risks that we have not generally faced in the United States. These risks include:

fluctuations in currency exchange rates;

unexpected changes in foreign regulatory requirements;

potentially different pricing environments and longer sales cycles;

difficulties in managing the staffing of international operations;

potentially adverse tax consequences, including the complexities of foreign value-added tax systems, restrictions on the repatriation of earnings and changes in tax rates;

dependence on strategic alliance partners to increase client acquisition;

the burdens of complying with a wide variety of foreign laws and different legal standards;

increased financial accounting and reporting burdens and complexities;

political, social and economic instability abroad, particularly with our development team in Ukraine;

laws and business practices favoring local competitors;

terrorist attacks and security concerns in general; and

reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could harm our international business and, consequently, our results of operations. Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to operate in other countries will produce desired levels of revenue or profitability.

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We have made strategic acquisitions in the past and intend to do so in the future. If we are unable to find suitable acquisitions or partners, or to achieve expected benefits from such acquisitions or partnerships, our business, financial condition, results of operations and prospects could be harmed.

As part of our ongoing business strategy to expand our suite of solutions and acquire new technology, from time to time we engage in discussions with third parties regarding, and enter into agreements relating to, possible acquisitions, strategic alliances and joint ventures. For example, in May 2014, we acquired new technology, know-how and solutions through our acquisition of Agniv, Inc. d/b/a XA Secure, a data security company, in April 2015, we acquired SequenceIQ, kft (SequenceIQ), an open source provider of rapid deployment tools for Hadoop, located in Budapest, Hungary, and in August 2015, we acquired Onyara, a key contributor to Apache NiFi. There may be significant competition for acquisition targets in our industry, or we may not be able to identify suitable acquisition candidates, negotiate attractive terms for acquisitions or complete acquisitions on expected timelines, or at all. If we are unable to complete strategic acquisitions or do not realize the expected benefits of the acquisitions we do complete, our business, financial condition, results of operations and prospects could be harmed.

Even if we are able to complete acquisitions or enter into alliances and joint ventures that we believe will be successful, such transactions are inherently risky. Significant risks associated with these transactions, include:

failing to achieve anticipated synergies, including with respect to complementary software or services;

losing key employees of the acquired businesses;

integration and restructuring costs, both one-time and ongoing;

maintaining sufficient controls, policies and procedures, including around integration and accounting for acquisition-related expenses;

diversion of management's attention from ongoing business operations;

establishing new informational, operational and financial systems to meet the needs of our business;

our inability to maintain the key business relationships and the reputations of the businesses we acquire;

uncertainty of entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;

our dependence on unfamiliar affiliates and partners of the companies we acquire;

insufficient revenue to offset our increased expenses associated with acquisitions;

potentially incurring accounting charges as we transition an acquired company to our open source business model;

our responsibility for the liabilities of the businesses we acquire; and

unanticipated and unknown liabilities.

If we are not successful in completing acquisitions in the future or do not realize the expected benefits of the acquisitions we do complete, we may be required to reevaluate our acquisition strategy. We also may incur substantial expenses and devote significant management time and resources in seeking to complete acquisitions, some of which may ultimately not be consummated or not result in expected benefits. The occurrence of any of these acquisition-related risks could harm our business, financial condition, results of operations and prospects.

Our continued success depends on our ability to maintain and enhance strong brands.

We believe that the brand identities that we have developed have contributed significantly to the success of our business. We also believe that maintaining and enhancing our brands is important to expanding our customer base and attracting talented employees. In order to maintain and enhance our brands, we may be required to make further investments that may not be successful. Maintaining our brands will depend in part on our ability to remain a leading innovator in open source technology and our ability to continue to provide high-quality offerings. If we fail to promote and maintain our brands, or if we incur excessive costs in doing so, our business, financial condition, results of operations and cash flows may be harmed.

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Our efforts to protect our intellectual property rights may not be adequate to prevent third parties from misappropriating our intellectual property rights in our know-how, software and trademarks.

We have developed proprietary methodologies, know-how and software related to software development, testing and quality assurance. Failure to adequately protect and defend our intellectual property rights in these areas may diminish the value of HDP and HDF or our other technologies, impair our ability to compete effectively and harm our business.

