Hortonworks, Inc.
Form 10-Q
November 12, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

¨ **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	**37-1634325**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5470 Great America Parkway Santa Clara, CA	**95054**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, Par Value $0.0001 Per Share	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

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 x 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 x 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 x (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 x

The number of shares of Registrant s Common Stock outstanding as of November 5, 2015 was 46,229,482.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORTONWORKS, INC.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 25,090	$ 129,084
Short-term investments	88,664	75,381
Accounts receivable, net	46,159	32,900
Prepaid expenses and other current assets	5,847	3,728
Total current assets	165,760	241,093
Property and equipment, net	15,574	11,182
Long-term investments	2,567	
Goodwill	34,333	2,119
Intangible assets	4,224	
Other non-current assets	963	304
Restricted cash	1,308	1,341
TOTAL ASSETS	$ 224,729	$ 256,039
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 4,223	$ 7,087
Accrued compensation and benefits	11,507	9,913
Accrued expenses and other current liabilities	12,380	6,333
Deferred revenue	77,753	50,280
Total current liabilities	105,863	73,613
Long-term deferred revenue	12,332	12,643
Other long-term liabilities	5,646	2,713
TOTAL LIABILITIES	123,841	88,969
Commitments and contingencies (Note 4)		

STOCKHOLDERS EQUITY:				
Common stock, par value of $0.0001 per share 500,000,000 shares authorized as of September 30, 2015 and December 31, 2014; 45,120,488 and 40,987,583 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively		5		4
Additional paid-in capital		499,883		439,005
Accumulated other comprehensive loss		(366)		(202)
Accumulated deficit		(398,634)		(271,737)
TOTAL STOCKHOLDERS EQUITY		100,888		167,070
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	224,729	$	256,039

See accompanying notes to the condensed consolidated financial statements.

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HORTONWORKS, INC.

Condensed Consolidated Statements of Operations

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Support subscription and professional services revenue:				
Support subscription (includes contra-revenue of $65 for the three months ended September 30, 2015 and $65 and $1,961 for the nine months ended September 30, 2015 and 2014, respectively)	$ 21,748	$ 8,136	$ 54,134	$ 19,190
Professional services (includes contra-revenue of $79 for the nine months ended September 30, 2014)	11,303	4,628	32,375	14,198
Total support subscription and professional services revenue	33,051	12,764	86,509	33,388
Cost of revenue:				
Support subscription	3,629	1,511	9,214	2,875
Professional services	11,171	8,024	30,260	19,125
Total cost of revenue	14,800	9,535	39,474	22,000
Gross profit	18,251	3,229	47,035	11,388
Operating expenses:				
Sales and marketing	34,017	19,491	95,083	44,553
Research and development	16,382	10,111	46,238	26,270
General and administrative	12,297	7,025	32,768	17,634
Contribution of acquired technology to the Apache Software Foundation		3,971		3,971
Total operating expenses	62,696	40,598	174,089	92,428
Loss from operations	(44,445)	(37,369)	(127,054)	(81,040)
Other income (expense), net	88	(2,099)	487	(6,888)
Loss before income tax	(44,357)	(39,468)	(126,567)	(87,928)
Income tax expense (benefit)	135	34	330	(1,196)
Net loss	$ (44,492)	$ (39,502)	$ (126,897)	$ (86,732)

Net loss per share of common stock, basic and diluted	$ (1.01)	$ (8.98)	$ (2.98)	$ (20.80)
Weighted-average shares used in computing net loss per share of common stock, basic and diluted	43,968,697	4,399,053	42,626,865	4,169,679

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 September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Net loss	$ (44,492)	$ (39,502)	$ (126,897)	$ (86,732)
Items of other comprehensive income (loss):				
Unrealized gain (loss) on investments	23	(40)	68	(71)
Foreign currency translation adjustment	(179)	(84)	(231)	(75)
Total other comprehensive loss	(156)	(124)	(163)	(146)
Total comprehensive loss	$ (44,648)	$ (39,626)	$ (127,060)	$ (86,878)

See accompanying notes to the condensed consolidated financial statements.

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HORTONWORKS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (126,897)	$ (86,732)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,061	719
Amortization of intangible asset	171	
Amortization of premiums from investments	756	575
Stock-based compensation expense	23,719	5,492
Contra-revenue adjustment related to share purchase agreement		2,040
Loss on disposal of assets	520	88
Loss on early exit of lease		449
Contribution of acquired technology to the Apache Software Foundation		3,971
Deferred income tax benefit		(1,279)
Common stock warrant, including change in fair value		7,186
Changes in operating assets and liabilities:		
Accounts receivable	(13,259)	(8,594)
Prepaid expenses and other current assets	(2,302)	(2,108)
Other assets	(726)	(183)
Accounts payable	78	1,107
Accrued expenses and other liabilities	5,631	1,552
Accrued compensation and benefits	1,529	1,146
Deferred revenue	27,162	19,792
Net cash used in operating activities	(80,557)	(54,779)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(90,988)	(84,758)
Proceeds from maturities of investments	77,017	13,120
Purchases of property and equipment	(11,373)	(1,884)
Acquisitions, net	(3,541)	(2,996)
Issuance of promissory note receivable	(2,500)	
Change in restricted cash	31	(191)
Net cash used in investing activities	(31,354)	(76,709)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of preferred stock, net of issuance costs		149,547
Proceeds from issuance of common stock	8,752	1,624
Payments for deferred offering costs	(835)	(2,373)
Proceeds from payments of principal on promissory notes		119
Net cash provided by financing activities	7,917	148,917
Net (decrease) increase in cash and cash equivalents	(103,994)	17,429
Cash and cash equivalents Beginning of period	129,084	25,304
Cash and cash equivalents End of period	$ 25,090	$ 42,733

See accompanying notes to the condensed consolidated financial statements.

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HORTONWORKS, INC.

