

## Section 1: 10-Q (10-Q)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

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

For the quarterly period ended March 31, 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: 001-36355

**Aerohive Networks, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of  
incorporation or organization)*

20-4524700

*(I.R.S. Employer  
Identification Number)*

1011 McCarthy Boulevard  
Milpitas, California 95035  
(408) 510-6100

*(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)*

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller 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 the registrant's common stock, par value \$0.001, outstanding as of April 28, 2017 was 52,840,074.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AEROHIVE NETWORKS, INC.

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

	March 31, 2017	December 31, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 28,907	\$ 34,346
Short-term investments	45,926	42,408
Accounts receivable, net of allowance for doubtful accounts of \$25 and \$61 as of March 31, 2017 and December 31, 2016, respectively	21,628	26,190
Inventories	11,668	12,629
Prepaid expenses and other current assets	6,927	6,289
<b>Total current assets</b>	<b>115,056</b>	<b>121,862</b>
Property and equipment, net	8,206	9,008
Goodwill	513	513
Other assets	5,158	5,100
<b>Total assets</b>	<b>\$ 128,933</b>	<b>\$ 136,483</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 9,694	\$ 10,762
Accrued liabilities	9,444	9,300
Debt, current	—	20,000
Deferred revenue, current	31,847	31,727
<b>Total current liabilities</b>	<b>50,985</b>	<b>71,789</b>
Debt, non-current	20,000	—
Deferred revenue, non-current	33,060	34,177
Other liabilities	1,780	1,829
<b>Total liabilities</b>	<b>105,825</b>	<b>107,795</b>
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, par value of \$0.001 per share - 25,000,000 shares authorized as of March 31, 2017 and December 31, 2016; no shares issued and outstanding as of March 31, 2017 and December 31, 2016	—	—
Common stock, par value of \$0.001 per share - 500,000,000 shares authorized as of March 31, 2017 and December 31, 2016; 52,780,574 and 52,245,252 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	53	52
Additional paid-in capital	261,730	258,063
Treasury stock - 364,627 shares as of March 31, 2017 and December 31, 2016	(2,139)	(2,139)
Accumulated other comprehensive loss	(37)	(31)
Accumulated deficit	(236,499)	(227,257)
<b>Total stockholders' equity</b>	<b>23,108</b>	<b>28,688</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 128,933</b>	<b>\$ 136,483</b>

See notes to condensed consolidated financial statements.

**AEROHIVE NETWORKS, INC.**  
**Condensed Consolidated Statements of Operations**  
(unaudited, in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2017	2016
Revenue:		
Product	\$ 26,870	\$ 32,456
Software subscription and services	9,481	7,672
Total revenue	<u>36,351</u>	<u>40,128</u>
Cost of revenue <sup>(1)</sup> :		
Product	8,736	10,439
Software subscription and services	3,176	2,903
Total cost of revenue	<u>11,912</u>	<u>13,342</u>
Gross profit	24,439	26,786
Operating expenses:		
Research and development <sup>(1)</sup>	9,550	10,210
Sales and marketing <sup>(1)</sup>	17,439	21,068
General and administrative <sup>(1)</sup>	6,297	7,895
Total operating expenses	<u>33,286</u>	<u>39,173</u>
Operating loss	(8,847)	(12,387)
Interest income	140	119
Interest expense	(130)	(126)
Other income (expense), net	(85)	16
Loss before income taxes	(8,922)	(12,378)
Provision for income taxes	97	145
Net loss	<u>\$ (9,019)</u>	<u>\$ (12,523)</u>
Net loss per share, basic and diluted	<u>\$ (0.17)</u>	<u>\$ (0.25)</u>
Weighted-average shares used in computing net loss per share, basic and diluted	<u>52,439,039</u>	<u>49,140,340</u>

(1) Includes stock-based compensation as follows:

Cost of revenue	\$ 271	\$ 272
Research and development	688	1,345
Sales and marketing	1,294	1,768
General and administrative	1,300	1,511
Total stock-based compensation	<u>\$ 3,553</u>	<u>\$ 4,896</u>

See notes to condensed consolidated financial statements.

**AEROHIVE NETWORKS, INC.**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(unaudited, in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net loss	\$ (9,019)	\$ (12,523)
Unrealized gain (loss) on available-for-sale investments, net of tax	(6)	74
Comprehensive loss	<u>\$ (9,025)</u>	<u>\$ (12,449)</u>

See notes to condensed consolidated financial statements.

**AEROHIVE NETWORKS, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(unaudited, in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (9,019)	\$ (12,523)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	842	896
Stock-based compensation	3,553	4,896
Other	(15)	123
Changes in operating assets and liabilities:		
Accounts receivable, net	4,562	1,940
Inventories	961	(714)
Prepaid expenses and other current assets	(638)	(3,636)
Other assets	(58)	(350)
Accounts payable	(885)	(684)
Accrued liabilities	144	5,713
Other liabilities	(6)	7
Deferred revenue	(997)	1,010
Net cash used in operating activities	<u>(1,556)</u>	<u>(3,322)</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(223)	(337)
Maturities of short-term investments	4,200	4,200
Purchases of short-term investments	(7,709)	(2,406)
Investment in privately held company	—	(1,500)
Net cash used in investing activities	<u>(3,732)</u>	<u>(43)</u>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of vested stock options	218	108
Payment for shares withheld for tax withholdings on vesting of restricted stock units	(326)	(311)
Payment to repurchase common stock	—	(785)
Payment on capital lease obligations	(43)	—
Net cash used in financing activities	<u>(151)</u>	<u>(988)</u>
Net decrease in cash and cash equivalents	(5,439)	(4,353)
Cash and cash equivalents at beginning of period	34,346	45,741
Cash and cash equivalents at end of period	<u>\$ 28,907</u>	<u>\$ 41,388</u>
<b>Supplemental disclosure of cash flow information</b>		
Income taxes paid	\$ 99	\$ 249
Interest paid	\$ 126	\$ 139
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Unpaid property and equipment purchases	\$ 22	\$ 97

See notes to condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

Aerohive Networks, Inc. was incorporated in Delaware on March 15, 2006, and, together with its subsidiaries (the "Company"), has designed and developed a leading cloud and enterprise Wi-Fi solution that enables our customers to use the power of the Wi-Fi, cloud, analytics and applications to transform how they serve their customers. Our products include Wi-Fi access points, routers and switches required to build an edge-access network; a cloud services platform for centralized management; data collection and analytics; and applications that leverage the network to provide additional capabilities to the business and IT organizations. Together, these products, service platforms and applications create a simple, scalable, and secure solution to deliver a better-connected experience.

The Company has offices in North America, Europe, the Middle East and Asia Pacific and employs staff around the world.

***Basis of Presentation and Consolidation***

The Company prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"), which includes the accounts of Aerohive Networks, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Those estimates and assumptions include, among others, the best estimate of selling price ("BESP") of product, software and support services, determination of fair value of stock-based awards, inventory valuation, accounting for income taxes, including the valuation reserve on deferred tax assets and uncertain tax positions, allowance for sales reserves, allowance for doubtful accounts, and warranty costs. Management evaluates estimates and assumptions on an ongoing basis using historical experience and other factors and adjusts those estimates and assumptions when facts and circumstances dictate. As the Company cannot determine future events and their effects with precision, actual results could differ from these estimates and assumptions, and those differences could be material to the consolidated financial statements.

***Foreign Currency***

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. The Company remeasures the transactions denominated in currencies other than the functional currency at the average exchange rate in effect during the period. At the end of each reporting period, the Company remeasures its subsidiaries' monetary assets and liabilities to the U.S. dollar using exchange rates in effect at the end of the reporting period. The Company remeasures its non-monetary assets and liabilities at historical exchange rates. The Company records gains and losses related to remeasurement in other income(expense), net in the consolidated statements of operations. Foreign currency exchange losses have not been significant in any period presented and the Company has not undertaken any hedging transactions related to foreign currency exposure.

***Recently Adopted Accounting Pronouncements***

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2015-11, *Simplifying the Measurement of Inventory*, which replaced the lower of cost or market test with the lower of cost or net realizable value test. We adopted this standard in the first quarter of fiscal 2017 with January 1, 2017 being the effective date of adoption. The adoption of this standard had no impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted this guidance in the first quarter of fiscal 2017 with January 1, 2017 being the effective date of adoption. This standard eliminates the requirement to delay the recognition of excess tax benefits until they reduce current taxes payable.



Under this standard, previously unrecognized excess tax benefits shall be recognized on a modified retrospective basis. However, as of January 1, 2017, this had no impact on our accumulated deficit as the related U.S. deferred tax assets were fully offset by a valuation allowance. Additionally, the Company elected to account for forfeitures as they occur rather than estimate expected forfeitures using a modified retrospective transition method. Accordingly, the Company recorded a cumulative-effect adjustment of \$0.2 million to accumulated deficit. Further, ASU 2016-09 requires excess tax benefits to be presented as a component of operating cash flows rather than financing cash flows. We elected to adopt this requirement prospectively and accordingly, prior periods have not been adjusted. Excess tax benefits were not material for all periods presented. The adoption of this standard did not have a material impact on the condensed consolidated financial statements for the three months ended March 31, 2017.

### ***Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from contracts with customers (Topic 606)*, which supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)* and most industry-specific guidance. This standard requires entities to recognize revenue when they transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 deferring the effective date of this standard by one year to December 15, 2017, and, thus, the new standard will be effective for the Company on January 1, 2018. This standard may be adopted using either the full or modified retrospective methods. In April 2016 and May 2016, the FASB issued ASU 2016-10 and ASU 2016-12, respectively, which clarify guidance on identifying performance obligations, collectability criterion and noncash consideration. The Company preliminarily plans to adopt these standards on a full retrospective basis; however, the Company has not yet made a final decision on the adoption methodology and is currently in the process of determining the potential impact that these standards will have on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. This standard will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the lease accounting requirements in Topic 840. This standard requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The standard also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities, including significant judgments and changes in judgments. This standard is effective beginning in fiscal year 2019. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*, which provides guidance to decrease the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. An impairment charge will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

### ***Concentrations of Credit Risk and Significant Customers***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. The Company maintains cash equivalents in money market funds. The amount on deposit at any time with money market funds may exceed the insured limits provided on such funds.

The Company sells its products primarily to channel partners, which include value-added resellers, or VARs, value-added distributors, or VADs, and Managed Service Providers, or MSPs. The Company's accounts receivable are typically unsecured and are derived from revenue earned from customers located in the Americas, Europe, the Middle East and Africa,

and Asia Pacific. The Company performs ongoing credit evaluations to determine customer credit, but generally does not require collateral from its customers. The Company maintains reserves for estimated credit losses and these losses have historically been within management's expectations.

Significant customers are those that represent more than 10% of the Company's total revenue or gross accounts receivable balance at each respective balance sheet date. The Company has entered into separate agreements with certain individual VADs that are part of a consolidated group of entities which collectively constitutes greater than 10% of the Company's total revenue or gross accounts receivable balance for certain periods, as presented in the tables below.

The percentages of revenue from a consolidated group of entities (VAD A) and from an individual entity (VAD B) greater than 10% of total consolidated revenue were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
VAD A	15.1%	13.3%
VAD B	19.6%	*

\* Less than 10%

The percentages of receivables from VAD A and individual entities (VAD B and VAD C) greater than 10% of total consolidated accounts receivable were as follows:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
VAD A	19.4%	22.4%
VAD B	15.2%	14.4%
VAD C	*	15.3%

\* Less than 10%

## 2. FAIR VALUE MEASUREMENTS

The Company records its financial assets and liabilities at fair value. The Company categorizes these assets and liabilities based upon the level of judgment associated with inputs used to measure the fair value. The categories are as follows:

Level 1	Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2	Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
Level 3	Unobservable inputs are used when little or no market data is available.

The Company classified its cash equivalents and short-term marketable investments within Level 1 and Level 2 in the fair value hierarchy as of March 31, 2017 and December 31, 2016, respectively. Level 1 assets include highly liquid money market funds that are included in cash and cash equivalents. The Company generally classifies these instruments within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. Level 2 assets include U.S. treasuries, corporate securities and commercial paper that are included in short-term investments and agency securities with maturities of three months or less when purchased are included in cash and cash equivalents. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets.

As of March 31, 2017, the Company held a convertible note from a privately held company, which the Company classified as a Level 3 investment in the fair value hierarchy (Note 3).

The components of the Company's Level 1 and Level 2 assets are as follows:

	March 31, 2017				
	Amortized Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value	Cash equivalents	Short-term investments
	(in thousands)				
<b>Level 1:</b>					
Money market funds	15,751	—	15,751	15,751	—
	\$ 15,751	\$ —	\$ 15,751	\$ 15,751	\$ —
<b>Level 2:</b>					
U.S. agency securities	2,996	—	2,996	2,996	—
U.S. treasuries	22,512	(27)	22,485	—	22,485
Corporate securities	15,058	(10)	15,048	—	15,048
Commercial paper	8,393	—	8,393	—	8,393
	\$ 48,959	\$ (37)	\$ 48,922	\$ 2,996	\$ 45,926
<b>Total</b>	<b>\$ 64,710</b>	<b>\$ (37)</b>	<b>\$ 64,673</b>	<b>\$ 18,747</b>	<b>\$ 45,926</b>

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value	Cash equivalents	Short-term investments
	(in thousands)				
<b>Level 1:</b>					
Money market funds	25,244	—	25,244	25,244	—
	\$ 25,244	\$ —	\$ 25,244	\$ 25,244	\$ —
<b>Level 2:</b>					
U.S. treasuries	22,516	(19)	22,497	—	22,497
Corporate securities	7,353	(12)	7,341	—	7,341
Commercial paper	12,570	—	12,570	—	12,570
	\$ 42,439	\$ (31)	\$ 42,408	\$ —	\$ 42,408
<b>Total</b>	<b>\$ 67,683</b>	<b>\$ (31)</b>	<b>\$ 67,652</b>	<b>\$ 25,244</b>	<b>\$ 42,408</b>

All Level 1 and 2 short-term investments the Company held as of March 31, 2017 and December 31, 2016, contractually mature within one year from these respective dates.

Unrealized gains and losses related to these investments are due to interest rate fluctuations as opposed to credit quality. In addition, the Company does not intend to sell, and it is not more likely than not that the Company would be required to sell, these investments before recovery of their cost basis. As a result, there was no other-than-temporary impairment for these investments as of March 31, 2017 and December 31, 2016.

### 3. CONSOLIDATED BALANCE SHEET COMPONENTS

#### *Prepaid expenses and other current assets*

Prepaid expenses and other current assets consist of the following:

	March 31,	December 31,
	2017	2016
(in thousands)		
Deferred sales commissions, current portion	\$ 3,093	2,932
Prepaid expenses	3,031	2,032
Other	803	1,325
<b>Total prepaid expenses and other current assets</b>	<b>\$ 6,927</b>	<b>\$ 6,289</b>

### *Property and Equipment, net*

Property and equipment, net consists of the following:

	<u>Estimated Useful Lives</u>	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
		(in thousands)	
Computer and other equipment	3 years	\$ 1,902	\$ 1,920
Manufacturing, research and development laboratory equipment	3 years	4,348	4,314
Software	2 to 5 years	8,217	8,217
Office furniture and equipment	3 to 7 years	2,053	2,070
Leasehold improvements	shorter of useful life or lease term	1,008	1,008
Property and equipment, gross		17,528	17,529
Less: Accumulated depreciation and amortization		(9,322)	(8,521)
Property and equipment, net		<u>\$ 8,206</u>	<u>\$ 9,008</u>

The software category includes the capitalized internal-use software for the Company's cloud service platform. In April 2015, the Company completed and launched the next generation of its cloud services platform, and began to amortize these capitalized costs to cost of software subscription and services revenue on a straight-line basis over an estimated useful life of the software of five years.

Depreciation and amortization expense was \$0.8 million and \$0.9 million for the three months ended March 31, 2017 and 2016, respectively.

Office furniture and equipment classified under capital lease was \$1.2 million at March 31, 2017 and December 31, 2016 respectively, and the related accumulated depreciation was \$0.2 million and \$0.2 million at March 31, 2017 and December 31, 2016 respectively.

### *Other assets*

Other assets consist of the following:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	(in thousands)	
Deferred sales commissions, non-current portion	\$ 3,143	\$ 3,115
Investment in privately held company	1,500	1,500
Other	515	485
Total other assets	<u>\$ 5,158</u>	<u>\$ 5,100</u>

In January 2016, the Company paid \$1.5 million in cash to purchase a convertible note issued by a privately held company, which provides Wi-Fi application and analytics. The Company currently has no voting rights, investor rights or significant influence over the privately held company. The convertible note has been recorded at carrying value. Since the convertible note has no readily determinable market value, the Company has categorized it as a Level 3 asset in the fair value hierarchy. As of March 31, 2017, the fair value of the convertible note approximated its carrying value. The Company did not recognize an impairment for the three months ended March 31, 2017 and 2016, respectively, as there were no identified events or changes in circumstances that might have a significant adverse impact on the carrying values of the investment. Since the Company does not intend to liquidate this investment in the next 12 months, the Company has classified the convertible note as other assets on the condensed consolidated balance sheet.

### Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2017	December 31, 2016
	(in thousands)	
Accrued compensation	\$ 7,758	\$ 7,230
Accrued expenses and other liabilities	1,170	1,445
Warranty liability, current portion	516	625
Total accrued liabilities	<u>\$ 9,444</u>	<u>\$ 9,300</u>

### Deferred Revenue

Deferred revenue consists of the following:

	March 31, 2017	December 31, 2016
	(in thousands)	
Products	\$ 1,776	\$ 1,220
Software subscription and services	63,131	64,684
Total deferred revenue	<u>64,907</u>	<u>65,904</u>
Less: current portion of deferred revenue	<u>31,847</u>	<u>31,727</u>
Non-current portion of deferred revenue	<u>\$ 33,060</u>	<u>\$ 34,177</u>

### Warranty Liability

The following table summarizes the activity related to the Company's accrued liability for estimated future warranty:

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Beginning balance	\$ 975	\$ 978
Charges to operations	121	174
Obligations fulfilled	(197)	(104)
Changes in existing warranty	(42)	(51)
Total product warranties	<u>\$ 857</u>	<u>\$ 997</u>
Current portion	<u>\$ 516</u>	<u>\$ 650</u>
Non-current portion	<u>\$ 341</u>	<u>\$ 347</u>

Changes in existing warranty reflect a combination of changes in expected warranty claims and changes in the related costs to service such claims.

## 4. DEBT

### Financing Agreements

In June 2012, the Company entered into a revolving credit facility with Silicon Valley Bank (the "Revolving Credit Facility"). The Revolving Credit Facility is collateralized by substantially all of the Company's property, other than intellectual property. Prior to March 31, 2015, the Revolving Credit Facility bore monthly interest at a floating rate equal to the greater of (i) 4.00% or (ii) prime rate plus 0.75%. By amendment in March 2015, interest on the Revolving Credit Facility adjusted as of March 31, 2015 to a floating rate equal to the lesser of (i) LIBOR rate plus 2.25% or (ii) prime rate minus 0.5%. In November 2015, the Company further amended the Revolving Credit Facility to revise the floating interest rate to the lesser of (i) LIBOR rate plus 1.75% or (ii) prime rate minus 1.0%, which amendment was effective January 1, 2016. In March 2017, the Company further amended the Revolving Credit Facility to extend the maturity date by two years and reduce the minimum cash requirements. The weighted-average interest rate of the Revolving Credit Facility was 2.57% and 2.79% for the three months ended March 31, 2017 and 2016, respectively.

The Revolving Credit facility currently provides, among other things, (i) a maturity date of March 31, 2019; and (ii) a revolving line up to \$20.0 million, subject to certain conditions.

The Revolving Credit Facility contains customary negative covenants which, unless waived by SVB, limit the Company's ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets and merge or consolidate, as well as requiring the Company to maintain a minimum adjusted quick ratio of 1.25 to 1.00 and minimum cash balances as of the last day of each month of \$35.0 million. The Revolving Credit Facility also contains customary events of default, subject to customary cure periods for certain defaults, that include, among other things, non-payment defaults, covenant defaults, material judgment defaults, bankruptcy and insolvency defaults, cross-defaults to certain other material indebtedness, and defaults due to inaccuracy of representation and warranties. Upon an event of default, the lender may declare all or a portion of the outstanding obligations payable by the Company to be immediately due and payable and exercise other rights and remedies provided for under the Revolving Credit Facility. During the existence of an event of default, interest on the obligations under the Revolving Credit Facility could be increased by 5.0%. As of March 31, 2017, the Company was in compliance with these covenants.

As of March 31, 2017, \$20.0 million remains outstanding under the Revolving Credit Facility, and is classified as non-current liabilities in the condensed consolidated balance sheet.

## 5. COMMITMENTS AND CONTINGENCIES

### *Lease Commitments*

The Company currently leases its main office facility in Milpitas, California, which is set to expire in June 2023. In addition, the Company leases office space for its subsidiaries in the United Kingdom, the Netherlands, Korea and China under non-cancelable operating leases that expire at various times through August 2021. The Company has also entered into various lease agreements in other locations in the United States and globally to support its sales and research and development functions.

The Company recognizes rent expense on a straight-line basis over the lease period. Future minimum lease payments by year under operating leases as of March 31, 2017 are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
	<b>(in thousands)</b>
2017 (remaining nine months)	\$ 1,174
2018	1,707
2019	1,254
2020	879
2021	884
Thereafter	1,315
<b>Total</b>	<b>\$ 7,213</b>

Rent expense was \$0.5 million and \$0.6 million for the three months ended March 31, 2017 and 2016, respectively.

### Capital Lease Obligations

The Company has certain office furniture and equipment that are classified under capital leases. The terms of the capital leases range from three years to seven years. The interest is immaterial. Future minimum lease payments by year under capital lease obligations as of March 31, 2017 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
	<u>(in thousands)</u>
2017 (remaining nine months)	\$ 136
2018	184
2019	175
2020	170
2021	168
Thereafter	244
<b>Total</b>	<b>\$ 1,077</b>
Less: current portion of capital lease obligations	181
<b>Non-current portion of capital lease obligations</b>	<b>\$ 896</b>

### Manufacturing Commitments

The Company subcontracts with manufacturing companies to manufacture its hardware products. The contract manufacturers procure components based on non-cancelable orders the Company places with them. If the Company cancels all or part of an order, the Company is liable to the contract manufacturers for the cost of the related components they purchased under such orders.

As of March 31, 2017 and December 31, 2016, the Company had manufacturing commitments with contract manufacturers for inventory totaling approximately \$10.9 million and \$9.5 million, respectively.

### Contingencies

The Company may be subject to legal proceedings and litigation arising from time to time. The Company will record a liability when it believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. The Company expects to periodically evaluate developments in its legal matters that could affect the amount of liability that it has previously accrued, if any, and make adjustments as appropriate. The Company exercises significant judgment to determine both likelihood of there being, and the estimated amount of, a loss related to such matters, and the Company's judgment may be incorrect. The Company cannot reasonably determine in advance the outcome of any litigation proceeding. Until the final resolution of any such matter for which the Company may be required to accrue, the Company may have an exposure to loss in excess of the amount the Company has accrued, and such excess amount could be significant.

The Company is currently engaged in the following separate litigations which allege that the Company's products infringe certain patents.

- Linex Technologies, or Linex, filed on March 19, 2013 a complaint in the U.S. District Court, Southern District of Florida, asserting that some or all of the Company's products infringe U.S. Patents Nos. #6,493,377, or the '377 Patent, and #7,167,503, or the '503 Patent. The Company filed an answer and counterclaims for declaratory judgment against Linex asserting that the Company's products do not infringe the '377 and '503 Patents, and that the '377 and '503 Patents are, in any case, invalid and not enforceable. The Company separately filed with the U.S. Patent and Trademark Office, or the PTO, petitions to initiate reexamination of the '377 and '503 Patents, which the PTO granted. In the PTO reexaminations, all claims under the '377 and '503 Patents have been rejected and Linex has appealed the final rejections of the claims. This case is currently stayed pending the reexaminations.
- Chrimar Systems, or Chrimar, filed in July 2015 a complaint in the U.S. District Court, Eastern District of Texas, asserting that certain of the Company's products which utilize Power over Ethernet ("POE") functionality infringe United States Patent Nos. 8,155,012, or the '012 Patent, 8,902,760, or the '760 Patent, 8,942,107, or the '107 Patent and 9,019,838, or the '838 Patent. A jury trial was conducted in January 2017, following which the court entered an order finding non-infringement as to the Company's products under all patents in suit. The court subsequently entered a final judgment as to non-infringement under the patents in suit, which neither party challenged or appealed prior to the

lapsing of the period for any such timely challenges or appeals. The Company separately filed with the PTO petitions to initiate reexamination of the '012 Patent and the '760 Patent, which petitions the PTO granted. The PTO has rejected all claims of the '012 Patent and is considering the Company's petition regarding the '760 Patent.

- Mobile Telecommunications Technologies LLC, or Mobile, filed in May 2016 a complaint in the U.S. District Court, Eastern District of Texas, asserting that certain of the Company's products which utilize MIMO systems or frequency structures and functionality infringe United States Patent Nos. 5,590,403, 5,659,891, and 5,915,210. The case was consolidated with several other cases involving the same patents and transferred to U.S. District Court, Delaware, for pretrial purposes.

The Company intends to defend these lawsuits vigorously, and is not able to predict or estimate any range of reasonably possible loss related to these lawsuits. If these matters have an adverse outcome, they may have a material impact on the Company's financial position, results of operations or cash flows.

### **Guarantees**

The Company has entered into agreements with some of its customers that contain indemnification provisions in the event of claims alleging that the Company's products infringe the intellectual property rights of a third party. The Company has at its option and expense, the ability to resolve any infringement, replace product with a non-infringing product that is equivalent-in-function, or refund the customers the total product price. Other guarantees or indemnification arrangements include guarantees of product and service performance. The Company has not recorded a liability related to these indemnifications and guarantee provisions and the Company's guarantees and indemnification arrangements have not had any impact on the consolidated financial statements to date.

