Hortonworks, Inc.
Form 10-Q
August 08, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Registrant s Common Stock outstanding as of August 1, 2017 was 67,104,030.

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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)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,458	$ 53,332
Short-term investments	16,371	31,764
Accounts receivable, net	75,641	82,368
Prepaid expenses and other current assets	7,143	4,831
Total current assets	154,613	172,295
Property and equipment, net	18,373	19,381
Long-term investments		4,084
Goodwill	34,333	34,333
Intangible assets, net	2,685	3,121
Other assets	2,015	1,306
Restricted cash	1,292	1,316
Total assets	$ 213,311	$ 235,836
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 9,046	$ 6,749
Accrued compensation and benefits	18,863	17,978
Accrued expenses and other current liabilities	10,352	11,752
Deferred revenue	151,903	129,840
Total current liabilities	190,164	166,319
Long-term deferred revenue	64,336	55,550
Other long-term liabilities	2,091	2,605
Total liabilities	256,591	224,474

Commitments and contingencies (Note 4)				
Stockholders (deficit) equity:				
Preferred stock, par value of $0.0001 per share 25,000,000 shares authorized; none issued or outstanding as of June 30, 2017 and December 31, 2016				
Common stock, par value of $0.0001 per share 500,000,000 shares authorized as of June 30, 2017 and December 31, 2016; 66,144,990 and 61,122,863 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively		7		7
Additional paid-in capital		771,386		714,960
Accumulated other comprehensive loss		(569)		(1,063)
Accumulated deficit		(814,104)		(702,542)
Total stockholders (deficit) equity		(43,280)		11,362
Total liabilities and stockholders (deficit) equity	$	213,311	$	235,836

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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Support subscription and professional services revenue:				
Support subscription	$ 45,792	$ 31,018	$ 87,890	$ 58,652
Professional services	16,040	12,619	29,913	26,327
Total support subscription and professional services revenue	61,832	43,637	117,803	84,979
Cost of revenue:				
Support subscription	7,227	5,880	13,383	10,781
Professional services	13,240	12,181	24,939	23,636
Total cost of revenue	20,467	18,061	38,322	34,417
Gross profit	41,365	25,576	79,481	50,562
Operating expenses:				
Sales and marketing	50,526	46,175	100,745	88,258
Research and development	27,479	25,454	52,985	47,605
General and administrative	17,824	18,240	34,619	44,294
Total operating expenses	95,829	89,869	188,349	180,157
Loss from operations	(54,464)	(64,293)	(108,868)	(129,595)
Other (expense) income, net	(1,149)	392	(1,348)	97
Loss before income tax expense	(55,613)	(63,901)	(110,216)	(129,498)
Income tax expense	463	296	695	451
Net loss	$ (56,076)	$ (64,197)	$ (110,911)	$ (129,949)
Net loss per share of common stock, basic and diluted	$ (0.87)	$ (1.12)	$ (1.71)	$ (2.37)
Weighted-average shares used in computing net loss per share of	64,356,873	57,314,715	64,834,719	54,716,430

common stock, basic and diluted

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 June 30,				Six Months Ended June 30,			
		2017		**2016**		**2017**		**2016**
Net loss	$	(56,076)	$	(64,197)	$	(110,911)	$	(129,949)
Items of other comprehensive income (loss):								
Unrealized gain on investments, net of tax of $0 for all periods presented		15		51		20		107
Foreign currency translation adjustment		267		(210)		474		(205)
Total other comprehensive income (loss)		282		(159)		494		(98)
Total comprehensive loss	$	(55,794)	$	(64,356)	$	(110,417)	$	(130,047)

See accompanying notes to the condensed consolidated financial statements.

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HORTONWORKS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (110,911)	$ (129,949)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	4,235	3,288
Amortization of premiums from investments	197	518
Amortization of intangible assets	436	438
Stock-based compensation expense	50,622	51,340
Impairment of promissory note receivable and related interest receivable		717
Loss on early exit of lease	349	
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	934	3
Provision for losses on accounts receivable		443
Other	149	(50)
Changes in operating assets and liabilities:		
Accounts receivable	7,957	(7,859)
Prepaid expenses and other current assets	(2,366)	(988)
Other assets	(650)	(197)
Accounts payable	1,475	6,769
Accrued expenses and other current liabilities	(1,721)	(1,459)
Accrued compensation and benefits	660	3,040
Deferred revenue	28,368	24,765
Other long-term liabilities	(454)	(575)
Net cash used in operating activities	(20,720)	(49,756)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments		(80,519)
Proceeds from sales of investments		7,316
Proceeds from maturities of investments	19,300	40,979
Purchases of property and equipment	(2,203)	(7,275)
Change in restricted cash	26	
Net cash provided by (used in) investing activities	17,123	(39,499)

CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of common stock		5,588		5,852
Tax withholding shares		(562)		(97)
Payment of contingent consideration related to an acquisition				(1,625)
Payments of capital lease liability		(203)		(64)
Payment of fees for line of credit		(52)		
Proceeds from follow-on public offering, net of issuance costs				87,233
Net cash provided by financing activities		4,771		91,299
Effect of exchange rate changes on cash and cash equivalents		952		24
Net increase in cash and cash equivalents		2,126		2,068
Cash and cash equivalents Beginning of period		53,332		35,748
Cash and cash equivalents End of period	$	55,458	$	37,816
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:				
Purchases of property and equipment included in accounts payable and accrued expenses and other current liabilities	$	785	$	1,916

See accompanying notes to the condensed consolidated financial statements.

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HORTONWORKS, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Hortonworks, Inc. (the Company) was incorporated in Delaware in 2011 and is an industry-leading innovator that creates, distributes and supports a new class of enterprise data management software solutions built on open source technology. The Company s customers use the Company s enterprise-scale Connected Data Platforms to build transformational data applications fueled by actionable intelligence from data in motion, information that flows over a network, such as the internet or corporate networks, and data at rest, information that is stored in digital form in a file system, database or other storage medium.

The Company s data-at-rest solution, Hortonworks Data Platform (HDP), is an enterprise-scale data management platform built entirely on open source software, including Apache Hadoop®. HDP combines computer servers with local storage and open source software technology to create a reliable distributed compute and storage platform for large data sets that is secure and scalable up to petabytes of data within thousands of servers or nodes. At the core of HDP is the next generation computing and resource management framework called Yet Another Resource Negotiator (YARN), which enables a centralized data architecture for batch, interactive and real-time workloads to be executed simultaneously on both a single cluster and data set with the comprehensive security, governance and operational services enterprise customers require. HDP integrates with existing data center technologies to support best-of-breed data architectures and enables the Company s customers to collect, store, process and analyze increasing amounts of existing and new data types in a way that augments rather than replaces their existing data center infrastructures.

The Company s data-in-motion solution, Hortonworks DataFlow (HDF), is an enterprise-scale data ingest and stream processing platform built entirely on open source software, including Apache NiFi. HDF is complementary to HDP and accelerates the flow of data in motion into HDP to support full fidelity analytics. HDF is a real-time, integrated, secure and adaptive platform capable of ingesting any type of data in motion from traditional data sources to new data types, such as sensor and machine data, server log data, clickstream data, geo-location data, social and sentiment data and other data generated by documents and other file types. HDF enables customers to collect, curate and analyze their data in motion in order to deliver real-time business insights and actionable intelligence.

In December 2014, the Company completed its initial public offering and concurrent private placement (collectively, the IPO). In February 2016, the Company completed a follow-on public offering of an aggregate of 9,688,750 shares of its common stock, including 1,263,750 additional shares sold pursuant to the full exercise of the option to purchase additional shares by the underwriters, at a public offering price of $9.50 per share. Net proceeds to the Company were approximately $87.7 million after deducting underwriting discounts and commissions and offering expenses.

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States (U.S.) and applicable rules and regulations of the Securities and Exchange Commission (SEC) 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, 2016. 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, 2016 was derived from the Company s audited financial statements for the year ended December 31, 2016, but does not include all disclosures required by U.S. GAAP as permitted by the applicable rules and regulations of the SEC regarding interim financial reporting. However, the Company believes the disclosures are adequate to make the information presented not 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 the Condensed Consolidated Financial Statements

(Unaudited)

Changes in Accounting Policies

The Company adopted Accounting Standards Update (ASU) No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* on January 1, 2017. Under the new standard, the Company is permitted to make a one-time accounting policy election to either account for forfeitures as they occur or to estimate forfeitures. The Company elected to account for forfeitures as they occur.

The updated stock-based compensation expense and income tax accounting policies are as follows:

Stock-Based Compensation Expense

The Company recognizes compensation costs related to employee stock options, restricted stock units (RSUs), performance stock units (PSUs) and participation in the Company s 2014 Employee Stock Purchase Plan (ESPP) based on the estimated fair value on the date of grant. The Company estimates the grant date fair value of options using the Black-Scholes option pricing model. The Company estimates the grant date fair value of RSUs and PSUs based upon the closing market price of the Company s common stock on the grant date. The Company estimates fair value of each ESPP purchase at the beginning of the offering period using the Black-Scholes option pricing model. The respective grant date fair values of stock options, restricted stock, RSUs, PSUs and each ESPP purchase are recognized on a straight-line basis over the requisite service periods, which are the vesting periods.

The Company recognizes compensation costs related to restricted stock granted in connection with an acquisition based upon the fair market value of the underlying common shares.

The Company accounts for stock options and RSUs issued to non-employees based on the fair value of the awards as determined using the Black-Scholes option pricing model and the closing market price of the Company s common stock, respectively. The fair value of stock options and RSUs granted to non-employees are remeasured each period as the stock options and RSUs vest, and the resulting change in value, if any, is recognized in the condensed consolidated statements of operations during the period the related services are performed.

PSUs allow the recipients of such awards to earn fully vested shares of the Company s common stock upon the achievement of pre-established performance objectives. Stock-based compensation expense associated with PSUs is recognized when the performance objective is expected to be achieved. On a quarterly basis, the Company evaluates the performance criteria attainment. The cumulative effect on current and prior periods of a change in the estimated number of PSUs expected to be earned is recognized as compensation expense or as reduction of previously recognized compensation expense in the period of the revised estimate.

Income Taxes

The Company accounts for income taxes using an asset and liability approach. Deferred income tax assets and liabilities are computed for differences between the financial statement and income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, for any portion of deferred income tax assets where it is considered more likely than not that it will not be realized.

The tax effects of the Company s income tax positions are recognized only if determined more likely than not to be sustained based solely on the technical merits as of the reporting date. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

The Company accounts for excess tax benefits and tax deficiencies as income tax expense or benefit, treated as discrete items in the reporting period in which they occur, and recognizes previously unrecognized deferred tax assets that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation in excess of compensation recognized for financial reporting.