Condensed Consolidated Statements of Cash Flows (continued)

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	**2014**
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:		
Fair value of shares issued in connection with acquisitions	$ 27,593	$ 1,815

See accompanying notes to the condensed consolidated financial statements.

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HORTONWORKS, INC.

Notes to 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 the leader in accelerating business transformations with Open Enterprise Hadoop by developing, distributing and supporting an enterprise-scale data platform built entirely on open source technology including Apache Hadoop®. The Company s mission is to enable transformational business outcomes powered by a 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. Hortonworks Data Platform 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. Hortonworks DataFlow Platform is complementary to Hortonworks Data Platform 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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform.

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 (inclusive of 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.

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 (U.S.) 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, 2014. 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, 2014 was derived from the Company s audited financial statements for the year ended December 31, 2014, 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.

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.

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HORTONWORKS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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, 2014 that have had a material impact on the Company s condensed consolidated financial statements and related notes.

Out-of-Period Adjustment

During the nine months ended September 30, 2015, the Company recorded an out-of-period adjustment related to acquisition retention bonuses from XA Secure. The adjustment was associated with the three quarters ended December 31, 2014 and increased total expense by $3.1 million. 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.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses and 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 could 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 and certain accrued liabilities.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB), issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, which defers the effective date of ASU 2014-09 by one year allowing early adoption as of the original effective date January 1, 2017. The deferral results in the new revenue standard being effective for the Company January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its condensed consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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HORTONWORKS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

2. FAIR VALUE MEASUREMENTS

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):

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents:				
Money market funds	$ 11,701	$	$	$ 11,701
Certificates of deposit		245		245
Short-term investments:				
U.S. Treasury bills	3,500			3,500
Certificates of deposit		11,920		11,920
Commercial paper		20,729		20,729
Bank notes		245		245
Corporate notes and bonds		52,270		52,270
Total financial assets	$ 15,201	$ 85,409	$	$ 100,610
Liabilities				
Contingent consideration			1,625	1,625
Total financial liabilities	$	$	$ 1,625	$ 1,625

	December 31, 2014		
	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	$ 119,723	$	$ 119,723
Short-term investments:			
Commercial paper		5,298	5,298
Corporate notes and bonds		70,083	70,083
Total financial assets	$ 119,723	$ 75,381	$ 195,104

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 comprised 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, bank notes, certificates of deposit, corporate notes and bonds and the promissory note receivable. Bank notes and certificates of deposit are valued using inputs that are directly or indirectly observable in the market, including the readily-available pricing sources for the identical underlying security that may not be actively traded. Corporate notes and bonds are valued at a consensus price, which is a weighted-average price based on market prices from a variety of industry standard data providers used as inputs to a distribution-curve based algorithm. 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 using observable inputs and is classified as held-to-maturity within long-term investments. The carrying amounts of accounts receivable, prepaid expenses, the promissory note receivable, accounts payable, accrued liabilities and accrued compensation and benefits approximate fair value.

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HORTONWORKS, INC.

Notes to 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. As of September 30, 2015, the fair value of the contingent consideration liability remained unchanged at $1.6 million as there were no changes to the probability of achieving the milestones. The contingent consideration liability is recognized on the Company s condensed consolidated balance sheet within accrued expenses and other current liabilities.

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 nine months ended September 30, 2015 and the year ended December 31, 2014, the Company did not make any transfers between Level 1, Level 2, or Level 3 investments. As of December 31, 2014, the Company did not have any Level 3 financial assets or liabilities.

Gross unrealized gains and losses were not material as of September 30, 2015 and December 31, 2014. Realized gains and losses were not material for the nine months ended September 30, 2015 and 2014. As of September 30, 2015 and December 31, 2014, there were no securities that were in an unrealized loss position for more than 12 months.

3. BUSINESS COMBINATIONS

Transactions completed in 2015

Onyara Inc. On August 31, 2015, the Company acquired Onyara Inc. (Onyara), the creator of and key contributor to Apache NiFi. The acquisition enables customers to automate and secure data flows and to collect, conduct and curate real-time business insights and actions derived from data in motion. As a result of the acquisition, the Company introduced HDF powered by Apache NiFi. This is intended to simplify and accelerate the flow of data in motion into HDP for full fidelity analytics.

The acquisition date fair value of the purchase consideration was $26.5 million, which included the following (in thousands):

Common stock (921,643 shares at fair value of $23.76 per share)	$ 21,898

Holdback of 194,259 shares of common stock for a period of 12 months for general representations and warranties	4,616
Total	$ 26,514

The total purchase consideration of $26.5 million exceeded the estimated fair value of the net tangible and identifiable intangible assets and liabilities acquired. Prior to the acquisition, Apache NiFi was open sourced in November 2014 as part of the National Security Agency Technology Transfer Program. As a result, no technology was acquired and the Company recorded goodwill of $26.4 million in connection with this transaction. The goodwill is attributable to the synergies expected from combining Onyara s operations with the Company s operations. The goodwill is not expected to be deductible for tax purposes.

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HORTONWORKS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Under the terms of the agreement, all outstanding shares of Onyara s capital stock, options to purchase Onyara capital stock and any other securities convertible into, exercisable for or exchangeable for shares of Onyara capital were cancelled in exchange for an aggregate of approximately 1.6 million shares of the Company s common stock with a fair value of approximately $38.5 million. Of these shares, 1.1 million shares with a fair value of approximately $26.5 million were allocated to purchase consideration. The remaining 0.5 million shares with a fair value of approximately $12.0 million were considered post-combination remuneration which will be recorded as stock-based compensation expense over the vesting period of up to three years. The related acquisition costs, consisting primarily of legal expenses in the amount of $0.4 million during the nine months ended September 30, 2015, were expensed as incurred.