## **6. STOCKHOLDERS' EQUITY**

### **Common Stock reserved for Future Issuance**

As of March 31, 2017, the Company had, on an as-if converted basis, reserved shares of common stock for future issuance as follows:

	<b>March 31, 2017</b>
Common stock reserved for future grant under the 2014 Equity Incentive Plan	8,313,981
Common stock reserved for future purchase under the 2014 Employee Stock Purchase Plan	2,575,605
Options and Restricted Stock Units issued and outstanding	9,465,157
Total reserved shares of common stock for future issuance	<u>20,354,743</u>

## **7. STOCK-BASED COMPENSATION**

### **2014 Equity Incentive Plan**

On March 26, 2014, the Company's 2014 Equity Incentive Plan ("2014 Plan") became effective. On March 27, 2014, the Company's earlier 2006 Global Share Plan ("2006 Plan") was terminated and all reserved-but-unissued shares under the 2006 Plan were added to the 2014 Plan and all shares underlying stock awards granted under the 2006 Plan that otherwise would return to the 2006 Plan instead were rolled into the 2014 Plan. The Company may not grant additional awards under the 2006 Plan, but the 2006 Plan will continue to govern outstanding awards previously granted under the 2006 Plan.

The 2014 Plan provides for the grant of incentive stock options within the meaning of Section 422 of the Internal Revenue Code, only to employees of the Company or any parent or subsidiary of the Company, and for the grant of nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to employees, directors and consultants of the Company, and the employees and consultants of any parent or subsidiary of the Company.

In January 2017, the Company effected an increase of 2,612,263 shares reserved under the 2014 Plan. As of March 31, 2017, the Company had 8,313,981 total shares of common stock reserved and available for grant under the 2014 Plan.

The following table summarizes the total number of shares available for grant under the 2014 Plan as of March 31, 2017:



	<b>Shares Available for Grant</b>
<b>Balance, December 31, 2016</b>	5,116,753
Authorized	2,612,263
Options granted	—
Options canceled	542,265
Awards granted	(804,691)
Awards canceled	847,391
<b>Balance, March 31, 2017</b>	<b>8,313,981</b>

### Stock Options

The following table summarizes the information about outstanding stock option activity:

	<b>Options Outstanding</b>			
	<b>Number of Shares Underlying Outstanding Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
				(in thousands)
<b>Balance, December 31, 2016</b>	6,219,774	\$ 6.15	6.42	\$ 6,056
Options granted	—	—		
Options exercised	(124,144)	1.66		
Options canceled	(542,265)	6.95		
<b>Balance, March 31, 2017</b>	<b>5,553,365</b>	<b>\$ 6.17</b>	<b>5.96</b>	<b>\$ 3,547</b>
Options exercisable, March 31, 2017	4,098,387	\$ 5.84	5.15	\$ 3,527

The weighted-average-grant-date fair value of options granted was \$2.62 per share for the three months ended March 31, 2016, and the aggregate-grant-date fair value of the Company's stock options granted was \$0.2 million for the three months ended March 31, 2016. There were no options granted for the three months ended March 31, 2017.

The aggregate intrinsic value of stock options exercised was \$0.4 million and \$0.4 million for the three months ended March 31, 2017 and 2016, respectively. The intrinsic value for each share underlying an option represents the difference between the option exercise price per share and the closing stock price of a share of the Company's common stock. The total grant-date fair value of the options vested was \$4.8 million and \$5.8 million for the three months ended March 31, 2017 and 2016, respectively.

### Restricted Stock Units

The Company currently grants Restricted Stock Units ("RSUs") to certain employees and directors. The RSUs typically vest over a period of time, generally one year to three years, and are subject to the participant's continuing service to the Company over that period. Until vested, RSUs do not have the voting and dividend participation rights of common stock and the shares underlying the awards are not considered issued and outstanding.

The following is a summary of the Company's RSU activity and related information for the three months ended March 31, 2017:

	Restricted Stock Units Outstanding	
	Shares	Weighted Average Grant Date Fair Value Per Share
<b>Balance, December 31, 2016</b>	4,365,670	\$ 6.23
Awards granted	804,691	5.00
Awards vested	(481,546)	5.87
Awards canceled	(777,023)	6.24
<b>Balance, March 31, 2017</b>	<b>3,911,792</b>	<b>\$ 6.03</b>

The weighted-average-grant date fair value of RSUs granted was \$5.00 and \$5.01 per share for the three months ended March 31, 2017 and 2016, respectively. The aggregate grant date fair value of RSUs granted was \$4.0 million and \$2.1 million, respectively for the three months ended March 31, 2017 and 2016, respectively. The aggregate fair value of shares vested as of the respective vesting dates was \$2.2 million and \$2.6 million, for the three months ended March 31, 2017 and 2016.

The number of RSUs vested includes shares that the Company withheld on behalf of certain employees to satisfy the minimum statutory tax withholding requirements, as determined by the Company. During the three months ended March 31, 2017 and 2016, the Company withheld 70,368 and 58,790 shares of stock, for an aggregate value of \$0.3 million and \$0.3 million, respectively. The Company returned such shares to the 2014 Plan, which are available under the plan terms for future issuance.

The number of RSUs granted includes 378,644 shares of performance-based restricted stock units ("PBRsUs") that the Company granted to certain executives in the first quarter of 2017 pursuant to the 2014 Plan. Each PBRsU represents the right to receive one share of the Company's common stock upon vesting, subject to the Company's achievement of certain performance conditions. At each reporting period, the Company assesses the probability of the amount of these PBRsUs expected to vest based on its achievement of the performance condition.

#### ***2014 Employee Stock Purchase Plan***

The 2014 Employee Stock Purchase Plan ("ESPP") is a ten-year plan, effective in March 2014. The ESPP authorizes the Company to issue shares of common stock pursuant to purchase rights it grants to the Company's employees and those of its designated subsidiaries. In January 2017, the Company effected an increase of 1,000,000 shares reserved under the ESPP. As of March 31, 2017, the Company had 2,575,605 total shares of common stock reserved and available for issuance under the ESPP.

Under the ESPP, the Company grants stock purchase rights to all eligible employees, currently covering a one-year offering period ending December 1, 2017, with purchase dates at the end of each interim six-month purchase period. Employees purchase shares using employee payroll deductions at purchase prices equal to 85% of the lesser of the fair market value of the Company's common stock at either the first day of each offering period or the date of purchase. The ESPP currently has a reset provision: If the closing price of the Company's common stock on the last day of any purchase period during an offering period is lower than the closing sales price on the first day of the related offering period, that offering period will terminate upon the purchase of shares for such purchase period and participants will be automatically re-enrolled in the immediately following offering period. As a result, the reference price for purposes of determining the purchase price of shares for subsequent purchase periods for all participants of the new offering period resets to such lower price. No participant may purchase more than \$25,000 worth of common stock in any calendar year, or 5,000 shares of common stock in any six-month purchase period. For the three months ended March 31, 2017 and 2016, no shares were issued under the ESPP.

#### ***Stock Repurchase Program***

In February 2016, the Company's board of directors authorized a stock repurchase program of up to \$10.0 million, with stock purchases made from time to time in compliance with applicable securities laws in the open market or in privately negotiated transactions. The timing and amounts of any purchases will be based on market conditions and other factors including price, regulatory requirements and capital availability. The authorization does not require the purchase of any

minimum number of shares, and the Company may suspend, modify or discontinue the program at any time without prior notice. Unless modified, or earlier suspended or discontinued, the authorization will expire as of June 30, 2017, without the Company's further action.

During the three months ended March 31, 2016, the Company repurchased a total of 153,176 shares of its common stock on the open market at a total cost of \$0.8 million with an average price per share of \$5.09 respectively. No shares were repurchased during the three months ended March 31, 2017.

#### ***Determination of Fair Values***

Weighted-average assumptions for the Company's stock options granted were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Stock options:		
Expected term (in years)	N/A	5.89
Expected volatility	N/A	55.64%
Risk free interest rate	N/A	1.52%

Weighted average assumptions used to value employee stock purchase rights under the Black-Scholes model were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
ESPP purchase rights:		
Expected term (in years)	0.50 - 1.00	0.50 - 2.00
Expected volatility	34% - 39%	35% - 55%
Risk free interest rate	0.60% - 0.82%	0.07% - 0.51%

#### ***Stock-based Compensation Expense***

The total stock-based compensation the Company recognized for stock-based awards in the consolidated statements of operations is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Cost of revenue	\$ 271	\$ 272
Research and development	688	1,345
Sales and marketing	1,294	1,768
General and administrative	1,300	1,511
<b>Total stock-based compensation</b>	<b>\$ 3,553</b>	<b>\$ 4,896</b>

The following table presents stock-based compensation expense by award-type:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Stock Options	\$ 883	\$ 1,146
Restricted Stock Units	2,270	3,147
Employee Stock Purchase Plan	400	603
<b>Total stock-based compensation</b>	<b>\$ 3,553</b>	<b>\$ 4,896</b>

As of March 31, 2017, unrecognized stock-based compensation related to outstanding stock options, RSUs and ESPP purchase rights, was \$5.0 million, \$20.7 million and \$1.0 million, respectively, which the Company expects to recognize over weighted-average periods of 1.96 years, 2.01 years and 0.67 years, respectively.

## 8. NET LOSS PER SHARE

The Company calculates basic and diluted net loss per share by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is the same as basic net loss per share, since the effects of potentially dilutive securities are antidilutive.

The following table presents the computation of basic and diluted net loss per share:

	Three Months Ended March 31,	
	2017	2016
	(in thousands, except for share and per share data)	
<b>Numerator:</b>		
Net loss	\$ (9,019)	\$ (12,523)
<b>Denominator:</b>		
Weighted-average shares used to compute net loss per share, basic and diluted	52,439,039	49,140,340
<b>Net loss per share:</b>		
Basic and diluted	\$ (0.17)	\$ (0.25)

The Company excluded the following period-end outstanding common stock equivalents from the computation of diluted net loss per share for the periods presented because including them would have been antidilutive:

	As of March 31,	
	2017	2016
Shares of common stock issuable under the Equity Incentive Plan	9,465,157	9,893,775
Employee Stock Purchase Plan	470,217	523,941
Total	9,935,374	10,417,716

## 9. INCOME TAXES

The provision for income taxes was approximately \$0.1 million and \$0.1 million, respectively, for the three months ended March 31, 2017 and 2016. The provision for income taxes consisted primarily of state taxes and foreign income taxes.

For the three months ended March 31, 2017 and 2016, the provision for income taxes differed from the statutory amount primarily due to the Company's maintaining a full valuation allowance against the U.S. net deferred tax assets, partially offset by foreign and state taxes.

The Company has intercompany services agreements with its subsidiaries located in the United Kingdom, Netherlands, New Zealand, Australia, Canada and China, which require payment for services rendered by these subsidiaries at an arm's-length transaction price. The foreign tax expense represents foreign income tax payable by these subsidiaries on profit generated on intercompany services agreements.

The Company's realization of deferred tax assets depends on future taxable income, the existence and timing of which is uncertain. Based on the Company's history of losses, management has determined it cannot conclude that it is more likely than not that the deferred tax assets will be realized and, accordingly, management has placed a full valuation allowance against its domestic deferred tax assets, including net operating loss carryforwards and research and development and other tax credits, as of March 31, 2017 and December 31, 2016.

## 10. SEGMENT INFORMATION

The Company's chief operating decision maker ("CODM") is its Chief Executive Officer. The Company derives its revenue primarily from sales of products and software subscription and services. The Company's CODM reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, the Company determined that it operates as one reportable and operating segment.

The following table represents the Company's revenue based on the billing address of the respective channel partners:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Americas	\$ 23,918	\$ 24,360
Europe, Middle East and Africa	9,832	12,014
Asia Pacific	2,601	3,754
Total revenues	<u>\$ 36,351</u>	<u>\$ 40,128</u>

Included within Americas in the above table is revenue from sales in the United States of \$22.0 million and \$22.7 million, respectively, for the three months ended March 31, 2017 and 2016. Aside from the United States, no country comprised 10% or more of the Company's total revenue for each of the three months ended March 31, 2017 and 2016.

Property and equipment, net by location is summarized as follows:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
United States	\$ 7,028	\$ 7,685
People's Republic of China	976	1,096
United Kingdom	202	227
Total property and equipment, net	<u>\$ 8,206</u>	<u>\$ 9,008</u>

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and the other financial information appearing elsewhere in this Quarterly Report on Form 10-Q. This discussion and analysis contains forward-looking statements reflecting our current expectations and involves risks and uncertainties. We intend to identify forward-looking statements when we use the words "believe," "will," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "could," "potentially" and similar expressions that convey uncertainty of future events or outcomes. Our actual results and the timing of events may differ materially from those we discuss in our forward-looking statements as a result of various factors, including those we discuss below and those we discuss in the section entitled "Risk Factors" included in this Quarterly Report on Form 10-Q.*

*These forward-looking statements include, but are not limited to, statements concerning the following:*

- our ability to predict our revenue, operating results and gross margin accurately;*
- our ability to timely develop, deliver and transition to new product offerings and pricing strategies, and transition existing and new end-customers to such offerings and strategies, while maintaining existing revenue and margins and our existing service level commitments to end-customers;*
- our ability to continue to secure orders from larger customers and any potential loss of or reductions in orders from such larger customers;*
- our ability to maximize sales to our education vertical, including in conjunction with opportunities from the U.S. Federal Communications Commission's E-Rate program and the timing and uncertainty of the availability of such funding, the level of available funding and the decisions by end-customers to purchase our products using such funding;*
- the length and seasonal unpredictability of our sales cycles, including with service provider end-customers;*
- the effects of increased competition in and consolidation of our market and our ability to compete with larger competitors with greater financial, technical and other resources;*
- our ability to continue to enhance and broaden our product and solutions offerings and bring new products, product functionality and solutions to market;*
- our ability to attract new end-customers within the verticals and geographies in which we currently operate;*

- *changes in global consumer confidence and demand for our products internationally, due to changes to foreign currency exchange rates and other factors;*
- *our ability to continue to build and enhance relationships with channel partners and to derive revenue from our investments in those partnerships, particularly with our strategic partners;*
- *our ability to protect our intellectual property and our exposure to third party claims that we or our customers or channel partners infringe their intellectual property; and*
- *other risk factors included under the section titled "Risk Factors."*

*These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in "Risk Factors" included in Part II, Item 1A and elsewhere in this report. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances we discuss in this report may not occur, and our actual results could differ materially and adversely from those we anticipate or imply in the forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, we caution you not to place undue reliance on such forward-looking statements.*

## **Overview**

Our goal is to be the leading independent cloud networking company that simplifies and transforms the connected experience through information, applications and insights. We have designed and developed a leading cloud-managed, networking platform that enables enterprises to deploy and manage a mobile-centric network edge. Our platform builds on the foundation of our Wi-Fi and wired network infrastructure. Our platform also connects and stores valuable data about the network and the users of the network that can enable better IT and business applications. Customers around the world, from Fortune 500 businesses to small schools, have chosen our products.

For the three months ended March 31, 2017, our revenue was \$36.4 million, a decline of \$3.8 million, compared to \$40.1 million for the three months ended March 31, 2016. In the three months ended March 31, 2017 and 2016, our net losses were \$9.0 million and \$12.5 million, respectively. We have yet to achieve profitability in any quarter.

## **Opportunities and Challenges**

We believe that the growth of our business and our future success depends upon many factors, including our ability to continue to develop innovative technologies and timely provide new product offerings to the marketplace; increase our sales capabilities and develop our channel partner program; acquire new end-customers; expand our end-customer base and increase penetration within our existing end-customer base (including through new product offerings); demonstrate revenue growth to our investors and financial analysts and at the same time demonstrate that we can achieve profitability on an acceptable timeline.

We operate in the highly competitive wired and wireless network access products market, which is characterized by rapid technological innovation. We will need to continue to innovate in order to achieve market adoption of our products and services. We have continued the expansion of our product portfolio with the release of new Wi-Fi access points, access switches and management software to allow us to deliver a unified wired and wireless network edge.

In the wireless market, we have seen almost all customer demand shift to the 802.11ac standard, which uses new radio hardware to deliver substantially higher wireless performance. In 2016, we continued the push towards higher performance with the release of our 802.11ac "Wave 2" access points. We continue to develop new functionality in our product offerings to take advantage of the changes to industry standards, including continued evolution of "Wave 2" and emerging work on the new 802.11ax standard.

We continue to believe we have a unique market opportunity based on our ability to deliver unified Wi-Fi, switch and router solution operating on a single, unified management platform, with subscription-based SaaS solutions and data analytics, at a low entry and operating cost and the ability to tailor and expand based on each user's needs. We have developed a cloud-services platform to provide network management and support additional value-added applications. HiveManager NG, the newest version of our network management application, provides a single management interface that customers use to configure network policies, monitor and troubleshoot performance, manage access and security, and run reports on network operations. We will continue to sell and support older version of HiveManager as well. Our focus is to continue to transition our

business to HiveManager NG and make our cloud-services platform and applications available to customers in either a subscription public cloud or on-premises private cloud deployment. We also announced in January 2017, Hive Manager Connect, a simplified version of HiveManager NG included as a part of our new Aerohive Connect product line. Under the Aerohive Connect program, customers may purchase a less complex, connectivity-oriented solution at attractive entry-point pricing.

Our business is seasonal, with our product revenue typically decreasing in our first quarter but sequentially increasing from our fiscal first to second quarter. This has generally been due to annual budget cycles in the enterprise and spending seasonality in the education vertical. The buying cycle for K-12 schools in the United States historically has driven strong sequential growth for us in the second quarter, which we also see typically carry over from our second quarter to our third quarter. We also historically have seen a sequential increase in revenue in our fourth quarter from our third quarter due to end-of-year spending by enterprise customers.

The seasonal variations in demand for our products and services in the education vertical continue to make it more difficult for us to predict revenue from our education vertical during a particular period during the year. For example, on October 13, 2016, we provided preliminary revenue for our third quarter ending September 30, 2016 and a preliminary revenue outlook for our fourth quarter ending December 31, 2016, which we further discussed on our November 2, 2016 earnings call. Our third quarter revenue was below the estimates of financial analysts at that time, as was the revenue outlook we provided at that time for our fourth quarter. On February 14, 2017, we announced our revenue results for our fourth quarter of fiscal year 2016, which was below the revenue outlook we had provided for the period in November 2016.

We believe that the significantly slower pace of order volume in our education vertical in the third and fourth quarters of our fiscal year 2016, specifically due to slower pace of funding approvals under the federal E-Rate program, was one of the primary drivers of lower-than-expected order volume and revenue performance in our third quarter and our lowered revenue outlook for our fourth quarter. We also believe that we introduced our new HiveManager NG product to some of our larger and more complex customers before its feature set was able to fully address their requirements, which resulted in elongated sales cycles and reduced revenue opportunities, which specifically contributed to our lower revenue performance in the fourth quarter and our outlook for the first quarter of our fiscal year 2017. We believe that the lower-level of E-Rate funded transactions and lengthier sales cycle associated with our HiveManager NG offering will continue to affect our revenue opportunities and operating results into 2017.

We realize that our revenue-dependence on the volatile education market may continue to bring uncertainty to our results. For this reason, a priority for our business continues to expand and diversify our offerings and revenue opportunities into other verticals, with particular focus on enterprise customers. We also intend to continue to invest significant resources in the development of our innovative technologies and new product offerings, acquire new end-customers in new and existing geographies, and increase penetration within our existing end-customer base.

We also expect to continue to invest in our organization and our channel and strategic partnerships to meet the needs of our customers to pursue opportunities in new and existing markets. In particular, we are investing to increase our sales capacity as well as our channel program. As such, we will continue to incur expenses in the near term, due to our continuing investments to grow our business, including internationally, in advance of and in preparation for, our expected increase in sales and expansion of our customer base. As a result, we may not be profitable for the foreseeable future and our use of cash over this period could also be greater and extend over a longer period as we make investments in areas of our operations, such as sales, marketing and research and product and channel partner development, which we feel may promote our growth and profitability over the long term. We believe that over the long term, we will be able to leverage these investments in the form of a higher revenue growth rate compared to the growth rate of our operating expenses.

## Results of Operations

The following table sets forth our results of operations for the periods presented in dollars (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenue:		
Product	\$ 26,870	\$ 32,456
Software subscription and services	9,481	7,672
Total revenue	36,351	40,128
Cost of revenue <sup>(1)</sup> :		
Product	8,736	10,439
Software subscription and services	3,176	2,903
Total cost of revenue	11,912	13,342
Gross profit	24,439	26,786
Operating expenses:		
Research and development <sup>(1)</sup>	9,550	10,210
Sales and marketing <sup>(1)</sup>	17,439	21,068
General and administrative <sup>(1)</sup>	6,297	7,895
Operating loss	(8,847)	(12,387)
Interest income	140	119
Interest expense	(130)	(126)
Other income (expense), net	(85)	16
Loss before income taxes	(8,922)	(12,378)
Income tax provision	97	145
Net loss	\$ (9,019)	\$ (12,523)

<sup>(1)</sup>Includes stock-based compensation as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in thousands)</b>	
Cost of revenue	\$ 271	\$ 272
Research and development	688	1,345
Sales and marketing	1,294	1,768
General and administrative	1,300	1,511
Total stock-based compensation expense	\$ 3,553	\$ 4,896



The following table sets forth our results of operations for the periods presented as a percentage of our total revenue:

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenue:</b>		
Product	74 %	81 %
Software subscription and services	26	19
Total revenue	100	100
<b>Cost of revenue:</b>		
Product	24	26
Software subscription and services	9	7
Total cost of revenue	33	33
Gross profit	67	67
<b>Operating expenses:</b>		
Research and development	26	25
Sales and marketing	48	53
General and administrative	18	20
Operating loss	(25)	(31)
Interest income	—	—
Interest expense	—	—
Other income (expense), net	—	—
Loss before income taxes	(25)	(31)
Income tax provision	—	—
Net loss	(25)%	(31)%

## Revenue

We derive revenue from the sales of our products and services, and we recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. We expect our revenue to vary from quarter to quarter based on seasonal and cyclical factors.

Our total revenue comprises the following:

**Product Revenue.** We derive product revenue primarily from sales of our hardware products, which include wireless access points, branch routers, and switches, all of which are embedded with our proprietary operating system, HiveOS, and perpetual licenses for our unified network management system, HiveManager, and other software applications, as well as related accessories. We recognize product revenue at the time of shipment, provided that all other revenue recognition criteria have been met. For our VAD arrangements where we permit our VADs to stock inventory, we recognize revenue when our VADs have shipped the products to our end-customers (or to VARs that have identified end-customers), provided that all other revenue recognition criteria have been met.

**Software Subscription and Services Revenue.** We derive software subscription and services revenue primarily from sales of our software subscription and services offerings that we deliver over a specified term. These offerings primarily include PCS related to our perpetual software licenses and subscriptions to HiveManager and other software applications delivered as SaaS, including related customer support, and from subsequent renewals of those contracts. To benefit fully from potential contract renewals, we plan to continue to invest in systems to better track existing customer support commitments and renewal opportunities and provide offerings which continue to be attractive to our customers. Our PCS includes tiered maintenance and support services under renewable, fee-based maintenance and support contracts, which include technical support, bug fixes, access to priority hardware replacement services and unspecified upgrades on a when-and-if available basis. Our SaaS subscriptions include comparable maintenance and support services. The higher the percentage of our end-customers that purchase SaaS subscriptions, as opposed to HiveManager and PCS, the higher our software subscription and services revenue will be as a percentage of our total revenue. We recognize software subscription and services revenue ratably over the term of the contract, which is typically one, three or five years. As a result, our recognition of software subscription and services revenue lags our recognition of related product revenue.

	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
(dollars in thousands)				
Revenues:				
Product	\$ 26,870	\$ 32,456	\$ (5,586)	(17)%
Software subscription and services	9,481	7,672	1,809	24 %
Total revenue	<u>\$ 36,351</u>	<u>\$ 40,128</u>	<u>\$ (3,777)</u>	(9)%
Percentage of revenues:				
Product	74%	81%		
Software subscription and services	26%	19%		
Total	<u>100%</u>	<u>100%</u>		

	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
(dollars in thousands)				
<b>Revenue by geographic region:</b>				
Americas	\$ 23,918	\$ 24,360	\$ (442)	(2)%
EMEA	9,832	12,014	(2,182)	(18)%
APAC	2,601	3,754	(1,153)	(31)%
Total revenue	<u>\$ 36,351</u>	<u>\$ 40,128</u>	<u>\$ (3,777)</u>	(9)%
<b>Percentage of revenue by geographic region:</b>				
Americas	66%	61%		
EMEA	27%	30%		
APAC	7%	9%		
Total	<u>100%</u>	<u>100%</u>		

Revenue decreased \$3.8 million for the three months ended March 31, 2017, compared to the three months ended March 31, 2016, which was primarily due to the decrease in product revenue, partially offset by an increase in software and subscriptions revenue.

The decrease in our product revenue of \$5.6 million for the three months ended March 31, 2017, compared to the three months ended March 31, 2016, was primarily due to lower unit shipments.

The increase in our software subscription and services revenue of \$1.8 million in the three months ended March 31, 2017, compared to the three months ended March 31, 2016, was primarily due to an increase in sales of PCS and SaaS, including our HiveManager NG cloud-management platform, in connection with increased sales of products and an increase in the number of our end-customers, and our recognition of deferred revenue in the period.

The Americas and EMEA accounted for the majority of our total revenue in the respective periods. The decrease in revenue in our EMEA region for the three months ended March 31, 2017 was primarily due to a decline in unit shipments in that region during the period.

### **Cost of Revenues**

Our cost of revenue includes the following:

**Cost of Product Revenue.** Our cost of product revenue primarily includes manufacturing costs of our products payable to third-party manufacturers. Our cost of product revenue also includes personnel costs, including stock-based compensation, shipping costs, third-party logistics costs, provisions for excess and obsolete inventory, warranty and replacement costs, the depreciation and amortization of testing and imaging equipment, inbound license fees, certain allocated facilities and information technology infrastructure costs, and other expenses associated with logistics and quality control.