Other than the changes to the Company s stock-based compensation expense and income taxes accounting policies, there have been no other material 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, 2016 that have had a material impact on the Company s condensed consolidated financial statements and related notes.

HORTONWORKS, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Use of Estimates

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

Recently Issued Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (FASB) issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting,* which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. The ASU is effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that ASU 2017-09 will have a material impact on its condensed consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 from the goodwill impairment test. The standard requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. In addition, this new standard eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The ASU is effective for public companies for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not anticipate that ASU 2017-04 will have a material impact on its condensed consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business,* which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that ASU 2017-01 will have a material impact on its condensed consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and non-public entities, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statements of cash flows. The ASU is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted the new standard as of January 1, 2017. As a result of adopting this standard, the Company made an accounting policy election to account for forfeitures as they occur. This change was applied on a modified retrospective basis, resulting in a cumulative-effect adjustment increasing accumulated deficit by $0.7 million as of January 1, 2017.

Prior to January 1, 2017, the Company recognized the excess tax benefits of stock-based compensation expense as additional paid-in capital, and tax deficiencies of stock-based compensation expense in the income tax provision or as additional paid-in capital to the extent that there were sufficient recognized excess tax benefits previously recognized. As a result of the prior requirement that excess tax benefits reduce taxes payable prior to being recognized as an increase in additional paid-in capital, the Company had not recognized certain deferred tax assets (all tax attributes such as loss or credit carryforwards) that could be attributed to tax deductions related to equity compensation in excess of compensation recognized for financial reporting.

Effective as of January 1, 2017, the Company adopted a change in accounting policy in accordance with the new standard to account for excess tax benefits and tax deficiencies as income tax expense or benefit, treated as discrete items in the reporting period in which they occur, and to recognize previously unrecognized deferred tax assets that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation in excess of compensation recognized for financial reporting. The change was applied on a modified retrospective basis; no prior periods were restated as a result of this change in accounting policy.

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(Unaudited)

The new standard also eliminates the requirement that excess tax benefits be realized as a reduction in current taxes payable before the associated tax benefit can be recognized as an increase in additional paid-in capital. Approximately $38.4 million of federal net operating losses and $24.4 million of state net operating losses (none of which were included in the deferred tax assets recognized in the condensed consolidated balance sheet as of December 31, 2016) have been attributed to tax deduction for stock-based compensation expense in excess of the related book expense. Under the new standard, these previously unrecognized deferred tax assets were recognized on a modified retrospective basis as of January 1, 2017. The U.S. federal and state net operating losses recognized as of January 1, 2017, as described above, have been offset by a valuation allowance. As a result, there was no tax-related cumulative-effect to accumulated deficit.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The ASU requires an entity to recognize the amount of revenue to which it expects to be entitled upon transfer of promised goods or services to customers. ASU 2014-09 defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used.

In August 2015, 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 of January 1, 2017. The deferral results in the new revenue standard being effective for the Company as of January 1, 2018. Additional ASUs have been issued to amend or clarify the new standard as follows:

ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606)*: *Narrow-Scope Improvements and Practical Expedients* was issued in May 2016. ASU 2016-12 amends the new revenue recognition standard to clarify the guidance on assessing collectability, measuring non-cash consideration, presenting sales taxes and certain transition matters.

ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* was issued in April 2016. ASU 2016-10 addresses implementation issues identified by the FASB-International Accounting Standards Board Joint Transition Resource Group (TRG) for Revenue Recognition concerning identifying performance obligations and accounting for licenses of intellectual property.

ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* was issued in March 2016. ASU 2016-08 requires an entity to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal or agent designation.

The new standard permits adoption either by using (i) a full retrospective approach for all periods presented or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. The Company is adopting the new standard as of January 1, 2018 using the modified retrospective approach. The Company s decision was based on a number of factors such as the significance of the impact of the new standard on the Company s financial results, system readiness, including that of software procured from third-party providers, and the Company s ability to accumulate and analyze the information necessary to assess the cumulative effect of the new standard through January 1, 2018.

The Company is continuing to evaluate the impact of the new standard on its accounting policies, processes and system requirements. The Company has assigned internal resources in addition to the engagement of third-party service providers to assist in the evaluation and to provide periodic updates to management and the Audit Committee. Furthermore, the Company has made and will continue to make investments in systems to enable timely and accurate reporting under the new standard. While the Company continues to assess all potential impacts under the new standard, there is the potential for significant impacts to the timing and amount of support subscription and professional services revenue recognized, as well as the potential capitalization and amortization of contract acquisition costs. In addition, the Company will update certain disclosures, as applicable, included in its filings pursuant to the Securities Exchange Act of 1934, as amended, to meet the requirements of the new standard.

Under current industry-specific software revenue recognition guidance, the Company has concluded it has not established vendor-specific objective evidence of fair value (VSOE) for support subscriptions and professional services offerings in multiple-element arrangements where support subscriptions are sold with professional services. The Company recognizes revenue on a ratable basis over the period beginning when both the support subscription and professional services have substantially commenced, and ending at the conclusion of the support subscription or professional services period, whichever is longer. The new standard, which does not retain the concept of VSOE, requires an evaluation of whether support subscriptions and professional services are distinct performance

HORTONWORKS, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

obligations, and therefore should be separately recognized as the respective performance obligations are satisfied based on the standalone selling price for each performance obligation, which may not be on a ratable basis. Depending on the outcome of the Company s evaluation under the new standard, the timing of revenue recognition could change significantly for professional services bundled in multiple-element arrangements and currently recognized ratably due to lack of VSOE for support subscriptions. In particular, professional services revenue is likely to be recognized in an earlier period and over a shorter timeframe under the new standard compared to the Company s current accounting policy under the existing standards and guidance.

As part of its preliminary evaluation, the Company has also considered the impact of the guidance in Accounting Standards Codification 340-40*, Other Assets and Deferred Costs; Contracts with Customers*, and the interpretations of the FASB TRG for Revenue Recognition from their November 7, 2016 meeting with respect to the capitalization and amortization of incremental costs of obtaining a contract (*e.g.*, sales commissions). For contracts with an expected duration greater than one year, the new standard requires the capitalization of incremental costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained, provided the Company expects to recover the costs. Such capitalized costs are then to be amortized on a systematic basis that is consistent with the transfer to the customer of the services to which such costs relate, and the amortization period may extend beyond the initial contract term if renewal commissions on expected renewals are not commensurate with the commission on the initial contract. Under the Company s current accounting policy, incremental costs incurred to obtain a contract are expensed when incurred. Thus, the application of the new standard could result in a significant change to the Company s current accounting policy for contract acquisition costs, which may result in the Company recognizing the expense for contract acquisition costs in a different period, and potentially over a longer period, compared to the Company s current practice under the existing standards and guidance.

As of June 30, 2017, the Company is in the process of implementing changes to its accounting policies, business processes, systems and controls to support recognition and disclosure under *Revenue from Contracts with Customers (Topic 606)* and Accounting Standards Codification 340-40, *Other Assets and Deferred Costs; Contracts with Customers* and related guidance. The Company is also in the process of quantifying the financial impact of adopting these standards and will disclose such impact in 2018.

With the exception of the new standards discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2017 that are of significance or potential significance to the Company, as compared to the recent accounting pronouncements described in Note 2 of the Company s Annual Report on Form 10-K for the year ended December 31, 2016.

2. FAIR VALUE MEASUREMENTS

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

	June 30, 2017			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 2,031	$	$ (3)	$ 2,028
Certificates of deposit	960			960
Corporate notes and bonds	13,388	1	(6)	13,383
Total investments in available-for-sale securities	$ 16,379	$ 1	$ (9)	$ 16,371

	December 31, 2016			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	$ 2,072	$	$	$ 2,072
Certificates of deposit	960			960
Commercial paper	2,497			2,497
Corporate notes and bonds	30,347	4	(32)	30,319
Total investments in available-for-sale securities	$ 35,876	$ 4	$ (32)	$ 35,848

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HORTONWORKS, INC.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

The contractual maturities of investments in available-for-sale securities were as follows (in thousands):

	June 30, 2017		December 31, 2016	
	Gross Amortized Cost	Estimated Fair Value	Gross Amortized Cost	Estimated Fair Value
Due within one year	$ 16,379	$ 16,371	$ 31,792	$ 31,764
Due after one year through five years			4,084	4,084
Total investments in available-for-sale securities	$ 16,379	$ 16,371	$ 35,876	$ 35,848

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

	June 30, 2017		
	Level 1	Level 2	Total
Assets			
Cash equivalents:			
Money market funds	$ 11,281	$	$ 11,281
Short-term investments:			
U.S. government securities		2,028	2,028
Certificates of deposit		960	960
Corporate notes and bonds		13,383	13,383
Total financial assets	$ 11,281	$ 16,371	$ 27,652

	December 31, 2016		
	Level 1	Level 2	Total
Assets			
Cash equivalents:			

Money market funds	$ 24,533	$	$ 24,533
Short-term investments:			
U.S. government securities		2,072	2,072
Certificates of deposit		960	960
Commercial paper		2,497	2,497
Corporate notes and bonds		26,235	26,235
Long-term investments:			
Corporate notes and bonds		4,084	4,084
Total financial assets	$ 24,533	$ 35,848	$ 60,381

Where applicable, the Company uses quoted market prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments, which are composed of money market funds. 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 U.S. government securities, certificates of deposit, commercial paper and corporate notes and bonds. Commercial paper is valued using market prices, if available, adjusting for accretion of the purchase price to face value at maturity. The carrying amounts of accounts receivable, prepaid expenses and other current assets, accounts payable, accrued compensation and benefits and accrued expenses and other current liabilities approximate fair value.

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 four percent per annum. The promissory note receivable was valued on a non-recurring basis and was classified as held-to-maturity within long-term investments. During the year ended December 31, 2016, the Company recognized an impairment charge of $2.7 million in operating expenses related to the promissory note and related interest receivable as the Company determined it was probable the promissory note and related interest receivable were unrecoverable due to the third-party service provider s illiquidity and unfavorable rate of cash use.

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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 six months ended June 30, 2017 and the year ended December 31, 2016, the Company did not make any transfers between Level 1 or Level 2 investments.

Gross unrealized gains and losses were not material as of June 30, 2017 and December 31, 2016. Realized gains and losses were not material for both the three and six months ended June 30, 2017 and 2016. As of June 30, 2017 and December 31, 2016, there were no securities that were in an unrealized loss position for more than 12 months.