The following table summarizes the allocation of the consideration paid of approximately $26.5 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Goodwill	$ 26,429
Cash	180
Tangible liabilities acquired	(95)
Total	$ 26,514

In connection with the acquisition, the Company also issued 0.2 million restricted stock units with a fair value of approximately $5.2 million, which is being recognized as stock-based compensation expense as the restricted stock units vest over three years. The vesting of these restricted stock units is contingent upon continued employment. As such, the Company will account for such payments as post-combination remuneration, to be recognized in operating expenses in the statement of operations as the services are performed.

SequenceIQ. On April 23, 2015, the Company acquired 100 percent of the voting shares of SequenceIQ, an open source provider of rapid deployment tools for Hadoop, to deliver a consistent and automated solution for launching on-demand Hadoop clusters in the cloud or to any environment that supports Docker containers. This acquisition complements the Company s strategy of providing enterprise customers the broadest choice of consumption options for the Hortonworks Data Platform, from on-premise deployments to cloud architectures.

The acquisition of SequenceIQ was accounted for as the purchase of a business. The related acquisition costs, consisting primarily of consulting and legal expenses were not material during the nine months ended September 30, 2015 and were expensed as incurred.

The acquisition date fair value of the purchase consideration was $10.0 million, which included the following (in thousands):

Cash	$ 3,721
Cash holdback for a period of 15 months for general representations and warranties	1,875
Cash payable upon 18-month anniversary of closing date	1,651
Contingent consideration	1,625
Restricted stock units (49,102 shares at fair value of $21.97 per share)	1,079
Total	$ 9,951

For further details on the Company s fair value methodology with respect to the contingent consideration liability, see Note 2 Fair Value Measurements.

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HORTONWORKS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The Company also issued 114,583 shares of restricted stock units to the selling shareholders that vest over a period of up to three years. The vesting of the additional restricted stock units is contingent upon the continued employment of the selling shareholders that were retained as employees. As such, the Company accounted for such payments as post-combination remuneration, to be recognized in operating expenses in the statement of operations as the services are performed.

The acquisition of SequenceIQ provided the Company with developed technology. The Company determined that the fair value of the developed technology was approximately $4.4 million using the cost approach. The cost approach reflects the amount that would be required currently (at the acquisition date) to replace the service capacity of an asset. The assumptions underlying the fair value calculation include: the labor required using a burdened overhead rate, the development period, a developer s profit based on the operating profitability of market participants, and the opportunity cost based on the estimated required return on investment over the development period using venture capital rates of return and private capital rates of return for enterprises at a similar stage of development as SequenceIQ. A deferred tax liability related to the fair value of the developed technology obtained in the acquisition was also recognized. The Company recognized goodwill of $5.8 million equal to the excess of the purchase consideration over the fair value of the assets acquired and the liabilities assumed inclusive of approximately $0.4 million related to a deferred tax liability recognized in the acquisition. The goodwill is attributable to the synergies expected from combining SequenceIQ s operations with the Company s operations. None of the goodwill is expected to be deductible for tax purposes.

The following table summarizes the allocation of the consideration paid of approximately $10.0 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Tangible assets acquired, net	$ 191
Developed technology	4,395
Goodwill	5,785
Deferred tax liabilities, net	(420)
Total	$ 9,951

<u>*Intangible Assets*</u>

Intangible assets acquired in connection with the acquisition of SequenceIQ were comprised entirely of developed technology of $4.4 million. Upon contributing the developed technology to the Apache Software Foundation, an operating expense equal to the carrying value of the developed technology will be recognized within the condensed consolidated statement of operations.

Transaction completed in 2014

XA Secure. On May 13, 2014, the Company acquired 100 percent of the voting shares of XA Secure, a developer of data security solutions across a number of information technology platforms, for approximately $4.8 million, consisting of approximately $3.0 million in cash and the issuance of 132,508 shares of the Company s common stock with a fair value of $13.70 per share on the acquisition date. The Company integrated the core security capabilities acquired across all Hadoop workloads. The acquisition of XA Secure was accounted for as the purchase of a business. The related acquisition costs, consisting primarily of legal expenses in the amount of $0.2 million during the nine months ended September 30, 2014, were expensed. These legal expenses were presented as general and administrative expenses on the condensed consolidated statements of operations for the nine months ended September 30, 2014.

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HORTONWORKS, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The acquisition of XA Secure provided the Company with developed technology. The Company determined that the fair value of the developed technology was approximately $4.0 million. The fair value of the developed technology was determined using the cost approach. The cost approach reflects the amount that would be required currently (at the acquisition date) to replace the service capacity of an asset. The assumptions underlying the fair value calculation include: the labor required using a burdened overhead rate, the development period, a developer s profit based on the operating profitability of market participants, and the opportunity cost based on the estimated required return on investment over the development period using venture capital rates of return and private capital rates of return for enterprises at a similar stage of development as XA Secure. A deferred tax liability related to the fair value of the developed technology obtained in the acquisition was also recognized. Primarily as a result of the deferred tax liability recognized in the acquisition, the Company recognized goodwill of $2.1 million equal to the excess of the purchase consideration over the fair value of the assets acquired and the liabilities assumed. The goodwill is attributable to the synergies expected from combining XA Secure s operations with the Company s operations. None of the goodwill is expected to be deductible for tax purposes.

Concurrently with the recognition of the deferred tax liability related to the developed technology acquired, the Company released a portion of the valuation allowance on its deferred tax asset balance and recognized a $1.3 million benefit to income tax expense. The benefit for income taxes resulted from the additional source of income arising from the deferred tax liability recognized, which offset the Company s deferred tax assets.

In connection with the acquisition of XA Secure, the Company also issued 132,506 shares of restricted stock, issued 159,483 options to purchase the Company s common stock, and agreed to pay a $3.9 million cash retention bonus over 18 months to certain key employee-shareholders of XA Secure. The restricted shares vest over 18 months and the options vest over 48 months. All vesting provisions for the stock and options, as well as the future cash payments, are contingent upon the continued service of the key employees. Thus, the Company accounts for such payments as post-combination remuneration, to be recognized in operating expenses in the condensed consolidated statement of operations as the services are performed.