**Cost of Software Subscription and Services Revenue.** Our cost of software subscription and services revenue primarily includes personnel costs, including stock-based compensation, certain allocated facilities information technology infrastructure costs, costs associated with our provision of PCS and SaaS and datacenter costs. Our cost of software subscription and services revenue also includes amortization of HiveManager NG, our internally developed, next-generation cloud-services platform, which we completed and launched in April 2015.

	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
(dollars in thousands)				
<b>Cost of revenues:</b>				
Product	\$ 8,736	\$ 10,439	\$ (1,703)	(16)%
Software subscription and services	3,176	2,903	273	9%
Total cost of revenues	<u>\$ 11,912</u>	<u>\$ 13,342</u>	<u>\$ (1,430)</u>	(11)%

Cost of revenue decreased \$1.4 million for the three months ended March 31, 2017, compared to the three months ended March 31, 2016. We primarily attribute the change in our cost of product revenue to changes in the mix of products we sold in the period. We primarily relate the increase in our cost of software subscription and services to an increase in software and services revenue.

### **Gross Margin**

Our gross margin or gross profit has been and will continue to be affected by a variety of factors, including product shipment volumes, average sales prices of our products, discounts we offer to our VAR and VAD partners, the mix of revenue between products and software subscription and services, and the mix of products we sold in the period, because our products have varying gross margins depending on the product offering and the lifecycle of the product. Historically, our software subscription and services gross margin has been lower than our product gross margin; however, we expect our software subscription and services gross margin to increase over the long term because we expect our software subscription and services revenue to increase more quickly than our cost of software subscription and services revenue. We expect our gross margin to be volatile and may decrease in any given time as we experience additional competitive pricing pressure.

	<b>Three Months Ended March 31,</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>GM</b>	<b>Amount</b>	<b>GM</b>
<b>(dollars in thousands)</b>				
Gross margin:				
Product	\$ 18,134	67.5%	\$ 22,017	67.8%
Software subscription and services	6,305	66.5%	4,769	62.2%
<b>Total gross margin</b>	<b>\$ 24,439</b>	<b>67.2%</b>	<b>\$ 26,786</b>	<b>66.8%</b>

Product gross margin decreased from 67.8% to 67.5% for the three months ended March 31, 2017, compared to the three months ended March 31, 2016. The decrease in our product gross margin was primarily due to the mix of product we sold in the period and our fixed costs over lower revenue for the period. Software subscription and services gross margin increased from 62.2% to 66.5% for the three months ended March 31, 2017, compared to the three months ended March 31, 2016. The increase in our software subscription and services gross margin was primarily due to higher growth in our software subscription and services revenue than our related cost of delivering these software subscription and services.

### **Research and Development**

Our research and development expenses consist primarily of personnel costs, including bonuses, stock-based compensation, recruiting fees and travel expenses for employees engaged in research, design and development activities. Research and development expenses also include costs for prototype-related expenses, product certification, consulting services, depreciation and certain allocated facilities and information technology infrastructure costs. We believe that continued investment in research and development is important to attaining our strategic objectives. Over time, we expect our research and development expenses to continue to increase in absolute dollars for the foreseeable future as we continue to invest in the development of our products and services. Our research and development expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our research and development expenses.

	<b>Three Months Ended March 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>\$ Change</b>	<b>% Change</b>
<b>(dollars in thousands)</b>				
Research and development	\$ 9,550	\$ 10,210	\$ (660)	(6)%
% of revenue	26%	25%		

Research and development expense decreased \$0.7 million for the three months ended March 31, 2017, compared to the three months ended March 31, 2016. The decrease was primarily due to a decrease of \$0.7 million in stock-based compensation expense, a decrease of \$0.4 million in professional services, offset by an increase in \$0.4 million in personnel cost primarily due to restructuring charges.

## ***Sales and Marketing***

Our sales and marketing expenses consist primarily of personnel costs, including commission costs, stock-based compensation, recruiting fees and travel expenses for employees engaged in sales and marketing activities. Sales and marketing expenses also include the cost of trade shows, marketing and training programs, promotional materials, demonstration equipment, consulting services, depreciation and certain allocated facilities and information technology infrastructure costs. Over time, we expect our sales and marketing expenses to continue to increase in absolute dollars as we increase the size of our sales and marketing organization, expand into new markets and further develop our channel program. Our sales and marketing expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our sales and marketing expenses.

	<b>Three Months Ended March 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(dollars in thousands)</b>			
Sales and marketing	\$ 17,439	\$ 21,068	\$ (3,629)	(17)%
% of revenue	48%	53%		

Sales and marketing expense decreased \$3.6 million for the three months ended March 31, 2017, compared to the three months ended March 31, 2016. The decrease was primarily due to decreases of \$2.4 million in personnel and related costs and \$0.5 million in stock-based compensation, due to lower headcount, a decrease of \$0.2 million in travel and entertainment expenses, a decrease of \$0.5 million in other expenses primarily due to lower spending on marketing programs and professional services.

## ***General and Administrative***

Our general and administrative expenses consist primarily of personnel costs, including bonuses, stock-based compensation and travel expenses for our executive, finance, human resources, legal and operations employees, as well as compensation for our board of directors. General and administrative expenses also include fees for outside consulting, legal, audit, investor relations, and accounting service and insurance, as well as depreciation and certain allocated facilities and information technology infrastructure costs. Over time, we expect our general and administrative expenses to continue to increase in absolute dollars due to the additional legal, accounting, insurance, investor relations, information technology and other costs that we will continue to incur as a public company, as well as other costs associated with growing our business. Our general and administrative expenses may fluctuate as a percentage of our total revenue from period to period due to the seasonality of our total revenue and the timing and extent of our general and administrative expenses.

	<b>Three Months Ended March 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(dollars in thousands)</b>			
General and administrative	\$ 6,297	\$ 7,895	\$ (1,598)	(20)%
% of revenue	18%	20%		

General and administrative expense decreased \$1.6 million for the three months ended March 31, 2017, compared to the three months ended March 31, 2016. The decrease was primarily due to a decrease in litigation settlement expense of \$1.2 million, related to our class action complaint related to our Form S-1 filing, a decrease in employee compensation and benefits of \$0.2 million and a decrease in stock-based compensation of \$0.2 million primarily due to lower headcount offset by restructuring costs.

## ***Interest Income***

Our interest income primarily consists of interest earned on our cash and cash equivalent and short-term investments. We have invested our cash in money-market funds and other short-term, high quality investments. Historically, our interest income has not been material.

	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
	(dollars in thousands)			
Interest income	\$ 140	\$ 119	\$ 21	18%

The change in interest income was not significant.

#### ***Interest Expense***

Our interest expense consists primarily of interest on our indebtedness.

	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
	(dollars in thousands)			
Interest expense	\$ (130)	\$ (126)	\$ (4)	3%

The change in our interest expense was not significant.

#### ***Other Income (expense), Net***

Our other income, net primarily consists of gains and losses from foreign currency exchange transactions.

	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
	(dollars in thousands)			
Other income (expense), net	\$ (85)	\$ 16	\$ (101)	(631)%

The change in our other income (expense) primarily related to changes due to foreign currency fluctuations.

#### ***Provision for Income Taxes***

Our provision for income taxes consists primarily of foreign tax expense due to our cost-plus agreements with our foreign entities, which guarantee our foreign entities a profit, and to a lesser extent federal and state income tax expense. We expect our provision for income taxes to increase in absolute dollars in future periods.

	Three Months Ended March 31,			
	2017	2016	\$ Change	% Change
	(dollars in thousands)			
Provision for income taxes	\$ 97	\$ 145	\$ (48)	(33)%

The change in our provision for income taxes primarily related to foreign and state income taxes and was not significant. As of March 31, 2017 and December 31, 2016, respectively, we maintained a full valuation allowance against our domestic deferred tax assets, including net operating loss carryforwards and research and development and other tax credits.

## Liquidity and Capital Resources

As of March 31, 2017, we had cash and cash equivalents of \$28.9 million and short-term investments of \$45.9 million. \$73.0 million of our cash, cash equivalents and short-term investments were held within the United States.

In June 2012, we entered into the Revolving Credit Facility with Silicon Valley Bank which matures on March 31, 2019. We have been using the amount drawn under the Revolving Credit Facility for working capital and general corporate purposes. As of March 31, 2017, we had \$20.0 million of outstanding debt, under the Revolving Credit Facility, and we were in compliance with all covenants under our loan agreement. See Note 4 to the Condensed Consolidated Financial Statements included in this Form 10-Q for more information about our debt.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support our research and development efforts, the expansion of our sales and marketing activities, the introduction of new and enhanced product and service offerings, the costs to ensure access to adequate manufacturing capacity, and the level of market acceptance of our products. However, we may be required to raise additional funds in the future through public or private debt or equity financing to meet additional working capital requirements.

### Cash Flows

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Net cash used in operating activities	\$ (1,556)	\$ (3,322)
Net cash used in investing activities	(3,732)	(43)
Net cash used in financing activities	(151)	(988)
Net decrease in cash and cash equivalents	\$ (5,439)	\$ (4,353)

### Operating Activities

We demonstrated positive cash flow in our third and fourth quarters of 2015 and our third quarter of 2016. However, we have historically experienced negative cash flows from operating activities as we continue to invest in our business. Our largest uses of cash from operating activities are for employee-related expenditures and purchases of finished products from our contract manufacturers. Our primary source of cash flows from operating activities is cash receipts from our channel partners. Our cash flows from operating activities will continue to be affected principally by the extent to which we grow our total revenue and our operating expenses, primarily in our sales and marketing and research and development functions, in order to grow our business.

For the three months ended March 31, 2017, cash used in operating activities was \$1.6 million as a result of our net loss of \$9.0 million, partially offset by non-cash charges of \$4.4 million and a net change of \$3.1 million in our net operating assets and liabilities. Non-cash charges consisted primarily of stock-based compensation of \$3.6 million and depreciation and amortization expense of \$0.8 million. The net change in our net operating assets and liabilities was primarily due to a \$4.6 million decrease in accounts receivable, \$1.0 million decrease in cash used for inventory purchases and a \$0.1 million increase in accrued and other liabilities, partially offset by a \$0.6 million increase in prepaid expenses and other current assets, a \$0.9 million decrease in accounts payable and a \$1.0 million decrease in deferred revenue. Our days sales outstanding, or DSO, was 54 days as of March 31, 2017, which we calculate by dividing net accounts receivable at the end of the quarter by revenue recognized during the quarter, multiplied by the total days in the quarter.

For the three months ended March 31, 2016, cash used in operating activities was \$3.3 million as a result of our net loss of \$12.5 million, partially offset by non-cash charges of \$5.9 million and a net change of \$3.3 million in our net operating assets and liabilities. Non-cash charges consisted primarily of stock-based compensation of \$4.9 million and depreciation and amortization expense of \$0.9 million. The net change in our net operating assets and liabilities was primarily due to a \$1.9 million decrease in accounts receivable, a \$1.0 million increase in deferred revenue as a result of an increase in sales of PCS and SaaS and an increase of \$5.7 million in accrued liabilities, partially offset by an increase of \$3.6 million in prepaid expenses and other current assets, an increase of \$0.7 million in cash used for inventory purchases, a \$0.7 million decrease in accounts payable and a \$0.4 million increase in other assets. Our DSO was 47 days as of March 31, 2016.

### ***Investing Activities***

Our investing activities have primarily consisted of purchases of property and equipment, an investment in a privately held company and purchases and sales of marketable securities.

For the three months ended March 31, 2017, cash used in investing activities was \$3.7 million, primarily attributable to cash used for purchases of marketable securities of \$7.7 million, cash used for purchases of property and equipment of \$0.2 million, relating primarily to manufacturing and research and development lab equipment, offset by maturities of marketable securities of \$4.2 million.

For the three months ended March 31, 2016, cash used in investing activities was primarily attributable to purchases and maturities of marketable securities of \$2.4 million and \$4.2 million, respectively, cash used to purchase an investment in a privately held company of \$1.5 million, and purchases of property and equipment of \$0.3 million, relating primarily to manufacturing and research and development lab equipment.

### ***Financing Activities***

Our financing activities have primarily consisted of proceeds and repayments against our credit facility, proceeds from our employees' exercises of stock options and proceeds from our employee stock purchase plan offset by our repurchases of treasury shares.

For the three months ended March 31, 2017, cash used in financing activities was \$0.2 million, primarily as a result of a \$0.3 million of cash used to satisfy our estimate of minimum employee tax withholding requirements on vesting of restricted stock units, offset by \$0.2 million in proceeds from our employees' exercises of stock options.

For the three months ended March 31, 2016, cash used in financing activities was \$1.0 million, primarily as a result of a \$0.8 million of cash used for repurchases of treasury shares and \$0.3 million of cash used to satisfy our estimate of minimum employee tax withholding requirements on vesting of restricted stock units, offset by \$0.1 million in proceeds from our employees' exercises of stock options.

### **Off-Balance Sheet Arrangements**

Through March 31, 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.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Interest Rate Sensitivity***

Our exposure to market risk for changes in interest rates relates primarily to our cash, cash equivalents, short-term investments and our outstanding debt obligations. We had cash, cash equivalents and short-term investments of \$74.8 million and \$76.8 million as of March 31, 2017 and December 31, 2016, respectively. We held these amounts primarily in bank deposits, money market funds, certificates of deposit, commercial paper and bonds issued by corporate institutions and U.S. government agencies. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

We have outstanding debt of \$20.0 million as of March 31, 2017, consisting of our borrowing under our Revolving Credit Facility. The Revolving Credit Facility bears interest at a variable rate.

We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods we present in this report would not have had a material impact on our financial statements.

### ***Foreign Currency Risk***

We denominate all of our sales in U.S. dollars and, therefore, our revenues are not currently subject to significant foreign currency risk. However, the exchange rate of the U.S. dollar to foreign currencies continues to be strong, which could make the price of our products outside the United States less competitive, reducing our sales or requiring us to lower pricing for our products outside the United States in order to maintain sales and revenue performance. Our operating expenses are



denominated in the currencies of the countries in which our operations are located, including in EMEA and APAC, and may be subject to fluctuations due to changes in foreign currency exchange rates. To date, we have not used derivative financial instruments to mitigate our exposure to foreign currency exchange risks. A hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our consolidated financial statements in any of the periods presented.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### ***Evaluation of Disclosure Controls and Procedures***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. 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, 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 the evaluation of our disclosure controls and procedures as of March 31, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable-assurance level.

##### ***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **PART II. OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

The information set forth under the “Contingencies” subheading in Note 5 - Commitments and Contingencies of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

#### **ITEM 1A. RISK FACTORS**

*In evaluating Aerohive and our business, you should carefully consider the risks and uncertainties described below, together with all of the other information in this report, including our condensed consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. If any of the following or other risks occur, our business, financial condition, operating results, and prospects could be materially harmed. In that event, the 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 achieve profitability in the future.***

In February 2017, we indicated that we have taken actions to reduce our ongoing operating expenses that we believe positions us to achieve non-GAAP operating profitability at \$45 million quarterly revenue. We may subsequently take actions which could raise or lower the level of quarterly revenue we would need to achieve non-GAAP profitability in any period. Nonetheless, we have a history of losses and we have never achieved profitability on a quarterly or annual basis, and we cannot predict with certainty whether or when we might be profitable in the foreseeable future, even at these revenue levels. We experienced net losses on a GAAP basis of \$44.2 million, \$36.9 million and \$9.0 million for fiscal years 2015, 2016 and the three months ended March 31, 2017, respectively. As of March 31, 2017, our accumulated deficit was \$236.5 million. We expect to continue to incur expenses associated with the continued development and expansion of our business, including

expenditures to hire additional personnel: specifically, personnel costs relating to sales and marketing and engineering, and investments in channel and product development and support. As such, we may not control our expenses sufficiently to achieve operating profitability on a non-GAAP basis even if we achieve quarterly revenue in the indicated range. If we fail to increase our revenue and manage our cost structure, we may not achieve or sustain profitability in the future. Once achieved, we may not be able to sustain or increase our profitability, at all or at levels our investors or industry analysts expect, or we may choose to continue to make investments in our operations which we feel will promote long-term growth but which will reduce near-term profitability. This could also require us to continue to use available cash to support our investments and ongoing operations. As a result, our business and prospects, and how investors view and value our common stock, would be harmed.

***It is difficult for us to evaluate our prospects and future financial results, which may increase the risk that we will not be successful.***

It is difficult for us to forecast our future operating results. You should consider and evaluate our prospects in light of the risks and uncertainties frequently encountered by companies similarly with limited operating histories. These risks and difficulties include challenges in accurate financial planning as a result of limited historical data and the uncertainties resulting from having had a relatively limited time period in which to implement and evaluate our business strategies as compared to more mature companies with longer operating histories.

***Our operating results may fluctuate significantly from period to period, which makes our future operating results difficult to predict and could cause our operating results in any particular period or over an extended period to fall below expectations of investors or analysts.***

Our operating results have fluctuated significantly in the past and we expect will continue to fluctuate significantly in the future. In particular, the timing and size of sales of our products and services, including results across regions, are highly variable and difficult to predict and can result in significant fluctuations in our revenue from period to period. Other participants in our industry have also experienced these fluctuations. As a result, our future results in any particular period or over any extended period may be difficult for us, our investors and analysts to predict.

In addition, our planned expense levels depend in part on our expectations of future revenue. We may choose to increase levels of investment in areas such as R&D and sales and marketing, despite near-term fluctuations in revenue, in order to position us for continued growth. We also may reduce product prices in order to increase revenue growth and/or penetration of our products into targeted verticals. For example, in January 2017, we announced HiveManager Connect, a simplified version of HiveManager NG included as part of our new Aerohive Connect product line designed for customers with less complex connectivity-oriented requirements. Under the Aerohive Connect program, customers may purchase our entry-level access points, currently either the AP122 or AP130, at lower list prices. This program may reduce our revenue, or the rate of our revenue growth, as purchasers take advantage of the lower entry pricing for our products. In addition, it may be difficult and take time for us to adjust expenses sufficiently to compensate for a shortfall in revenue, even when we may anticipate the shortfall. In such instances, even a small shortfall or seasonal fluctuation in revenue could disproportionately and adversely affect our overall revenue, operating margin, operating results and use of cash for a given quarter.

Our operating results may also fluctuate due to a variety of other factors, both within and outside of our control and which we may not foresee, or which we may foresee but not effectively manage, including the changing and volatile domestic and international economic environments, and demand for our products in general and from any particular vertical which may be a target market for our products, and any of which may cause our operating results and stock price to fluctuate. In addition to other risks listed in this “Risk Factors” section, factors that may affect our operating results include:

- fluctuations in demand for our products and services, including seasonal variations, especially in the education vertical where purchasing in the United States has typically been stronger in the second and third quarters and weakest in the first and fourth quarters, and where purchasing at any time may depend on the availability of funding, including fluctuations based on the timing and availability of funding for schools under the FCC’s E-Rate program and the decisions of schools to defer purchases in anticipation of the availability of such funding or due to a decision to delay product deployments;
- our ability to forecast and provide guidance to our investors and industry analysts regarding our revenue and operating results in any particular period, or to achieve results consistent with the guidance we provide;
- our ability to control operating expenses in order to achieve non-GAAP operating profitability in any particular quarterly period;
- our ability to hire, train, develop, integrate and retain a sufficient number of skilled sales and engineering employees to support our continued growth, including, specifically, in Silicon Valley, Portland, Oregon and Hangzhou, China, and to replace turn-over of our employees in these functions and locations;

- the complexity, length and associated unpredictability of our sales cycles for our products and services;
- changes in end-customers' budgets for technology purchases and delays in their purchasing decisions and cycles;
- technical challenges in end-customer networks, which may be unrelated to our products, which could delay adoption and installation and impact the operation of our products and purchases of our services;
- delay in development and availability of component parts needed for development and timely introduction of our next-generation products and product features and continued availability of legacy products at volumes we need to meet demand;
- our ability to develop, increase and sustain sales capacity across all our sales territories;
- changes in the competitive dynamics of our target markets, including new entrants, further consolidation and pricing trends which suggest commoditization of certain product segments;
- variation in sales channels, product costs, prices or the mix of products we sell;
- our contract manufacturers' and component suppliers' ability to meet our product demand forecasts on time, at acceptable prices, or at all, particularly with respect to our newer products;
- our ability to develop and make more productive relationships with our channel and strategic partners, including specifically Dell, and such partners' ability to effectively develop sales opportunities for us and distribute our products;
- the timing of our product releases or upgrades by us or by our competitors, such as next-generation products or product features;
- delays in new product introductions and our ability to manage the transition from existing products and operating platforms to new products and platforms and to support and improve such products after introduction, including, specifically, delays in our development of and transition of end customers to our HiveManager NG platform;
- our ability to successfully expand the suite of products we sell and services we offer to existing end-customers and channel partners, to timely introduce new product introductions and to manage the transition both of existing products and operating platforms and our end-customers to these new products and services, including timely transition of our end-customers to HiveManager NG, and to limit disruption to our end-customers' ordering practices and the pricing environment for our legacy products and services while maintaining levels of revenue, gross margin and operating performance which we or our investors and analysts expect;
- the potential need to record additional inventory reserves for products that may become obsolete or slow moving due to our new product introductions, changes in end-customer requirements, new competitive product or service offerings or our over-estimation of demand for such products as of any particular period;
- our decision to continue or increase our investments in sales, marketing, engineering and other activities in response to changes in the marketplace or perceived marketplace opportunities or in anticipation of or to position us for future growth;
- our ability to control costs, including our operating expenses and the costs of the components we purchase while continuing to derive benefits from our investments in sales, marketing, engineering and other activities;
- the continuing strength of the U.S. dollar relative to the currencies of the countries of our VADs or end-customers who purchase our products, or of our contract manufacturers or the component suppliers to our contract manufacturers, which may require us to reduce pricing for our products outside the United States in order to maintain sales and revenue performance, or raise the cost we must pay to our manufacturers for our products, resulting in either case in lower revenue and/or gross margins for those products;
- growth in our headcount, including hiring related to our status as a public company and hiring to support any future growth in our business, especially skilled sales and engineering employees;
- volatility in our stock price, which may lead to higher stock compensation expenses or harm our ability to effectively attract, incentivize and retain our employees using stock-based compensation;
- the ability of our competitors, including those with greater financial resources, to introduce new products, product features and services more quickly and in response to end-customer demand and to drive down pricing on our products and services, which could materially reduce our revenue and gross margins;
- our ability to achieve as of any particular period or over time a level of financial performance consistent with the expectations of our investors and industry analysts; and
- general economic or political conditions in our domestic and international markets.

The effects of these factors, individually or in combination, create unpredictability in our operating results, our ability to forecast those results and our ability to achieve those forecasts. As a result, you should not rely on our past results as an indication of our future performance and comparing our operating results on a period-to-period basis, or anticipating our future results based on our public forecasts, may not be meaningful. This variability and unpredictability could also result in our failing to meet the expectations of our investors or financial analysts for any period. We may release guidance in our quarterly earnings conference calls, quarterly earnings releases, or otherwise, based on management predictions, which are necessarily speculative in nature. Our guidance may vary, and has varied, materially from actual results. For example, on October 13, 2016, we provided preliminary revenue for our third quarter ending September 30, 2016 and a preliminary revenue outlook for our fourth quarter ending December 31, 2016, which we further discussed on our November 2, 2016 earnings call. Our third quarter revenue was below the estimates of financial analysts at that time, as was the revenue outlook we provided at that time for our fourth quarter. On February 14, 2017, we announced our revenue results for our fourth quarter of fiscal 2016, which was below the revenue outlook we had provided for the period in November 2016. Similarly, on February 11, 2015, we provided a guidance range for revenue for our first quarter ending March 31, 2015, which was below the estimates of financial analysts at that time. On April 13, 2015, we provided a revised lower guidance range for our revenue for the quarter. In each of these instances, we believe that lower-than-expected U.S. education business during the quarter were primary drivers of our lower revenue performance and outlook. If our revenue or operating results, or the rate of growth of our revenue or operating results, fall below the expectations of our investors or financial analysts, or below any forecasts or guidance we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur even when we have met our own or other publicly stated revenue or earnings forecasts. Our failure to meet our own or other publicly stated revenue or earnings forecasts, or even when we meet our own forecasts but fall short of analyst or investor expectations, could cause our stock price to decline and expose us to costly lawsuits, including securities class action suits. Such litigation against us could impose substantial costs and divert management's attention and resources.

***Our results are subject to quarterly seasonal variances, which make it difficult to compare or forecast our financial results on a quarter-by-quarter basis.***

Our revenue fluctuates on a seasonal basis, which affects the comparability of our results between periods. For example, our total revenue has historically decreased from our fourth quarter to the first quarter of our next fiscal year due to seasonal buying patterns and budget cycles within both our education vertical and general enterprise end-customers. Demand in the education vertical tends to be weakest in the first and fourth quarters. However, we also historically have seen a sequential increase in end-of-year purchases by enterprise customers in our fourth quarter, which we believe is mainly due to an expectation to complete purchases within their calendar-year budget cycle. These seasonal variations are difficult to predict accurately and at times may be entirely unpredictable. In addition, the typical sequential expansion of our operating performance from the first quarter to the second quarter can create execution, delivery and product support challenges in subsequent quarters. Our ability to sustain that expansion in subsequent quarters, particularly in our less-developed sales territories, introduces additional risk into our business and our ability to accurately provide our own publicly stated revenue and earnings forecasts. In addition, we rely upon forecasts of end-customer demand to build inventory in advance of anticipated sales. We believe our seasonal business pattern has become more difficult to predict, making it more difficult for us to forecast product demand, inventory requirements and our financial results, including on a quarter-to-quarter basis. Moreover, part of our strategy is to increase our sales in non-education verticals, and if the mix of products we sell in any particular period changes the seasonal nature of our revenue may change in an unpredictable way, which could increase the volatility of both our financial results and stock price.

