

Aerohive Networks Reports Fiscal Third Quarter 2016 Results

Record Revenue for Software and Subscriptions Business Growing 30% Year over Year

MILPITAS, CA — November 2, 2016 — Aerohive Networks® (NYSE: HIVE), a leader in cloud networking and enterprise Wi-Fi, today announced financial results for its third fiscal quarter ended September 30, 2016.

Total revenue for the third fiscal quarter of 2016 was \$40.4 million, a decrease of 6% compared with \$42.8 million for the third quarter of 2015 and a decrease of 15% compared with \$47.6 million for the second quarter of 2016. Software subscription and services revenue was \$8.7 million, or 21% of total revenue for the quarter, compared with \$6.7 million, or 16% of total revenue, for the third quarter of fiscal 2015. Software subscription and services revenue grew 30% year over year and 7% sequentially while Product revenue decreased 12% year over year and 20% sequentially.

On a GAAP basis, net loss was \$9.7 million for the third quarter of fiscal 2016, compared with a net loss of \$10.6 million for the third quarter of fiscal 2015. GAAP gross margin was 67.4% for the third quarter of fiscal 2016, compared with 66.4% for the third quarter of fiscal 2015.

On a non-GAAP basis, net loss was \$3.3 million for the third quarter of fiscal 2016, compared with a net loss of \$5.0 million for the third quarter of fiscal 2015. Non-GAAP gross margin was 68.5% for the third quarter of fiscal 2016, compared with 67.0% for the third quarter of fiscal 2015.

“Revenue for the third quarter was \$40.4 million, in line with our October 13th preliminary announcement,” stated David Flynn, President and Chief Executive Officer. “Looking forward, we are redoubling our efforts to diversify our verticals, and we remain focused on driving toward non-GAAP operating profitability.”

A description of the non-GAAP financial measures is discussed below, and a reconciliation to comparable GAAP financial measures is provided in the accompanying table entitled “Reconciliation of GAAP to Non-GAAP Financial Measures.”

Conference Call Information

Aerohive Networks will host a conference call and webcast for analysts and investors to discuss its third quarter fiscal 2016 results and outlook for its fourth quarter of fiscal 2016 at 2:00 pm Pacific Time today, November 2, 2016. The call may be accessed by dialing 1-888-430-8705 (toll free) or 1-719-457-2632 (international) and providing the passcode 1210667. A live audio webcast of the conference call will be accessible from the “Investor Relations” section of the Company’s website at <http://ir.aerohive.com>. An audio replay of the call may be accessed at the same location after completion of the live call.

Safe Harbor Statement

This press release contains forward-looking statements, including statements regarding Aerohive Networks' financial expectations and operating performance and expectations for continued momentum, including statements regarding the progress we made in our business to strengthen our channels and product offerings and our continued progress toward non-GAAP operating profitability. These forward-looking statements are based on current expectations and are subject to inherent uncertainties, risks and changes in circumstances that are difficult or impossible to predict. The actual outcomes and results may differ materially from those contemplated by these forward-looking statements as a result of these uncertainties, risk and changes in circumstances, including, but not limited to, risks and uncertainties related to: our ability to continue to attract, integrate, retain and train skilled personnel, especially skilled R&D and sales personnel, in general and in specific regions, our ability to develop and expand our sales capacity and improve the effectiveness of our channel, our ability to improve our operating and sales execution, general demand for wireless networking in the industry verticals targeted or demand for Aerohive products in particular, our ability to benefit from our participation in the E-Rate program, unpredictable and changing market conditions, risks associated with the deployment, performance and adoption of new products and services, risks associated with our growth, competitive pressures from existing and new companies, including pricing pressures, changes in the mix and selling prices of Aerohive products, technological change, product development delays, reliance on third parties to manufacture, warehouse and timely deliver Aerohive products or international operations, our inability to protect Aerohive intellectual property or to predict or limit exposure to third party claims relating to its or Aerohive's intellectual property, Aerohive's limited operating history, particularly as a public company, Aerohive's ability to make appropriate, timely and beneficial decisions as to when, how, and whether to purchase shares under the stock repurchase program, alternative uses of Aerohive's capital and general market, political, regulatory, economic and business conditions in the United States and internationally.