The following table summarizes the allocation of the consideration paid of approximately $4.8 million to the fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Developed technology	$ 3,971
Deferred tax liabilities	(1,279)
Goodwill	2,119
Total	$ 4,811

Intangible Assets

Intangible assets acquired in connection with the acquisition of XA Secure were comprised entirely of developed technology of $4.0 million. On August 13, 2014, the Company contributed the developed technology acquired in the XA Secure acquisition to the Apache Software Foundation. Upon contribution, the Company recognized an operating expense of $4.0 million, which was equal to the carrying value of the developed technology.

The Company s business combinations completed during the nine months ended September 30, 2015 and 2014 did not have a material impact on the Company s condensed consolidated financial statements and therefore actual and pro forma disclosures have not been presented.

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 5 years, which expire between 2015 and 2020. 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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Rent expense incurred under operating leases was $2.2 million and $1.5 million for the three months ended September 30, 2015 and 2014, respectively, and $5.8 million and $3.0 million for the nine months ended September 30, 2015 and 2014, respectively.

Legal Proceedings

In addition, 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.

5. 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. The Company has not paid a dividend since its inception, and has no current plans to do so.

2014 Stock Option and Incentive Plan

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

The Company initially reserved 6,000,000 shares of the Company s common stock for the issuance of awards under the 2014 Option Plan, and has 923,732 shares of the Company s common stock remaining available for issuance under the Company s 2011 Option Plan. The 2014 Option 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. On January 1, 2015, the shares reserved for issuance increased by 2,136,240, resulting in total shares reserved for issuance under the 2014 Option Plan of 9,059,972. As of September 30, 2015, 4,412,425 of such shares remained available for issuance.

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 most recently 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, 2015, the shares reserved for issuance increased by 427,248 resulting in total shares reserved for issuance under the ESPP of 2,927,248 as of September 30, 2015.

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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, 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.

As of September 30, 2015, there was $1.1 million of unrecognized stock-based compensation expense related to the ESPP, which is expected to be recognized over a weighted-average period of 0.6 years.

A summary of activity under the stock option plan and related information for the nine months ended September 30, 2015 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, 2014	13,953,894	$ 8.04	8.80	$ 264,531
Options granted	829,652	$ 22.96		
Options exercised	(1,738,705)	$ 2.87		
Options cancelled/forfeited	(980,360)	$ 10.08		
Outstanding September 30, 2015	12,064,481	$ 9.65	8.10	$ 148,610
Vested and expected to vest September 30, 2015	11,399,572	$ 9.43	8.07	$ 142,889
Exercisable September 30, 2015	4,428,028	$ 5.56	7.47	$ 72,308

Aggregate intrinsic value represents the difference between the exercise price of the options to purchase common stock and the fair market value of the Company s common stock. The aggregate intrinsic value of options exercised for the three months ended September 30, 2015 and 2014 was $11.8 million and $0.9 million, respectively, and for the nine months ended September 30, 2015 and 2014 was $38.4 million and $2.9 million, respectively.

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Restricted Stock

A summary of information related to restricted stock for the nine months ended September 30, 2015 is presented below:

		Number of Shares Issued Under the Stock Option Plans	Number of Shares Issued Outside the Stock Option Plans	Weighted-Average Exercise Price Per Share	Weighted Average Grant Date Fair Value Per Share (*)	Aggregate Intrinsic Value (In thousands)
Unvested balance	December 31, 2014	672,865	894,107	$ 0.62	$ 13.70	$ 39,607
Granted			1,424,946		$ 23.76	
Vested		(421,437)	(1,594,897)	$ 0.56	$ 23.09	
Canceled/forfeited						
Unvested balance	September 30, 2015	251,428	724,156	$ 0.76	$ 22.59	$ 9,295

(*) The weighted-average grant-date fair value per share relates to 132,506 and 1,424,946 shares of restricted stock paid as part of the acquisitions of XA Secure and Onyara, respectively. As of September 30, 2015, 66,253 of the XA Secure and 921,643 of the Onyara shares were vested. See Note 3 Business Combinations for additional information regarding this transaction.

As of September 30, 2015, there was $56.4 million of unrecognized stock-based compensation expense related to unvested stock options and restricted stock to be recognized over a weighted-average period of 2.6 years.

Restricted Stock Units

A summary of information related to restricted stock units (RSUs) for the nine months ended September 30, 2015 is presented below:

	Number of Shares Issued Under the 2014	Weighted Average Grant Date Fair

	Option Plan		Value Per Share
Unvested balance December 31, 2014	56,250	$	16.00
Granted	3,579,771		25.36
Vested	(49,102)		21.97
Canceled/forfeited	(84,175)		25.85
Unvested balance September 30, 2015	3,502,744	$	24.89

As of September 30, 2015, there was $82.4 million of unrecognized stock-based compensation expense related to RSUs to be recognized over a weighted-average period of 2.6 years.

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Restricted Stock and Stock Options Subject to Repurchase

The 2011 Option 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 September 30, 2015 was 467,123. The liability for shares subject to repurchase as of September 30, 2015 was $1.1 million, of which $0.6 million is included in accrued liabilities and $0.5 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of revenue	$ 825	$ 149	$ 1,616	$ 320
Sales and marketing	3,518	543	6,882	978
Research and development	3,897	577	8,251	1,146
General and administrative	3,139	630	6,970	3,048
Total stock-based compensation expense	$ 11,379	$ 1,899	$ 23,719	$ 5,492

6. COMMON STOCK 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 initial public offering, 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 September 30, 2015, 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 the consummation of the Company s initial public offering in December 2014. As of September 30, 2015, neither warrant had been exercised into shares of common stock.