***The market and demand for our products and services may not develop as we expect.***

Our year-over-year revenue grew 12% from 2015 to 2016, 10% from 2014 to 2015, 28% from 2013 to 2014 and 50% from 2012 to 2013. The slowing rate of our revenue growth may continue as the general demand for wireless networking in the industry verticals that we target, or demand for our products in particular, may grow at a slower rate than we anticipate or not at all.

Part of our strategy depends upon expanding sales of our cloud-managed wireless networking, switching and routing products to medium and large enterprise headquarters, branch offices and teleworkers. We intend to continue to direct resources to improve HiveManager NG, our next-generation cloud-services platform, as the basis for data services and data analytics applications. Sales of such products, services and applications to enterprise end-customers typically require long sales cycles and are subject to price sensitivity. Moreover, many potential end-customers in the enterprise market have substantial network expertise and experience, which may require a more-costly and sophisticated marketing and sales strategy. It is unclear whether our end-customers will pay for data analytics or other SaaS services we expect to provide or, instead, require us to provide them as enhancements to our support offerings (at no cost to them or incremental revenue to us).

In January 2017, we announced HiveManager Connect, a simplified version of HiveManager NG included as part of our new Aerohive Connect product line designed for customers with less complex connectivity-oriented requirements. Under the Aerohive Connect program, customers may purchase access points, currently either the entry level AP122 or AP130, with a simplified version of HiveManager, and community/email based customer support, at lower list prices. This program may reduce our revenue, or the rate of our revenue growth, as purchasers take advantage of the lower entry pricing for our products. In addition, it is unclear whether our customers will choose the simplified Connect product offering, even at the lowest list prices offered, as an alternative to our current offering, or whether we will be able to manage the transition amongst our customers and in our market to our Connect offering.

If our competitors offer services or provide technologies or application platforms superior to our current cloud-managed platform, or the new products and services we introduce, alone or as part of a more-integrated offering or at reduced pricing, it would have a material adverse effect on our business, operating results and financial condition. As a result, demand for our products, services and applications may not continue to develop as we anticipate, or at all. In addition, if new customers do not purchase our Connect products, or having purchased our Connect products they do not also purchase subscriptions to our Select offering, or if our existing customers migrate toward Connect products without also continuing to purchase our Select-level services and support offerings, in each case at all or at the levels greater than we assume, our overall revenue, operating performance and margins could decline, perhaps significantly, making more difficult our ability to demonstrate growth and achieve profitability at expected revenue levels and the value of our stock could decline.

***A significant portion of our sales is concentrated in the education vertical, which may cause us to have longer sales cycles, and be subject to program funding uncertainties and constraints.***

A significant portion of our revenue is concentrated in the education vertical. The majority of our sales in education is concentrated in both public and private K-12 institutions. This vertical is characterized by long sales cycles and often requires additional sales efforts. In addition, this vertical typically operates on limited budgets, and depends on annual budget approvals, which add additional uncertainty to the sales cycle. For example, the U.S. federal government is providing supplemental funding to local school districts in conjunction with its E-Rate initiative to assist districts to upgrade their technical infrastructure, including Wi-Fi infrastructure. The announced incremental federal funding is significant and available over a five-year period, which began in the second half of 2015. However, this program continues to be subject to uncertainty regarding its eligibility criteria, the timing and specific amount of federal funding actually available during each annual funding cycle, and federal program guidelines and funding appropriations, each of which can change from year-to-year. Corresponding funding appropriation by respective states and local districts is also uncertain and, even upon such appropriation, local districts must still then submit and have approved applications consistent with the final timing and eligibility requirements of the federal program for that annual funding cycle. We also believe that the prospect of federal funding available each annual cycle continues to cause some K-12 institutions to delay or defer near-term transactions they might otherwise make during the cycle to purchase our products.

Purchases made by schools before April 1, 2015 were not eligible for E-Rate funding and actual E-Rate funding was not released to schools and libraries to fund transactions until after July 1, 2015. In order to be eligible for funding during a particular annual funding cycle the schools and libraries must then receive a Funding Commitment Decision Letter. We believe that based on the availability of this federal funding end-customers in the education vertical typically defer purchases until they secure E-Rate funding and receive a specific funding commitment letter. As a result, beginning in 2015, E-Rate amplified the historical sequential decline in product revenue we previously experienced from the fourth quarter into the first quarter and shifted spending from the first half of the year into the second half of the year, and even into the following year. We believe that in our fiscal 2015, this caused increased seasonal variations in demand for our products and services in the education vertical, making it more difficult to forecast our operating performance and achieve revenue and other operating results based on those forecasts. For example, the sales results for our first fiscal quarter 2015 were below expectations, primarily due to a pause in demand in U.S education business due to such various aspects and timing of the federal E-Rate program. We also saw K-12 spending shift during the 2015 annual funding cycle from the first half of the year into the second half of the year, and into our fiscal 2016 as well.

USAC also experienced significant administrative challenges during 2016 E-Rate cycle, that led them to extend the period for schools to submit Form 471 funding requests, and that led many schools to abandon their Form 470 bid requests or not submit their Form 471 funding requests in the first instance. Further, USAC continues to report significant delays in its ability to process and fund such requests during the 2016 funding cycle, causing the pace of release of approved funds and resulting availability of those funds to schools to be significantly lower than in 2015. For example, the Federal Communications Commission recently publicly acknowledged USAC's continuing management of the E-Rate program by letter dated April 18, 2017, noting serious and persistent flaws in critical E-Rate processes which have caused persistent delays in funding commitments to schools and libraries.

On October 13, 2016, we provided preliminary revenue for our third quarter ending September 30, 2016, and a preliminary revenue outlook for the fourth quarter ending December 31, 2016, which we discussed further on our November 2, 2016 earnings call. Our third quarter revenue and fourth quarter outlook were below the estimates of financial analysts at that time. On February 14, 2017, we announced our revenue results for our fourth quarter fiscal 2016, which were below the revenue outlook we had provided for the period in November 2016. We believe that the significantly slower pace of E-Rate funding approvals we experienced was one of the primary drivers of our weaker-than-expected order volume and lower revenue performance in the third quarter and lowered revenue outlook for our fourth quarter of our fiscal year 2016.

We expect these delays, deferrals and lower levels of E-Rate-funded transactions to continue into 2017. These are specific examples of the many factors which add additional uncertainty to our future revenue from our educational end-customers.

***Our sales cycles often require significant time, effort and investment and are subject to risks beyond our control.***

Our sales efforts can take several quarters, and involve educating our potential customers about the applications and benefits of our products, including the technical capabilities of our products and associated applications and services, and recruiting and developing our channel partners. We may experience slower-than-expected sales productivity in certain territories, especially in those where we experience turn-over. We continue to invest in these territories, but such further investment may take significant time and effort in order to realize growth. As we respond to turn-over, newly hired personnel may also require several quarters to gain experience and develop their territories before achieving capacities we have assumed in our sales forecasts. Sales to the education vertical are an important channel for us, and can involve an extended sales cycle. In addition, sales to our enterprise customers may also involve an extended sales cycle, and often initial purchases are small. Purchases of our products are also frequently subject to our end-customers' budget constraints, multiple approvals, unplanned administrative processing and other risks and delays. Such end-customers, in particular larger enterprise customers, also may hesitate to place orders with us, instead preferring our larger and longer-established competitors. In addition, the evolving nature of the market may lead prospective end-customers to postpone their purchasing decisions pending resolution of wireless networking or other standards, or wait for adoption of technology developed by others. We pay our sales staff commissions upon receiving orders; however, we typically recognize revenue on products only after the products are shipped to end-customers, or not until certain other terms of sales are satisfied. As a result, some of the cost of obtaining sales, including manufacturing costs and expenses, may occur in a fiscal period prior to the fiscal period in which we may recognize revenue from the sale, which may cause additional fluctuations in our operating results and cash flows and balances from quarter to quarter.

***We need to develop new products and continue to make enhancements to our existing products to remain competitive in a rapidly changing market.***

The technology and end-customer demands in the wireless networking market change rapidly, which requires us to continuously develop and release new products and product features and associated applications and services. We must continuously anticipate and adapt to our end-customers' needs and market trends, and continue to make investments to develop or acquire new products, applications and services that meet market demands, technology trends and regulatory requirements. If our competitors introduce new products, applications and services that compete with ours, we may be required to reposition our product offerings or introduce new products in response to such competitive pressure. We may also offer products and services, and/or combinations thereof at lower price points in order to broaden our penetration in the enterprise market.

Developing our products is challenging and involves substantial commitment of resources and significant development risk. Each phase in our product development presents serious risks of failure, rework or delay, any one of which could impact the timing and cost-effective development of products, and each of which could affect our ability to take advantage of a business opportunity or could jeopardize end-customer acceptance of the product. Compared to our larger and longer-established competitors, our ability to develop and timely deliver new products and product functionality is limited. We also have experienced in the past and may in the future experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new products and enhancements. For example, we are currently developing and bringing to market the next-generation versions of our Wi-Fi products, including our .11ac "Wave 2" products, Ethernet switches and our HiveManager NG cloud-services platform providing cloud-delivered network management applications and on-premises network management, as well as supporting data structures, analytics and APIs. For example, in our third quarter of 2016, we introduced our AP550 access point, which features specifically designed for high-density and high performance requirements of enterprise environments. We also recently announced programs to develop new data analytics services and API platforms. These are complex technical undertakings and subject to many variables and risks of delay. For example, we announced in August 2015 that our Wave 2 .11ac products, which we had expected to be commercially available in the second half of 2015, would be delayed until the first quarter of 2016. This was due to limited availability in component

parts that affected availability of our AP250 access point and the ability of our manufacturing partner and component suppliers to timely deliver sufficient quantities of this product consistent with our demand and sales forecasts. Similarly, our timeline to transition new and existing end customers to HiveManager NG and make our cloud-services platform and applications available to customers in either a subscription public cloud or on-premises private cloud deployment has been delayed and we are now targeting completion for late-2017. This development timeline has also delayed our ability to demonstrate full feature and functional compatibility of this platform across certain other products, including specifically our new switch products. This affected revenue from our switch products which we expected in the second half of our 2016 fiscal year.

If we fail to develop new products, product enhancements applications or services, or fail effectively to manage the transition of our end-customers to these new products, product enhancements, applications or services, or our end-customers or potential end-customers do not perceive our products, product enhancements, applications or services to have compelling technical or cost-based advantages, our business and prospects could be adversely affected, particularly if our competitors are able to introduce solutions at lower prices and/or with increased functionality. In addition, our introduction of new or enhanced products requires that we carefully manage the transition from older products to minimize disruption in customer ordering practices, and ensure that new products can be timely delivered to meet our end-customers' demand and to limit inventory obsolescence. For example, in January 2017, we announced HiveManager Connect, a simplified version of HiveManager NG included as part of our new Aerohive Connect product line designed for customers with less complex connectivity-oriented requirements. Under the Aerohive Connect program, customers may purchase access points, currently either the entry level AP122 or AP130, with a simplified version of HiveManager, and community/email based customer support, at lower list prices. This program may reduce our revenue, or the rate of our revenue growth, as purchasers take advantage of the lower entry pricing for our products. In addition, it is unclear whether new customers will purchase our Connect products, or having purchased our Connect products will also purchase subscriptions to our Select offering, or whether our existing customers will continue to purchase our Select-level services and support offerings, in each case at all or at the levels we assume. If our customers, both new and existing, choose the simplified and lower-priced Connect product offering, as an alternative to our current Select offering, we could see a shift in the mix of these product offerings, thus reducing overall revenue, gross margins and ability to achieve profitability. Further, after delivering new products we may identify and must then timely address performance issues as the products are used in the field in a particular environment or at scale which we could not replicate or did not anticipate during development. For example, we believe that we introduced our new HiveManager NG product to some of our larger and more complex customers before its feature set was able fully to address their requirements, which resulted in elongated sales cycles and reduced revenue opportunities, which specifically contributed to our lower revenue performance in the fourth quarter and our outlook for the first quarter of our fiscal year 2017. We believe that the lengthier sales cycle associated with our HiveManager NG offering, and its impact on our revenue opportunities and operating results will continue into 2017. Our end-customers may also defer decisions to purchase our existing products in anticipation of our expected release of a next-generation product. We also may not correctly anticipate customer interest in or demand for our data analytics services or API platforms, or our customers may expect that we provide these additional services as part of our existing product support (and at no cost to them or incremental revenue to us). If we do not carefully manage the timing of our new products or product feature releases, and effectively support the new products and product feature releases, we could interfere with our end-customers' purchases and disrupt the pricing environment for our new and legacy products, which could drive down our revenues and operating margins.

As a result of these and other risks, we may not be successful in modifying our current products or introducing new products in a timely or appropriately responsive manner, or at all. If we fail to address these changes successfully, our business and operating results and prospects would be materially harmed.

***Our gross margin will vary over time and may decline in the future.***

Our gross margin was 67.2% and 66.8% for the three months ended March 31, 2017 and 2016, respectively. Our gross margin will vary over time, may be difficult to predict and may decline in future periods. Our gross margin also varies across our product lines and, therefore, a change in the mix of products our end-customers purchase in any period would likely have a significant impact on our overall gross margin in the period. We may face additional competition for these products, either by introduction of new products by new or existing competitors, or by our end-customers using lower-priced products, including our own, which are becoming increasingly more sophisticated.

The exchange rate of the U.S. dollar relative to foreign currencies also continues to be strong, which may require us to reduce pricing for our products outside the United States in order to maintain sales and revenue performance, or incur higher manufacturing costs, each of which would lower gross margins for those products.

The market for wireless networking products is also characterized by rapid innovation and declining average sales prices as products mature in the market place. Even if we are successful in launching new products, competition may continue to increase in the market segments in which we compete, which would likely result in increased pricing competition. To retain

our average gross margin, we are required to continuously update our products and introduce new products and reduce our manufacturing costs and expenses, and we could fail to accomplish this. In addition, the sales prices for our products and services may decline for a variety of reasons, including sales strategy, competitive pricing pressures, customer demand, discounts, a change in the mix of products and services we sell, including seasonal changes in our end-customers' ordering practices, anticipation of the introduction of new products or services and decisions by end-customers to defer purchases, or promotional programs. For example, in January 2017, we announced HiveManager Connect, a simplified version of HiveManager NG included as part of our new Aerohive Connect product line. Under the Aerohive Connect program, customers may purchase access points at lower list prices. Larger competitors, such as Cisco/Meraki, Hewlett-Packard/Aruba, Brocade/Ruckus and Ubiquiti Networks, each with significantly greater financial, sales, engineering resources and/or more diverse product and service offerings, may reduce the price of their products or services that compete with ours or may bundle them with other products and services. If we do not similarly reduce our product manufacturing costs, or if we reduce our prices for such products or services in order to remain competitive, our gross margin and revenue will decline. Any such declines in our gross margins or revenue could have an adverse impact on the value of our common stock.

***As a result of being a public company, we need to further develop and maintain our internal control over financial reporting. If our internal control over financial reporting is not effective, it may adversely affect investor confidence in our company.***

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting, which would include a disclosure of any material weaknesses identified by our management in our internal control over financial reporting.

We continue to develop our system and documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to complete on an annual and ongoing basis our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. Further, our independent registered public accounting firm is not required to report on the effectiveness of our internal control over financial reporting until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an "emerging growth company," as defined by the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating.

We cannot be certain that we will not discover, or that we will timely discover, material weaknesses or control deficiencies in the future. If our remediation efforts are not successful or other material weaknesses or control deficiencies occur in the future, we may be unable to report our financial results accurately or on a timely basis, which could cause our reported financial results to be materially misstated and result in the loss of investor confidence or delisting and cause the trading price of our common stock to decline. If we are unable to conclude that our internal control over financial reporting is effective or, if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls when it is required to do so by the applicable rules, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline, and we may be subject to investigation or sanctions by the SEC. We would also be in violation of certain covenants under our debt facilities, which could accelerate payment obligations and/or increase our borrowing costs significantly.

***Our products utilize cloud-managed solutions, and our future growth relies in significant part in continued demand for cloud-managed solutions and our ability to develop and deliver such services.***

Most of our end-customers utilize our cloud-managed networking platform to access our applications through the Internet, rather than access our application through a physical device or virtual machine that our end-customers host on their premises. As our business grows, we must increase the capacity of our cloud-managed solutions and continue to develop new and innovative solutions that meet the needs of our end-customers. Demand for our cloud-managed solutions could decline if we are not able to offer sufficient capacity or if confidence in the security of cloud-managed solutions in general, or our platform in particular, were to decline. In addition, a significant feature of our platform will increasingly be the ability to collect and analyze user data through applications specific to particular industry vertical and use cases. Regulatory changes relating to the use of end-customer data, including requirements relating to data privacy and security, or shifting societal norms regarding data privacy and security, could affect market demand for, and our ability to deploy, our platform. Moreover, although our end-customers do not immediately lose network functionality if cloud-connectivity fails, if our ability to deliver services through the cloud were interrupted repeatedly or for an extended period, our reputation could be damaged and confidence in our platform would likely decline, causing our revenue to decline.



***We plan to target new industry verticals and geographies to diversify our end-customer base and expand our channel relationships, which could result in higher research and development and sales and marketing expenses, and which may not be successful and could reduce our operating margin.***

Part of our strategy is to target new industry verticals and geographies. Currently, we focus a significant portion of our business on the education and retail verticals, and to a lesser extent finance and healthcare, which may depend on developing new products targeted to such sectors. Specifically, we intend to invest in the development of data applications and analytics capabilities which we feel may be attractive to our end-customers, particularly in the retail vertical. In addition, we also plan to continue to expand to additional countries beyond those in which we currently operate. We also intend to invest in existing and new channel relationships to reach additional end-customers to further diversify our revenue base. Targeting new industry verticals and geographies and developing customized products, data applications and partnerships, including channel partners targeting these industry verticals and geographies, may be expensive, require us to attract, train, develop, integrate and retain qualified employees and key sales personnel, and increase our research and development costs, as well as our sales and marketing expenditures. We may need to develop new product features or target new market segments, which could divert resources and attention from our existing products and target markets. We must also further develop and make more productive relationships with our channel partners and our channel partners' ability to effectively market, distribute and support our products, which require specific investments and additional dedicated resources. Because we have limited experience in developing and managing such channels and markets, we may not be successful in further penetrating certain geographic regions or reaching a broader customer base. Failure to develop or manage additional sales channels effectively would limit our ability to succeed in these markets and could adversely affect our ability to grow our business.

We announced in April 2015 a new relationship with Dell Inc., whereby Dell became a reseller of Aerohive's Wi-Fi and cloud services. In February 2016, we announced a partnership with SYNEX Corporation, as a value-added distributor of our products in the United States and Canada. To support these and other relationships, we will need to continue to identify and invest in additional and dedicated resources and, potentially, new product, service and support offerings, which could distract management's attention and divert existing resources from our current business. We do not know if we will be successful in any of these efforts, or whether the level of success we achieve will justify the additional spending and specific investments and dedicated resources required. It will also take time for us to fully realize the benefits from our continued relationship with Dell. If our channel partners fail to effectively market, distribute and support our products, or if our channel strategy, or particular channel partner initiatives or investments, such as with Dell or others we may identify, are otherwise unsuccessful, our revenue performance and operating margin would be harmed, which could adversely affect the value of our common stock.

***We base our inventory purchasing decisions on our forecasts of customers' demand, and if these forecasts are inaccurate our revenue, gross margin and liquidity could be harmed.***

We place orders with our manufacturers based on our forecasts of our end-customer demand. We base our forecasts on multiple assumptions, including internal and channel partner sales forecasts, each of which may cause our estimates to be inaccurate, affecting our ability to fulfill demand for our products. When demand for our products increases significantly, we may not be able to meet demand on a timely basis, or we may incur additional expediting costs to assure we meet demand. If we underestimate demand, we may forego revenue opportunities, lose market share and damage our reputation and our relationship with our channel partners and our end-customer relationships. Conversely, if we overestimate demand, we may purchase more inventory than we are able to sell at any given time, or at all, which would increase our reserves and risk of potential write-offs.

***Our value-added distributors' stock inventory of our products, and are entitled in certain circumstances to limited stock rotation rights, which could cause us to accept the return of products and expose us to the risks of higher costs.***

We grant our value-added distributors, or VADs, limited stock rotation rights, which could require us to accept stock back from a VAD's inventory under certain circumstances. Under certain agreements, a VAD may have or retain a right to return a portion of products which the VAD, purchased typically within the prior six months. We typically recognize revenue upon shipment to the end-customer; however, if we are required to accept returns of obsolete or slower-moving inventory, our costs would increase and our operating results could be harmed. If our forecasts were inaccurate we could have higher costs, lower revenue or otherwise suffer adverse financial consequences, including holding obsolete or slower moving inventory.

***We outsource the manufacturing of our products to third parties, and we therefore do not have the ability to completely control quality over the manufacturing process. In addition, if our contract manufacturers refuse or are unable to manufacture our products, we may be unable to qualify new manufacturers in a timely manner, which would result in our being unable to sell our products.***

We outsource the manufacturing of our products to third-party original design manufacturers located in China and Taiwan. Finished products are then shipped to warehousing and delivery logistics centers in California and the Netherlands, where we perform quality inspection, conduct reliability testing and manage our inventory. We operate these logistics centers currently for all end-customer shipments, whether destined to locations in North, South and Central America, or the Americas, Europe, the Middle East and Africa, or EMEA, or Asia Pacific and Japan, or APAC.

Our reliance on these third-party manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, product supply and timing. Any manufacturing or shipping disruption by these third parties could severely impair our ability to fulfill orders. If we are unable to manage effectively our relationships with these third parties, or if these third parties suffer delays suffer manufacturing disruptions for any reason, experience increased manufacturing lead-times, capacity constraints or quality control problems in their manufacturing operations, or fail to meet our future requirements for timely delivery and quality purposes, our ability to ship products to our end-customers would be severely impaired and our reputation and our relationship with our channel partners and end-customers would be seriously harmed. Additionally, labor unrest or disruption to trade or the expected movement of our product could delay delivery of our products by third parties, or by us to our channel partners and end-customers, which could significantly delay revenue or increase our costs and in ways we cannot currently anticipate. Any natural disaster, political instability, disruption in labor or foreign relationships could also disrupt our relationships with our manufacturers or delay their ability to timely deliver our products.

Our original design manufacturers typically fulfill our supply requirements on the basis of individual orders. We also do not have long-term contracts with our third-party manufacturers that guarantee capacity, the continuation of particular pricing terms or the extension of credit limits. Accordingly, our third-party manufacturers are not obligated to continue to fulfill our supply requirements, which could result on short notice to us of supply shortages and increases in the prices we are charged for manufacturing services. In addition, as a result of global financial market conditions, natural disasters, labor disruption or other causes, it is possible that any of our manufacturers could experience interruptions in production, cease operations or alter our current arrangements. If our manufacturers are unable or unwilling to continue manufacturing our products in required volumes, or on current or acceptable terms, we will be required to identify one or more acceptable alternative manufacturers.

It is time-consuming and costly, and could be impractical, for us to begin to use new manufacturers, and changes in our third-party manufacturers may cause significant interruptions in supply if the new manufacturers have difficulty manufacturing products to our specification. As a result, our ability to meet our scheduled product deliveries to our end-customers could be adversely affected, which could cause the loss of sales to existing or potential end-customers, delayed revenue or an increase in our costs. We also do not currently require all our manufacturers to maintain and demonstrate robust disaster recovery capabilities. Any production interruptions for any reason, such as due to a contractual disagreement, natural disaster, epidemic, capacity shortages or quality problems, at one of our manufacturers would negatively affect sales of our product lines manufactured by that manufacturer and adversely affect our business and operating results.

***Our manufacturing partners purchase component parts for our products based on estimates we provide, which may not be accurate. In addition, our manufacturing partners purchase some of the components and technologies used in our products from a single source or a limited number of sources. If our estimates were to be inaccurate, or if our manufacturing partners were to lose any of these sources as suppliers, we might incur additional transition costs, resulting in delays in the manufacturing and delivery of our products, excess or obsolete inventory, or the need to redesign our products.***

We rely on our manufacturing partners to select and source the component parts within our products. We do not choose or contract directly with the component parts providers and do not have manufacturing contracts that guarantee us any fixed access to such component parts, or at specific pricing. This absence of any relationship between us and the component suppliers or direct and long-term component supply contracts may increase the risk of issues relating to the quality, performance or operability of such component parts and our exposure to shortages of component availability and to price fluctuations related to the raw material inputs for such components, foreign exchange adjustments and other factors.

Moreover, we currently depend on a single source or limited number of sources for several components for our products. For example, each of our products typically incorporates third-party components that have no more than two suppliers. In some instances, we may have a sole source for critical components, such as semiconductor chip sets or other components critical to product functionality. We have also recently seen consolidation amongst component manufacturers, in particular of semiconductor chip sets, and rises in component prices and more restrictive component availability as a result. If

our manufacturing partners were unable to obtain such components for any reason, or on a limited basis or at increased prices, they would be unable to manufacture such product at all, or in the quantities we need or at pricing we expect. We have also entered into license agreements with some of our suppliers for technologies used in our products, and the termination of these agreements, which can generally be done on relatively short notice, could have a material adverse effect on our access to these technologies and, thus, on our business. Termination of these agreements could also make technology used in or developed for our products available to our competitors. If any of those manufacturing agreements was terminated, we could experience significant supply disruptions and be required to redesign some of our products in order to incorporate technology from alternative sources, and any such termination of the agreement, disruption in supply and redesign of certain of our products could materially and adversely affect our business and operating results.