Additional risks and uncertainties that could affect Aerohive's financial and operating results are included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's recent annual report on Form 10-K and quarterly report on Form 10-Q. Aerohive's SEC filings are available on the Investor Relations section of the Company's website at <http://ir.aerohive.com> and on the SEC's website at www.sec.gov. All forward-looking statements in this press release are based on information available to the Company as of the date hereof, and Aerohive Networks disclaims any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made, except as required by law.

Adjustments to Comparable Periods

Effective in the first quarter of 2016, Aerohive began to defer sales commission expense, recognizing sales commissions in the same period that the revenue is recognized. Previously, Aerohive recognized sales commission expense in the period in which an order was booked. The comparable periods in the accompanying financial tables reflect this change.

Non-GAAP Financial Measures

Aerohive's reported results for its third fiscal quarter 2016 in this press release and the related earnings conference call include certain non-GAAP financial measures, including:

- non-GAAP gross profit and non-GAAP gross margin;
- non-GAAP product gross margin and non-GAAP software subscription and service gross margin;
- non-GAAP operating expenses and non-GAAP functional expenses;
- non-GAAP operating expense percentage and non-GAAP functional expense percentage;
- non-GAAP operating loss and non-GAAP operating loss percentage; and
- non-GAAP net loss and non-GAAP net loss per share.

The Company defines non-GAAP financial measures to exclude share-based compensation, adjustments to internal-use software amortization, and certain charges related to litigation and headquarters relocation expense.

The Company has included non-GAAP financial measures in this press release because the Company believes they are key measures used to evaluate the business, measure performance, identify trends affecting the business, formulate financial projections and make strategic decisions. In particular, the exclusion of certain expenses in calculating these non-GAAP financial measures can provide a useful measure for period-to-period comparisons of the Company's core business.

Although non-GAAP financial measures are frequently used by investors in their evaluations of companies, these non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations, as determined in accordance with GAAP. Some of these limitations are:

- the non-GAAP measures do not consider the expense related to stock-based compensation, which is an ongoing expense for the Company;
- although amortization of internal-use software is a non-cash charge, the assets being amortized often will have to be replaced in the future, and non-GAAP net loss, and non-GAAP loss per share do not reflect any cash requirement for such replacements;
- excluding certain expenses associated with litigation in the quarter does not reflect the impact on our ongoing operations over this period of the cash requirement to defend such litigation;
- headquarters relocation expense includes one-time charges related to the lease abandonment costs incurred upon vacating buildings of our prior headquarters and double rent and utilities expenses during the transition to our new headquarters facility, and excluding those will provide a useful measure for period-to-period comparisons; and
- other companies, including companies in our industry, may calculate these non-GAAP financial measures differently, which reduces their usefulness as a comparative measure.

Because of these limitations, you should consider non-GAAP financial measures only together with other financial performance measures, including various cash flow metrics, net loss and other GAAP results.

A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis due to the high variability and low visibility with respect to the charges that are excluded from these non-GAAP measures.

About Aerohive Networks

Aerohive (NYSE: HIVE) enables our customers to simply and confidently connect to the information, applications, and insights they need to thrive. Our simple, scalable, and secure platform delivers mobility without limitations. For our customers worldwide, every access point is a starting point. Aerohive was founded in 2006 and is headquartered in Milpitas, CA. For more information, please visit <http://www.aerohive.com>, call us at 408-510-6100, follow us on [Twitter @Aerohive](#), subscribe to our [blog http://boundless.aerohive.com](http://boundless.aerohive.com), join our [community](#) or become a fan on our [Facebook page](#).

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Investor Relations Contact:

Melanie Solomon
The Blueshirt Group
(408) 769-6720
ir@aerohive.com

AEROHIVE NETWORKS, INC.