In addition, the protective steps we have taken in the past may be inadequate to protect and deter misappropriation of our trademark rights. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our trademark rights in a timely manner. We have registered trademarks in Australia, Canada, the European Community, Switzerland, the United Kingdom, the United States, and have trademark applications pending in various other international jurisdictions. Effective trademark protection may not be available in every country in which we offer or intend to distribute our solutions. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights. Failure to adequately protect our trademark rights could damage or even destroy one or more of our brands and impair our ability to compete effectively. Furthermore, defending or enforcing our trademark rights could result in the expenditure of significant financial and managerial resources.

We may be subject to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.

Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In addition, many of these companies can dedicate substantially greater resources to enforce their intellectual property rights, and to defend claims that may be brought against them, than we can. We have received, and we and the Apache Hadoop Project and the Apache NiFi Project may in the future receive, notices that claim we have misappropriated, misused, or infringed other parties intellectual property rights, and, to the extent Hadoop or NiFi gains greater market visibility, we the Apache Hadoop Project and the Apache NiFi Project, as applicable, face a higher risk of being the subject of intellectual property infringement claims. In addition, we could be subject to lawsuits by parties claiming ownership of what we believe to be open source software.

Any intellectual property infringement claims, with or without merit, could be very time-consuming, could be expensive to settle or litigate and could divert our management's attention and other resources. These claims could also subject us to significant liability for damages, potentially including treble damages if we are found to have willfully infringed patents or copyrights. These claims could also result in our having to stop using technology found to be in violation of a third party's rights. We might be required to seek a license for the intellectual property, which may not be available on reasonable terms or at all. Even if a license were available, we could be required to pay significant royalties, which would increase our operating expenses. As a result, we may be required to develop alternative non-infringing technology, which could require significant effort and expense. Any of these results would harm our business, results of operations, financial condition and cash flows.

Federal, state, foreign government and industry regulations, as well as self-regulation related to privacy and data security concerns pose the threat of lawsuits and other liability.

We collect and utilize demographic and other information, including personally identifiable information, from and about users (such as customers, potential customers and others). Such information may be collected when users visit our website or elect to use our support tools, or when users provide personal information to us in many contexts such

as when signing up for certain services, registering for seminars, participating in a survey, connecting with other users and Hadoop and NiFi experts in our forums, participating in Hortonworks University classes, participating in polls or signing up to receive e-mail newsletters.

Within the United States, various federal and state laws and regulations govern the collection, use, retention, sharing and security of the data we receive from and about users. Outside of the United States, various jurisdictions actively regulate and enforce laws regarding the collection, retention, transfer and use (including loss and unauthorized access) of data and personal information. Privacy advocates and government bodies have increasingly scrutinized the ways in which companies link personal identities and data associated with particular users or devices with data collected through the internet, and we expect such scrutiny to continue to increase. Loss, retention or misuse of certain information and alleged violations of laws and regulations relating to privacy and data security, and any relevant claims, may expose us to potential liability and may require us to expend significant resources on data security and in responding to and defending such allegations and claims.

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Security and privacy breaches may hurt our business.

Any security breach, unauthorized access, unauthorized usage, virus or similar breach or disruption could result in the loss of confidential information, damage to our reputation, early termination of our contracts, litigation, regulatory investigations or other liabilities. If our, our customers or our partners security measures are breached as a result of third-party action, employee error, malfeasance or otherwise and, as a result, someone obtains unauthorized access to data, our reputation will be damaged, our business may suffer and we could incur significant liability.

Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived security breach occurs, the market perception of our security measures could be harmed and we could lose sales and customers. Any significant violations of data privacy could result in the loss of business, litigation and regulatory investigations and penalties that could damage our reputation and adversely impact our results of operations and financial condition. Moreover, if a high-profile security breach occurs with respect to another Hadoop or NiFi provider, our customers and potential customers may lose trust in the security of Hadoop- or NiFi-based solutions generally, which could adversely impact our ability to retain existing customers or attract new ones.

Prolonged economic uncertainties or downturns could harm our business.

Current or future economic downturns could harm our business and results of operations. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from financial and credit market fluctuations and terrorist attacks in the United States, Europe or elsewhere, could cause a decrease in corporate spending on enterprise software in general and slow down the rate of growth of our business.