We do not have currently identified and qualified other sources for certain of our components. If we lose any of these suppliers or licenses we could be required to transition to a new supplier or licensor, which could increase our costs, result in delays in the manufacturing and delivery and increase in the cost of our products or cause us to carry excess or obsolete inventory. Poor quality and delays in availability of any of the components in our products, including especially those with limited or sole sourcing, could also result in lost sales or lost sales opportunities. If the quality of the components does not meet our or our end-customers' requirements, if we are unable to obtain components from our existing suppliers on commercially reasonable terms, or if any of our limited or solely sourced component suppliers ceases to remain in business or to continue to manufacture such components, we could be required to redesign our products in order to incorporate components or technologies from alternative sources. The resulting stoppage or delay in selling our products and the expense of securing and qualifying alternative sources or redesigning our products could result in significant manufacturing and development costs, delayed or lost sales opportunities and damage to customer relationships, which would adversely affect our reputation, business and operating results. For example, in August 2015, we announced that our AP250 and AP245X access points, which were our initial Wave 2 access point products, would not be commercially available until early 2016. This delayed release was due to delays in the products' development and the availability to us of a component part essential to our development and release of the products. Such as with the AP250 and AP245X access points, limited availability in component parts may affect the ability of our manufacturing partner and component suppliers to timely deliver sufficient quantities of this product to meet our demand and sales forecasts. There is a risk that existing or potential customers (including customers in our important education vertical) may elect not to purchase our products or defer purchases they otherwise would make of our products.

***We rely upon third parties for the warehousing and delivery of our products, and we therefore have less control over these functions than we otherwise would.***

We outsource the warehousing and delivery of all of our products to a third-party logistics provider for worldwide fulfillment. As a result of relying on a third party, we have reduced control over shipping and logistics. Any shipping delays, disruptions or mismanagement by these third parties could severely impair our ability to fulfill orders. For example, at the end of our quarter ended March 31, 2015, our third-party logistics provider was not able to ship product and, as a result, we were not able to take revenue in the quarter on all the orders that we had received and processed. We since transitioned to a new logistics provider. If we are unable to have our products shipped in a timely manner, we may suffer reputational harm, and lose revenue.

***We rely significantly on channel partners to sell and support our products, and the failure of this channel to be effective could materially reduce our revenue.***

Our channel partners consist primarily of VADs and VARs. We believe that establishing and maintaining successful relationships with these channel partners is, and will continue to be, important to our financial success. Recruiting and retaining qualified channel partners and training them in our technology and product offerings require significant time, resources and investment. Additionally, we need to recruit and develop different qualified channel partners for different geographic regions and markets. To develop and expand our channel, we must continue to scale and improve our processes and procedures that support our channel partners, including investment in systems and training. Additionally, we will increasingly focus our resources and attention on those channel partners best able to help us meet our growth expectations. As a result, the total number of our channel partners over time may decline.

Existing and future channel partners will only work with us if we are able to provide them with competitive products at prices and on terms that are attractive to them. If we fail to maintain the quality of our products or to update and enhance them, and at reasonable pricing, existing and future channel partners may elect to work instead with one or more of our competitors.

We sell to our channel partners typically under a contract with an initial term of one or three years, with one-year renewal terms, based on compliance with our program requirements. Our contracts generally require payment by the channel partner to us within 30 to 45 calendar days of the date we issue an invoice for such sales. We typically do not have minimum purchase commitments from our channel partners, and our contracts with channel partners do not prohibit them from offering

products or services that compete with ours, including products they currently offer or may develop in the future and incorporate into their own systems. Some of our competitors may have stronger relationships with our channel partners than we do and we have limited control, if any, as to whether those partners use our products, rather than our competitors' products, or whether they devote resources to market and support our competitors' products, rather than our offerings.

For example, we announced in April 2015 a new relationship with Dell Inc., whereby Dell became a reseller of Aerohive's Wi-Fi and cloud services. In February 2016, we announced a partnership with SYNnex Corporation as a value-added distributor of our products in the United States and Canada. To support these and other relationships, we are continuing to identify and invest in additional and dedicated resources and, potentially, new product, service and support offerings. It will take time for us to fully realize the benefits from these investments, including, specifically from our continued relationship with Dell. If we fail to maintain relationships with our channel partners, fail to develop new relationships with other channel partners, including in new markets, fail to manage, train or incentivize existing channel partners effectively, fail to provide channel partners with competitive products on attractive terms, or if these channel partners are not successful in their sales efforts, our revenue may decrease and our operating results could suffer.

***Our products are subject to U.S. export controls; where we fail to comply with these laws, we could suffer monetary or other penalties.***

Our products are subject to U.S. export controls, specifically the Export Administration Regulations, and economic sanctions enforced by the Office of Foreign Assets Control. We incorporate standard encryption algorithms into our products, which, along with the underlying technology, we may export outside of the United States only with the required export authorizations, including by license, license exception or other appropriate government authorizations. Each of these authorizations may require us to file an encryption registration and classification request. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to countries, governments and persons targeted by U.S. sanctions. We take precautions to prevent our products and services from being exported in violation of these laws, and in many instances, we rely on our channel partners, in particular our VAD, VAR and MSP partners, to assure compliance when selling, distributing and/or using our products outside the United States. In certain instances, we have shipped encryption products prior to obtaining the required export authorizations and/or submitting the required requests, including a classification request and request for an encryption registration number. As a result, we previously filed a Voluntary Self Disclosure with the U.S. Department of Commerce's Bureau of Industry and Security concerning these violations. A repeat of these past instances could result in monetary or other penalties assessed against us. Additionally, even though we take precautions to ensure that our channel partners comply with all relevant regulations, any failure by our channel partners to comply with such regulations could have negative consequences for us, including reputational harm, government investigations and penalties and interruptions in our ability to distribute and sell our products.

Furthermore, various countries regulate the import of certain encryption technology and operation of our products, including through import permitting, certification and licensing requirements, and have enacted laws that could limit our ability to distribute our products or our end-customers' ability to operate our products in those countries, or could impose additional expense on us to meet these requirements as a condition to distribute our products. Encryption products and the underlying technology may also be subject to export control restrictions. Governmental regulation of encryption technology and regulation of imports or exports of encryption products, or our failure to obtain required import or export approval for our products, when applicable, could harm our international sales and adversely affect our revenue. Compliance with applicable regulatory laws and regulations regarding the export or import of our products, including with respect to new releases of our products, may create delays in the introduction of our products in international markets, prevent our end-customers with international operations from deploying our products throughout their globally distributed systems or, in some cases, prevent the export or import of our products to some countries altogether.

In addition, because our sales are made through channel partners, if these channel partners fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected, including potentially being liable for penalties under government restrictions and regulations, even where the channel partner failed to obtain the appropriate licenses or authorizations. Obtaining the necessary authorizations, including any required license, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. Changes in our products or changes in applicable export or import laws and regulations may also create delays in the introduction and sale of our products in international markets, prevent our end-customers with international operations from deploying our products or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. Any change in export or import laws and regulations, shift in the enforcement or scope of existing laws and regulations, or change in the countries, governments, persons or technologies targeted by such laws and regulations, could also result in decreased use of our products, or in our decreased ability to export or sell our products to existing or potential end-customers with international operations.

Any decreased use of our products or limitation on our ability to export or sell our products could adversely affect our business, financial condition and results of our operations.

U.S. export control laws and economic sanctions programs also prohibit the shipment of certain products and services to countries, governments and persons that are subject to U.S. economic embargoes and trade sanctions. If we or our channel partners ship products to those targets or third parties provide our products to these targets, we could be subject to government investigations, penalties and reputational harm. Furthermore, any new embargo or sanctions program, or any change in the countries, governments, persons or activities targeted by such existing programs, could result in decreased use of our products, or in our decreased ability to export or sell our products to existing or potential end-customers, which could adversely affect our business and our financial condition.

***Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our products.***

As a public company, we are subject to the requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, to diligence, disclose and annually report whether our products contain conflict minerals. The implementation of these requirements could adversely affect the sourcing, availability and pricing of the materials used in the manufacture of components used in our products. We have incurred and will continue to incur additional costs to comply with the disclosure requirements, including costs related to conducting diligence procedures to determine the sources of conflict minerals that may be used in or necessary to the production of our products and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities and we expect to incur additional costs in the future to comply with these disclosure requirements. We do not choose or contract directly with the component parts providers and do not have contracts with these component parts suppliers. We rely, instead, on our manufacturing partners to select, source, diligence and report to us the component parts within our products. This absence of any relationship between us and the component suppliers makes significantly more difficult our ability to determine and report whether our products contain conflict minerals. Consequently, we may face reputational harm if our channel partners incorrectly determine or report whether certain of our products contain minerals not determined to be conflict-free or if we are unable to alter our products, processes or sources of supply to avoid use of such materials.

***Our products incorporate complex technology and may contain defects or errors. We may become subject to warranty claims, product returns, product liability and product recalls as a result, any of which could cause harm to our reputation, impose costs and increase expenses, expose us to liability and adversely affect our business.***

Our products incorporate complex technology and must support a wide variety of devices and new and complex applications in a variety of environments that use different wireless networking communication industry standards. Our products have contained, and may contain in the future, undetected defects or errors or may not perform as we expect in certain environments. We may discover some errors in our products only after a product has been installed and used by end-customers. These issues are most prevalent when we introduce new products into the market or, once introduced, when the products experience significant loads in actual use environments or at scale which we could not create or did not anticipate during development. We have delayed and may in the future delay the introduction of our new products due to such defects and errors. Since our products contain components that we purchase from third parties, we also expect our products to contain latent defects and errors from time to time related to those third-party components.

Defects and errors may also cause our products to be vulnerable to security attacks. The techniques used by computer hackers to access or sabotage networks are becoming increasingly sophisticated, change frequently and generally are not recognized until after they have been launched against a target. As we increasingly collect, store, analyze, use and transmit data, and provide data analytics solutions to our end-customers, these risks become more significant to us. We may be unable to anticipate these techniques or provide a solution in time to protect our and our end-customers' networks. In addition, we might not be able to timely develop and provide updated products and software to our end-customers, thereby leaving our end-customers vulnerable to attacks. Finally, if our employees, or others who have access to end-customer data, misuse this information, our reputation would be harmed and we could be subject to claims for damages.

Real or perceived defects or errors in our products could result in claims to return product or that we reimburse losses that our end-customers or channel partners sustain and we may be required, or may choose for customer or partner relations or other reasons, to expend additional resources in order to help correct the problem, including incurring additional warranty and repair costs, process management costs and costs associated with remanufacturing our inventory. We typically offer a limited warranty on our Wi-Fi access points and other products. We also provide certain service commitment guarantees for our cloud-managed platform, pursuant to which our end-customers may receive service credits in connection with service outages. Liability limitations in our standard terms and conditions of sale may not be enforceable under some circumstances or may not fully or effectively protect us from claims and related liabilities and costs. In addition, regardless of the party at fault, errors of

these kinds which would divert the attention of our engineering personnel from our product development efforts, damage our reputation and the reputation of our products, cause significant customer relations problems, and can result in product liability claims. We do not maintain insurance which would protect against many of these types of claims associated with the use of our products. Even where claims ultimately are unsuccessful we may have to expend funds in connection with litigation, including on behalf of our end-customers and channel partners, and divert management's time and other resources. We also may incur costs and expenses relating to a recall of one or more of our products. The process of identifying and recalling products that have been widely distributed may be lengthy and require significant resources, and we may incur significant replacement costs, contract damage claims from our end-customers and channel partners and significant harm to our reputation. The occurrence of any of these problems could result in substantial costs to us and the delay or loss of market acceptance of our products and could adversely impact our business, operating results, reputation and financial condition.

***The loss of key personnel or an inability to attract, retain and motivate qualified personnel may impair our ability to expand our business.***

Our success is substantially dependent upon the continued service and performance of our senior management team and other key personnel, including, in particular, David K. Flynn, who is our Chief Executive Officer. Our employees, including our senior management team, are at-will employees, and therefore may terminate employment with us at any time with no advance notice. The loss of members of our senior management team or other key personnel, whether through resignation, illness, disability or death, or the failure to attract replacement personnel, as needed, or the transition of newly hired senior management may significantly delay or prevent the achievement of our business objectives. In addition, if any of our executives or other key employees were to join a competitor or form a competing company, we could lose customers, suppliers, know-how and key personnel and our business and product strategies and capabilities could be at risk and subject to disclosure, including to our competitors.

Our future success also depends on our ability to continue to attract, integrate and retain highly skilled personnel, especially skilled executives and sales and engineering employees. We have experienced in the past higher than normal turn-over, especially amongst our sales and engineering personnel, and continue to replace personnel where we think needed to improve our operations and product development capabilities and processes. We also continue to replace personnel as part of our ongoing performance and expense management initiatives. Turn-over is highly disruptive to our operations and has had and could continue to have an adverse effect on our revenue. In addition, competition for highly skilled personnel is frequently intense, especially in Silicon Valley, where we maintain our headquarters and a substantial operating and sales presence, and Hangzhou, China, where we currently maintain a significant research presence and highly skilled product development and engineering personnel. Volatility or lack of performance in our stock price may also affect our ability to attract and retain our key employees. Many of our employees have become, or will soon become, vested in a substantial amount of stock or number of stock options. Our employees may be more likely to leave us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase or exercise prices, or if the exercise prices of the options that they hold are significantly above the market price of our common stock the options to purchase such shares will have little or no retention value. The lack of performance in our stock price may affect our ability to attract new employees or retain existing employees by decreasing the perceived value of any stock-based compensation we may offer or they may hold. Prolonged periods of low performance or volatility in our stock price could negatively impact our appeal as an employer, harm employee morale or increase employee turnover, including amongst our Silicon Valley and China-based employees. Any failure to successfully attract, integrate or retain qualified personnel to fulfill our current or future needs may negatively impact our growth. Also, to the extent we hire personnel from our competitors, we may be subject to allegations that these hires have been improperly solicited, or that they have divulged to us proprietary or other confidential information of their former employers, or that their former employers own their inventions or other work product. This may expose us to significant liability and litigation risk.

***Our ability to sell our products is highly dependent on the quality of our support offerings, and our failure to offer high quality support would have a material adverse effect on our sales and results of operations.***

Once our products are deployed, our end-customers depend on our support organization and support provided by our channel partners to resolve any issues relating to our products. Our support delivery organization comprises employees in various geographic locations and an outside service provider, which provides more general technical support to our end-customers. A high level of support is important for the successful marketing and sale of our products. If we do not effectively help our end-customers quickly resolve issues or provide effective ongoing support, it would adversely affect our ability to sell our products to existing end-customers as well as demand for continued support and renewal contracts, and could harm our reputation with existing and potential end-customers.

***We are subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection and other matters and violations of these complex and dynamic laws, rules and regulations may result in claims, changes to our business practices, monetary penalties, increased costs of operations, and/or other harms to our business.***

A wide variety of provincial, state, national and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of data, including personal data. Foreign data protection, privacy and other laws and regulations are often more restrictive than those in the United States. These data protection and privacy-related laws and regulations are varied, evolving, can be subject to significant change, may be augmented or replaced by new or additional laws and regulations, and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. The European Union, for example, has adopted various directives regulating data protection, privacy and security and the collection, storage, analysis, use and transmission of content using the Internet involving European Union residents, including those directives known as the Data Protection Directive, the E-Privacy Directive, and the Privacy and Electronic Communications Directive. The European Union may adopt similar directives in the future.

The European Union model has been replicated substantially or in part in various jurisdictions outside the U.S., including in certain Asia-Pacific Economic Cooperation countries. Changes in European Union data protection regulations, including the General Data Protection Regulation, or GDPR, may also introduce new or additional operational requirements for companies that receive personal data, which may differ from those currently in effect in the European Union, which may also include significant additional compliance requirements and increased penalties for non-compliance. For example, the GDPR, which will become fully effective in May 2018, will supersede existing European Union data protection laws, includes more stringent operational requirements for companies processing European Union personal data, and imposes significant penalties for non-compliance. Further, some countries may require separate and local storage and processing of data that could limit certain of our product applications and solutions and increase the cost and complexity of selling our solutions or maintaining our business operations in those jurisdictions. California has also introduced broad rules, which may or may not anticipate and be consistent with rules expected to be adopted by our federal government. The introduction of new data platforms, applications and solutions or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. For instance, participation in the federal E-Rate funding program may subject us to additional privacy and data use restrictions under U.S. federal, state, and local laws and regulations relating to the processing of data relating to students or children.

The application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and these laws and regulations may be interpreted and applied inconsistently from within a country or country to country, and inconsistently with our current policies and practices, and may be contradictory with each other. Additionally, various federal, state, and foreign regulatory or other governmental bodies may issue rulings that invalidate prior laws, regulations, or legal frameworks in manners that may adversely impact our business. For example, the European Court of Justice in October 2015 issued a ruling invalidating the U.S.-E.U. Safe Harbor Framework, which facilitated personal data transfers to the U.S. in compliance with applicable European Union data protection laws. The U.S. and E.U. have implemented a replacement for the U.S.-E.U. Safe-Harbor Framework (known as the U.S.-E.U. Privacy Shield), but some regulatory uncertainty remains regarding the future of data transfers from the European Union to the U.S. In addition to government regulation, privacy advocacy and industry groups have adopted and are considering the adoption of various self-regulatory standards and codes of conduct that, if applied to our, our partners or our end-customers' businesses, may place additional burdens on us and our partners and end-customers, which may further reduce demand for our products, data platforms, applications and solutions and harm our business.

While we work to comply with all applicable privacy and data protection laws, regulations, standards, and codes of conduct, as well as our own privacy policies and contractual commitments to the extent possible, our failure to comply could result in enforcement actions against us, including fines, imprisonment of company officials and public censure, claims for damages by end-customers and other affected individuals, demands that we modify or cease existing practices, damage to our reputation and loss of goodwill (both in relation to existing and prospective end-customers), any of which could have a material adverse effect on our operations, financial performance and business. Privacy and data protection regulators within the United States, the European Union and other jurisdictions have the power to fine non-compliant organizations significant amounts and seek injunctive relief, including the cessation of certain data processing activities. The GDPR provides for European Union regulators to be able to impose fines in some cases of the greater of €20 million or 4% of a company's worldwide annual sales. Such fines are in addition to the rights of individuals to sue for damages in respect of any data privacy breach which has caused them to suffer loss. Such actions against our partners, including third-party providers of data analytics services, could also affect our operating performance, including demand for our products and cloud-managed solutions and, if these or other third-party vendors violate applicable laws or our policies, such violations may also put our end-customers' information at risk and could in turn have a material and adverse effect on our business. Additionally, there is a risk that failures in systems designed to protect private, personal or proprietary data held by us will allow such data to be disclosed to or seen by others, resulting in

potential regulatory investigations, enforcement actions or penalties, remediation obligations and/or private litigation by parties whose data were improperly disclosed. There is also a risk that we could be found to have failed to comply with U.S. or foreign laws or regulations regarding the collection, storage, handling, analysis, use, transfer, or disposal of such privacy, personal or proprietary data, or consent to the same, which could subject us to fines or other sanctions, as well as adverse reputational impact.

Evolving and changing privacy and data protection laws, regulations and societal norms, including evolving and changing definitions of personal data and personal information, within the United States, European Union, and elsewhere, especially relating to classification of IP addresses, MAC addresses, machine identification, location and tracking, data analytics and other information, may limit or inhibit our ability to operate or expand our business, including limiting our product and data application development and our strategic partnerships that may involve the collection, storage, handling, analysis, use, transfer or disposal of end-user data, thus reducing our and our stockholders' opportunity to benefit from the significant investments we are making in these areas. Even the perception of privacy concerns, failures to secure data, or inadequate data protection, whether valid and whether owing to any action or inaction on our part, may harm our reputation and inhibit adoption of our products, applications and services by current and future end-customers.

***Our international operations expose us to additional business risks and failure to manage these risks may adversely affect our international revenue.***

We derive a significant portion of our revenue from end-customers and channel partners outside the United States. For the three months ended March 31, 2017 and 2016, we attributed 39% and 43%, respectively, of our revenue to our international end-customers and channel partners. As of March 31, 2017, approximately 42% of our full-time employees were located outside of North America, with 23% located in China. We expect that our international activities will be dynamic over the foreseeable future as we continue to pursue opportunities in international markets, which will continue to require significant management attention and our financial investment.

Given the extent of our international operations, we are subject to other inherent risks and our future results could be adversely affected by a number of factors, including:

- tariffs and trade barriers, export regulations and other regulatory or contractual limitations, such as import, technical and other certification requirements, on our ability to sell or develop our products in certain foreign markets;
- regulatory requirements or preferences for domestic products, which could reduce demand for our products;
- differing technical standards, existing or future regulatory and certification requirements and required product features and functionality;
- management communication and integration problems related to entering new markets with different languages, cultures, commercial practices and political systems;
- difficulties in enforcing contracts and collecting accounts receivable, and longer payment cycles, especially in emerging markets;
- heightened risks of unfair competition or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, and irregularities in, our financial statements;
- difficulties and costs of staffing and managing foreign operations, and retaining key personnel;
- differing labor standards;
- the uncertainty of protection for our intellectual property rights and the enforceability of our rights and third-party rights in some countries;
- potentially adverse tax consequences, including regulatory requirements regarding our ability to repatriate profits to the United States;
- uncertainties and instability in economic and market conditions following the decision of the United Kingdom to withdraw from the European Union;
- added legal compliance obligations and complexity, including complying with varying local labor, compensation and tax and securities laws as well as specific and evolving local requirements regarding data protection;
- foreign currency exchange risk;
- the increased cost of terminating employees in some countries; and
- political and economic instability and terrorism.



To the extent we continue to expand our business globally, our success will depend, in large part, on our ability to effectively anticipate and manage these and other risks and expenses associated with our international operations. Political instability and uncertainty in the European Union and, in particular, Britain's recent decision to exit the European Union has slowed economic growth and created significant economic disruption and uncertainty in the region, which could continue to discourage near-term economic activity, including delay decisions to purchase Aerohive products. This could have a significant and extended impact of our expected revenue from our European operations, in particular continuing into 2017, as the terms and circumstances of Britain's exit and its impact on other countries of the European Union are resolved. Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales, and business generally, adversely affecting our business, operating results and financial condition.

***Our operations in certain emerging markets expose us to political, economic and regulatory risks.***

Our growth strategy depends in part on our ability to expand our operations in emerging markets, including Asia Pacific, the Middle East and Africa, and Latin America. However, some emerging markets have greater political, economic and currency volatility, and greater vulnerability to infrastructure and labor disruptions than more-established markets. In many countries outside of the United States, particularly those with emerging economies, it may be common for others to engage in business practices prohibited by laws and regulations with extraterritorial reach, such as the U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act, or other local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials, including in connection with obtaining permits or engaging in other actions necessary to do business. Failure to comply with these laws could subject us to civil and criminal penalties that could materially and adversely affect our reputation, financial condition and results of operations.

For example, under the FCPA, U.S. companies may be held liable for the corrupt actions taken by employees, strategic or local partners, or other representatives. Under the FCPA, we and our channel partners are required to maintain accurate books and records and a system of internal accounting controls. As such, if we or our intermediaries fail to comply with the requirements of the FCPA or similar legislation outside the United States, governmental authorities in the United States and elsewhere could seek to impose civil or criminal fines and penalties, which could have a material adverse effect on our business, operating results and financial conditions. While our employee handbook and other policies prohibit our employees from engaging in corrupt conduct, we do not yet have in place compliance measures and training to require both our employees and our third-party intermediaries to comply with the FCPA and similar anticorruption laws.

Establishing operations and distribution partners in these emerging markets may also require complex legal arrangements and operations to deliver services on global contracts for our end-customers. Because of our limited experience with international operations and developing and managing sales and distribution channels in international markets, our international expansion efforts may not be successful. Additionally, we have established operations in locations remote from our more developed business centers. As a result, we are subject to heightened risks inherent in conducting business internationally, including the following:

- failure to comply with local regulations or restrictions;
- enactment of legislation, regulation or restriction, whether by the United States or in the foreign countries, including unfavorable labor regulations, tax policies or economic sanctions (such as potential economic sanctions arising from political disputes), and currency controls or restrictions on the transfer of funds;
- enforcement of legal rights or recognition of commercial procedures by regulatory or judicial authorities in a manner in which we are not accustomed, would not reasonably expect or with which we could reasonably comply;
- differing technical and environmental standards, data protection and telecommunications regulations and certification requirements, which could prevent the import, sale or use of our products or SaaS offerings in such countries;
- difficulties and costs associated with staffing and managing foreign operations;
- potentially longer payment cycles and greater difficulty collecting accounts receivable;
- the need to adapt and localize our services for specific countries, including conducting business and providing services in local languages;
- reliance on third parties over which we have limited control, such as our VARs, VADs, or their resellers or agents, for marketing and reselling our products and solutions;
- availability of reliable broadband connectivity and wide area networks in areas we target for expansion;
- difficulties in understanding and complying with local laws, regulations, and customs in foreign jurisdictions or unanticipated changes in such laws;

- application of or changes in anti-bribery laws, such as the FCPA and UK Bribery Act, which may disrupt our staffing or ability to manage our foreign operations;
- changes in political and economic conditions leading to changes in the business environment in which we operate, as well as changes in foreign currency exchange rates;
- sanctions restricting local commercial activity, including retaliatory actions by local governments; and
- natural disasters, pandemics or international conflict, including terrorist acts or labor or political disputes, which could interrupt our operations or endanger our personnel.

In addition, our competitors may also expand their operations in these markets or others we may also target, and low-cost local manufacturers may also expand and improve products and their production capacities, thus increasing competition in these emerging markets. Our success in emerging markets is important to our growth strategy. If we cannot successfully increase our business in emerging markets and manage associated political, economic, regulatory and currency volatility, our product sales, financial condition and results of operations could be materially and adversely affected.