Condensed Consolidated Statements of Operations
(unaudited, in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015 (As Adjusted)*	2016	2015 (As Adjusted)*
Revenue:				
Product	\$ 31,691	\$ 36,130	\$ 103,683	\$ 87,361
Software subscription and services	8,678	6,650	24,445	18,072
Total revenue	<u>40,369</u>	<u>42,780</u>	<u>128,128</u>	<u>105,433</u>
Cost of revenue ⁽¹⁾ :				
Product	10,070	11,707	32,922	28,134
Software subscription and services	3,095	2,686	9,048	7,040
Total cost of revenue	<u>13,165</u>	<u>14,393</u>	<u>41,970</u>	<u>35,174</u>
Gross profit	27,204	28,387	86,158	70,259
Operating expenses:				
Research and development ⁽¹⁾	10,685	10,098	31,457	26,491
Sales and marketing ⁽¹⁾	19,647	21,364	62,037	60,053
General and administrative ⁽¹⁾	6,515	7,212	22,135	19,665
Total operating expenses	<u>36,847</u>	<u>38,674</u>	<u>115,629</u>	<u>106,209</u>
Operating loss	(9,643)	(10,287)	(29,471)	(35,950)
Interest income	109	21	345	54
Interest expense	(115)	(140)	(351)	(1,067)
Other income, net	22	59	128	213
Loss before income taxes	(9,627)	(10,347)	(29,349)	(36,750)
Income tax provision	(85)	(215)	(298)	(422)
Net loss	<u>\$ (9,712)</u>	<u>\$ (10,562)</u>	<u>\$ (29,647)</u>	<u>\$ (37,172)</u>
Net loss attributable to common stockholders	<u>\$ (9,712)</u>	<u>\$ (10,562)</u>	<u>\$ (29,647)</u>	<u>\$ (37,172)</u>
Net loss per share allocable to common stockholders, basic and diluted	<u>\$ (0.19)</u>	<u>\$ (0.22)</u>	<u>\$ (0.59)</u>	<u>\$ (0.79)</u>
Weighted-average shares used in computing net loss per share allocable to common stockholders, basic and diluted	<u>50,818,710</u>	<u>47,724,142</u>	<u>49,920,630</u>	<u>46,975,649</u>

(1) Includes stock-based compensation as follows:

Cost of revenue	\$ 431	\$ 249	\$ 1,024	\$ 631
Research and development	1,576	1,338	4,287	3,325
Sales and marketing	2,505	1,965	6,336	5,189
General and administrative	1,903	1,633	5,118	4,226
Total stock-based compensation	<u>\$ 6,415</u>	<u>\$ 5,185</u>	<u>\$ 16,765</u>	<u>\$ 13,371</u>

* Certain amounts have been adjusted for the retrospective changes in accounting policy for sales commissions.

AEROHIVE NETWORKS, INC.

Condensed Consolidated Balance Sheets
(unaudited, in thousands, except share and per share amounts)

	September 30, 2016	December 31, 2015
		(As Adjusted)*
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 43,900	\$ 45,741
Short-term investments	35,256	46,593
Accounts receivable, net	22,472	22,824
Inventories, net	15,691	10,775
Prepaid expenses and other current assets	7,239	7,613
Deferred cost of goods sold	230	757
Total current assets	124,788	134,303
Property and equipment, net	9,603	9,156
Goodwill	513	513
Other assets	5,273	3,680
Total assets	\$ 140,177	\$ 147,652
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 13,481	\$ 15,140
Accrued liabilities	10,703	11,856
Debt, current	20,000	—
Deferred revenue, current	31,349	27,893
Total current liabilities	75,533	54,889
Debt, non-current	—	20,000
Deferred revenue, non-current	34,060	31,369
Other liabilities	1,855	463
Total liabilities	111,448	106,721
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock	52	49
Additional paid-in capital	250,807	231,289
Treasury stock	(2,139)	—
Accumulated other comprehensive gain (loss)	2	(61)
Accumulated deficit	(219,993)	(190,346)
Total stockholders' equity	28,729	40,931
Total liabilities and stockholders' equity	\$ 140,177	\$ 147,652

* Certain amounts have been adjusted for the retrospective changes in accounting policy for sales commissions.