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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 and nine months ended September 30, 2015 and 2014, 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	$ (44,492)	$ (39,502)	$ (126,897)	$ (86,732)
Weighted-average shares used in computing net loss per share of common stock	43,968,697	4,399,053	42,626,865	4,169,679
Net loss per share, basic and diluted	$ (1.01)	$ (8.98)	$ (2.98)	$ (20.80)

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:

	As of September 30,	
	2015	2014
Convertible preferred stock (on an as if converted basis)		21,949,525
Exercise and conversion of convertible preferred stock warrants (converted into common stock warrants upon initial public offering)	3,250,000	3,250,000
Exercise and conversion of common stock warrants	476,368	476,368
Restricted common stock issued, net of repurchases		7,906,145
Common stock subject to repurchase	61,095	206,090
Stock options to purchase common stock	12,064,481	13,740,630

Unvested restricted stock and restricted stock units	4,478,328	132,506
Total	20,330,272	47,661,264

Immediately prior to the closing of the Company s IPO in December 2014, all shares of the Company s outstanding convertible preferred stock automatically converted into shares of common stock.

8. INCOME TAXES

The effective tax rate for the three months ended September 30, 2015 was (0.3) percent compared to (0.1) percent for the same period of 2014. The effective tax rate for the nine months ended September 30, 2015 was (0.3) percent compared to 1.4 percent for the same period of 2014. The income tax expense for the three and nine months ended September 30, 2015 and 2014 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 a full valuation allowance against U.S. net deferred tax assets.

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On July 27, 2015, the United States Tax Court (USTC) issued a taxpayer-favorable opinion related to the treatment of share-based compensation expense in an inter-company cost-sharing arrangement between a U.S. corporate taxpayer (Altera, Inc.) and its foreign subsidiary. In its opinion, the USTC permitted the taxpayer to exclude share-based compensation in its cost sharing arrangement, and further concluded that the related Treasury Regulations governing the inclusion of share-based compensation in cost-sharing arrangements were invalid. This opinion of the USTC may be appealed by the IRS, and is not directed toward the Company. However, management is monitoring the progress of this case and its potential favorable implications to the Company s cost-sharing arrangement. The Company currently estimates that this court case will not have a material impact on its effective tax rate and income tax expense due to its current full valuation allowance position.

9. SEGMENT AND GEOGRAPHICAL INFORMATION

The Company s chief operating decision maker reviews financial information on a 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 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.

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2015	**2014**	**2015**	**2014**
United States	$ 29,322	$ 12,002	$ 77,420	$ 31,508
Rest of world	3,729	762	9,089	1,880
Total revenue	$ 33,051	$ 12,764	$ 86,509	$ 33,388

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

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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, 2014, filed with the Securities and Exchange Commission. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in Risk Factors and in other parts of this annual 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 and Hortonworks DataFlow Platform. Hortonworks Data Platform 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. Hortonworks DataFlow Platform is complementary to Hortonworks Data Platform, and makes it easy to automate and secure 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 Hortonworks Data Platform and the Hortonworks DataFlow Platform 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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform available free of charge.

We generate revenue predominantly by selling support subscription offerings and professional services. Our support subscription agreements are typically annual arrangements. On occasion, we may sell 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 customer base and (iii) the annual renewal of our support subscription agreements by our existing support subscription customers. Our revenue is subject to fluctuations based upon our success at 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 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) of fair value for professional services revenue, then our ability to achieve profitability will be negatively impacted.

We have achieved significant growth in recent periods. For the three months ended September 30, 2015 and 2014, our revenue was $33.1 million and $12.8 million, respectively. For the nine months ended September 30, 2015 and 2014, our revenue was $86.5 million and $33.4 million, respectively. For the three months ended September 30, 2015 and 2014, our gross billings were $43.8 million and $21.5 million, respectively. For the nine months ended September 30, 2015 and 2014, our gross billings were $113.7 million and $55.2 million, respectively. We incurred net losses of $44.5 million and $39.5 million for the three months ended September 30, 2015 and 2014, respectively, and $126.9 million and $86.7 million for the nine months ended September 30, 2015 and 2014, 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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform. 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 those enabling input. 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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform, growth in our professional services revenue is driven primarily by adding new support subscription customers.

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 the Hortonworks Data Platform as well as complement their deployment with the Hortonworks DataFlow Platform. 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 (Hortonworks Data Platform and Hortonworks DataFlow Platform) 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 the Hortonworks Data Platform, Hortonworks DataFlow Platform, 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 initial public offering and the concurrent private placement 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.

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 September 30, 2015 and December 31, 2014 was 156 percent and 144 percent, respectively.

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. Our total support subscription customer count was approximately 700 as of September 30, 2015.

Gross Billings. We have included gross billings, a non-GAAP financial measure, since 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. As we have not yet established vendor-specific objective evidence of fair value for our support subscriptions, we recognize revenue ratably over the period beginning when both the support subscription and professional services have commenced for customers with agreements that purchase both a support subscription and professional services. Most of our customer agreements include both support subscription and professional services. The accounting treatment for such agreements causes the recognition of our revenue to trail the impact of these customer agreements and creates significant deferred revenue.

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gross billings:				
Total revenue	$ 33,051	$ 12,764	$ 86,509	$ 33,388
Contra revenue	65		65	2,040
Total non-GAAP revenue	33,116	12,764	86,574	35,428
Total deferred revenue, end of period	90,085	47,720	90,085	47,720
Less: Total deferred revenue, beginning of period	(79,413)	(38,983)	(62,923)	(27,928)
Total change in deferred revenue	10,672	8,737	27,162	19,792
Gross billings	$ 43,788	$ 21,501	$ 113,736	$ 55,220

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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.

In September 2013, we entered into a commercial agreement and common stock purchase agreement with AT&T covering the sale and issuance of 390,269 shares of our common stock to an affiliate of AT&T at a per share price of $0.0002. The shares were fully vested as of January 30, 2014. As a result of the issuance of shares to a customer at below fair value, we recorded contra-revenue in the amount of $2.0 million during the nine months ended September 30, 2014.

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 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 shared costs. 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.