***We could be subject to additional income tax liabilities.***

We are subject to income taxes in the United States and numerous foreign jurisdictions. We use significant judgment in evaluating our worldwide provision for income taxes, which could be adversely affected by several factors, many of which are outside our control. During the ordinary course of business, there are many transactions for which the ultimate tax determination is uncertain. For example, our effective tax rates could be adversely affected by earnings being lower than we anticipate in countries that have lower statutory rates and higher than we anticipate in countries that have higher statutory rates, by changes in foreign currency exchange rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations, including possible changes to the U.S. taxation of earnings of our foreign subsidiaries, the deductibility of expenses attributable to foreign income or the foreign tax credit rules. We are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax against us as well as penalties and fines. As we operate in multiple taxing jurisdictions, the application of tax laws can be subject to diverging and sometimes conflicting interpretations by tax authorities of these jurisdictions. The time and expense necessary to defend and resolve a tax audit may be significant. Although we believe our tax estimates are reasonable, the final outcome of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals and may have a material effect on our operating results or cash flows in the period or periods for which we make such determination.

***Our international operations and corporate structure subject us to potential adverse tax consequences.***

We generally conduct our international operations through wholly owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. We may not have adequate reserves to cover such a contingency.

In the future, we may reorganize our corporate structure or intercompany relationships, which would likely require us to incur expenses in the near term for which we may not realize related benefits, at all or within a reasonable period, to justify the expense. Changes in domestic and international tax laws, including proposed legislation to reform U.S. taxation of international business activities, may negatively impact our ability to effectively restructure, or reduce the benefits we expected from such corporate restructuring. Any such restructuring would likely involve sophisticated analysis, including analysis of U.S. and international tax regimes. Compliance with such laws and regulations may be difficult and expensive and subject our business to additional risks, costs and uncertainties.

***Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations; in addition, we may be unable to use a substantial part of our net operating losses if we don't attain profitability in an amount necessary to offset such losses.***

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes, and if we undergo a future ownership change our ability to utilize NOLs could be further limited by Section 382. Future changes in our stock ownership, some of which are outside of our control, could result in a deemed ownership change under Section 382.

Furthermore, we may be unable to use a substantial part of our NOLs due to regulatory changes, such as suspensions of the use of NOLs, or if we do not attain profitability in an amount sufficient to offset such losses. For example, our California state NOL carryforwards of \$55.7 million as of December 31, 2016, began to expire in 2016. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we attain profitability at a later date.

***Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value-added or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our results of operations.***

We do not collect sales and use, value-added or similar taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable. Sales and use, value-added and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties and interest or future requirements could be significant and may adversely affect the results of our operations.

***We must improve our infrastructure to manage our growth, which could involve significant costs and could, if not properly managed, harm our operating results.***

To manage any future growth effectively we must continue to improve and expand our information technology and financial and administrative infrastructure, our operating systems and administrative controls and our ability to manage headcount, capital and processes in an efficient manner. For example, we continue to evaluate upgrades to our existing business processes and systems to better manage licensing, renewals and order processing, and to transition to a global distribution platform. Such new processes and systems may significantly improve our transaction efficiency and ability to scale our revenue and operating performance, including through an ability to track, timely identify and manage increasing volumes of product, license and renewal opportunities and transactions. We may not be able to successfully implement improvements to these systems and processes in a timely or efficient manner, which could result in additional operating inefficiencies and lost business opportunities and associated revenue, and could cause our costs to increase more than planned. If we do increase our operating expenses in anticipation of the growth of our business and this growth does not meet our expectations, at all or sufficiently to justify the expense, our operating results may be negatively impacted. If we are unable to manage future expansion, our ability to develop and deliver high quality products and services and securely process increased transaction volumes could be harmed, which could damage our reputation and brand and impede expected growth, and any of which may have a material adverse effect on our business, operating results and financial condition.

***Our business and operating results could be adversely affected by unfavorable economic and market conditions.***

Our business depends on the overall demand for wireless network technology and on the economic health and general willingness of our current and prospective end-customers to purchase our products. The conditions in the United States and global economies are volatile and if they deteriorate our business, operating results and financial condition may be harmed. In particular, we do not know whether spending on wireless network technology will increase or decrease in the future, or at what rate.

Investments in technology by educational institutions in particular could be related to budgetary constraints unrelated to overall economic conditions, or may be magnified by unfavorable economic conditions. The purchase of our products or willingness to replace existing infrastructure are discretionary and highly dependent on a perception of continued rapid growth in consumer usage of mobile devices and in many cases involve a significant commitment of capital and other resources. In addition, our small and medium enterprise end-customers may also be more sensitive to adverse economic conditions than other potential customers, which could amplify the adverse impact of a deterioration of economic conditions. Therefore, weak economic conditions, uncertain availability of government funding, or a reduction in capital spending would likely adversely impact our business, operating results and financial condition. A reduction in spending on wireless network technology could occur or persist even if economic conditions improve.

In addition, if interest rates rise or U.S. dollar foreign exchange rates weaken for our international end-customers and channel partners, overall demand for our products and services could decline and related capital spending may be reduced. For example, the exchange rate of the U.S. dollar to foreign currencies continues to be strong, which makes the price of our products outside the United States less competitive, reducing our sales or requiring us to lower pricing for our products outside the United States in order to maintain sales and revenue performance (thus also reducing our gross margins). Furthermore, any increase in the U.S. dollar-value of worldwide commodity prices may result in higher component prices for us and increased manufacturing and shipping costs, each of which may negatively impact our financial results.

***U.S. and global political, credit and financial market conditions may negatively impact or impair the value of our current portfolio of cash, cash equivalents and short-term investments, including U.S. treasury securities and U.S.-backed investment vehicles.***

Our cash, cash equivalents and short-term investments were \$74.8 million as of March 31, 2017, which we held as money market funds, U.S. treasury securities, commercial paper and investment-grade corporate debt with Moody's and S&P ratings of A-/A3 or better. As a result of the uncertain domestic and global political, credit and financial market conditions, investments in these types of financial instruments pose risks arising from liquidity and credit concerns. Any deterioration in the U. S. and global credit and financial markets could cause losses or significant deterioration in the value of our cash, cash equivalents or possible investments. If any such losses or significant deteriorations occur, it may negatively impact or impair our current portfolio of cash, cash equivalents and possible investments, which may affect our ability to fund future obligations. Further, unless and until the current U.S. and global political, credit and financial market crisis has been sufficiently resolved, it may be difficult for us to liquidate our investments prior to their maturity without incurring a loss, which would have a material adverse effect on our business, operating results and financial condition.

***System security risks, data security incidents and cyber-attacks could compromise our or our end-customers' information including proprietary information and end-customer information and disrupt our internal operations, which could cause our business and reputation to suffer and adversely affect our stock price.***

In the ordinary course of business, we store sensitive data, as well as our proprietary business information and that of our end-customers, suppliers and business partners. The secure maintenance of this information, and our ability to protect our network from interruption or damage from unauthorized entry, computer viruses or other events beyond our control, is critical to our operations, and business strategy, reputation and, ultimately, our success as a business and value to our investors. While we believe we use certain proven applications designed for data security and integrity, we are in the process of developing an information security program. Despite the implementation of security measures, our infrastructure or systems may be vulnerable to hackers, computer viruses, worms, malware, ransomware or other malicious software programs or similar disruptive problems caused by our customers, employees, consultants or other Internet users who attempt to invade public and private data networks.

Increasingly, companies are subject to a wide variety of attacks on their networks on an ongoing basis. Our information technology and infrastructure may be vulnerable to persistent threats, penetration or attacks by computer programmers and hackers, software bugs or other technical malfunctions, or other disruptions. Due to our business model and the location of some of our development centers, we have faced and are likely to face threats that target both our internal systems and our products and data analytics solutions, which, in turn, may threaten our end-customers' networks, devices, applications and data. In addition, our employees could breach our data security measures and misuse such data or other information, whether through error or misconduct. Any such data security incident, whether external or internal in origin, could compromise our networks, including our cloud-managed platform, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks could be improperly accessed, publicly disclosed, lost or stolen, which could subject us to liability to our end-customers, suppliers, channel and business partners and others, and cause us reputational and financial harm. Additionally, an effective attack on our systems, products or data analytics solutions could disrupt their proper functioning, allow unauthorized access to sensitive, proprietary or confidential information of ours or of our end-customers, disrupt or temporarily interrupt customers' networking traffic, or cause other destructive outcomes, including the theft of information sufficient to engage in fraudulent financial transactions or compromise other sensitive information. Because the techniques used by computer programmers and hackers, many of whom are highly sophisticated and well-funded, to access or sabotage networks change frequently and generally are not recognized until after they are used, we may be unable to anticipate or immediately detect these techniques. This could delay our response or the effectiveness of our response and impede our sales, manufacturing, distribution or other critical functions and ability to limit our exposure to third-party claims and potential liability. If any of these types of data security incidents were to occur or to be believed to have occurred, or if we were unable to timely respond to protect sensitive data or other proprietary or non-public data, our relationships with our business partners and end-customers could be materially damaged, our reputation and brand could be materially harmed, use of our solutions could decrease, and affected partners, end-customers or government authorities could initiate legal or regulatory action against us in connection with such incidents, which could cause us to incur significant expenses and liability or could result in orders, judgments, or consent decrees forcing us to modify our business practices. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of web-based products and data analytics solutions we offer, and as we operate in more countries.

In addition, if an actual or perceived data security incident occurs in our network or in the network of a partner or an end-customer of one of our products and data analytics solutions (particularly our cloud-based offerings), regardless of whether the incident is attributable to our products and data analytics solutions, the market perception of the effectiveness of our products and data analytics solutions could be harmed. We may also be required to expend significant financial and operational

resources in an effort to secure our systems and our and our partners' or customers' data from security threats and hazards. Further, real or perceived defects or errors in our products and data analytics solutions (particularly in our cloud-based offerings, due to cloud-based offerings sometimes being perceived as being inherently less secure) could result in claims by channel partners and end-customers for losses that they sustain, including potentially losses resulting from data security incidents affecting our systems, our end-customers' networks and/or downtime of those networks. If channel partners or end-customers make these types of claims, we may be required, or may choose for customer relations or other reasons, to expend additional resources in order to help correct the problem, including warranty and repair costs, process management costs, and costs associated with re-manufacturing our inventory and to respond to and resolve litigation and regulatory claims. The economic costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malware, ransomware or malicious software systems and security vulnerabilities and claims could be significant and may be difficult to anticipate or measure because the damage may differ based on the identity and motive of the programmer or hacker, which may be difficult for us to identify.

***Undetected software errors or flaws in our cloud platform could harm our reputation or decrease market acceptance of our solution, which would harm our operating results.***

Our platform may contain undetected errors or defects when introduced or as we release new versions. We have experienced these errors or defects in the past in connection with new releases and solution upgrades, and we expect that we or others will find errors or defects from time to time in future releases, even after we release them commercially. Since our end-customers may use our platform for security and compliance reasons, any errors, defects, disruptions in service or other performance problems may damage our end-customers' business and could hurt our reputation. If that occurs, we may incur significant costs, the attention of our key personnel could be diverted, our end-customers may delay or withhold payment to us or elect not to continue to use our products or renew our services, or defer further purchases, or other significant customer relations problems may arise. We may also be subject to government penalties and liability claims for damages related to errors or defects in our platform.

***Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and interruptions by man-made problems, such as network data-security incidents, computer viruses or terrorism.***

Our corporate headquarters are located in Silicon Valley, and substantially all of our contract manufacturers are located in Asia, both regions known for seismic activity. A significant natural disaster, such as an earthquake, a fire or a flood, occurring near our headquarters, or near the facilities of our contract manufacturers, could have a material adverse impact on our business, operating results and financial condition. Despite the implementation of network security measures, our networks also may be vulnerable to computer viruses, break-ins, denial of service attacks, malware, ransomware and other disruptions and data security incidents arising from unauthorized tampering with our systems or our products or our data analytic solutions or from internal or external threats. In addition, natural disasters, acts of terrorism or war could cause disruptions in our or our end-customers' or channel partners' businesses, our suppliers' and manufacturers' operations or the economy as a whole. We also rely on information technology systems to communicate among our workforce and with third parties. Any disruption to our communications, whether caused by a natural disaster or by manmade problems, such as power disruptions, could adversely affect our business. We do not have a formal disaster recovery plan or policy or incident response plan or comprehensive written information or data security plans in place and do not currently require that all our manufacturing partners have such plans or policies in place. To the extent that such incidents or our failure to promptly or effectively respond result in delays or cancellations of orders or impede our suppliers' and/or our manufacturers' ability to timely deliver our products and product components, or the deployment of our products, our business, operating results and financial condition could be adversely affected. We do maintain what we believe are commercially reasonable levels of business interruption insurance. However, we cannot assure that such insurance would be available to us or adequately cover our losses in the event of a significant disruption in our business.

***We may acquire other businesses or form partnerships or joint ventures that could require significant management attention, disrupt our business and dilute stockholder value.***

We may make investments in complementary companies, products or technologies, or form partnerships or joint ventures with third parties. For example, in January 2016, we lent \$1.5 million in cash in the form of a promissory note issued by a privately held company which provides Wi-Fi application and analytics, which note we may convert into preferred shares of the privately held company upon certain circumstances.

We have limited experience identifying, making investments in, purchasing and integrating third-party companies, technologies or other assets that could be complementary to our business or help advance our strategy, in particular, internationally. As a result, our ability as an organization to identify, invest in, acquire and integrate other companies, technologies or other assets in a successful manner is unproven. We may not be able to find suitable investment or acquisition

candidates, and we may not be able to complete such investments or acquisitions on favorable terms, if at all. If we do complete investments or acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any investments or acquisitions we complete could be viewed negatively by our end-customers, investors and financial analysts. In addition, if we are unsuccessful at integrating such acquisitions, or the technologies associated with such investments or acquisitions, the business prospects, operating results and financials of the combined company could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. Cross-border transactions may involve complex regulatory, labor or government compliance requirements which we may not fully anticipate or which could impose ongoing cost and require significant management attention and resources. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition, including accounting charges. We may have to pay cash, assume liabilities, incur debt or issue equity securities to pay for any such investment or acquisition, each of which could adversely affect our financial condition or the value of our common stock. The sale of equity or issuance of debt to finance any such investment or acquisition could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

***Our future capital needs are uncertain, and we may need to raise additional funds in the future. If we require additional funds in the future, those funds may not be available on acceptable terms, or at all.***

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated working capital and capital expenditure needs for at least the next 12 months. We may, however, need to raise substantial additional capital in the future to:

- fund our operations;
- continue our research and development;
- develop and commercialize new products;
- invest in or acquire companies, in-licensed products or intellectual property; or
- expand sales and marketing activities.

Our future funding requirements will depend on many factors, including:

- market acceptance of our products and services;
- the cost of our research and development activities;
- refinancing, extending or replacing existing obligations, including our existing credit facilities and lease obligations as they mature or where earlier repayment may be required;
- the cost of defending and resolving, in litigation or otherwise, claims that we infringe third-party patents or violate other intellectual property rights;
- the cost and timing of establishing additional sales, marketing and distribution capabilities;
- the cost and timing of establishing additional technical support capabilities;
- the effect of competing technological and market developments;
- the market for different types of funding and overall economic conditions; and
- continued investments we may make to fund anticipated future growth.

We may require additional funds in the future, and we may not be able to obtain those funds on acceptable terms, or at all. If we raise additional funds by issuing equity securities, our stockholders may experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Upon any liquidation, our debt lenders and other creditors would be repaid all interest and principal then-outstanding prior to the holders of our common stock receiving any distribution. Any debt or additional equity financing that we raise may contain terms that are not favorable to us or our stockholders.

If we do not have, or are not able to obtain, sufficient funds, we may have to reduce our cash burn rate, delay development or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or to grant licenses on terms that are not favorable to us. If we are unable to generate sufficient cash flows or to raise adequate funds to finance our forecasted expenditures, we may have to liquidate some or all of our assets, or delay, reduce the scope of or eliminate some or all of our development programs. We also may have to reduce sales, marketing, engineering, customer

support or other resources devoted to our products, or cease operations. Any of these actions could impede our ability to achieve our business objectives and harm our operating results.

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

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Dodd-Frank Act, the listing requirements of the New York Stock Exchange, the Financial Industry Regulatory Authority, or FINRA, and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results.

Being a public company has increased our ongoing expenses in general and specifically the cost for us to obtain director and officer liability insurance at levels we deem commercially reasonable, and we have incurred higher costs and accepted higher retentions to obtain such coverage. Being a public company also makes it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on its audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in filings required by us as a public company, our business and financial condition is more visible, which might result in threatened or actual litigation, including by competitors and other third parties. For example, we recently settled a class action law suit asserting that statements we made in conjunction with our initial public offering in March 2014 were false or misleading, or failed to include material information. We incurred significant expenses to defend this action and expended time and resources, including management resources, necessary to resolve it. Such litigation could harm our business and operating results.

***An increasing volume of our business is being delivered through our channel partners and value-added distributors, thus increasing our credit exposure to those partners.***

We will continue to increase our investment in our channel partners and value-added distributors, and expect the level of our revenue to be delivered through those partners and distributors to increase as well. While utilizing our channel partners and distributors to a greater degree as a source of our revenue may reduce the credit risk we would otherwise have through direct sales to individual end-customer transactions, it increases our overall credit risk to these individual partners and distributors. We attempt to monitor periodically the business conditions of our partners and distributors. However, we may not fully understand or be able to anticipate at any time difficult financial or market conditions that could affect or undermine their credit worthiness and ability to meet their obligations to us. This is particularly true for our partners located outside the United States and those who do not provide a level of financial reporting or disclosure consistent with U.S.-reporting companies. In the event one or more of these channel partners and distributors were to experience financial difficulties, slow their payments or default entirely on their obligations to us this could have a material effect on our revenue and overall business.

***Our debt obligations contain restrictions that impact our business and expose us to risks that could adversely affect our liquidity and financial conditions.***

On June 21, 2012, we entered into a revolving credit facility with Silicon Valley Bank, which we refer to, as amended, as our Revolving Credit Facility. As of March 31, 2017, we have \$20.0 million drawn under the Revolving Credit Facility.

Our obligations under the Revolving Credit Facility is secured by substantially all of our property, other than our intellectual property. The Revolving Credit Facility contains customary negative covenants that limit our ability to, among other things, incur additional indebtedness, grant liens, make investments, repurchase stock, pay dividends, transfer assets or engage in merger and acquisition activity, including merge or consolidate with a third party. The Revolving Credit Facility also requires us to maintain a liquidity ratio of not less than 1.25 to 1.00 and to demonstrate minimum cash balances and the absence of defined events of default in order to have access to the available borrowing. Our Revolving Credit Facility also contains customary affirmative covenants, including requirements to, among other things, deliver audited financial statements, and it contains customary events of default, subject to customary cure periods for certain defaults, which include, among other things, non-payment defaults, covenant defaults, material judgment defaults, bankruptcy and insolvency defaults, cross-defaults to certain other material indebtedness, and defaults arising from inaccuracy of representations and warranties. The Revolving Credit Facility also includes a default upon the occurrence of a material adverse change to our business.

If our cash balances or cash flows decline due to any of the factors described in this "Risk Factors" section or otherwise, if we breach covenants under our Revolving Credit Facility or if there occurs a material adverse change in our business, we could be prohibited from further borrowing under the Revolving Credit Facility, our interest rates on the

outstanding borrowings could increase and our obligation to repay principal amounts could be accelerated. Our failure to pay interest and principal amounts when due or comply with covenants could cause a default under the Revolving Credit Facility. Any such default could have a material adverse effect on our liquidity and financial condition. In the event of our liquidation, the lender would be repaid all outstanding principal and interest prior to distribution of assets to other creditors. Our holders of common stock would receive a portion of any liquidation proceeds only if all of our creditors were first repaid in full.

### **Risks Related to Our Industry**

*We compete in highly competitive markets, and competitive pressures from existing and new companies may harm our business, revenue, growth rates and prospects. In addition, many of our current or potential competitors have longer operating histories, greater brand recognition, larger customer bases and significantly greater resources than we do, and we may lack sufficient financial or other resources to maintain or improve our competitive position.*

The markets in which we compete are highly competitive, and we expect competition to increase in the future, whether from established competitors or new market entrants. The markets are influenced by, among others, the following competitive factors:

- brand awareness and reputation;
- price and total cost of ownership;
- discounts and other incentives offered to resellers and channel partners;
- strength and scale of sales and marketing efforts, professional services and customer support;
- product features, reliability and performance;
- incumbency of the current provider, either for wireless or wired networking or other products;
- scalability of products;
- ability to integrate with other technology infrastructures; and
- breadth of product offerings.

Our main competitors include general networking infrastructure vendors, such as Cisco/Meraki, Hewlett-Packard/Aruba Networks and Arris Group/Ruckus Wireless, and others, such as Ubiquiti Networks, whose broad networking portfolios may include enterprise mobility solutions they have developed or acquired or may acquire in the future. In addition, Cisco and Apple announced in August 2015 a collaboration to improve the performance and experience of Apple iOS-based products when used on Cisco networks and operating systems. Such vendors have significant sales and engineering resources and, along with the relationships they have formed, can offer customers and resellers a broader or more compelling portfolio of products and platform solutions than we can offer, which some customers may prefer, and can use their broader offerings to provide additional financial and technical incentives for customers to purchase their products. These companies may also expand their product offerings over time and, through such partnerships and acquisitions and with greater resources, are able more effectively and opportunistically to target emerging markets or market opportunities, becoming more difficult competitors for us. They are also able to develop broader suites of products, and provide a complete and integrated wired and wireless solution may be preferable to our end-customers. We expect competition to intensify in the future as companies introduce new products into our markets, consolidate or broaden their product offerings or from partnerships or collaborations, including amongst our competitors and partners, which expand the breadth and compatibility of their product offerings. This competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, and failure to increase, or the loss of, our market share, any of which would likely seriously harm our business, operating results or financial condition. If we do not keep pace with product and technology advances, or if we are unable to differentiate our products and services successfully from those of our competitors, including our total cost of ownership, there could be a material and adverse effect on our competitive position, revenue and prospects for growth.

A number of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases, more resellers, and significantly greater financial, technical, sales, marketing and other resources. Our competitors may be better able to anticipate, influence or adapt more quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the promotion and sale of their products and services, initiate or withstand substantial price competition, take advantage of acquisitions or other opportunities more readily and develop and expand their product and service offerings more quickly than we can. Such greater resource and operating histories of our larger and longer-established competitors may be particularly important to our larger enterprise customers when choosing our or a competing production solution. In addition, certain of our competitors may be able to leverage their relationships with customers based on other products or incorporate functionality into existing products to gain business in a manner that discourages customers from purchasing our products, including through selling at low or even negative margins, product bundling, or closed-technology



platforms. Our competitors may also be able to offer a broader integrated product platform, or across platforms through partnerships, bringing together a unified product, security and applications offering. Potential end-customers may prefer to purchase all of their equipment from a single provider, or may prefer to purchase wireless and wired networking products from an existing supplier rather than a new supplier, regardless of product performance or features.

We expect increased competition from our current competitors, as well as other established and emerging companies, to the extent our markets continue to develop and expand. Conditions in our markets could change rapidly and significantly as a result of technological advancements or other factors. These pressures could limit our growth and materially adversely affect our business, operating results and financial condition.

***Industry consolidation and strategic partnerships lead to increased competition and may harm our operating results.***

There has been a trend toward industry consolidation in our markets for several years as companies attempt to strengthen or hold their market positions in an evolving industry, and as companies are acquired or are unable to continue operations. Some of our competitors have made acquisitions or entered into partnerships or other strategic relationships to offer a more comprehensive solution than they individually had offered. For example, in November 2012, Cisco Systems acquired Meraki Networks. In 2014, Juniper Networks announced that it was exiting its wireless networking business as part of a strategic partnership with Aruba Networks. In April 2014, Zebra Technologies announced that it would buy the enterprise business of Motorola Solutions, which Zebra later sold to Extreme Networks in September 2016. In March 2015, Hewlett-Packard announced that it would acquire Aruba Networks. In July 2015, Fortinet, Inc. completed its acquisition of Meru Networks. Cisco and Apple announced in August 2015 a collaboration to improve the performance and experience of Apple iOS-based products when used on Cisco networks and operating systems. In October 2015, Ruckus announced its acquisition of CloudPath Networks, a provider of Wi-Fi onboarding technology. In April 2016, Brocade announced its acquisition of Ruckus. Brocade subsequently sold its Ruckus business unit to the Arris Group. In April 2017, Riverbed Technology announced its acquisition of Xirrus Networks. Such or similar consolidation or strategic partnerships may continue in the future. The companies or alliances resulting from these possible consolidations may create more compelling or bundled or integrated product platforms, bringing together unified product, security and application offerings, as well as being able to offer greater pricing flexibility, making it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, channel coverage, technology or product functionality. Continued industry consolidation may adversely impact customers' perceptions of the viability of smaller and even medium-sized technology companies such as ourselves and, consequently, customers' willingness to purchase from us. Such greater resource and operating histories of our larger and longer-established competitors may be particularly important to our larger enterprise customers when choosing our or a competing production solution. In addition, companies that are our strategic alliance or channel partners in some areas of our business may acquire or form alliances with our competitors, thereby reducing their business with us. We believe that industry consolidation may result in stronger competitors, with more efficient cost structures that are better able to compete as sole-source vendors for our end-customers. This could lead to more variability in our operating results and could have a material adverse effect on our business, operating results and financial condition.

***Demand for our products and services depends in part on the continued growth of the industries in which we participate, as well as our ability to diversify into other verticals, and the failure of these industries to expand or of our ability to diversify our revenue opportunities, could harm our operating results.***

We currently target K-12 and higher education, retail and distributed enterprise end-customers, and we sell into verticals such as finance, healthcare, manufacturing, utilities, telecom, state and local government, transportation, legal, accounting, architecture, engineering and construction. In the event, any of the specific sectors we target fails to expand on wireless networking, or slows the rate of their spending, our operating results could be harmed. For example, the education sector is faced with limited resources to spend on technology purchases. In North America, the U.S. government's E-Rate program starting on July 1, 2015 was expected to continue to provide a significant portion over the next several years of the funding used by schools to purchase our solutions. If this sector does not continue to expand expenditures on technology in general, or the rate of funding slows or is delayed, our business could be harmed. If the E-Rate program is discontinued or receives a lower level of funding than we expect, or the share of funding our end-customers secure or direct toward purchasing our products is lower than we expect, our business could also be harmed.