General worldwide economic conditions have experienced, and in the future may experience, a significant downturn. These conditions make it extremely difficult for our customers and us to forecast and plan future business activities accurately, and they could cause our customers to reevaluate their decision to purchase our offerings, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Furthermore, during challenging economic times our customers may face issues in gaining timely access to sufficient credit, which could impair their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts, which would harm our results of operations.

We have a significant number of customers in the business services, advertising, financial services, government, healthcare and pharmaceuticals, high technology, manufacturing, media and entertainment, oil and gas, online services, retail and telecommunications industries. A substantial downturn in any of these industries may cause firms to react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their spending on information technology. Customers in these industries may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. To the extent purchases of our offerings are perceived by customers and potential customers to be discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Also, support subscription customers may choose to develop or utilize in-house self-support capabilities as an alternative to purchasing our support subscription offerings or professional services. Moreover, competitors may respond to market conditions by lowering prices of support subscription offerings. In addition, the increased pace of consolidation in certain industries may result in reduced overall spending on our support subscription offerings or professional services.

We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry. If the economic conditions of the general economy or industries in which we operate

worsen from present levels, our business, results of operations, financial condition and cash flows could be harmed.

We may require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or otherwise enhance HDP, HDF or our other technologies, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms that are favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms that are satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be harmed.

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If our goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings.

Under GAAP, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, reduced future cash flow estimates and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, which could harm our results of operations.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.

As of December 31, 2015, we had federal, state and foreign tax net operating loss carryforwards (NOLs) of \$253.0 million, \$223.1 million and \$1.2 million, respectively, due to prior period losses. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes, including in connection with our IPO, concurrent private placement or follow-on offering, and if we undergo an ownership change in the future, our ability to utilize NOLs could be further limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. There is also a risk that, due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

We have business and customer relationships with certain entities who are stockholders or affiliated with our directors, or both, and conflicts of interest may arise because of such relationships.

Some of our customers and other business partners are affiliated with certain of our directors or hold shares of our capital stock, or both. For example, we have entered into strategic relationships and/or customer relationships with Yahoo!, Red Hat and Hewlett Packard Enterprise. Our directors Jay Rossiter, Paul Cormier and Martin Fink are employees of Yahoo!, Red Hat and Hewlett Packard Enterprise, respectively, and Yahoo! and Hewlett Packard Enterprise are stockholders. We believe that the transactions and agreements that we have entered into with related parties are on terms that are at least as favorable as could reasonably have been obtained at such time from third parties. However, these relationships could create, or appear to create, potential conflicts of interest when our Board of Directors is faced with decisions that could have different implications for us and these other parties or their affiliates. In addition, conflicts of interest may arise between us and these other parties and their affiliates. The appearance of conflicts, even if such conflicts do not materialize, might adversely affect the public's perception of us, as well as our relationship with other companies and our ability to enter into new relationships in the future, including with competitors of such related parties, which could harm our business and results of operations.

Catastrophic events may disrupt our business.

Our corporate headquarters are located in Santa Clara, California and we utilize data centers that are located in North America. Additionally, we rely on our network and third-party infrastructure and enterprise applications, internal technology systems and our website for our development, marketing, operational support, hosted services and sales activities. The west coast of the United States contains active earthquake zones. In the event of a major earthquake,

hurricane, or catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war, or terrorist attack, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our application development, extended interruptions in HDP and HDF, breaches of data security and loss of critical data, all of which could harm our future results of operations.

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If we fail to maintain an effective system of internal controls, we may not be able to accurately or timely report our financial results or prevent fraud.

Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes Oxley Act") requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting. A report of our management is included under Item 4. Controls and Procedures of this Quarterly Report on Form 10-Q. During its evaluation of the effectiveness of internal control over financial reporting as of December 31, 2015, management identified a material weakness related to the control surrounding the recognition of revenue and deferred revenue for a subset of non-standard license transactions where post-contract support renewal rates were stated upon commencement of the arrangement. Our findings are related to the design effectiveness of this control. Each of the aforementioned transactions originated prior to our establishment and formalization of Section 404 internal controls in July 2015. A secondary review of these specific agreements was not performed at a sufficiently detailed level to detect errors in recognition of revenue and deferred revenue related to these arrangements. With the oversight of management and our Audit Committee, we initiated actions to address the root causes of the material weakness identified. There can be no assurance that such actions will be sufficient to remedy the material weakness identified or that additional or other control deficiencies will not be identified in the future. If we continue to experience a material weakness in our internal controls or fail to maintain or implement required new or improved controls, such circumstances could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements, or adversely affect the results of periodic management evaluations and annual auditor attestation reports when such report is required. Each of the foregoing results could cause stockholders to lose confidence in our reported financial information and lead to a decline in our stock price. See Item 4. Controls and Procedures for more information.