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Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Support subscription and professional services revenue:				
Support subscription (includes contra-revenue of $65 for the three months ended September 30, 2015 and $65 and $1,961 for the nine months ended September 30, 2015 and 2014, respectively)	$ 21,748	$ 8,136	$ 54,134	$ 19,190
Professional services (includes contra-revenue of $79 for the nine months ended September 30, 2014)	11,303	4,628	32,375	14,198
Total support subscription and professional services revenue	33,051	12,764	86,509	33,388
Cost of revenue:				
Support subscription	3,629	1,511	9,214	2,875
Professional services	11,171	8,024	30,260	19,125
Total cost of revenue	14,800	9,535	39,474	22,000
Gross profit	18,251	3,229	47,035	11,388
Operating expenses:				
Sales and marketing	34,017	19,491	95,083	44,553
Research and development	16,382	10,111	46,238	26,270
General and administrative	12,297	7,025	32,768	17,634
Contribution of acquired technology to the Apache Software Foundation		3,971		3,971
Total operating expenses	62,696	40,598	174,089	92,428
Loss from operations	(44,445)	(37,369)	(127,054)	(81,040)
Other income (expense), net	88	(2,099)	487	(6,888)
Loss before income tax	(44,357)	(39,468)	(126,567)	(87,928)
Income tax expense (benefit)	135	34	330	(1,196)
Net loss	$ (44,492)	$ (39,502)	$ (126,897)	$ (86,732)
	$ (1.01)	$ (8.98)	$ (2.98)	$ (20.80)

Net loss per share of common stock, basic and diluted				
Weighted-average shares used in computing net loss per share of common stock, basic and diluted	43,968,697	4,399,053	42,626,865	4,169,679

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Comparison of the Three and Nine Months Ended September 30, 2015 and 2014

Revenue

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
	(in thousands)				(in thousands)			
Support subscription and professional services revenue:								
Support subscription	$ 21,748	$ 8,136	$ 13,612	167%	$ 54,134	$ 19,190	$ 34,944	182%
Professional services	11,303	4,628	6,675	144%	32,375	14,198	18,177	128%
Total support subscription and professional services revenue	$ 33,051	$ 12,764	$ 20,287	159%	$ 86,509	$ 33,388	$ 53,121	159%

Support subscription revenue for the three and nine months September 30, 2015 increased $13.6 million, or 167 percent, and $34.9 million, or 182 percent, respectively, compared to the same periods in 2014. The increases were primarily due to the significant growth in our support subscription customer base as well as sales of additional support subscriptions to our existing customers. Additionally, the nine months ended September 30, 2014 included contra-support subscription revenue of $2.0 million related to the issuance of equity to an affiliate of AT&T.

For the three and nine months ended September 30, 2015, professional services revenue increased $6.7 million, or 144 percent, and $18.2 million, or 128 percent, respectively, compared to the same periods in 2014. The increases were primarily due to the significant growth in our support subscription customer base and associated sales of additional professional services to our existing customers.

Cost of Revenue

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
	(in thousands)				(in thousands)			
Cost of revenue:								
Cost of support subscription	$ 3,629	$ 1,511	$ 2,118	140%	$ 9,214	$ 2,875	$ 6,339	220%
Cost of professional services	11,171	8,024	3,147	39%	30,260	19,125	11,135	58%

Total cost of revenue	$ 14,800	$ 9,535	$ 5,265	55%	$ 39,474	$ 22,000	$ 17,474	79%

Cost of support subscription revenue increased $2.1 million for the three months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to a $1.7 million increase in employee-related expenses as a result of an increase in headcount to support new customer growth. Cost of support subscription revenue increased $6.3 million for the nine months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to a $4.9 million increase in employee-related expenses as a result of an increase in headcount to support new customer growth, as well as an increase in equipment and software and travel expenses of $0.7 million.

Cost of professional services revenue increased $3.1 million for the three months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to a $2.7 million increase in employee-related expenses as a result of an increase in headcount. Cost of professional services revenue increased $11.1 million for the nine months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to a $9.3 million increase in employee-related expenses as a result of an increase in headcount, as well as an increase in travel expenses of $1.1 million.

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Sales and Marketing

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
	(in thousands)				(in thousands)			
Sales and marketing	$ 34,017	$ 19,491	$ 14,526	75%	$ 95,083	$ 44,553	$ 50,530	113%

Sales and marketing expenses increased $14.5 million for the three months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to an increase in employee-related expenses of $11.7 million due to an increase in headcount. In addition, travel expenses increased $0.6 million due to increased headcount to support the growth in our business and equipment and software expense increased by $0.5 million. Sales and marketing expenses increased $50.5 million for the nine months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to an increase in employee-related expenses of $39.0 million as a result of an increase in headcount. In addition, expenses related to marketing events increased $3.1 million, travel expenses increased $3.8 million due to increased headcount to support the growth in our business and equipment and software expense increased by $1.5 million.

Research and Development

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
	(in thousands)				(in thousands)			
Research and development	$ 16,382	$ 10,111	$ 6,271	62%	$ 46,238	$ 26,270	$ 19,968	76%

Research and development expenses increased $6.3 million for the three months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to an increase in employee-related expenses of $5.4 million due to an increase in headcount. Research and development expenses increased $20.0 million for the nine months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to an increase in employee-related expenses of $16.9 million due to an increase in headcount, as well as an increase in equipment and software expenses of $1.1 million.

General and Administrative

	Three Months Ended September 30,	Nine Months Ended September 30,

	2015	2014	$ Change	% Change	2015	2014	$ Change	% Change
	(in thousands)				(in thousands)			
General and administrative	$ 12,297	$ 7,025	$ 5,272	75%	$ 32,768	$ 17,634	$ 15,134	86%

General and administrative expenses increased $5.3 million for the three months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to an increase in employee-related expenses of $4.2 million due to an increase in headcount. In addition, outside services expenses increased by $0.8 million due in part to the acquisition of Onyara. General and administrative expenses increased $15.1 million for the nine months ended September 30, 2015 compared to the same period in 2014. The increase was primarily attributable to an increase in employee-related expenses of $10.8 million due to an increase in headcount, as well as an increase in outside services expense of $2.2 million due to the acquisitions of SequenceIQ and Onyara and equipment and software expenses of $1.5 million.