We realize that our revenue-dependence on the volatile education market may bring uncertainty to our results. For this reason, a priority for our business is to expand and diversify our offerings and revenue opportunities into other verticals, with particular focus on enterprise customers. This includes developing and introducing new products and solution offerings.

***If functionality similar to that offered by our products is incorporated into existing network infrastructure products, enterprises may decide against adding our products to their network, which would have an adverse effect on our business.***

Large, well-established providers of networking equipment may continue to introduce features that compete with our products, either in stand-alone products or as additional features or applications in their network platforms. For example, several of our larger competitors may be better able to integrate into a single platform a broader product, security and applications offering. The inclusion of, or the announcement of an intent to include, functionality perceived to be better or more cost-effective than that offered by our platform may have an adverse effect on our ability to market and sell our products. Furthermore, even if the functionality offered by these providers is more limited or less cost-effective than our platform, end-customers may elect to accept such products in lieu of adding platforms from an additional vendor such as ourselves. Many enterprises have invested substantial personnel and financial resources to design and operate their networks and have established deep relationships with other providers of networking products, which may make them reluctant to add new components to their networks, particularly from other vendors such as ourselves. In addition, an enterprise's existing vendors or new vendors with a broad product offering may be able to offer concessions that we are not able to match. If enterprises are reluctant to add new vendors or otherwise decide to work with their existing vendors, our ability to maintain or improve our market share, our financial condition and operating results will be adversely affected.

***We rely on revenue from subscription and services that may decline. Because we recognize revenue from subscriptions and services over the term of the relevant service period, downturns or upturns in sales are not immediately reflected in full in our operating results.***

Software subscription and services revenue, consisting of sales of new or renewal subscription and support and maintenance contracts, accounts for a significant portion of our revenue, comprising 26% and 19% of our total revenue for the three months ended March 31, 2017 and 2016, respectively. Our service revenue may decline and fluctuate as a result of a number of factors, including end-customers' level of satisfaction with our offerings, the prices, pricing and changes in the scope of our offerings, the prices of products and services offered by our competitors and reductions in our end-customers' spending levels. We are developing and implementing systems to enable us better to track and timely identify renewal opportunities. If our sales of new or renewal subscription and support and maintenance contracts decline, or we are not able to manage efficiently increased support transaction volumes, including renewals, our revenue and revenue growth may decline and our business will suffer. In addition, we recognize service revenue ratably over the term of the relevant service period, which is typically one, three or five years. As a result, much of the service revenue we report each fiscal quarter is the recognition of deferred revenue from service contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed subscription or support and maintenance contracts in any one fiscal quarter will not be fully reflected in revenue in that fiscal quarter but will continue to negatively affect our revenue in future fiscal quarters. Accordingly, the effect of significant downturns in new or renewed sales of our subscriptions or support and maintenance is not reflected in full in our operating results until future periods. Also, it is difficult for us to rapidly increase our services revenue through additional service sales in any period, as revenue from new and renewal service contracts must be recognized over the applicable service period. Furthermore, any increase in the average term of services contracts would result in revenue for services contracts being recognized over longer periods of time and the associated revenue we recognize could be lower in any particular quarter.

***If we fail to comply with environmental requirements, our business, financial condition, operating results, and reputation could be adversely affected.***

We are subject to various local, state, federal, and international environmental laws and regulations, including laws governing the hazardous material content of our products and laws relating to the collection of and recycling of electrical and electronic equipment. Examples of these laws and regulations include the European Union Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive ("RoHS"), and the European Union Waste Electrical and Electronic Equipment Directive ("WEEE Directive"), as well as the implementing legislation of the European Union member states. Similar laws and regulations have been passed or are pending in China, South Korea, Norway, and Japan and may be enacted in other regions in which we currently or expect to operate, including in the United States, and we are, or may in the future be, subject to these laws and regulations.

The RoHS and the similar laws of other jurisdictions limit the content of certain hazardous materials, such as lead, mercury and cadmium, in the manufacture of electrical equipment, including our products. Currently, our products comply with the EU RoHS requirements. However, if there are changes to these or other laws (or their interpretation) or other jurisdictions pass new similar laws or requirements, we may be required to reengineer our products to use components compatible with these regulations. This reengineering and component substitution could result in additional costs to us or disrupt our operations or logistics or delay our ability to sell our products.

The WEEE Directive requires electronic goods producers to register as a WEEE producer and be responsible for the collection, recycling, and treatment of such products. Changes in interpretation of the directive may cause us to have additional regulatory requirements to meet in the future in order to comply with this directive, or with any similar laws adopted in other jurisdictions.

We are also subject to environmental laws and regulations governing the management of hazardous materials, which we use in small quantities in our engineering labs. Our failure to comply with these or past, present and future similar laws could result in reduced sales of our products, substantial product inventory write-offs, reputational damage, costs, penalties, third-party property damage, and other sanctions, any of which could harm our business and financial condition. We also expect that our products will be affected by new environmental laws and regulations on an ongoing basis, imposing greater compliance costs, and increasing risks and penalties associated with violations, which could harm our business. To date, our expenditures for environmental compliance have not had a material impact on our results of operations or cash flows, and although we cannot predict the future impact of such laws or regulations, they will likely result in additional costs and may increase penalties associated with violations or require us to change the content of our products or how they are manufactured, any of which could have a material adverse effect on our business, operating results, and financial condition.

***New regulations or standards or changes in existing regulations or standards in the United States or internationally related to our products may result in unanticipated costs or liabilities, which could have a material adverse effect on our business, results of operations and future sales, and could place additional burdens on the operations of our business.***

Our products are subject to governmental regulations in a variety of jurisdictions. In order to achieve and maintain market acceptance, our products must continue to comply with these regulations as well as a significant number of industry standards. In the United States, our products must comply with various regulations defined by the Federal Communications Commission, or FCC, Underwriters Laboratories and others. We must also comply with similar international regulations in order for our products to be certified for use in such countries. For example, our wireless communication products operate through the transmission of radio signals and radio emissions are subject to regulation in the United States and in other countries in which we do business. In the United States, various federal agencies, including the Center for Devices and Radiological Health of the Food and Drug Administration, the FCC and various state agencies have promulgated regulations that concern the use of radio/electromagnetic emissions standards. Member countries of the European Union and individual countries in the Asia Pacific region have enacted similar standards concerning electrical safety and electromagnetic compatibility and emissions. In addition, our data analytics solutions, and the manner in which we collect, store, analyze, use or transmit end-customer data, increasingly may be subject to regulation under the Federal Trade Commission.

As these regulations and standards evolve, and if new regulations or standards are implemented, we will be required to modify our products or develop and support new versions of our products, or change the manner in which we collect, store, analyze, use or transmit end-customer data, and our compliance with these regulations and standards may become more burdensome and require significant investments. The failure of our products to comply, or delays in compliance, with the various existing and evolving industry regulations and standards could prevent or delay introduction of our products, which could harm our business. End-customer uncertainty regarding future policies may also affect demand for communications products, including our products. Moreover, channel partners or end-customers may require us, or we may otherwise deem it necessary or advisable, to alter our products to address actual or anticipated changes in the regulatory environment. Our inability to alter our products to address these requirements and any regulatory changes may have a material adverse effect on our business, operating results and financial condition.

### **Risks Related to Our Intellectual Property**

***If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.***

We protect our proprietary information and technology through licensing agreements, third-party nondisclosure agreements and other contractual provisions, as well as through patent, trademark, copyright and trade secret laws in the United States and similar laws in other countries. As of March 31, 2017, we held 33 patents issued and 51 applications pending in the United States (as well as certain foreign equivalents issued and applications pending outside the United States).

We do not know whether these protections will be available in all cases or will be adequate to prevent our competitors from copying, reverse engineering or otherwise obtaining and using our technology, proprietary rights or products. The laws of some foreign countries, including countries in which our products are sold, used or manufactured, are in many cases not as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. In addition, third parties may seek to challenge, invalidate or circumvent our patents, trademarks, copyrights and trade secrets, or applications for any of the foregoing. Our competitors may independently develop technologies

that are substantially equivalent or superior to our technology or design around our proprietary rights. We have focused patent, trademark, copyright and trade secret protection primarily in the United States. As a result, we may not have sufficient protection of our intellectual property in all countries where infringement may occur. In each case, our ability to compete or offer our products for sale could be significantly impaired.

To prevent substantial unauthorized use of our intellectual property rights, it may be necessary to prosecute actions for infringement and/or misappropriation of our proprietary rights against third parties. We currently have a limited portfolio of issued patents compared to our larger competitors and, therefore, may not be able to effectively utilize our intellectual property portfolio to assert against third parties. Any such action could result in significant costs and diversion of our resources and management's attention and, in any case, we could fail to be successful in any such action. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to enforce their intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

***Claims by others that we infringe their intellectual property rights could harm our business.***

Companies that sell products, as well as non-operating patent holding companies, in the wireless networking industry are often aggressive in protecting intellectual property rights and perceived rights, which has resulted in protracted and expensive litigation for some companies. In addition, non-operating entities have been increasingly aggressive in asserting intellectual property rights and perceived rights against operating companies in the Wi-Fi and networking industry, including ourselves. We currently are subject to claims and litigation by third parties that we infringe their intellectual property rights.

As our business expands, and the number of products and competitors in our market increases and overlaps occur, we expect that infringement claims against us or our partners or end-customers may increase in number and significance. Any claims or proceedings against us, whether meritorious, will be time-consuming, result in costly litigation, require significant amounts of management time or result in the diversion of significant operational resources, any of which could materially and adversely affect our business and operating results.

Intellectual property lawsuits are subject to inherent uncertainties due to the complexity of the technical issues involved, and we cannot be certain that we will be successful in defending ourselves against intellectual property claims. Our limited portfolio of issued patents may not provide defenses or counterclaims in response to patent infringement claims or litigation brought against us by third party competitors. Further, where non-operating entities or other adverse patent owners who have no relevant products or revenue bring such claims or litigation against us, our patents provide no deterrence or competitive risk. In any case, many potential litigants have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims than we could against them. Furthermore, a successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. We might also be required to seek a license and pay royalties for the use of such intellectual property, which may not be available on commercially acceptable terms, or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense or redesign our product, which could delay our product offering and may ultimately not be successful.

See Part I, Item 3 "Legal Proceedings." for a discussion of the intellectual property litigation in which we are currently involved.

***Our use of open-source software could impose limitations on our ability to commercialize our products.***

Our products utilize software modules licensed to us by third-party authors under open-source licenses, including as incorporated into software we receive from third party commercial software vendors. Use and distribution of open-source software may entail greater risks than use of third-party commercial software, as open-source licensors generally do not provide support, updates, warranties, or other contractual protections regarding infringement claims or the quality of the code. Furthermore, the terms of many open-source licenses have not been interpreted by U.S. or foreign courts, and these licenses could be construed in a way that could impose other unanticipated conditions or restrictions on our ability to commercialize our products. In addition, some open-source licenses require the licensee, under certain circumstances, to make available source code for modifications or derivative works the licensee creates based upon such open-source software, and to allow further modification and distribution of such works. As a result, if we combine our proprietary software with open-source software or modify such software in a certain manner, we could be required to release certain source code we authored under license terms that freely permit third parties, including our competitors, to further modify, use and distribute our software. In some instances, this could allow our competitors to create similar products with lower development effort and time, create security vulnerabilities in our products, and ultimately result in a loss of product sales for us. Further, if we are held to have breached or otherwise failed to comply with the terms of an open-source software license, we could be required to pay damages, seek

licenses from third parties to continue offering our products, re-engineer our products, or discontinue the sale of our products if re-engineering could not be accomplished on a timely basis, any of which could harm our business, operating results and financial condition.

We continue to review our usage of open-source software in our products, and to analyze the impact of such usage on our products and business. We may not be able to identify all of the risks regarding our use of open-source software and what steps we will need to take to come into compliance with applicable license terms. Moreover, our implementation of tools and policies designed to monitor our ongoing use of open-source software in our products may not be adequate or entirely effective in all instances. Depending on our determination of the impact on our business of compliance with applicable open-source license requirements, we could be required to re-engineer certain aspects of our products and/or seek licenses from third parties. Our review to date has identified certain uses of third-party open-source software that, under the terms of applicable open-source licenses, will likely require us to provide certain additional notices, and to distribute and to offer to release certain of our source code under open-source software license terms, which we are currently preparing to do. We are also considering re-engineering of certain portions of our products to limit the scope of and potential impact on our business of such disclosure and licensing requirements going forward. Until we have completed our analysis, we will not know the full extent of such required disclosures or re-engineering efforts, or if and on what terms such alternative licenses could be available.

***We rely on the availability of third-party licenses. If these licenses are available to us only on less favorable terms or not at all in the future, our business and operating results would be harmed.***

We have incorporated third-party licensed technology and intellectual property rights into our products. It may be necessary in the future to renew licenses relating to various aspects of these products or to seek additional licenses for existing or new products. These necessary licenses could be unavailable to us on acceptable terms, or at all. The inability to obtain certain licenses or other rights, or to obtain those licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could result in delays in product releases until such time, if ever, as we can identify, license or develop equivalent technology and integrate such technology into our products, which might have a material adverse effect on our business, operating results and financial condition. Moreover, the inclusion in our products of intellectual property licensed from third parties on a nonexclusive basis could limit our ability to differentiate our product offering or protect our proprietary rights in our products.

#### **Risks Related to Ownership of Our Common Stock**

***We have experienced significant volatility in the price of our common stock, and you could lose all or part of your investment.***

The trading price of our common stock has fluctuated substantially. From the date of our initial public offering in March 2014 through March 31, 2017, the high and low trading price for our common stock as reported by the New York Stock Exchange ranged between a high of \$12.23 and a low of \$3.43. The trading price of our common stock depends on a number of factors, including those described in this “Risk Factors” section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock, since you might not be able to sell your shares at or above the price you paid.

Factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of high-technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders, including through secondary offerings we may initiate to generate cash to fund our ongoing operations;
- failure of financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company, or our failure to meet these estimates or the expectations of our investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or new or terminated significant contracts, commercial relationships or capital commitments, or of delays in our product offerings;

- public analyst or investor reaction to our press releases, other public announcements and filings with the Securities and Exchange Commission, including specifically, concerning our operations, business initiatives or operating performance;
- rumors and market speculation involving us or other companies in our industry;
- vesting of shares under RSU awards to our employees and delivery of shares our employees purchase under our ESPP, and related selling of such shares into the market, including to cover employee tax withholding obligations;
- actual or anticipated changes in our results of operations or fluctuations in our operating results, including any actual or perceived slowing in our rate of growth or ability to achieve profitability at all or on a schedule expected by our investors or industry analysts;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or our products, or third-party proprietary rights;
- announced or completed investments in or acquisitions of businesses or technologies by us or our competitors, including the result of ongoing consolidation within our industry, and the performance of such investments or acquisitions;
- the partnerships we or our competitors may announce, and the performance of such partnerships;
- declines in our operating, margin or revenue growth or customer acquisition rates;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- changes in our senior management or our board of directors;
- general economic conditions and slow or negative growth of our markets; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

The stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market prices of particular companies' securities, securities class action litigations have often been instituted against these companies. Our industry has experienced significant consolidation recently, and the prices paid in such consolidations and the performance of such acquisitions could have a significant impact how analysts and investors view our stock and the price such investors are willing to pay. For example, in April 2016, Brocade announced its acquisition of Ruckus Wireless, one of our competitors. Brocade subsequently sold its Ruckus business unit to the Arris Group. What prices buyers paid in these or other similar transactions could have a significant and negative affect on our stock price or what a potential buyer would be willing to pay for our stock. In addition, if our revenue or operating results, or the rate of growth of our revenue or operating results, fall below the expectations of our investors or financial analysts, or below any forecasts or guidance we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur and result in litigation against us even when we have met our own or other publicly stated revenue or earnings forecasts, and substantial costs and a diversion of our management's attention and resources.

We utilize RSU awards as a significant component of the equity incentives we provide to our employees. Shares subject to these awards typically vest on March 1, June 1, September 1 and December 1 of each year. On each of these dates, we may direct the sale of such shares into the market to generate cash sufficient to satisfy our estimate of the minimum statutory employee tax withholding. Our employees are also able to purchase shares of our common stock twice per year under our ESPP, which purchase dates currently are June 1 and December 1 of each year. Employees may choose then to sell a portion or all of such shares, including to generate cash sufficient to satisfy statutory tax withholding requirements they may have under local law. The coincidence of such sales of our common stock, concentrating on specific dates, may increase the typical or average trading volume of our common stock, and increase the volatility and degree of fluctuation in the trading price of our common stock. For example, on each of March 1, June 1, September 1 and December 1, 2016, and for the several days thereafter, the average trading volume in our common stock, as reported by the NYSE, increased significantly, as did the degree of fluctuation in the trading price for our stock. We expect such increased trading volumes and related trading price volatility to

be repeated, coinciding with future RSU vesting and ESPP purchase dates. Such trading volume and price volatility could create uncertainty amongst our investors or contribute to further stock price declines which may not be related to the actual performance of our business.

***Insiders continue to have substantial control over us and will be able to influence corporate matters.***

Our directors and executive officers, and stockholders holding more than 5% of our common stock and their affiliates, but excluding stockholders and affiliates holding between 5% and 10% of our common stock not affiliated with any of our officers or directors (and who do not otherwise possess any other indicia of control with respect to our company), beneficially owned, in the aggregate, as of December 31, 2016, approximately 21.9% of our outstanding common stock based on the number of shares outstanding as of December 31, 2016. As a result, these stockholders are able to exercise significant influence over all matters requiring stockholder approval, including the election of directors, and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit our stockholders' ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

***A small number of stockholders hold a substantial share of our common stock and their sales could increase the volatility of our stock price.***

A small number of stockholders currently each hold more than 5% of our common stock. These stockholders include certain of our directors and executive officers, and their affiliates, but also stockholders with no affiliation with our company. The average daily trading volume in our stock is limited and any sales of our common stock by any of these stockholders (or, in the case where such stockholders are investment funds, distribution of our stock to their investors and their subsequent sale), could significantly increase trading volatility in and significantly lower the market price of our common stock, regardless of our actual operating performance.

***Certain provisions in our charter documents and under Delaware law could limit attempts by our stockholders to replace or remove members of our board of directors or current management and may adversely affect the market price of our common stock.***

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our board of directors or management. These provisions include the following:

- our Board has the right to elect directors to fill a vacancy created by the expansion of the Board or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our Board;
- our stockholders may not act by written consent or call special stockholders' meetings; as a result, a holder or holders controlling a majority of our common stock would not be able to take certain actions other than at annual stockholders' meetings or special stockholders' meetings called by the Board, the chair of the Board, the chief executive officer or the president;
- our directors may only be removed for cause, which would delay the replacement of a majority of our Board;
- our Board is staggered in three tiers, with directors serving for three years, which could impede an acquiror from rapidly replacing our existing directors with its own slate of directors;
- our certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- our stockholders must provide advance notice and additional disclosures in order to nominate individuals for election to our Board or to propose matters that can be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company; and
- our Board may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our Board to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. For example, under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the Board has approved the transaction. Our Board could rely on Delaware law to prevent or delay an acquisition of us.

Our directors are entitled to accelerated vesting of their equity awards pursuant to the terms of their service arrangements upon a change of control of our company, and our executive officers in the event their employment is actually or constructively terminated in the context of a change of control. In addition to the arrangements currently in place with some of our executive officers, we may enter into similar arrangements in the future with other officers. Such arrangements could delay or discourage a potential acquisition of our company.

***If financial or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our common stock, our stock price and trading volume could decline.***

The trading market for our common stock is influenced by the research and reports that industry or financial analysts publish about us, our business, our competitors' business or our industry. We do not control these analysts or the content and opinions included in their reports. We may not attract sufficient research coverage or maintain coverage of analysts that currently publish reports regarding our business. If any of the analysts who cover us issues an adverse or misleading opinion regarding our stock price, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***We recently announced a share repurchase program, but we cannot guarantee that in fact that our repurchase of shares will enhance long-term stockholder value. Our share repurchases could also increase the volatility of the price of our common stock and could diminish our cash reserves.***

In February 2016, our board of directors authorized a stock repurchase program. Under the program, we are authorized to repurchase shares of our common stock for an aggregate purchase price of up to \$10 million. As of March 31, 2017, we had repurchased under this program 364,627 shares of our common stock at a total price of \$2.1 million. Although our board of directors authorized the program, we are not obligated to repurchase any minimum or specific number or dollar amount of shares. In addition, we may suspend or terminate the program at any time before its expiration as of June 30, 2017. Under the program, we may purchase shares of our stock from time to time, in the open market or through private transactions, subject to market conditions, in compliance with applicable state and federal securities laws. However, the timing and number of our share repurchases, if any, will depend upon several factors, including market and business conditions, the trading price of our common stock and the nature of other investment opportunities available to us. We may also choose to defer or limit repurchases given other uses of our cash or our desire to preserve cash balances. In addition, our repurchases of common stock could affect the market price of our common stock or increase its volatility. For example, the existence of a share repurchase program could cause our share price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. We also cannot assure that any share repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchase our stock, and short-term stock price fluctuations could reduce the program's effectiveness.

***We do not intend to pay dividends and under our loan agreements with our lenders we are not permitted to pay dividends. As a result, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.***

Pursuant to our Revolving Credit Facility, we are restricted from paying dividends while this facility is in place. Moreover, we have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes our Board may determine, in its discretion. Any determination to pay dividends in the future will be at the discretion of our Board. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

***We are an "Emerging Growth Company," and any decision on our part to comply only with certain reduced disclosure requirements applicable to Emerging Growth Companies could make our common stock less attractive to investors.***

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act enacted in April 2012, and, for as long as we continue to be an "emerging growth company," we choose to take advantage of exemptions from various reporting or compliance requirements applicable to other public companies but not to "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. We could be an "emerging growth company" for up to five years after the completion of the IPO, although if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of any June 30 before that time or if we have total annual gross revenue of \$1 billion or more during any fiscal





## EXHIBIT INDEX

Exhibit No.	Description of Document
10.1	2006 Global Share Plan, as amended effective April 1, 2017.
10.2	2014 Equity Incentive Plan, as amended effective April 1, 2017.
10.3	First Amendment dated as of March 21, 2017, to Amended and Restated Loan and Security Agreement, dated as of February 18, 2016, by and between the Company and Silicon Valley Bank.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	+ Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	+ Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	* XBRL Instance Document.
101.SCH	* XBRL Taxonomy Extension Schema Document.
101.CAL	* XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	* XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	* XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	* XBRL Taxonomy Extension Presentation Linkbase Document.

+ In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release Nos. 33-8238 and 34-47986, Final Rule; Management's Reports on Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the Certification furnished in Exhibit 32.1 and 32.2 hereto is deemed to accompany this Form 10-Q and will not be filed for purposes of Section 18 of the Exchange Act. Such certification will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under this section.

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## Section 2: EX-10.1 (EXHIBIT 10.1)

### AEROHIVE NETWORKS, INC.

#### 2006 GLOBAL SHARE PLAN

(As amended by the Company's Board of Directors effective April 1, 2017)

**1. Purposes of the Plan.** The purposes of this Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected Employees, Directors, and Consultants and to promote the success of the Company's business by offering these individuals an opportunity to acquire a proprietary interest in the success of the Company or to increase this interest, by issuing them Shares or by permitting them to purchase Shares. The Plan permits the grant of Options and Share Purchase Rights as the Administrator may determine.

**2. Definitions.** For the purposes of this Plan, the following terms shall have the following meanings:

(a) **“Acquisition Date”** means, with respect to Shares, the respective dates on which the Shares are sold or issued under the Plan pursuant to an Award.

(b) **“Administrator”** means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

(c) **“Applicable Law”** means any applicable legal requirements relating to the administration of and the issuance of securities under equity securities-based compensation plans, including, without limitation, the requirements of U.S. state corporate laws, U.S. federal and state securities laws, U.S. federal law, the Code, the laws of the Cayman Islands, the laws of the People’s Republic of China, and the requirements of any stock exchange or quotation system upon which the Shares may then be listed or quoted and the applicable laws, rules and regulations of any other country or jurisdiction where Awards are granted under the Plan. For all purposes of this Plan, references to statutes shall be deemed to include any rules and regulations promulgated pursuant to authority set forth in such statutes and references to statutes and regulations shall be deemed to include any successor statutes or regulations, to the extent reasonably appropriate as determined by the Administrator.

(d) **“Award”** means an Option or a Share Purchase Right.

(e) **“Award Agreement”** means a written or electronic agreement between the Company and a Participant, the form(s) of which shall be approved from time to time by the Administrator, evidencing the terms and conditions of an individual Award granted under the Plan, and includes any documents attached to or incorporated into the Award Agreement. The Award Agreement is subject to the terms and conditions of the Plan.

(f) **“Board”** means the Board of Directors of the Company.

(g) **“Change in Control”** means the occurrence of any of the following events:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities; or

(ii) the consummation of the sale, lease, or disposition by the Company of all or substantially all of the Company’s assets; or

(iii) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Anything in the foregoing to the contrary notwithstanding, a transaction shall not constitute a Change in Control if its sole purpose is to change the legal jurisdiction of the Company’s incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company’s securities immediately before such transaction. In addition, a sale by the Company of its securities in a transaction, the primary purpose of which is to raise capital for the Company’s operations and business activities including, without limitation, an initial public offering of Shares under the Securities Act or other Applicable Law, shall not constitute a Change in Control.

(h) **“Code”** means the U.S. Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(i) **“Committee”** means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(j) **“Company”** means Aerohive Networks, Inc., a Delaware corporation, or any successor corporation thereto.

(k) **“Consultant”** means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(l) **“Date of Grant”** means the date an Award is granted to a Participant in accordance with Section 14 hereof.

(m) “**Director**” means a member of the Board.