3. INTANGIBLE ASSETS, NET

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

	June 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	$ 4,395	$ (1,710)	$ 2,685
Intangible assets, net	$ 4,395	$ (1,710)	$ 2,685

	December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net
Developed technology	$ 4,395	$ (1,274)	$ 3,121
Intangible assets, net	$ 4,395	$ (1,274)	$ 3,121

For both the three months ended June 30, 2017 and 2016, the Company recognized amortization expense for intangible assets of $0.2 million and for both the six months ended June 30, 2017 and 2016, the Company recognized amortization expense for intangible assets of $0.4 million in operating expenses. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remaining six months of 2017 and each of the succeeding 12 month periods ending December 31, 2018, 2019 and 2020 is $0.4 million, $0.9 million, $0.9 million and $0.5 million, respectively.

4. COMMITMENTS AND CONTINGENCIES

Operating Leases

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 15 years, which expire between 2017 and 2031. Some of these operating lease agreements have free or adjustable rent provisions. Lease expense is recognized on a straight-line basis over the lease term. The Company subleases some excess capacity to subtenants under non-cancelable operating leases.

Rent expense incurred under operating leases was $2.4 million and $2.6 million for the three months ended June 30, 2017 and 2016, respectively, and $4.8 million for both the six months ended June 30, 2017 and 2016.

Capital Leases

The Company entered into various capital lease agreements beginning in April 2014 to obtain network equipment and for equipment installed at its data center. As of June 30, 2017 and December 31, 2016, capital lease obligations were $0.5 million and $0.7 million, respectively. Interest expense related to capital leases was immaterial for the three and six months ended June 30, 2017 and 2016. Property and equipment under the capital leases was $0.5 million as of both June 30, 2017 and December 31, 2016. Accumulated amortization on these assets was $0.3 million and $0.2 million as of June 30, 2017 and December 31, 2016, respectively.

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Legal Proceedings

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

On February 29, 2016, a putative class action lawsuit alleging violations of federal securities laws was filed in the U.S. District Court for the Northern District of California, captioned *Monachelli v. Hortonworks, Inc.*, Case No. 3:16-cv-00980-SI. The lawsuit names as defendants the Company, Robert G. Bearden, and Scott J. Davidson. Plaintiffs allege that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by allegedly making materially false and misleading statements regarding the Company s business and operations. On June 1, 2016, the court entered an order appointing a lead plaintiff and lead counsel. On July 28, 2016, the lead plaintiff and another named plaintiff filed an amended complaint seeking to represent a class of persons who purchased or otherwise acquired Hortonworks securities between August 5, 2015 and January 15, 2016, inclusive, and seeking class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys fees, and other further relief as the Court may deem just and proper. On December 5, 2016, the court granted defendants motion to dismiss the amended complaint, with leave to amend. The parties thereafter engaged in settlement negotiations and have agreed to a class-wide settlement that would not have a material effect on the Company s financial statements. On June 12, 2017, the Court issued an order granting preliminary approval of the proposed settlement. The settlement remains subject to further court approval at a final fairness hearing, which is scheduled for September 22, 2017. Given its preliminary nature, it remains possible that the settlement may not result in a final settlement.

On April 13, 2017, a derivative action was filed in the Court of Chancery of the State of Delaware, captioned *Steinberg v. Bearden, et al.*, Case No. 2017-0286-AGB, purportedly on behalf of the Company against certain of the Company s directors and executive officers. The derivative complaint alleges that the defendants breached their fiduciary duties to the Company and allegedly made false or misleading statements regarding the Company s business and operations. The derivative action includes claims for, among other things, unspecified damages in favor of the Company, corporate actions to purportedly improve the Company s corporate governance, and an award of costs and expenses to the derivative plaintiffs, including attorneys fees. On July 3, 2017, defendants filed a motion to dismiss the complaint. Because the action is in the early stages of the litigation process, the Company is unable to assess whether any loss or adverse effect on its financial condition is probable or remote or to estimate the range of potential loss, if any.

5. DEBT

Revolving Credit Agreement

The Company entered into a $30.0 million two-year senior secured revolving credit agreement with Silicon Valley Bank (the Bank) on November 2, 2016 and amended such agreement on June 26, 2017 (as amended, the Credit Agreement). Amounts outstanding under the Credit Agreement are payable on or before November 2, 2018 and will accrue interest per annum at a rate equal to the Bank s prime rate plus 0.50 percent. Any outstanding loans drawn under the Credit Agreement may be paid at any time prior to maturity. Pursuant to the terms of the Credit Agreement, the Company agreed to pay an annual facility fee equal to 0.50 percent of the aggregate amount of the revolving credit facility commitments and an unused line fee of 0.35 percent per annum on the unused commitments. The Credit Agreement currently has no subsidiary guarantors.

The Credit Agreement contains customary reporting, affirmative and negative covenants, including negative covenants imposing limitations on, among other things, the ability of the Company and its subsidiaries to incur additional indebtedness, grant liens, consummate asset sales, make certain investments and declare or make dividends or repurchase its stock. It also contains certain financial covenants that require the Company to maintain a minimum trailing consolidated adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) and a minimum adjusted quick ratio. In addition, the Company is required to maintain a balance of at least $10.0 million on account with the Bank.

As of June 30, 2017, the Company had no borrowings outstanding under the Credit Agreement and was in compliance with all financial covenants.

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6. STOCKHOLDERS (DEFICIT) 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.

2011 Stock Option and Grant Plan

In December 2014, in connection with the closing of the Company s IPO, the Hortonworks, Inc. 2011 Stock Option and Grant Plan (the 2011 Plan) was terminated and shares authorized for issuance under the 2011 Plan were canceled (except for those shares reserved for issuance upon exercise of outstanding stock options). As of June 30, 2017, options to purchase 5,676,491 shares of common stock were outstanding under the 2011 Plan pursuant to their original terms and no shares were available for future grant.

2014 Stock Option and Incentive Plan

The Hortonworks, Inc. 2014 Stock Option and Incentive Plan (the 2014 Plan) was adopted by the Company s Board of Directors in September 2014. The 2014 Plan was approved by the Company s stockholders in November 2014 and became effective immediately prior to the closing of the Company s IPO. All remaining shares available in the 2011 Plan rolled into the 2014 Plan following the consummation of the IPO. An amendment and restatement of the 2014 Plan (the Amended 2014 Plan) was approved by the Board of Directors in April 2016 and by the Company s stockholders in May 2016. The Amended 2014 Plan allows the Compensation Committee to make equity-based incentive awards to the Company s full or part-time officers, employees, non-employee directors and consultants.

The Company initially reserved 6,000,000 shares of the Company s common stock for the issuance of awards under the 2014 Plan, plus 923,732 shares of the Company s common stock that remained available for issuance under the Company s 2011 Plan as of the Company s IPO date. The amendment and restatement of the 2014 Plan increased the number of shares reserved for issuance under the Amended 2014 Plan by 7,000,000 shares. The Amended 2014 Plan also 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 five 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.

In April, June and July 2015, under the 2014 Plan, the Company granted an aggregate of 421,484 PSUs to certain executive and senior officers (the Grantees) that vest upon (a) the achievement of specified performance targets as set by the Compensation Committee and (b) the Grantee remaining employed during the respective performance cycles over a service period of up to three years, with such service periods commencing on July 1, 2015. The performance target value for each performance cycle is based on an average of the applicable internal and external billings amounts for the respective performance cycle. The number of PSUs that vest for a given performance cycle is based on the Company s achievement of actual billings relative to the performance target value.

In October 2015, under the 2014 Plan, the Company granted an aggregate of 266,084 PSUs to the Grantees that vest upon (a) the achievement of specified performance targets as set by the Compensation Committee and (b) the Grantee remaining employed for the duration of the respective 12-month performance cycles over a service period of up to two years, with such service periods commencing on January 1, 2016. The number of PSUs that vest for a given performance cycle is based on the Company s achievement of EBITDA growth and revenue growth relative to the linear ranking of a pre-selected group of the Company s peers.

As of June 30, 2017, options to purchase shares of stock, RSUs and PSUs covering an aggregate of 12,484,368 shares of common stock were outstanding under the Amended 2014 Plan.

On January 1, 2017, the shares reserved for issuance under the Amended 2014 Plan increased by 3,071,470, resulting in 22,447,073 total shares reserved for issuance under the Amended 2014 Plan as of June 30, 2017, of which 3,317,770 shares remained available for issuance.

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2014 Employee Stock Purchase Plan

The Company s ESPP was adopted and approved by the Company s Board of Directors in September 2014, was adopted and approved by the Company s stockholders in November 2014, and was amended in August 2015 to allow employees of certain of the Company s non-U.S. subsidiaries to participate in the ESPP. The ESPP initially reserved and authorized the issuance of up to a total of 2,500,000 shares of common stock to participating employees. The ESPP provides that the number of shares reserved and available for issuance will automatically increase each January 1, beginning on January 1, 2015, by the lesser of (i) 1,000,000 shares of common stock, (ii) one 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, 2017, the shares reserved for issuance increased by 614,294 resulting in total shares reserved for issuance under the ESPP of 4,006,767 as of June 30, 2017, of which 2,519,445 remained available for purchase.

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

As of June 30, 2017, there was $0.4 million of unrecognized stock-based compensation expense related to the ESPP, which is expected to be recognized over a weighted-average period of 0.30 years.

Stock Options

A summary of information related to stock options for the six months ended June 30, 2017 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)
	7,430,094	$ 9.81	6.73	$ 16,523

Outstanding December 31, 2016						
Options granted						
Options exercised	(664,856)		3.19			
Options canceled/forfeited	(435,320)		16.58			
Outstanding June 30, 2017	6,329,918	$	10.04	6.41	$	26,957
Vested and expected to vest June 30, 2017	6,329,918	$	10.04	6.41	$	26,957
Exercisable June 30, 2017	5,039,916	$	8.98	6.22	$	25,437

Aggregate intrinsic value represents the difference between the exercise price of the options to purchase common stock and the fair value of the Company s common stock. The aggregate intrinsic value of options exercised for the three months ended June 30, 2017 and 2016 was $3.6 million and $3.4 million, respectively, and for the six months ended June 30, 2017 and 2016 was $5.4 million and $8.1 million, respectively.

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Restricted Stock

A summary of information related to restricted stock for the six months ended June 30, 2017 is presented below:

		Number of Shares Issued Outside the Stock Plans	Weighted-Average Grant Date Fair Value Per Share (*)	
Unvested balance	December 31, 2016	275,835	$	23.76
Granted				
Vested				
Canceled/forfeited				
Unvested balance	June 30, 2017	275,835	$	23.76

(*) The weighted-average grant date fair value per share relates to 1,424,946 shares of restricted stock paid as part of the acquisition of Onyara, Inc., of which 275,835 shares are unvested as of June 30, 2017.

No restricted stock was granted or vested during the three and six months ended June 30, 2017. The fair value of the restricted stock vested during the three and six months ended June 30, 2016 was $0.8 million and $2.0 million, respectively.