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Liquidity and Capital Resources

As of September 30, 2015, our principal sources of liquidity were cash and cash equivalents and investments totaling $116.3 million compared to $204.5 million at December 31, 2014, which were held for working capital purposes. Our cash equivalents are comprised primarily of money market funds and our short-term investments are comprised primarily of commercial paper, corporate notes and bonds and certificates of deposit.

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

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Cash used in operating activities	$ (80,557)	$ (54,779)
Cash used in investing activities	$ (31,354)	$ (76,709)
Cash provided by financing activities	$ 7,917	$ 148,917

To date, we have financed our operations primarily through private placements of preferred stock, our initial public offering and the concurrent private placement of our common stock, and cash flow from operations. We believe that our existing cash and cash equivalents balance, together with cash generated from sales of our support subscriptions and professional services to customers, 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 nine months ended September 30, 2015 used $80.6 million of cash compared to $54.8 million for the same period of 2014. The increase was primarily driven by our net loss of $126.9 million for the nine months ended September 30, 2015 compared to a net loss of $86.7 million for the same period of 2014. In addition, accounts receivable increased by $13.3 million during the nine months ended September 30, 2015, which was primarily attributable to the overall increase in billings. These factors were partially offset by increases in deferred revenue of $27.2 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 of fair value for support subscription revenue, accrued expenses and other liabilities of $5.6 million primarily related to an increase in long-term deferred tenant improvement allowance and ESPP contributions.

Investing Activities

Investing activities for the nine months ended September 30, 2015 used $31.4 million of cash compared to the $76.7 million of cash used in investing activities for the same period of 2014. The decrease in cash used was primarily driven by an increase in cash provided from the maturity of investments of $63.9 million compared to the prior period. This increase was partially offset by an increase in cash used for purchases of investments and property and equipment compared to the prior period of $6.2 million and $9.5 million, respectively.

Financing Activities

Financing activities for the nine months ended September 30, 2015 generated $7.9 million of cash compared to $148.9 million for the same period 2014. The decrease in cash provided by financing activities was primarily driven by the $149.5 million proceeds from the issuance of our Series D Preferred Stock for the nine months ended September 30, 2014, whereas no shares of preferred stock were issued during the nine months ended September 30, 2015.

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Contractual Obligations and Other Commitments

As of September 30, 2015, 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, 2014.

Off-Balance Sheet Arrangements

Through September 30, 2015, 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.

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, 2014.

Recent Accounting Pronouncements

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

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, short-term investments, and long-term investments totaling $116.3 million and $204.5 million as of September 30, 2015 and December 31, 2014, respectively. Cash and cash equivalents are comprised of cash deposits and money market funds. Our short-term and long-term investments are primarily comprised of treasury bills, certificates of deposits, corporate notes and bonds, bank notes, commercial paper 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 condensed consolidated financial statements.

Our promissory note receivable was entered into with a third-party professional services provider. Our maximum exposure to credit risk is the principal amount of the note of $2.5 million plus accrued and unpaid interest. To date, we have not experienced any losses with respect to our promissory note receivable. 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 effective at the reasonable assurance level.

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Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended September 30, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

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 $126.9 million and $177.4 million for the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively. It is difficult for us to predict our future results of operations since the market for our solution 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 and the Hortonworks DataFlow Platform. 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 new 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.

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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.

Because we derive substantially all of our revenue and cash flows from supporting the Hortonworks Data Platform 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 substantially all of our revenue and cash flows from customer fees for support subscription offerings and professional services in support of the Hortonworks Data Platform. As such, the market acceptance of the Hortonworks Data Platform is critical to our continued success. Demand for the Hortonworks Data Platform 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 the Hortonworks Data Platform 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 the Hortonworks Data Platform 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 the Hortonworks Data Platform, our business, results of operations, financial condition and growth prospects will be harmed. We launched the Hortonworks DataFlow Platform in September 2015 and general availability of the Hortonworks DataFlow Platform 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 of which market acceptance will occur.

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

The market for Hadoop and open source distributed data platforms is 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. 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 market and any expansion of the market 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 storage and processing. Furthermore, many potential support subscription customers have made significant investments in legacy data storage and processing software and may be unwilling to invest in new solutions. If the market for open source distributed data platforms fails to grow or expand or decreases in size, 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.

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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 our 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.

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 and MapR Technologies, as well as enterprise software and infrastructure vendors that offer Hadoop distributions such as IBM Corporation and Oracle Corporation. Further, other established system providers not currently focused on Hadoop, including traditional data warehouse solution providers such as Teradata Corporation, SAP SE and EMC Corporation, or open source distributed data platform providers, including non-relational NoSQL database providers such as MongoDB Inc. and DataStax, Inc., may expand their products and services to compete with us. Additionally, some potential customers may elect to implement and 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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform with such products and services, our business will suffer.

The competitive position of the Hortonworks Data Platform and the Hortonworks DataFlow Platform 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform, 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform. 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, 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 (Project Management Committees), 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 Project Management Committees 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 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.

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 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 markets 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 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 15 percent and 39 percent of our total revenue for the three months ended September 30, 2015 and 2014, respectively, and 19 percent and 37 percent for the nine months ended September 30, 2015 and 2014, 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 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.

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 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.

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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 Hortonworks Data Platform and the Hortonworks DataFlow Platform;
- 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 of fair value 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 by the Apache Software Foundation, migration of Hadoop 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 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 794 at September 30, 2015 from 524 at September 30, 2014 and have increased our revenue to $86.5 million in the nine months ended September 30, 2015, from $33.4 million in the same period of 2014. 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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform, increase sales of support subscription offerings and professional services, and grow our business depends on the increased adoption of big data applications by enterprises. While we believe that big data applications can offer a compelling value proposition to many enterprises, the broad adoption of big data applications also presents challenges to enterprises, including developing the internal expertise and infrastructure to manage big data applications 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 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 does not grow as expected, our business prospects may be adversely affected. Even if the market for big data applications 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, the Hortonworks Data Platform or the Hortonworks DataFlow Platform, 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.