AEROHIVE NETWORKS, INC.

Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		(As Adjusted)*
Net loss	\$ (29,647)	\$ (37,172)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,665	2,601
Stock-based compensation	16,765	13,371
Other	280	296
Changes in operating assets and liabilities:		
Accounts receivable	352	8,347
Inventories	(4,916)	(3,397)
Prepaid expenses and other current assets	901	(2,663)
Other assets	(93)	(553)
Accounts payable	(1,956)	(17)
Accrued liabilities	(1,239)	3,830
Other liabilities	400	(409)
Deferred revenue	6,147	8,695
Net cash used in operating activities	(10,341)	(7,071)
Cash flows from investing activities		
Purchases of property and equipment	(1,737)	(2,006)
Capitalized software development costs	—	(1,913)
Maturities and sales of short-term investments	25,600	—
Purchases of short-term investments	(14,488)	—
Investment in privately held company	(1,500)	—
Net cash provided by (used in) investing activities	7,875	(3,919)
Cash flows from financing activities		
Proceeds from exercise of vested stock options	815	1,170
Proceeds from employee stock purchase plan	2,890	2,271
Payment for shares withheld for tax withholdings on vesting of restricted stock	(941)	(2,306)
Payment to repurchase common stock	(2,139)	—
Proceeds from issuance of debt	—	10,000
Repayments of debt	—	(10,000)
Net cash provided by financing activities	625	1,135
Net decrease in cash and cash equivalents	(1,841)	(9,855)
Cash and cash equivalents at beginning of period	45,741	98,044
Cash and cash equivalents at end of period	\$ 43,900	\$ 88,189

* Certain amounts have been adjusted for the retrospective changes in accounting policy for sales commissions.

AEROHIVE NETWORKS, INC.

**Reconciliation of GAAP Net Loss to Non-GAAP Net Loss
(unaudited, in thousands, except share and per share amounts)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<u>Net Loss Reconciliation:</u>		(As Adjusted)*		(As Adjusted)*
GAAP net loss	\$ (9,712)	\$ (10,562)	\$ (29,647)	\$ (37,172)
Stock-based compensation adjustment to internal-use software amortization — Cost of revenue – Software subscription and services	35	35	105	70
Stock-based compensation — Cost of revenue – Product	127	42	241	107
Stock-based compensation — Cost of revenue – Software subscription and services	304	207	783	524
Total adjustment to Cost of Revenue	<u>466</u>	<u>284</u>	<u>1,129</u>	<u>701</u>
Stock-based compensation — Research and development	1,576	1,338	4,287	3,325
Stock-based compensation — Sales and marketing	2,505	1,965	6,336	5,189
Stock-based compensation — General and administrative	1,903	1,633	5,118	4,226
General and administrative:				
Charges related to pending securities litigation	-	345	1,446	431
One-time charges related to headquarter relocation	-	-	890	-
Total adjustment to Operating Expenses	<u>5,984</u>	<u>5,281</u>	<u>18,077</u>	<u>13,171</u>
Non-GAAP net loss	<u>\$ (3,262)</u>	<u>\$ (4,997)</u>	<u>\$ (10,441)</u>	<u>\$ (23,300)</u>
Basic and diluted net loss per share on a Non-GAAP basis	<u>\$ (0.06)</u>	<u>\$ (0.10)</u>	<u>\$ (0.21)</u>	<u>\$ (0.50)</u>
Weighted average shares used in computing Non-GAAP basic and diluted net loss per share	<u>50,818,710</u>	<u>47,724,142</u>	<u>49,920,630</u>	<u>46,975,649</u>

* Certain amounts have been adjusted for the retrospective changes in accounting policy for sales commissions.

The foregoing adjustments may also be relevant to evaluating the Company's other non-GAAP financial measures.