As of June 30, 2017, there was $13.2 million of unrecognized stock-based compensation expense related to unvested stock options and restricted stock to be recognized over a weighted-average period of 1.09 years.

Restricted Stock Units and Performance Stock Units

A summary of information related to RSUs and PSUs for the six months ended June 30, 2017 is presented below:

	Number of Shares Issued Under Stock Plans	Weighted-Average Grant Date Fair Value Per Share

Unvested balance December 31, 2016	11,261,011	$	13.21
Granted	5,486,726		10.16
Vested	(3,853,295)		13.21
Canceled/forfeited	(1,063,501)		13.05
Unvested balance June 30, 2017	11,830,941	$	11.77

The fair value of the RSUs and PSUs that vested during the three and six months ended June 30, 2017 was $36.1 million and $45.2 million, respectively. The fair value of the RSUs and PSUs that vested during each of the three and six months ended June 30, 2016 was $14.1 million.

As of June 30, 2017, there was $111.3 million of unrecognized stock-based compensation expense related to RSUs and PSUs to be recognized over a weighted-average period of 1.60 years.

Restricted Stock and Stock Options Subject to Repurchase

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

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The number of shares of restricted stock and early exercised options to purchase common stock outstanding subject to the Company s right of repurchase as of June 30, 2017 and December 31, 2016 was 20,605 and 30,708, respectively, which had repurchase prices ranging from $8.46 to $14.22 per share. The liability for shares subject to repurchase as of June 30, 2017 and December 31, 2016 was $0.3 million and $0.4 million, respectively.

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$ 1,989	$ 1,417	$ 3,399	$ 2,775
Sales and marketing	9,129	6,039	16,595	11,658
Research and development	11,060	8,778	20,938	16,582
General and administrative	5,069	5,664	9,690	20,325
Total stock-based compensation expense	$ 27,247	$ 21,898	$ 50,622	$ 51,340

In February 2016, one of the executives of the Company voluntarily canceled a stock option to purchase 1,185,000 shares. As a result, the Company recognized in general and administrative expense a stock-based compensation expense of $10.0 million during the six months ended June 30, 2016.

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. The warrant was issued to Yahoo! Inc. (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. As of June 30, 2017, the warrant was exercisable into 3,250,000 shares of common stock.

In June 2014, the Company issued to Yahoo! a warrant to purchase a number of shares of common stock up to one 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. As of June 30, 2017, the warrant was exercisable into 476,368 shares of common stock.

Each warrant expires nine years from the date of issuance. The warrants vested upon consummation of the Company s IPO in December 2014. As of June 30, 2017, neither warrant had been exercised into shares of common stock.

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 six months ended June 30, 2017 and 2016, all potential common shares were determined to be anti-dilutive.

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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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net loss	$ (56,076)	$ (64,197)	$ (110,911)	$ (129,949)
Weighted-average shares used in computing net loss per share of common stock	64,356,873	57,314,715	64,834,719	54,716,430
Net loss per share, basic and diluted	$ (0.87)	$ (1.12)	$ (1.71)	$ (2.37)

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 June 30, 2017	As of June 30, 2016
Common stock warrants	3,250,000	3,250,000
Exercise and conversion of common stock warrants	476,368	476,368
Common stock subject to repurchase	20,605	47,746
Outstanding stock options	6,329,918	8,915,878
Unvested restricted stock, RSUs and PSUs	12,106,776	11,386,322
Estimated ESPP shares to be issued	484,702	271,707
Total	22,668,369	24,348,021

8. INCOME TAXES

The effective tax rate for the three months ended June 30, 2017 was (0.8) percent compared to (0.5) percent for the same period of 2016. The effective tax rate for the six months ended June 30, 2017 was (0.6) percent compared to (0.3) percent for the same period of 2016. The income tax expense for the three and six months ended June 30, 2017 and 2016 was determined based upon estimates of the Company s effective income tax rates in various jurisdictions. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to state income taxes, foreign income taxes, the effect of certain permanent differences and full valuation allowance against net deferred tax assets.

9. SEGMENT AND GEOGRAPHICAL INFORMATION

The Company s chief operating decision maker reviews financial information on 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 primary growth strategy is predicated upon the growth of the support subscription business, and the Company s key business metrics reflect this strategy. Professional services are offered with the overall goal of securing and retaining support subscription customers and growing support subscription revenue. Accordingly, management has determined the Company operates in one reportable segment.

The Company has historically presented revenue by country, determined by location of sales office. As the Company continues to expand its international operations, presenting revenue by customer domicile would enhance the segment disclosure as it is more representative of the Company s geographic revenue.

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The following table summarizes the Company s revenue by customer domicile. Prior period amounts have been revised to conform with current presentation (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
United States	$ 44,206	$ 31,742	$ 86,219	$ 64,669
United Kingdom	5,770	5,627	10,721	8,067
Rest of world	11,856	6,268	20,863	12,243
Total revenue	$ 61,832	$ 43,637	$ 117,803	$ 84,979

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

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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, 2016, filed with the Securities and Exchange Commission. This discussion contains statements that are not historical in nature, are predictive, that depend upon or refer to future events or conditions or contain forward-looking statements. Such statements are based upon current expectations that involve risks and uncertainties, as well as assumptions that, if they never materialize or if they prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Various factors could cause or contribute to such a difference, including, but not limited to, those identified below and discussed in Item 1A Risk Factors and in other parts of this quarterly report.

Overview

Hortonworks, Inc. (Hortonworks, the Company, we or us) is an industry-leading innovator that creates, distributes supports a new class of enterprise data management software solutions built on open source technology. Our customers use our enterprise-scale Connected Data Platforms to build transformational data applications fueled by actionable intelligence from data in motion, information that flows over a network, such as the internet or corporate networks, and data at rest, information that is stored in digital form in a file system, database or other storage medium.

Our data-at-rest solution, Hortonworks Data Platform (HDP), is an enterprise-scale data management platform built entirely on open source software, including Apache Hadoop. HDP combines computer servers with local storage and open source software technology to create a reliable distributed compute and storage platform for large data sets that is secure and scalable up to petabytes of data within thousands of servers or nodes. At the core of HDP is the next generation computing and resource management framework called Yet Another Resource Negotiator (YARN), which enables a centralized data architecture for batch, interactive and real-time workloads to be executed simultaneously on both a single cluster and data set with the comprehensive security, governance and operational services enterprise customers require. HDP integrates with existing data center technologies to support best-of-breed data architectures and enables our customers to collect, store, process and analyze increasing amounts of existing and new data types in a way that augments rather than replaces their existing data center infrastructures.

Our data-in-motion solution, Hortonworks DataFlow (HDF), is an enterprise-scale data ingest and stream processing platform built entirely on open source software, including Apache NiFi. HDF is complementary to HDP and accelerates the flow of data in motion into HDP to support full fidelity analytics. HDF is a real-time, integrated, secure and adaptive platform capable of ingesting any type of data in motion from traditional data sources to new data types such as sensor and machine data, server log data, clickstream data, geo-location data, social and sentiment data and other data generated by documents and other file types. HDF enables customers to collect, curate and analyze their data in motion in order to deliver real-time business insights and actionable intelligence.

We employ a differentiated strategic approach in that we are committed to continuously driving innovation and market adoption of Apache Hadoop, Apache NiFi and associated open source technologies within the Apache Software Foundation open source ecosystem. We do this by sharing all of our product development with the open source community in order to further advance open source technology development and functionality, which is ultimately consumed by enterprise customers of all types and sizes. We distribute the HDP and HDF software under the Apache open source license in order to provide broad rights for recipients of the software to use, copy, modify and redistribute the software. Consistent with our open source approach, we generally make HDP and HDF available free of charge.

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

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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. 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, increased competition, 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 if our subscription revenue does not continue to grow, then our ability to achieve profitability will be negatively impacted. In addition, as we have not established vendor-specific objective evidence of fair value (VSOE) for professional services offerings, our results of operations could fluctuate significantly from period to period in ways that do not correlate with our underlying professional service business performance through at least the end of fiscal year 2017. Effective January 1, 2018, we will be adopting Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* the effects of which we are continuing to evaluate. See Note 1 Description of Business and Summary of Significant Accounting Policies in the notes to our condensed consolidated financial statements for more information.

We have achieved significant growth in recent periods. Our revenue for the three months ended June 30, 2017 and 2016 was $61.8 million and $43.6 million, respectively, and our revenue for the six months ended June 30, 2017 and 2016 was $117.8 million and $85.0 million, respectively. We incurred net losses for the three months ended June 30, 2017 and 2016 of $56.1 million and $64.2 million, respectively, and net losses for the six months ended June 30, 2017 and 2016 of $110.9 million and $129.9 million, respectively. We have reduced our cash used in operating activities to $20.7 million from $49.8 million in the six months ended June 30, 2017 and 2016, respectively.

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 our Connected Data 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 of enterprise data management software solutions built on open source technology. The contract value of our support subscriptions with individual support subscription customers varies substantially among customers, and our results of operations may fluctuate from period to period depending on the timing and composition of particular large support subscriptions including engineering services or premium subscription agreements that provide a customer with development input and the opportunity to work more closely with our developers. Our results of operations may also fluctuate, in part, due to the resource-intensive nature of our sales efforts, the length and variability of the sales cycle of our support subscription offerings and the difficulty in making short-term adjustments to our operating expenses based upon deviations from forecasted sales productivity or expectations. 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, our professional services engagements relate to both initial new support subscription customer deployments and the expansion of existing customers who are seeking to increase their use of these services.

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

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Investing for Growth. We will continue to focus on long-term growth. We believe that our market opportunities (HDP and HDF) are large and underpenetrated, and we will continue to invest significantly in sales and marketing to grow our customer base, expand within existing support subscription customers and grow internationally to drive additional revenue. We also expect to invest in research and development to enhance HDP, HDF, Azure HDInsight, Hortonworks Data Cloud for Amazon Web Services, 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 (IPO), the concurrent private placement and our follow-on public offering to fund these growth strategies and do not expect to be profitable in the near future. We also intend to leverage business partners for the delivery of professional services. We believe that our sales and marketing, research and development and general and administrative costs will decrease as a percentage of revenue in the long term as we are able to reach economies of scale and achieve process improvements and other operational efficiencies. With this increased operating leverage, we expect our gross and operating margins to increase in the long term.

Revenue Recognition Policies. We enter into sales arrangements pursuant to which we provide support subscription and/or professional services offerings. 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 current U.S. GAAP, for arrangements providing both support subscription and professional services offerings, 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 under current U.S. GAAP through December 31, 2017. We will adopt ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* effective January 1, 2018, the effects of which we are continuing to evaluate. See Note 1 Description of Business and Summary of Significant Accounting Policies in the notes to our condensed consolidated financial statements for more information.