Risks Related to Ownership of Our Common Stock

Our stock price has been, and may continue to be, volatile or may decline regardless of our operating performance resulting in substantial losses for our stockholders.

The trading price of our common stock has been, and may continue to be, volatile and could fluctuate widely regardless of our operating performance. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

actual or anticipated fluctuations in our results of operations;

the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates and publication of other news by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;

ratings changes by any securities analysts who follow our company;

announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;

changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;

price and volume fluctuations in the overall stock market from time to time, including as a result of trends in the economy as a whole;

changes in accounting standards, policies, guidelines, interpretations or principles;

actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;

developments or disputes concerning our intellectual property or our offerings, or third-party proprietary rights;

announced or completed acquisitions of businesses or technologies by us or our competitors;

new laws or regulations or new interpretations of existing laws, or regulations applicable to our business;

any major change in our Board of Directors or management;

sales of shares of our common stock by us or our stockholders;

lawsuits threatened or filed against us; and

other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

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In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In particular, the trading price of our common stock has fluctuated significantly in recent periods. In the past, stockholders have instituted securities class action litigation following periods of market volatility, and a securities class action litigation was recently instituted against us. This securities litigation and any other securities litigation we may become involved in may subject us to substantial costs, may divert resources and the attention of management from operating our business and may harm our business, results of operations, financial condition and cash flows.

Our directors, officers and principal stockholders beneficially own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

As of May 2, 2016, our directors, officers, five percent or greater stockholders, and their respective affiliates beneficially owned in the aggregate approximately 42 percent of our outstanding voting stock. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders will be able to control elections of directors, amendments of our organizational documents, and approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and bylaws include provisions that:

authorize our Board of Directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights and preferences determined by our Board of Directors that may be senior to our common stock;

require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;

specify that special meetings of our stockholders can be called only by our Board of Directors, the Chair of our Board of Directors, or our Chief Executive Officer;

establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our Board of Directors;

establish that our Board of Directors is divided into three classes, Class I, Class II and Class III, with each class serving three-year staggered terms;

prohibit cumulative voting in the election of directors;

provide that our directors may be removed only for cause;

provide that vacancies on our Board of Directors may be filled only by a majority of directors then in office, even though less than a quorum; and

require the approval of our Board of Directors or the holders of at least seventy-five percent of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder. Any delay or prevention of a change of control transaction or changes in our management could cause the market price of our common stock to decline.

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We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the federal securities laws, and we are taking advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. For as long as we continue to be an emerging growth company, we intend to take advantage of certain of these exemptions. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. However, we chose to opt out of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We will remain an emerging growth company until the earliest of: (i) the last day of the fiscal year following the five-year anniversary of the completion of our IPO; (ii) the end of the fiscal year in which we have more than \$1.0 billion in annual revenue; (iii) the end of the fiscal year in which we qualify as a large accelerated filer, with at least \$700 million of equity securities held by non-affiliates as of the end of the second quarter of such fiscal year; and (iv) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities.

The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of the exchanges and other markets upon which our common stock is listed, and other applicable securities rules and regulations.

Compliance with these rules and regulations will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources, particularly after we are no longer an emerging growth company. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. We are required to disclose changes made in our internal control and procedures on a quarterly basis and we are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. However, our independent registered public accounting firm will not be required to formally audit and attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the date we are no longer an emerging growth company. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already

hired additional employees to assist us in complying with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our operating expenses. As we continue to grow rapidly, both organically and through strategic acquisitions, we expect to enhance our disclosure controls and procedures and internal control over financial reporting, however, we cannot guarantee the adequacy of these enhancements, including integration and accounting for acquisition-related expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest substantial resources to comply with evolving laws, regulations and standards, and this investment may

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result in increased general and administrative expenses and a diversion of management's time and attention from business operations to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Being a public company and these new rules and regulations will continue to make it more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in our filings with the SEC, our business and financial condition has become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and results of operations.