The Hortonworks Data Platform and the Hortonworks DataFlow Platform 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform may not be reproduced or distributed, may negatively impact our distribution or development of all or a portion of the Hortonworks Data Platform

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and the Hortonworks DataFlow Platform. In addition, at some time in the future it is possible that Apache Hadoop may be distributed under a different license or 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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform 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 U.S. 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, because we do not have VSOE of fair value 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 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 deferred revenue from subscription agreements entered into during previous quarters. Consequently, a decline in the value of new support subscription agreements entered in any one quarter will not necessarily be fully reflected in the revenue we record in 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 must be 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 Hortonworks Data Platform and Hortonworks DataFlow Platform 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 recommendations 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.

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.

The Hortonworks Data Platform or the Hortonworks DataFlow Platform may contain defects 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform after deployment. This risk is increased by the fact that much of the code in Hortonworks Data Platform and Hortonworks DataFlow Platform 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform 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 the Hortonworks Data Platform, Hortonworks DataFlow Platform and our other offerings.

In addition, errors in the Hortonworks Data Platform or the Hortonworks DataFlow Platform 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. 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. While we seek to insure against these types of claims, our insurance policies may not adequately limit our exposure to such 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform could result in customer dissatisfaction and harm our business, results of operations, financial condition and growth prospects.

The Hortonworks Data Platform and the Hortonworks DataFlow Platform 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 itself is 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform to maximize its potential. The Hortonworks Data Platform or the Hortonworks DataFlow Platform may perform inadequately if it is 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 the Hortonworks Data Platform or the Hortonworks DataFlow Platform, 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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform. 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, 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.

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

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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, France, Germany, India, Japan, Korea, the Netherlands, Sweden and the United Kingdom and currently have operations in the United States and in London, United Kingdom. We also have development teams in Budapest, Hungary, 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.

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 XA Secure, a data security company, in April 2015, we acquired SequenceIQ, kft, an open source provider of rapid deployment tools for Hadoop, located in Budapest, Hungary and in August 2015 we acquired Onyara Inc., 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.

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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 leader 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.

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 the Hortonworks Data Platform and the Hortonworks DataFlow Platform 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, the United States, Canada and the European Community 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.

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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 may in the future receive, notices that claim we have misappropriated, misused, or infringed other parties intellectual property rights, and, to the extent Hadoop gains greater market visibility, we and the Apache Hadoop Project face a higher risk of being the subject of intellectual property infringement claims.

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 do not generally collect and utilize demographic and other information, including personally identifiable information, from and about users (such as customers, potential customers, and others). Users may, however, 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 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 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.

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 provider, our customers and potential customers may lose trust in the security of Hadoop-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, 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 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 the Hortonworks Data Platform, Hortonworks DataFlow Platform, 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.

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, 2014, we had federal and state net operating loss carryforwards, or NOLs, of $124.0 million and $142.5 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 initial public 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 partnerships and/or customer relationships with Yahoo! Inc., Red Hat, Inc., Teradata Corporation and Hewlett-Packard Company. Our directors Jay Rossiter, Paul Cormier and Martin Fink are employees of Yahoo! Inc., Red Hat, Inc. and Hewlett-Packard Company, respectively, and each of Yahoo! Inc., Hewlett-Packard Company and Teradata Corporation 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 the Hortonworks Data Platform, Hortonworks DataFlow Platform or our other product offerings, breaches of data security and loss of critical data, all of which could harm our future results of operations.

Risks Related to Ownership of Our Common Stock

Our stock price may be volatile or may decline regardless of our operating performance resulting in substantial losses for our stockholders.

The trading price of our common stock is likely 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;

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- 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.

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 the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from operating our business, and harm our business, results of operations, financial condition and cash flows.

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 (75%) of our outstanding shares of capital stock to amend our bylaws and certain provisions of our amended and restated 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.

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 may take 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 of 2002, or 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 initial public offering; (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 for the first fiscal year beginning after the effective date of our initial public offering. However, our independent registered public accounting firm is not required to formally audit and attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the later of the year following our first annual report required to be filed with the SEC, or 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 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.

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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 commence coverage of 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, or the perception that these sales could occur, could cause the market price of our common stock to decline. As of September 30, 2015, we had 46,157,167 shares of common stock outstanding. On June 10, 2015, the expiration of certain market standoff and lockup agreements entered into in connection with our initial public offering occurred and shares subject to such agreements may now be sold freely in the public markets. Further, as of September 30, 2015, there were outstanding options and warrants to purchase 15,790,849 shares of our common stock that, if exercised, will result in these additional shares becoming available.

The holders of an aggregate of 14,205,374 shares of our common stock, including the holder of warrants to purchase 3,250,000 shares of our common stock and 476,368 shares of our common stock as of September 30, 2015, have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or our stockholders. We have also registered shares of common stock that we may issue under our employee equity incentive plans. These shares may be sold freely in the public market upon issuance, subject to certain market stand-off or lock-up agreements.

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

Use of Proceeds

On December 11, 2014, the Registration Statement on Form S-1 (File No. 333-200044) for our initial public offering 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 initial public offering as described in our final prospectus filed with the SEC on December 12, 2014 pursuant to Rule 424(b)(4).

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: November 12, 2015	By: /s/ Scott Davidson Scott Davidson Chief Financial Officer (Principal Financial Officer and duly authorized signatory)

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EXHIBIT

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.1#	2014 Employee Stock Purchase Plan, as amended and restated as of August 24, 2015.					X
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

# Indicates management contract or compensatory plan, contract or agreement.

* 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.