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. 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 June 30, 2017 and December 31, 2016 was 124 percent and 131 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 U.S. 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 U.S. 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 over 1,200 as of June 30, 2017.

Components of Results of Operations

Revenue

We generate revenue primarily through selling support subscription offerings and consulting and/or training services to our enterprise customers. On occasion, we sell engineering services as well as premium subscription offerings that provide customers with development input and the opportunity to work more closely with our developers. When a support subscription is sold separately, we recognize revenue on a ratable basis over the support subscription term. When consulting and/or training is sold separately, we recognize revenue as the services are performed. We have multiple-element arrangements with many of our enterprise customers which include support subscriptions sold together with professional services. We have not established VSOE for our support subscriptions and professional services offerings. Accordingly, for our multiple-element arrangements, we generally recognize revenue on a ratable basis over the period beginning when both the support subscription and professional services have commenced, and ending at the conclusion of the support subscription or professional services period, whichever is longer.

Cost of Revenue

Cost of support subscription revenue consists primarily of personnel costs (including cash compensation, 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 cash compensation, 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 cash compensation, commissions, 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 cash compensation, 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 cash compensation, benefits and stock-based compensation expense) for our executive, finance, human resources, IT, legal and other administrative employees. In addition, general and administrative expenses include fees for third-party professional services, including consulting, accounting and legal services and other corporate expenses and allocated overhead. Excluding the impact of the accelerated recognition of $10.0 million related to one of our executives voluntary cancellation of stock options to purchase 1,185,000 shares in 2016, 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 and incur expenses related to implementation efforts of the new revenue recognition standards. 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 condensed consolidated statements of operations data for each of the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Support subscription and professional services revenue:				
Support subscription	$ 45,792	$ 31,018	$ 87,890	$ 58,652
Professional services	16,040	12,619	29,913	26,327
Total support subscription and professional services revenue	61,832	43,637	117,803	84,979
Cost of revenue:				
Support subscription	7,227	5,880	13,383	10,781
Professional services	13,240	12,181	24,939	23,636
Total cost of revenue	20,467	18,061	38,322	34,417
Gross profit	41,365	25,576	79,481	50,562
Operating expenses:				
Sales and marketing	50,526	46,175	100,745	88,258
Research and development	27,479	25,454	52,985	47,605
General and administrative	17,824	18,240	34,619	44,294
Total operating expenses	95,829	89,869	188,349	180,157
Loss from operations	(54,464)	(64,293)	(108,868)	(129,595)
Other (expense) income, net	(1,149)	392	(1,348)	97
Loss before income tax expense	(55,613)	(63,901)	(110,216)	(129,498)
Income tax expense	463	296	695	451
Net loss	$ (56,076)	$ (64,197)	$ (110,911)	$ (129,949)

Comparison of the Three and Six Months Ended June 30, 2017 and 2016

Revenue

	Three Months Ended June 30, 2017	2016	% Change	Six Months Ended June 30, 2017	2016	% Change
	(in thousands)			(in thousands)		
Support subscription and professional services revenue:						
Support subscription	$ 45,792	$ 31,018	48%	$ 87,890	$ 58,652	50%
Professional services	16,040	12,619	27%	29,913	26,327	14%
Total support subscription and professional services revenue	$ 61,832	$ 43,637	42%	$ 117,803	$ 84,979	39%

Support subscription revenue for the three and six months ended June 30, 2017 increased $14.8 million and $29.2 million, respectively, compared to the same periods in 2016. The increases were primarily due to sales of additional support subscriptions to our existing customers as well as growth in our support subscription customer base.

Professional services revenue for the three and six months ended June 30, 2017 increased $3.4 million and $3.6 million, respectively, compared to the same periods in 2016. The increases were primarily due to the growth in our support subscription customer base.

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Cost of Revenue

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
	(in thousands)			(in thousands)		
Cost of revenue:						
Cost of support subscription	$ 7,227	$ 5,880	23%	$ 13,383	$ 10,781	24%
Cost of professional services	13,240	12,181	9%	24,939	23,636	6%
Total cost of revenue	$ 20,467	$ 18,061	13%	$ 38,322	$ 34,417	11%

Cost of support subscription revenue increased $1.3 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increase was primarily attributable to a $1.2 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 $2.6 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase was primarily attributable to a $2.3 million increase in employee-related expenses as a result of an increase in headcount to support new customer growth.

Cost of professional services revenue increased $1.1 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increase was primarily attributable to a $1.0 million increase in employee-related expenses. Cost of professional services revenue increased $1.3 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase was primarily attributable to a $1.4 million increase in employee-related expenses.

Sales and Marketing

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	% Change	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	% Change
	(in thousands)			(in thousands)		
Sales and marketing	$ 50,526	$ 46,175	9%	$ 100,745	$ 88,258	14%

Sales and marketing expenses increased $4.4 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increase was primarily attributable to an increase in employee-related expenses of

$4.3 million, which included $3.1 million of stock-based compensation expense, primarily related to restricted stock units (RSUs) granted to new employees and existing employees. Sales and marketing expenses increased $12.5 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase was primarily attributable to an increase in employee-related expenses of $11.5 million, which included $4.9 million of stock-based compensation expense, primarily related to RSUs granted to new employees and existing employees.

Research and Development

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2017	2016		2017	2016	
	(in thousands)			(in thousands)		
Research and development	$ 27,479	$ 25,454	8%	$ 52,985	$ 47,605	11%

Research and development expenses increased $2.0 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The increase was primarily attributable to an increase in employee-related expenses of $2.5 million, which included $2.3 million of stock-based compensation expense, primarily related to RSUs granted to existing employees. Research and development expenses increased $5.4 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The increase was primarily attributable to an increase in employee-related expenses of $5.4 million, which included $4.4 million of stock-based compensation expense, primarily related to RSUs granted to existing employees.

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General and Administrative

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
	(in thousands)			(in thousands)		
General and administrative	$ 17,824	$ 18,240	(2)%	$ 34,619	$ 44,294	(22)%

General and administrative expenses decreased $0.4 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016. The decrease was primarily attributable to a decrease in employee-related expenses. General and administrative expenses decreased $9.7 million for the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The decrease was primarily attributable to a decrease in employee-related expenses of $9.8 million, which included a $10.6 million decrease of stock-based compensation expense due to the accelerated recognition of $10.0 million of expense related to one of our executives voluntary cancellation of stock options to purchase 1,185,000 shares in February 2016 for which there was no similar expense in the six months ended June 30, 2017. Within general and administrative expenses, there was also an increase in outside services expenses of $0.8 million primarily related to the implementation efforts of new revenue recognition standards which was partially offset by a decrease in expense related to a $0.7 million impairment charge on our promissory note and related interest receivable recognized during the six months ended June 30, 2016 for which there was no similar expense in the six months ended June 30, 2017.

Liquidity and Capital Resources

As of June 30, 2017, our principal sources of liquidity were cash and cash equivalents and investments totaling $71.8 million, compared to $89.2 million at December 31, 2016, 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 U.S. government securities, certificates of deposit, commercial paper and corporate notes and bonds. The following table summarizes our cash flows for the periods indicated:

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Cash used in operating activities	$ (20,720)	$ (49,756)
Cash provided by (used in) investing activities	17,123	(39,499)
Cash provided by financing activities	4,771	91,299

To date, we have financed our operations primarily through private placements of preferred stock, our IPO, the concurrent private placement of our common stock, our follow-on public offering and cash collected from sales of our support subscriptions and professional services to customers. We believe that our existing cash and cash equivalents 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 expenses.

After our net loss of $110.9 million was adjusted to exclude non-cash items, operating activities used $20.7 million of cash during the six months ended June 30, 2017. Significant non-cash items included stock-based compensation expense of $50.6 million and depreciation and amortization expense of $4.9 million. Changes in our operating assets and liabilities resulted in net cash generated of $33.3 million and were primarily related to an increase of $28.4 million in deferred revenue as a result of growth in our support subscription customer base, coupled with our ratable revenue recognition of professional services revenue due to our lack of VSOE for support subscriptions and professional services offerings and a decrease in accounts receivable of $8.0 million due to the timing of customer collections. Cash was also generated from a $1.5 million increase in accounts payable due to the timing of vendor payments which was offset by cash utilized as a result of a $2.4 million increase in prepaid expenses and other current assets and a $1.7 million decrease in accrued expenses and other current liabilities.

After our net loss of $129.9 million was adjusted to exclude non-cash items, operating activities used $49.8 million of cash during the six months ended June 30, 2016. Significant non-cash items included stock-based compensation expense of $51.3 million which was primarily due to an increase in headcount and the accelerated recognition of $10.0 million in stock-based compensation expense related to one of our executives voluntary cancellation of stock options to purchase 1,185,000 shares in February 2016. Non-cash items also included depreciation and amortization expense of $4.2 million and an impairment charge on our promissory note and related interest receivable of $0.7 million. Changes in our operating assets and liabilities resulted in net cash generated of $23.5 million primarily due to an increase of $24.8 million in deferred revenue as a result of growth in our support subscription customer base, coupled with our ratable revenue recognition of professional services revenue due to our lack of VSOE for support subscriptions and professional services offerings. Cash was also generated from a $6.8 million increase in accounts payable due to the timing of vendor payments as well as a $3.0 million increase in accrued compensation and benefits which was offset by cash utilized as a result of a $7.9 million increase in accounts receivable due to the timing of customer collections, a $1.5 million decrease in accrued expenses and other current liabilities and a $1.0 million increase in prepaid expenses and other current assets.

Investing Activities

Cash provided by investing activities for the six months ended June 30, 2017 was $17.1 million. The primary inflow of cash associated with investing activities was related to the maturity of investments of $19.3 million which was offset by purchases of property and equipment of $2.2 million during the six months ended June 30, 2017.

Cash used in investing activities for the six months ended June 30, 2016 was $39.5 million. The primary outflow of cash associated with investing activities were related to the purchases of investments and property and equipment of $80.5 million and $7.3 million, respectively, offset by sales and maturity of investments of $48.3 million.

Financing Activities

Cash provided by financing activities for the six months ended June 30, 2017 was $4.8 million, which was primarily attributed to the proceeds related to the issuance of common stock.

Cash provided by financing activities for the six months ended June 30, 2016 was $91.3 million which included net proceeds from our follow-on public offering and proceeds related to the issuance of common stock of $87.2 million and $5.9 million, respectively. These proceeds were partially offset by the payments of a contingent consideration related to an acquisition of $1.6 million during the six months ended June 30, 2016.