We do not intend to pay dividends on our common stock so any returns will be limited to changes in the value of our common stock.

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business, and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return to stockholders will therefore be limited to the increase, if any, of our stock price, which may never occur.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If few securities analysts cover us, or if industry analysts cease coverage of us, the trading price for our common stock would be negatively affected. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline.

Substantial future sales of our common stock in the public market could cause our stock price to fall.

Additional sales of our common stock in the public market, particularly sales by our directors, executive officers and significant stockholders, or the perception that these sales could occur, could cause the market price of our common stock to decline. As of March 31, 2016, we had 57,108,280 shares of common stock outstanding, which excludes any shares of common stock issuable upon exercise of warrants and options outstanding as of such date. As of March 31, 2016, 3,788,302 shares of our common stock were subject to lock-up agreements entered into in connection with our follow-on public offering restricting the transfer of such shares until April 16, 2016, subject to certain exceptions (including sales pursuant to existing sales plans adopted pursuant to Rule 10b5-1 under the Exchange Act). Upon the expiration of these lock-up agreements on April 16, 2016, subject to certain limitations, these shares became eligible for sale. In addition, as of March 31, 2016, there were outstanding options and warrants to purchase 13,369,020 shares of our common stock. Since expiration of the lock-up agreements, these options and warrants, if exercised, will result

in these additional shares becoming available for sale. Sales by these stockholders, option holders or warrant holders of a substantial number of shares could significantly reduce the market price of our common stock. Moreover, some holders of shares of our common stock have rights, subject to certain conditions, to require us to file registration statements covering the shares they currently hold, or to include these shares in registration statements that we might file for ourselves or other stockholders.

Additionally, the shares of common stock subject to outstanding options and restricted stock unit awards under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations.

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Our charter documents designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or other employees.

Our amended and restated certificate of incorporation and bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our bylaws, or (iv) any action asserting a claim against us governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to the provisions of our amended and restated certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could harm our business, financial condition, or results of operations.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Sales of Unregistered Securities

None.

Use of Proceeds

On December 11, 2014, the Registration Statement on Form S-1 (File No. 333-200044) for our IPO of our common stock was declared effective by the SEC, pursuant to which we sold 7,187,500 shares of our common stock at a public offering price of \$16.00 per share for an aggregate offering price of \$115.0 million. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on December 12, 2014 pursuant to Rule 424(b)(4).

The net offering proceeds, including the concurrent private placement, after deducting underwriting discounts and offering expenses, were approximately \$109.6 million. No payments were made to our directors or officers or their associates, holders of 10 percent or more of any class of our equity securities or any affiliates.

The Registration Statement on Form S-3 (File No. 333-209015) for our follow-on public offering of our common stock was declared effective by the SEC on February 1, 2016. The Registration Statement on Form S-3 registered an aggregate of 9,688,750 shares of our common stock, including 1,263,750 shares registered to cover an option to purchase additional shares that we granted to the underwriters of our follow-on public offering. On February 2, 2016, we closed our follow-on public offering and sold 9,688,750 shares of our common stock at a public offering price of \$9.50 per share, for an aggregate offering price of approximately \$92.0 million. There has been no material change in the planned use of proceeds from our follow-on public offering as described in our final prospectus filed with the SEC on February 2, 2016 pursuant to Rule 424(b)(4).

The net offering proceeds, after deducting underwriting discounts and offering expenses, were approximately \$87.7 million. No payments were made to our directors or officers or their associates, holders of 10 percent or more of any class of our equity securities or any affiliates.

We have applied the proceeds from our IPO, concurrent private placement and follow-on offering to our cash and investment balances and such funds will be used for general corporate purposes going forward.

Issuer Purchases of Equity Securities

The Company has no publicly announced plan or program for the purchase of shares.

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Item 6. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this report:

1. Consolidated Financial Statements

See Index to Consolidated Financial Statements at Item 8 herein.

2. Consolidated financial statement Schedules.

All schedules are omitted because the required information is either not present, not present in material amounts or is presented within the condensed consolidated financial statements included.

3. Exhibits

The documents listed in the Exhibit Index are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Hortonworks, Inc.

Date: May 9, 2016

By: /s/ Scott Davidson
Scott Davidson
Chief Financial Officer

(Principal Financial Officer and duly authorized
signatory)

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Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Hortonworks, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.