Revolving Credit Facility

We maintain a senior secured revolving credit facility with Silicon Valley Bank (the Bank). The revolving credit facility provides for borrowings up to $30.0 million. The revolving credit facility matures on November 2, 2018 and currently has no subsidiary guarantors. Any outstanding loans drawn under the revolving credit facility are due at maturity. Outstanding borrowings may be paid at any time prior to maturity. As of June 30, 2017, we had no borrowings outstanding under our revolving credit facility and we are in compliance with all financial covenants, which include maintaining a minimum trailing consolidated adjusted earnings before interest, taxes, depreciation and amortization and a minimum adjusted quick ratio. In addition, we are required to maintain a balance of at least $10.0 million on account with the Bank.

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Contractual Obligations and Other Commitments

As of June 30, 2017, 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, 2016.

Off-Balance Sheet Arrangements

Through June 30, 2017, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Segment Information

We operate in one reportable segment.

Critical Accounting Policies and Estimates

We prepare our condensed consolidated financial statements in accordance with U.S. 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 of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of expenses during the reporting period. 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.

As a result of our adoption of ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* on January 1, 2017, we made an accounting policy election to account for forfeitures as they occur instead of using an estimated forfeiture rate. The stock-based compensation expense accounting policy has been updated as follows:

Stock-Based Compensation Expense

We recognize compensation costs related to stock options granted to employees based on the estimated fair value on the date of grant. We estimate the grant date fair value, and the resulting stock-based compensation expense, using the Black-Scholes option pricing model. The grant date fair value is recognized on a straight-line basis over the requisite service period, which is the vesting period.

The Black-Scholes option pricing model requires the use of highly subjective and complex assumptions, including the expected term and the price volatility of the underlying stock, which determine the fair value. These assumptions include:

Expected term. We estimate the expected term for stock options using the simplified method due to the limited historical exercise activity for us. The simplified method calculates the expected term as the midpoint between the vesting date and the contractual expiration date of the award.

Expected volatility. Due to the limited history of our common stock, the expected volatility was derived from the average historical stock volatilities of several unrelated public companies within our industry that we consider to be comparable to our business over a period equivalent to the expected term of the stock option grants.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the stock-based award.

Expected dividend. The expected dividend is assumed to be zero as we have never paid dividends and have no current plans to pay any dividends on our common stock.

We will continue to use judgment in evaluating the expected volatility and expected term utilized for our stock-based compensation calculations on a prospective basis. As we continue to accumulate additional data related to our common stock, we may have refinements to the estimates of our expected volatility and expected term, which could impact our future stock-based compensation expense.

Stock-based compensation expense related to RSUs is based on the fair value of our common stock on the grant date, which equals the closing market price of our common stock on the grant date. For RSUs, we recognize compensation expense on a straight-line basis over the requisite service period which is the vesting period.

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Stock-based compensation expense related to performance stock units (PSUs) is based on the fair value of our common stock on the grant date, which equals the closing market price of our common stock on the grant date. PSUs allow the recipients of such awards to earn fully vested shares of our common stock upon the achievement of pre-established performance objectives. Stock-based compensation expense associated with PSUs is recognized when the performance objective is expected to be achieved. On a quarterly basis, we evaluate the performance criteria attainment. The cumulative effect on current and prior periods of a change in the estimated number of PSUs expected to be earned is recognized as compensation expense or as reduction of previously recognized compensation expense in the period of the revised estimate.

Stock-based compensation expense related to restricted stock granted in connection with an acquisition is based upon the fair market value of the underlying common shares.

We account for stock options and RSUs issued to non-employees based on the fair value of the awards as determined using the Black-Scholes option pricing model and the closing market price of our common stock, respectively. The fair value of stock options and RSUs granted to non-employees are remeasured each period as the stock options and RSUs vest, and the resulting change in value, if any, is recognized in the condensed consolidated statements of operations during the period the related services are performed.

We account for our ESPP as a compensatory plan. The fair value of each purchase under our ESPP is estimated on the date of the beginning of the offering period using the Black-Scholes option pricing model, which requires the use of subjective assumptions related to the expected stock price volatility, term, risk-free interest rate and dividend yield. We recognize compensation expense over the vesting period of the awards that are ultimately expected to vest.

Other than the changes to our stock-based compensation expense critical accounting policy, there have been no other 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, 2016.

Recent Accounting Pronouncements

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Our primary exposure to market risk relates to interest rate changes. We had cash and cash equivalents and investments totaling $71.8 million as of June 30, 2017. Cash and cash equivalents are comprised primarily of cash deposits and money market funds. Our short-term investments are primarily comprised of U.S. government securities, certificates of deposit and corporate notes and bonds. 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.

The interest rate under our revolving credit facility is variable, so interest expense for periods when the revolving credit facility is utilized could be adversely affected by changes in interest rates. As of June 30, 2017, we had no outstanding balance under our revolving credit facility. For additional description of our revolving credit facility, refer to Note 5 Debt in the notes to our condensed consolidated financial statements.

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 Securities Exchange Act of 1934 (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 Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission 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.

Changes in Internal Control

There have not been any changes in our internal control over financial reporting that occurred during the three months ended June 30, 2017 that have 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.

For a description of our material legal proceedings, see Legal Proceedings in Note 4 Commitments and Contingencies in the notes to our condensed consolidated financial statements, which is incorporated herein by reference.

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Item 1A. Risk Factors.

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

Risks Related to Our Business

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

We have incurred net losses since our inception, including net losses of $110.9 million and $129.9 million for the six months ended June 30, 2017 and 2016, respectively. As a result, we had an accumulated deficit of $814.1 million as of June 30, 2017. It is difficult for us to predict our future results of operations since the market for our solutions is rapidly evolving and has not yet reached widespread adoption. We may not achieve sufficient revenue to attain and maintain profitability. We expect our operating expenses to increase over the next several years as we hire additional personnel, particularly in sales, expand and improve the effectiveness of our distribution channels, and continue to invest in the development of our Connected Data Platforms, the Hortonworks Data Platform (HDP) and Hortonworks DataFlow (HDF) offerings. In addition, as we grow and as a result of being a public company, we will incur additional significant legal, accounting and other expenses that we did not incur as a private company. As a result of these increased expenses, we will have to generate and sustain increased revenue to be profitable in future periods. Any failure by us to sustain or increase profitability on a consistent basis could cause the value of our common stock to decline.

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

We were incorporated in 2011 and introduced our first solution in 2012. As a result of our limited operating history, our ability to forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth has been inconsistent, has benefited from transactions with related parties and should not be considered indicative of our future performance. Further, in future periods, our revenue growth could slow or our revenue could decline for a number of reasons, including an increase in multi-year arrangements, 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. It could also become increasingly difficult to predict revenue as our mix of annual, multi-year and other types of arrangements changes as a result of our expansion into cloud-based offerings. Finally, we have also encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties and our future revenue growth (each of which we use to plan our business) are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

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

We have limited experience with respect to determining the optimal prices for our support subscription offerings. As the market for open source distributed data platforms matures, or as competitors introduce new products or services that compete with ours, we may be unable to attract new support subscription customers at the same price or based on the same pricing model as we have used historically. Moreover, large support subscription customers, which are the focus of our sales efforts, may demand greater price concessions. As a result, in the future, we may be required to reduce our prices, which could harm our revenue, gross margins, financial position and cash flows. Furthermore, while the terms of our support subscription agreements limit the number of supported nodes or the size of supported data sets, such limitations may be improperly circumvented or otherwise bypassed by certain users.

We expect to derive a significant portion of our revenue from renewals of existing support subscription agreements. As a result, customers renewing and expanding their support subscription relationships with us will be critical to our business. Our support subscription customers have no obligation to renew their support subscriptions after the expiration of the initial support subscription period and may renew for fewer elements of our support subscription offerings or on different pricing terms. We have limited historical data with respect to support subscription customer renewals, including those support subscription arrangements which also allow the customer the ability to potentially impact the direction and development of the underlying open source solution, 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. Additionally, customers may elect to implement and self-support Hadoop deployments internally rather than purchasing a support subscription from us. 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 our revenue and cash flows primarily from supporting our Connected Data Platforms and services and training related to them, failure of these offerings or our new product offerings to satisfy customer requirements or to achieve increased market acceptance would harm our business, results of operations, financial condition and growth prospects.

We derive and expect to continue to derive primarily all of our revenue and cash flows from customer fees for support subscription offerings and professional services in support of our Connected Data Platforms: HDP and HDF. As such, the market acceptance of our Connected Data Platforms is critical to our continued success. Customer demand for our Connected Data Platforms is affected by a number of factors beyond our control, including the market acceptance of an open source data platform for both incremental and existing use cases, the continued enhancement of our Connected Data Platforms to support new use cases and 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 data to lead to an increase in the data storage and processing demands of our customers, and our Connected Data Platforms 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 our Connected Data Platforms, our business, results of operations, financial condition and growth prospects will be harmed.

Our success is highly dependent on our ability to penetrate the existing market for open source Connected Data Platforms as well as on the growth and expansion of the market for open source Connected Data Platforms.

The market for our Connected Data Platforms encompasses demand for open source distributed data platforms powered by Apache Hadoop and demand for open source data ingest platforms powered principally by open source projects like Apache NiFi. These markets are relatively new, rapidly evolving and unproven. Our future success will depend in large part on our ability to penetrate the existing market for open source distributed data platforms, as well as the continued growth and expansion of that market, and it will also depend on the ability of technology like Apache NiFi to penetrate the existing market for open source data ingest platforms as well as the continued growth and expansion of that market. 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 for open source Connected Data Platforms and any expansion of that 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 collection, storage and processing. Furthermore, many potential support subscription customers have made significant investments in legacy data collection, storage and processing software and may be unwilling to invest in new solutions. If the market for open source Connected Data Platforms fails to grow or expand or decreases in size, or if we do not succeed in further penetrating that market, our business would be harmed.

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

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

Our agreements with our partners are generally non-exclusive, meaning our partners may offer customers the products and services of several different companies, including products and services that compete with ours, or may themselves be or become competitors. If our partners do not effectively market and sell our support subscription offerings and our professional services, choose to use greater efforts to market and sell their own products and services or those of our competitors, or fail to meet the needs of our customers, our ability to grow our business and sell our support subscription offerings and our professional services may be harmed. Our partners may cease marketing our support subscription offerings or professional services with limited or no notice and with little or no penalty. The loss of a substantial number of our partners, our possible inability to replace them, or the failure to recruit additional partners could harm our results of operations.

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

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

We face substantial competition from Hadoop distribution vendors such as Cloudera Inc. and MapR Technologies, Inc., as well as from enterprise software vendors, system providers and infrastructure companies not specifically focused on Hadoop distribution. Further, other established system providers not currently focused on Hadoop, including traditional data warehouse solution providers such as Teradata Corporation, SAP AG and Dell EMC, 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, cloud computing vendors that offer certain big data processing services, such as Amazon.com, Inc., may expand their products and services and more effectively compete with us. Finally, some potential customers may elect to implement and self-support Hadoop deployments internally rather than 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 the offerings 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 our Connected Data Platforms with such products and services, our business will suffer.

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

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

We rely to a significant degree on a number of independent open source software programmers, or Hadoop committers and contributors, to develop and enhance Apache Hadoop, Apache NiFi and associated open source technologies. Additionally, members of the corresponding Apache Software Foundation Project Management Committees (PMCs), many of whom are not employed by us, are primarily responsible for the oversight and evolution of the codebases of Hadoop and its related technologies. If the Hadoop committers and contributors fail to adequately further develop and enhance open source technologies, or if the PMCs fail to oversee and guide the evolution of Hadoop-related technologies in the manner that we believe is appropriate to maximize the market potential of our offerings, then we would have to rely on other parties, or we would need to expend additional resources, to develop and enhance our offerings. We also must devote adequate resources to our own internal programmers to support their continued development and enhancement of open source technologies, and if we do not do so, we may have to turn to third parties or experience delays in developing or enhancing open source technologies. We cannot predict whether further developments and enhancements to these technologies would be available from reliable alternative sources. In either event, our development expenses could be increased and our technology release and upgrade schedules could be delayed. Delays in developing, completing or delivering new or enhanced offerings could cause our offerings to be less competitive, impair customer acceptance of our offerings and result in delayed or reduced revenue for our offerings.

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

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

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

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

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

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

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

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

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 cash flow or revenue, and even a small shortfall in revenue in a quarter could harm our financial results for that quarter and cause our financial results to fall short of analyst expectations, which could cause the market price of our common stock to decline substantially.

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

- the timing of new customer contracts for support subscription offerings and professional services, and the extent to which we earn additional revenue and cash flow from existing customers as they expand their deployment of our Connected Data Platforms;

- the timing of recognizing the expense for contract acquisition costs, especially considering our current practice under the existing accounting standards and our current policy of expensing contract acquisition costs when incurred;

- 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, especially considering our lack of vendor-specific objective evidence of fair value (VSOE) for our support subscriptions and professional services offerings;
- our ability to control costs, including our operating expenses;
- the proportion of revenue attributable to larger transactions as opposed to smaller transactions and the impact that a change in such proportion may have on the overall average selling price of our support subscription offerings;
- the proportion of revenue attributable to support subscription offerings and professional services, which may impact our gross margins and operating income;
- the reduction or elimination of support of the Apache Hadoop Project or the Apache NiFi Project by the Apache Software Foundation, migration of Hadoop technology or NiFi technology to an organization other than the Apache Software Foundation, or any other actions taken by the Apache Software Foundation or the Apache Hadoop Project or the Apache NiFi Project that may impact our business model;
- changes in customers budgets and in the timing of their purchasing decisions;
- the collectability of receivables from customers and resellers, which may be hindered or delayed if these customers or resellers experience financial distress; and
- general economic conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers participate.

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

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

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

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 approximately 1,120 as of June 30, 2017 from approximately 1,085 at June 30, 2016, and have increased our revenue to $117.8 million in the six months ended June 30, 2017 from $85.0 million in the six months ended June 30, 2016. 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 securing 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 our Connected Data Platforms, increase sales of support subscription offerings and professional services and grow our business depends on the increased adoption of big data services and applications by enterprises. While we believe that big data services and applications can offer a compelling value proposition to many enterprises, the broad adoption of big data applications and services also presents challenges to enterprises, including developing the internal expertise and infrastructure to manage big data applications and services effectively, coordinating multiple data sources, defining a big data strategy that delivers an appropriate return on investment and implementing an information technology infrastructure and architecture that enables the efficient deployment of big data solutions. Accordingly, our expectations regarding the potential for future growth in the market for big data applications and services, and the third-party growth estimates for this market in this Quarterly Report on Form 10-Q, are subject to significant uncertainty. If the market for big data applications and services does not grow as expected, our business prospects may be adversely affected. Even if the market for big data applications and services increases, we cannot be sure that our business will grow at a similar rate, or at all.

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

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

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

Our Connected Data Platforms, HDP and HDF, have been provided under the Apache License 2.0. This license states that any work of authorship licensed under it, and any derivative work thereof, may be reproduced and distributed provided that certain conditions are met. It is possible that a court would hold this license to be unenforceable or that someone could assert a claim for proprietary rights in a program developed and distributed under the license. Any ruling by a court that this license is not enforceable, or that open source components of HDP or HDF may not be reproduced or distributed, may negatively impact our distribution or development of all or a portion of HDP and HDF. In addition, at some time in the future it is possible that Apache Hadoop or Apache NiFi may be distributed under a different license or 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 our Connected Data Platforms 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 VSOE for support subscriptions or professional services offerings, and we may offer certain contractual provisions to our customers that result in delayed recognition of revenue under generally accepted accounting principles (GAAP) in the United States (U.S.), 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 may enter into sales arrangements pursuant to which we provide support subscription offerings and/or 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 U.S. GAAP as one multiple-element arrangement for purposes of determining the appropriate amount and timing of revenue recognition. As we discuss further in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates, because we do not have VSOE for our support subscriptions and professional services 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 U.S.

GAAP to defer revenue to future periods. Typically, for arrangements providing for support subscription offerings and professional services, we have recognized as revenue the entire arrangement fee ratably over the support subscription period, although the appropriate timing of revenue recognition must be evaluated on an arrangement-by-arrangement basis and may differ from arrangement to arrangement. If we are unexpectedly required to defer revenue to future periods for a significant portion of our sales, our revenue and overall operating results for a particular period could fall below our expectations or those of securities analysts and investors, resulting in a decline in our stock price.

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

We generally recognize subscription revenue from support subscription customers ratably over the term of their subscription agreements, which are generally 12 months, with some support subscription customers having subscription agreements with longer multi-year terms. As a result, much of the revenue we report in each quarter is derived from deferred revenue from subscription agreements entered into during previous quarters. Consequently, a decline in the value of new support subscription agreements entered into within any one quarter, will not necessarily be fully reflected in the revenue we record for that quarter and will harm our revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect this reduced revenue. Accordingly, the effect of significant downturns in sales and market acceptance of our services may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new support subscription customers is 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 our Connected Data Platforms are deployed, our support subscription customers depend on our software support organization to resolve technical issues relating to the deployment. We may be unable to respond quickly enough to accommodate short-term increases in support subscription customer demand for support subscription offerings. We also may be unable to modify the format of our support subscription offerings to compete with changes in offerings provided by our competitors. Increased support subscription customer demand for our support subscription offerings, without corresponding revenue, could increase costs and harm our results of operations. In addition, our sales process is highly dependent on our business reputation and on positive references from our existing support subscription customers. Any failure to maintain high-quality support subscription offerings, or a market perception that we do not maintain high-quality support subscription offerings, could harm our reputation, our ability to sell our support subscription offerings to existing and prospective support subscription customers and our results of operations.

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 various negative outcomes, which may include litigation, termination of contracts, forfeiture of profits and suspension of payments. Further, any negative publicity related to our customer contracts or any proceedings surrounding them, regardless of its accuracy, may damage our business and affect our ability to compete for new contracts. If our customer contracts are terminated, or if our ability to compete for new contracts is adversely affected, our business, financial condition, results of operations and cash flows could be harmed.

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

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

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

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

Our Connected Data Platforms are deployed in a wide variety of technology environments, including in large-scale, complex technology environments, and we believe our future success will depend at least in part on our ability to support such deployments. Hadoop and NiFi are technically very complicated, and it is not easy to maximize the value of our offerings without proper implementation and training. We often must assist our customers in achieving successful implementations for large, complex deployments. If our customers are unable to implement our Connected Data Platforms 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 our Connected Data Platforms to maximize their potential. Our Connected Data Platforms may perform inadequately if they are not implemented or used correctly or as intended. The incorrect or improper implementation or use of our product offerings, our failure to train customers on how to efficiently and effectively use our Connected Data Platforms, 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 or cloud computing 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 our Connected Data Platforms. 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.

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.

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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 experienced sales professionals and for engineers experienced in designing and developing software and Apache Hadoop applications. 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. Finally, 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 if so, our business would 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, sales engineers and professional services employees, with the skills and technical knowledge that we require. In particular, there is significant demand for sales engineers with Hadoop expertise. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of sales personnel to support our growth. Recent changes to our sales leadership could adversely affect our ability to do so, which could have a negative impact on our sales productivity or sales execution. 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 would be harmed.

Periodic changes to our sales organization could be disruptive and reduce our rate of growth.

We periodically adjust our sales organization in response to market opportunities, competitive threats, management changes, product introductions or enhancements, acquisitions, sales performance, increases in sales headcount, cost levels and other internal and external considerations. Any such future sales organization changes may result in a temporary reduction of productivity, which could negatively affect our rate of growth. In addition, any significant change to the way we structure the compensation of our sales organization may be disruptive and may affect our revenue growth.

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

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

Expanding our business internationally will also require significant attention from our management and will require us to add additional management and other resources in these markets. Our ability to expand our business, attract talented employees and enter into strategic alliances in an increasing number of international markets requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures,

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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 sell our offerings through sales personnel in a variety of geographic regions, including North America, Asia Pacific, Europe and Latin America, and currently have operations in those same regions. We also have development teams and a number of distributor and reseller relationships for our support subscription offerings and 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, such as the United Kingdom s referendum in June 2016 in which voters approved an exit from the European Union and instability in Ukraine (where we have a development team);
- laws and business practices favoring local competitors;

- difficulties in staffing due to immigration or travel restrictions imposed by national governments;
- 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.

The enactment of legislation implementing changes in the United States of taxation of international business activities or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Recent changes to United States tax laws, including limitations on the ability of taxpayers to claim and utilize foreign tax credits and the deferral of certain tax deductions until earnings outside of the United States are repatriated to the United States, as well as changes to United States tax laws that may be enacted in the future, could impact the tax treatment of our foreign earnings. Due to expansion of our international business activities, any changes in the United States taxation of such activities may increase our worldwide effective tax rate and adversely affect our financial position and results of operations.

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 April 2015, we acquired SequenceIQ Hungary 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 leading innovator in open source technology and our ability to continue to provide high-quality offerings. If we fail to promote and maintain our brands, or if we incur excessive costs in doing so, our business, financial condition, results of operations and cash flows may be harmed.

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, quality assurance and data analysis. Failure to adequately protect and defend our intellectual property rights in these areas may diminish the value of HDP and HDF or our other technologies, impair our ability to compete effectively and harm our business.

In addition, the protective steps we have taken in the past may be inadequate to protect and deter misappropriation of our intellectual property rights. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights in a timely manner. We have a registered copyright in China, have registered trademarks in North America, Asia Pacific, Europe and Latin America, and have issued patent claims in North America. We also have copyright, trademark and patent applications pending in various international jurisdictions. Effective intellectual property 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 intellectual property 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 and the Apache NiFi Project may in the future receive, notices that claim we have misappropriated, misused, or infringed other parties intellectual property rights, and, to the extent Hadoop or NiFi gains greater market visibility, we, the Apache Hadoop Project and the Apache NiFi Project, as applicable, face a higher risk of being the subject of intellectual property infringement claims. In addition, we could be subject to lawsuits by parties claiming ownership of what we believe to be open source software.

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

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

We collect and utilize certain demographic and other information, including personally identifiable information, from and about our employees and our users (such as customers, potential customers and others). Such information may be collected from our users when they visit our website or elect to use our support tools, or when users provide personal information to us in many contexts such as when signing up for certain services, registering for seminars, participating in a survey, connecting with other users and Hadoop and NiFi experts in our forums, participating in Hortonworks University classes, participating in polls or signing up to receive e-mail newsletters.

Within the United States, various federal and state laws and regulations govern the collection, use, retention, sharing and security of the data we receive from and about employees and users. Outside of the United States, various jurisdictions actively regulate and enforce laws regarding the collection, retention, transfer and use (including loss and unauthorized access) of data and personal information. Privacy advocates and government bodies have increasingly scrutinized the ways in which companies link personal identities and data associated with particular users or devices with data collected through the internet, and we expect such scrutiny to continue to increase. In 2016, the European Commission adopted a new framework, the EU-U.S. Privacy Shield, which provides a mechanism for companies to transfer data from EU member states to the United States. This and other mechanisms are likely to be reviewed by European courts, which may lead to uncertainty about transfers of personal data from EU member states to the United States. Also in 2016, the EU adopted a new law governing data practices and privacy called the General Data Protection Regulation (the GDPR), which becomes effective in May 2018. We are currently assessing the impact of the EU-U.S. Privacy Shield and the GDPR on our operations. 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, loss of confidence in the security of our services, damage to our reputation, early termination of our contracts, litigation, regulatory investigations, disruption of our business or other liabilities. If our, our customers , our partners , our third-party data center hosting facilities or cloud computing platform providers security measures are breached as a result of third-party action, employee error, malfeasance or otherwise and, as a result, someone obtains unauthorized access to data, our reputation will be damaged, our business may suffer and we could incur significant liability.

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

Industry-specific regulations, standards and other requirements are evolving, and unfavorable industry-specific regulations, standards or other requirements could harm our customers and our business.

Our customers and potential customers conduct business in a variety of industries, including financial services, healthcare, telecommunications and the public sector. Regulators in certain industries have adopted and may in the future adopt regulations or interpretive positions regarding the use of cloud-based solutions. The costs of compliance with, and other burdens imposed by, industry-specific laws, regulations and interpretive positions may limit our customers use and adoption of our services. Compliance with these regulations may also require us to devote greater resources to support certain customers, which may increase costs and lengthen sales cycles. Further, if we are unable to comply with these regulations, our business may be harmed. In addition, an inability to satisfy the standards of certain voluntary third-party certification bodies that our customers may expect could have an adverse impact on our business and results. In some cases, industry-specific laws, regulations, standards or interpretive positions may also apply directly to us as a service provider. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business.

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. In particular, the recent decision by voters in the United Kingdom to leave the European Union has and may continue to have significant and wide-ranging economic impacts across multiple markets we serve.

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

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

We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry. If the economic conditions of the general economy or industries in which we operate worsen from present levels, our business, results of operations, financial condition and cash flows could be harmed.

The terms of the agreements governing our revolving credit facility restrict our current and future operations.

The agreements governing our revolving credit facility contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on indebtedness, liens, investments, acquisitions, mergers, disposition of property or assets, dividends and other distributions, changes to the nature of the business, transactions with affiliates, use of proceeds, amendments to organizational documents, and prepayment of certain debt.

In addition, the restrictive covenants in the agreements governing our revolving credit facility require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we may be unable to meet them.

A breach of the covenants or restrictions under the agreements governing our revolving credit facility could result in an event of default. Such a default would affect the availability of the revolving credit facility. It may also allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In the event our lenders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness and, even if we do, we would no longer have access to that capital. As a result of these restrictions, we may be limited in how we conduct business, unable to raise additional debt or equity financing, or unable to compete effectively or take advantage of new business opportunities.

We and our subsidiaries may incur substantial amounts of debt in the future. This could further exacerbate the risks to our financial condition described above.

We and our subsidiaries may incur significant indebtedness in the future, whether under our revolving credit facility or otherwise. Although the agreements governing our revolving credit facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial.

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

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

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

Under U.S. 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, 2016, we had federal, state and local and foreign tax net operating loss carryforwards (NOLs) of $381.0 million, $320.2 million and $0.1 million, respectively, due to prior period losses. In general, under Section 382 of the Internal Revenue Code of 1986, as amended (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 (IPO), concurrent private placement or follow-on offering, and if we undergo an ownership change in the future, our ability to utilize NOLs could be further limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. There is also a risk that, due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

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

Some of our customers and other business partners are affiliated with certain of our directors or stockholders, or both. For example, we have entered into a strategic relationship and/or customer relationship with Red Hat, Inc. (Red Hat), and our director Paul Cormier is an employee of Red Hat. 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 is 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 our Connected Data Platforms, breaches of data security and loss of critical data, all of which could harm our future results of operations.

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

Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) requires, among other things, we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting. A report of our management is included under Item 4 Controls and Procedures of this Quarterly Report on Form 10-Q. During its evaluation of the effectiveness of internal control over financial reporting as of December 31, 2015, management identified a material weakness related to the control surrounding the recognition of revenue and deferred revenue for a subset of non-standard license transactions where post-contract support renewal rates were stated upon commencement of the arrangement. Our findings were related to the design effectiveness of this control. Each of the aforementioned transactions originated prior to our establishment and formalization of Section 404 internal controls in July 2015. A secondary review of these specific agreements was not performed at a sufficiently detailed level to detect errors in recognition of revenue and deferred revenue related to these arrangements. With the oversight of management and our Audit Committee, we initiated actions to address the root causes of the material weakness identified, and our management has since determined the applicable controls are designed and operating effectively. As such, management has concluded that the material weakness previously identified was remediated as of December 31, 2016. There can be no assurance, however, that additional or other control deficiencies will not be identified in the future. If we continue to experience a material weakness in our internal controls or fail to maintain or implement required new or improved controls, such circumstances could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements, or adversely affect the results of periodic management evaluations and annual auditor attestation reports when such report is required. Each of the foregoing results could cause stockholders to lose confidence in our reported financial information and lead to a decline in our stock price. See Item 4 Controls and Procedures for more information.

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Risks Related to Ownership of Our Common Stock

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

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

- actual or anticipated fluctuations in our results of operations;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates and publication of other news by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market from time to time, including as a result of trends in the economy as a whole;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- actual or anticipated developments in our business or our competitors businesses or the competitive landscape generally;
- developments or disputes concerning our intellectual property or our offerings, or third-party proprietary rights;

- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws, or regulations applicable to our business;
- any major change in our Board of Directors or management;
- sales of shares of our common stock by us or our stockholders;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In particular, the trading price of our common stock has fluctuated significantly in recent periods. In the past, stockholders have instituted securities class action litigation following periods of market volatility. A securities class action was instituted against us in February 2016, and the parties recently agreed in principle to a class-wide settlement subject to court approval. This and other securities litigation may subject us to substantial costs, may divert resources and the attention of management from operating our business and may harm our business, results of operations, financial condition and cash flows.

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

As of August 1, 2017, our directors, officers, five percent or greater stockholders, and their respective affiliates beneficially owned in the aggregate approximately 25 percent of our outstanding voting stock. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders will be able to control elections of directors, amendments of our organizational documents, and approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

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

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

- authorize our Board of Directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights and preferences determined by our Board of Directors that may be senior to our common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our Board of Directors, the Chair of our Board of Directors, or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our Board of Directors;
- establish that our Board of Directors is divided into three classes: Class I, Class II and Class III, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our Board of Directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our Board of Directors or the holders of at least seventy-five percent of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a

Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder. Any delay or prevention of a change of control transaction or changes in our management could cause the market price of our common stock to decline.

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

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

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

We will remain an emerging growth company until the earliest of: (i) the last day of the fiscal year following the five-year anniversary of the completion of our IPO; (ii) the end of the fiscal year in which we have more than $1.07 billion in annual revenue; (iii) the end of the fiscal year in which we qualify as a large accelerated filer, with at least $700 million of equity securities held by non-affiliates as of the end of the second quarter of such fiscal year; and (iv) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt securities.

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

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

Compliance with these rules and regulations will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources, particularly after we are no longer an emerging growth company. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. We are required to disclose changes made in our internal control and procedures on a quarterly basis and we are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. However, our independent registered public accounting firm will not be required to formally audit and attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the date we are no longer an emerging growth company. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management s attention may be diverted from other business concerns, which could harm our business and results of operations. Although we have already hired additional employees to assist us in complying with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our operating expenses. As we continue to grow rapidly, both organically and through strategic acquisitions, we expect to enhance our disclosure controls and procedures and internal control over financial reporting, however, we cannot guarantee the adequacy of these enhancements, including integration and accounting for acquisition-related expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest substantial resources to comply with evolving laws, regulations and standards, and this investment may 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 Securities and Exchange Commission, our business and financial condition has become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and results of operations.

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

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

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

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

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

Additional sales of our common stock in the public market, particularly sales by our directors, executive officers and significant stockholders, or the perception that these sales could occur, could cause the market price of our common stock to decline. As of June 30, 2017, we had 66,441,430 shares of common stock outstanding, which excludes any shares of common stock issuable upon exercise of warrants and options outstanding as of such date. In addition, as of June 30, 2017, there were outstanding options and warrants to purchase 10,056,286 shares of our common stock. These options and warrants, if exercised, will result in these additional shares becoming available for sale. Sales by these stockholders, option holders or warrant holders of a substantial number of shares could significantly reduce the market price of our common stock. Moreover, some holders of shares of our common stock have rights, subject to certain conditions, to require us to file registration statements covering the shares they currently hold, or to include these shares in registration statements that we might file for ourselves or other stockholders.

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

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

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

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

Sales of Unregistered Securities

None.

Use of Proceeds

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

Issuer Purchases of Equity Securities

We have no publicly announced plan or program for the purchase of shares.

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Item 6. Exhibits.

The following documents are filed as part of this report:

1. Condensed Consolidated Financial Statements

2. 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: August 8, 2017	By: /s/ Scott Davidson Scott Davidson Chief Financial Officer and Chief Operating 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
10.13.1	First Amendment to Credit Agreement, dated June 26, 2017, by and between Hortonworks, Inc. and Silicon Valley Bank.					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

* 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.