(n) “**Disability**” means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(o) “**Employee**” means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary. Neither service as a Director nor payment of a director’s fee by the Company or any Parent or Subsidiary shall be sufficient to constitute “employment” by the Company or any Parent or Subsidiary.

(p) “**Exercise Price**” means the amount, if any, for which one Share may be purchased upon exercise of an Option, as specified by the Administrator in the applicable Award Agreement in accordance with Section 6(d) hereof.

(q) “**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(r) “**Exchange Program**” means a program under which outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have lower Exercise Prices or Purchase Prices and different terms), awards of a different type, and/or cash, and/or the Exercise Price or Purchase Price of an outstanding Award is increased or reduced. This would include, but not be limited to, any:

- reduction of the Exercise Price or Purchase Price of an outstanding award,
- cancellation of an outstanding award in exchange for an award with a lower Exercise Price or Purchase Price
- cancellation of an outstanding award in exchange for a new award, where the Exercise Price or Purchase Price of the original award is less than the Fair Market Value of the award at the time of cancellation
- cancellation of an outstanding award in exchange for cash, where the Exercise Price or Purchase Price of the original award is less than the Fair Market Value of the award at the time of cancellation

For the avoidance of doubt, the Administrator may not implement an Exchange Program.

(s) “**Fair Market Value**” means, as of any date, the value of the Shares determined as follows:

(i) if the Shares are listed on any established stock exchange or a national market system, including, without limitation, The New York Stock Exchange, The Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, the Fair Market Value shall be the closing sales price for the Shares (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) if the Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value shall be the mean of the high bid and low asked prices for the Shares on the day of determination, as reported in The Wall Street Journal or any other source as the Administrator deems reliable; or

(iii) in the absence of an established market for the Shares, the Fair Market Value thereof shall be determined in good faith by the Administrator in accordance with Applicable Law.

(t) “**Incentive Stock Option**” means an Option that by its terms qualifies and is otherwise intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(u) “**Nonstatutory Stock Option**” means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(v) “**Option**” means an option to purchase Shares that is granted pursuant to the Plan in accordance with Section 6 hereof. An Option that is not designated as a Reg S Option is, unless the Administrator provides otherwise, intended to comply with and qualify under Rule 701 promulgated under the Securities Act.

(w) **“Parent”** means a “parent corporation” with respect to the Company, whether now or hereafter existing, as defined in Section 424(e) of the Code.

(x) **“Participant”** means the holder of an outstanding Award granted under the Plan, or the holder of Shares issuable or issued pursuant to the exercise of an Award.

(y) **“Plan”** means this 2006 Global Share Plan, as amended from time to time.

(z) **“Purchase Price”** means the amount of consideration, if any, for which one Share may be acquired pursuant to a Share Purchase Right, as specified by the Administrator in the applicable Award Agreement in accordance with Section 7(d) hereof.

(aa) **“Reg S Option”** means an Option that (i) is granted to a Service Provider who is not a U.S. Person, and (ii) is not intended to qualify under Rule 701 promulgated under the Securities Act.

(bb) **“Reg S Share Purchase Right”** means a Share Purchase Right that (i) is granted to a Service Provider who is not a U.S. Person, and (ii) is not intended to qualify under Rule 701 promulgated under the Securities Act.

(cc) **“Restricted Shares”** means Shares acquired pursuant to a Share Purchase Right or Shares subject to a Company repurchase or redemption right or forfeiture provision that are issued pursuant to an Option.

(dd) **“Securities Act”** means the U.S. Securities Act of 1933, as amended.

(ee) **“Service Provider”** means an Employee, Director, or Consultant.

(ff) **“Share”** means a share of Common Stock of the Company, as adjusted in accordance with Section 12 hereof.

(gg) **“Share Purchase Right”** means a right to purchase Restricted Shares pursuant to Section 7 hereof. A Share Purchase Right that is not designated as a Reg S Share Purchase Right is, unless the Administrator provides otherwise, intended to comply with and qualify under Rule 701 promulgated under the Securities Act.

(hh) **“Stockholder”** means an owner of Shares.

(ii) **“Stockholders Agreement”** means any agreement between a Participant and the Company or Stockholders of the Company or both.

(jj) **“Subsidiary”** means a “subsidiary corporation” with respect to the Company, whether now or hereafter existing, as defined in Section 424(f) of the Code.

(kk) **“Ten Percent Owner”** means a Service Provider who owns more than 10% of the total combined voting power of all classes of outstanding securities of the Company or any Parent or Subsidiary. In determining ownership of securities, the attribution rules of Section 424(d) of the Code shall apply.

(ll) **“U.S.” or “United States”** means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia.

(mm) **“U.S. Person”** has the meaning accorded to it in Rule 902(k) of the Securities Act, and currently includes:

(i) any natural person resident in the United States;

(ii) any partnership or corporation organized or incorporated under the laws of the United States;

(iii) any estate of which any executor or administrator is a U.S. Person;

(iv) any trust of which any trustee is a U.S. Person;

(v) any agency or branch of a foreign entity located in the United States;

(vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. Person;

(vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States; and

(viii) any partnership or corporation if:

(A) organized or incorporated under the laws of any foreign jurisdiction; and

(B) formed by a U.S. Person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) promulgated under the Securities Act) who are not natural persons, estates or trusts.

### 3. Shares Subject to the Plan.

(a) ***Basic Limitation.*** Subject to the provisions of Section 12 hereof, the maximum aggregate number of Shares that may be issued under the Plan shall not exceed 25,211,336 Shares. The Shares may be authorized but unissued or reacquired Shares. The number of Shares that are subject to Awards outstanding under the Plan at any time shall not exceed the aggregate number of Shares that then remain available for issuance under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient Shares to satisfy the requirements of outstanding Awards granted under the Plan.

(b) ***Additional Shares.*** If an Award expires, becomes unexercisable, or is cancelled, forfeited, or otherwise terminated without having been exercised or settled in full, as the case may be, the Shares allocable to the unexercised portion of the Award shall again become available for future grant or sale under the Plan (unless the Plan has terminated). Shares that actually have been issued under the Plan, upon exercise of an Option or delivery under a Share Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that in the event that Shares issued under the Plan are reacquired by the Company pursuant to any forfeiture provision, right of repurchase or redemption, or are retained by the Company upon the exercise of or purchase of Shares under an Award in order to satisfy the Exercise Price or Purchase Price for the Award or any tax withholding due with respect to the exercise or purchase, such Shares shall again become available for future grant under the Plan. Notwithstanding the foregoing and, subject to adjustment provided in Section 12, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code, any Shares that become available for issuance under the Plan under this Section 3 (b).

### 4. Administration of the Plan.

(a) ***Administrator.*** The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with Applicable Law.

(b) ***Powers of the Administrator.*** Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value (in the absence of an established market for the Shares);

(ii) to select the Service Providers to whom Awards may from time to time be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve the form(s) of agreement for use under the Plan;

(v) to determine the terms and conditions of any Award granted hereunder including, but not limited to, the Exercise Price, the Purchase Price, the time or times when Options may be exercised (which may be based on performance criteria), the time or times when repurchase or redemption rights shall lapse, any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vi) to prescribe, amend, and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable laws of jurisdictions other than the United States;

(vii) to modify or amend each Award (subject to Section 18 hereof and Participant consent if the modification or amendment is to the Participant's detriment), including, without limitation, the discretionary authority to extend the post-termination exercisability of an Option longer than is otherwise provided for in an Award Agreement or accelerate the vesting or exercisability of an Option or lapsing of a repurchase or redemption right or forfeiture provision to which Restricted Shares may be subject;

(viii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan; and

(ix) to make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of the Plan.

(c) ***Delegation of Authority to Officers.*** Subject to Applicable Law, the Administrator may delegate limited authority to specified officers of the Company to execute on behalf of the Company any instrument required to effect an Award previously granted by the Administrator.

(d) ***No Exchange or Repricing.*** Notwithstanding the foregoing Section 4(b), the Administrator may not implement an Exchange Program.

(e) ***Effect of Administrator's Decision.*** All decisions, determinations, and interpretations of the Administrator shall be final and binding on all Participants.

## 5. Eligibility.

(a) ***General Rule.*** Only Service Providers that are not U.S. Persons, or trusts established in connection with any employee benefit plan of the Company (including the Plan) for the benefit of a Service Provider, shall be eligible for the grant of Reg S Options and Reg S Share Purchase Rights. Nonstatutory Stock Options that are not designated as Reg S Options and Share Purchase Rights that are not designated as Reg S Share Purchase Rights may be granted to Service Providers only. Incentive Stock Options may be granted to Employees only. Any awards granted to Consultants that are intended to comply with and qualify under Rule 701 promulgated under the Securities Act may only be granted to natural persons who meet the requirements set forth under Rule 701(c)(1)(ii) and (iii) of the Securities Act.

(b) ***Stockholders with Ten-Percent Holdings.*** A Ten Percent Owner shall not be eligible for the grant of an Incentive Stock Option unless (i) the Exercise Price is at least 110% of the Fair Market Value on the Date of Grant, and (ii) the Incentive Stock Option by its terms is not exercisable after the expiration of five (5) years from the Date of Grant.

(c) ***Service Providers Located in California.*** Notwithstanding any contrary provision of the Plan, a Service Provider located in California is eligible to receive only Awards that comply with the California Award Terms and Conditions attached hereto as Exhibit A.

(d) ***Service Providers Located in France.*** Notwithstanding any contrary provision of the Plan, a Service Provider located in France is eligible to receive only Awards that comply with the Sub-Plan for France attached hereto as Exhibit B.

## 6. Terms and Conditions of Options.

(a) ***Award Agreement.*** Each grant of an Option under the Plan shall be evidenced by an Award Agreement between the Participant and the Company. Each Option shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Administrator deems appropriate for inclusion in an Award Agreement. The provisions of the various Award Agreements entered into under the Plan need not be identical.

(b) ***Type of Option.*** Each Option shall be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding a designation of an Option as an Incentive Stock Option, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds US\$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(b), Incentive Stock

Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the Date of Grant. Each Option also may be designated as a Reg S Option or as an Option other than a Reg S Option.

(c) **Number of Shares.** Each Award Agreement shall specify the number of Shares that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 12 hereof.

(d) **Exercise Price.** Each Award Agreement shall specify the Exercise Price. The Exercise Price of an Incentive Stock Option shall not be less than 100% of the Fair Market Value on the Date of Grant, and a higher percentage may be required by Section 5(b) hereof. Subject to the preceding sentence, the Exercise Price of any Option shall be determined by the Administrator in its sole discretion. The Exercise Price shall be payable in accordance with Section 9 hereof and the applicable Award Agreement. Notwithstanding anything to the contrary in the foregoing or in Section 5(b), in the event of a transaction described in Section 424(a) of the Code, then, consistent with Section 424(a) of the Code, Incentive Stock Options may be issued at an Exercise Price other than as required by the foregoing provisions of this Section 6(d) and Section 5(b).

(e) **Term of Option.** The Award Agreement shall specify the term of the Option; provided, however, that the term shall not exceed ten (10) years from the Date of Grant, and a shorter term may be required by Section 5(b) hereof. Subject to the preceding sentence, the Administrator in its sole discretion shall determine when an Option is to expire.

(f) **Exercisability.** Each Award Agreement shall specify the date when all or any installment of the Option is to become exercisable. The exercisability provisions of any Award Agreement shall be determined by the Administrator in its sole discretion.

(g) **Exercise Procedure.** Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as may be determined by the Administrator and as set forth in the Award Agreement; provided, however, that an Option shall not be exercised for a fraction of a Share.

(i) An Option shall be deemed exercised when the Company receives (A) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, (B) full payment for the Shares with respect to which the Option is exercised, together with any applicable tax withholding, and (C) all representations, indemnifications, and documents requested by the Administrator, including, without limitation, any Shareholders Agreement. Full payment may consist of any consideration and method of payment authorized by the Administrator in accordance with Section 9 hereof and permitted by the Award Agreement.

(ii) Shares issued upon exercise of an Option shall be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Subject to the provisions of Sections 8, 9, 15, and 16, the Company shall issue (or cause to be issued) certificates evidencing the issued Shares promptly after the Option is exercised. Notwithstanding the foregoing, the Administrator in its discretion may require the Company to retain possession of any certificate evidencing Shares acquired upon the exercise of an Option if those Shares remain subject to forfeiture, repurchase or redemption under the provisions of the Award Agreement, any Shareholders Agreement, or any other agreement between the Company and the Participant, or if those Shares are collateral for a loan or obligation due to the Company.

(iii) Exercise of an Option in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan (in accordance with Section 3(b)) and for sale under the Option, by the number of Shares as to which the Option is exercised.

(h) **Termination of Service (other than by death).**

(i) If a Participant ceases to be a Service Provider for any reason other than because of death, then the Participant's Options shall expire on the earliest of the following occasions:

(A) The expiration date determined by Section 6(e) hereof; or

(B) The 30th day following the termination of the Participant's relationship as a Service Provider for any reason other than Disability, or such other date as the Administrator may determine and specify in the Award Agreement, provided that no Option that is exercised after the expiration of the three-month period immediately following the termination of the Participant's relationship as an Employee shall be treated as an Incentive Stock Option.



(C) The last day of the twelve-month period following the termination of the Participant's relationship as a Service Provider by reason of Disability, or such other date as the Administrator may determine and specify in the Award Agreement; provided that no Option that is exercised after the expiration of the twelve-month period immediately following the termination of the Participant's relationship as an Employee shall be treated as an Incentive Stock Option.

(ii) Following the termination of the Participant's relationship as a Service Provider, the Participant may exercise all or part of the Participant's Option at any time before the expiration of the Option as set forth in Section 6(h)(i) hereof, but only to the extent that the Option was vested and exercisable as of the date of termination of the Participant's relationship as a Service Provider (or became vested and exercisable as a result of the termination). Unless the Administrator provides otherwise in an Award Agreement, the balance of the Shares subject to the Option shall be forfeited on the date of termination of the Participant's relationship as a Service Provider. In the event that the Participant dies after the termination of the Participant's relationship as a Service Provider but before the expiration of the Participant's Option as set forth in Section 6(h)(i) hereof, all or part of the Option may be exercised (prior to expiration) by the executors or administrators of the Participant's estate or by any person who has acquired the Option directly from the Participant by beneficiary designation, bequest, or inheritance, but only to the extent that the Option was vested and exercisable as of the termination date of the Participant's relationship as a Service Provider (or became vested and exercisable as a result of the termination). Any Shares subject to the portion of the Option that are vested as of the termination date of the Participant's relationship as a Service Provider but that are not purchased prior to the expiration of the Option pursuant to this Section 6(h) shall be forfeited immediately following the Option's expiration.

(i) **Death of Participant.**

(i) If a Participant dies while a Service Provider, then the Participant's Option shall expire on the earlier of the following dates:

(A) The expiration date determined by Section 6(e) hereof;

(B) The last day of the twelve-month period immediately following the Participant's death, or such other date as the Administrator may determine and specify in the Award Agreement.

(ii) All or part of the Participant's Option may be exercised at any time before the expiration of the Option as set forth in Section 6(i)(i) hereof by the executors or administrators of the Participant's estate or by any person who has acquired the Option directly from the Participant by beneficiary designation, bequest, or inheritance, but only to the extent that the Option was vested and exercisable as of the date of the Participant's death or had become vested and exercisable as a result of the death. The balance of the Shares subject to the Option shall be forfeited upon the Participant's death. Any Shares subject to the portion of the Option that are vested as of the Participant's death but that are not purchased prior to the expiration of the Option pursuant to this Section 6(i) shall be forfeited immediately following the Option's expiration.

(j) **Restrictions on Transfer of Shares.** Shares issued upon exercise of an Option shall be subject to such forfeiture conditions, rights of repurchase or redemption, rights of first refusal, and other transfer restrictions as the Administrator may determine. The restrictions described in the preceding sentence shall be set forth in the applicable Award Agreement and shall apply in addition to any restrictions that may apply to holders of Shares generally.

(k) **Additional Vesting upon Death or Disability.** Unless the Administrator determines otherwise in its sole discretion, if a Participant ceases to be a Service Provider as a result of the Participant's death or Disability while a Service Provider, then

(1) with respect to an Option that the Participant holds as of immediately prior to the cessation of the Participant's status as a Service Provider, the Participant will be deemed to fully vest in and have the right to exercise the Option as to all of the Shares underlying such Award, including those Shares that otherwise would not be vested or exercisable, and

(2) with respect to Restricted Shares that the Participant holds as of immediately prior to the cessation of the Participant's status as a Service Provider, all restrictions on Restricted Stock will be deemed to lapse.

(“**Additional Vesting**”)

Unless the Administrator determines otherwise in its sole discretion for purposes of this Additional Vesting, “Service Provider” shall be limited to mean a Participant who at the time of such death or Disability is an Employee or Director (and not a Consultant), and

who has provided services to the Company in good standing in such capacity for more than one (1) year (and, in the case of an Employee, on a regular, full-time basis).

## **7. Terms and Conditions of Share Purchase Rights.**

(a) **Award Agreement.** Each Share Purchase Right under the Plan shall be evidenced by an Award Agreement between the Participant and the Company. Each Share Purchase Right shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions that are not inconsistent with the Plan and that the Administrator deems appropriate for inclusion in an Award Agreement. The provisions of the various Award Agreements entered into under the Plan need not be identical.

(b) **Type of Share Purchase Right.** Each Share Purchase Right may be designated as a Reg S Share Purchase Right or as a Share Purchase Right other than a Reg S Share Purchase Right. If the Award Agreement does not specify the type of Share Purchase Right, the Share Purchase Right will not be treated as a Reg S Share Purchase Right.

(c) **Duration of Offers and Nontransferability of Share Purchase Rights.** Any Share Purchase Rights granted under the Plan shall automatically expire if not exercised by the Participant within 30 days (or such longer time as is specified in the Award Agreement) after the Date of Grant. Share Purchase Rights shall not be transferable and shall be exercisable only by the Participant to whom the Share Purchase Right was granted.

(d) **Purchase Price.** The Purchase Price shall be determined by the Administrator in its sole discretion. The Purchase Price shall be payable in a form described in Section 9 hereof.

(e) **Restrictions on Transfer of Shares.** Any Shares awarded or sold pursuant to Share Purchase Rights shall be subject to such forfeiture conditions, rights of repurchase or redemption, rights of first refusal, and other transfer restrictions as the Administrator may determine. The restrictions described in the preceding sentence shall be set forth in the applicable Award Agreement and shall apply in addition to any restrictions that may apply to holders of Shares generally.

**8. Tax Withholding.** As a condition to the exercise of an Option or purchase of Restricted Shares, the Participant (or in the case of the Participant's death or in the event of a permissible transfer of Awards hereunder, the person exercising the Option or purchasing Restricted Shares) shall make such arrangements as the Administrator may require for the satisfaction of any applicable tax withholding arising in connection with the exercise of an Option, purchase of Restricted Shares or disposition of Awards under Applicable Laws. The Participant (or in the case of the Participant's death or in the event of a permissible transfer of Awards hereunder, the person exercising the Option or purchasing Restricted Shares) also shall make such arrangements as the Administrator may require for the satisfaction of any applicable U.S. federal, state, local, or non-U.S. tax withholding obligations, including those under the laws of the People's Republic of China, that may arise in connection with the disposition of Shares acquired by exercising an Option or purchasing Restricted Shares. The Company shall not be required to issue any Shares under the Plan until the foregoing obligations are satisfied. Without limiting the generality of the foregoing, upon the exercise of the Option or delivery of Restricted Shares, the Company, or a Parent or Subsidiary, as required by Applicable Law, shall have the right to withhold taxes from any compensation or other amounts that the Company or such Parent or Subsidiary, as applicable, may owe to the Participant, or to require the Participant to pay to the Company or such Parent or Subsidiary, as applicable, the amount of any taxes that the Company or such Parent or Subsidiary may be required to withhold with respect to the Shares issued to the Participant or the disposition of Awards or Shares. Without limiting the generality of the foregoing, the Administrator in its discretion may authorize the Participant to satisfy all or part of any tax withholding liability by (i) having the Company, or the applicable Parent or Subsidiary, withhold from the Shares that would otherwise be issued upon the exercise of an Option, purchase of Restricted Shares or the disposition of Awards or Shares that number of Shares having a Fair Market Value, as of the date the withholding tax liability arises, equal to the portion of the Company's tax withholding liability to be so satisfied or (ii) by delivering to the Company previously owned and unencumbered Shares having a Fair Market Value, as of the date the tax withholding liability arises, equal to the amount of the Company's tax withholding liability to be so satisfied.

**9. Payment for Shares.** The consideration to be paid for the Shares to be issued under the Plan, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined on the Date of Grant), subject to the provisions in this Section 9 and Applicable Law.

(a) **General Rule.** The entire Exercise Price or Purchase Price (as the case may be) for Shares issued under the Plan shall be payable in cash or cash equivalents at the time when the Shares are purchased, except as otherwise provided in this Section 9 or Applicable Law.

(b) **Surrender of Shares.** To the extent that an Award Agreement so provides, all or any part of the Exercise Price or Purchase Price (as the case may be) may be paid by surrendering, or attesting to the ownership of, Shares that are already owned by the Participant. These Shares shall be surrendered to the Company in good form for transfer and shall be valued at their Fair Market Value on the date the Option is exercised or Restricted Shares are purchased. The Participant shall not surrender, or attest to the ownership of, Shares in payment of the Exercise Price or Purchase Price (as the case may be) if this action would subject the Company to adverse accounting consequences, as determined by the Administrator.

(c) **Services Rendered.** At the discretion of the Administrator and to the extent so provided in the agreements evidencing Awards of Shares under the Plan, Shares may be awarded under the Plan in consideration of services rendered to the Company or any Parent or Subsidiary prior to the Award to the extent permitted by Applicable Law.

(d) **Promissory Note.** At the discretion of the Administrator and to the extent an Award Agreement so provides, all or a portion of the Exercise Price or Purchase Price (as the case may be) may be paid with a promissory note in favor of the Company. The Shares shall be pledged as security for payment of the principal amount of the promissory note and interest thereon. The interest rate payable under the terms of the promissory note shall not be less than the minimum rate (if any) required to avoid the imputation of additional interest under the Code. Subject to the foregoing provisions of this Section 9(d), the Administrator (at its sole discretion) shall specify the term, interest rate, amortization requirements (if any), and other provisions of the promissory note.

(e) **Exercise/Sale.** At the discretion of the Administrator and to the extent an Award Agreement so provides, and if the Shares are publicly traded, payment may be made all or in part by the delivery (on a form and in a manner prescribed by the Company) of an irrevocable direction to a securities broker approved by the Company to sell Shares and to deliver all or part of the sales proceeds to the Company in payment of all or part of the Exercise Price and any tax withholding.

(f) **Exercise/Pledge.** At the discretion of the Administrator and to the extent an Award Agreement so provides, and if the Shares are publicly traded, payment may be made all or in part by the delivery (on a form and in a manner prescribed by the Company) of an irrevocable direction to pledge Shares to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company in payment of all or part of the Exercise Price and any tax withholding.

(g) **Other Forms of Consideration.** At the discretion of the Administrator and to the extent an Award Agreement so provides, all or a portion of the Exercise Price or Purchase Price may be paid by any other form of consideration and method of payment to the extent permitted by Applicable Law.

**10. Nontransferability of Awards.** Unless otherwise determined by the Administrator and so provided in the applicable Award Agreement (or be amended to provide), no Award shall be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner (whether by operation of law or otherwise) other than by will or applicable laws of descent and distribution or (except in the case of an Incentive Stock Option) pursuant to a domestic relations order, and shall not be subject to execution, attachment, or similar process, and each Award may be exercised, during the lifetime of the Participant, only by the Participant. In the event the Administrator in its sole discretion makes a Nonstatutory Stock Option or Share Purchase Right transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate. Upon any attempt to pledge, assign, hypothecate, transfer, or otherwise dispose of any Award or of any right or privilege conferred by this Plan contrary to the provisions hereof, or upon the sale, levy or attachment or similar process upon the rights and privileges conferred by this Plan, such Award shall thereupon terminate and become null and void.

**11. Rights as a Stockholder.** Until the Shares actually are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a Stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Award. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 12 of the Plan.

## **12. Adjustment of Shares.**

(a) **Adjustments.** In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered

under the Plan and/or the number, class, and price of Shares covered by each outstanding Award.

(b) **Dissolution or Liquidation**. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) **Change in Control**. In the event of a merger of the Company with or into another corporation, or a Change in Control, unless the Award Agreement provides otherwise, each outstanding Award, and, if applicable, each right of the Company to repurchase or redeem Restricted Shares acquired pursuant thereto, will be assumed or an equivalent award substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation in a merger or Change in Control refuses to assume or substitute for an Award and, if applicable, the repurchase or redemption right with respect to Restricted Shares acquired pursuant thereto is not assigned, then the Participant will fully vest in and have the right to exercise the Award as to all of the Shares subject thereto, including Shares as to which it would not otherwise be vested or exercisable, and all restrictions on Restricted Shares will lapse. If an Award is not assumed or substituted in the event of a merger or Change in Control, the Administrator will notify the Participant in writing or electronically that the Award will be exercisable for a period of time as determined by the Administrator, and the Award will terminate upon expiration of such period for no consideration, unless otherwise determined by the Administrator.

For purposes of this Section 12(c), an Option shall be considered assumed, and each right of the Company to repurchase or redeem Restricted Shares will be considered assigned if, following the merger or Change in Control, the Award confers the right to purchase or receive, for each covered Share immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in connection with the Change in Control by holders of Shares for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if the consideration received in the Change in Control is not solely common stock or ordinary shares of the successor corporation or its parent or subsidiary, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or vesting of the Restricted Shares, for each covered Share, to be solely common stock or ordinary shares of the successor corporation or its parent or subsidiary equal in Fair Market Value to the per Share consideration received by holders of Shares in the Change in Control.

(d) **Reservation of Rights**. Except as provided in this Section 12 and in the applicable Award Agreement, a Participant shall have no rights by reason of (i) any subdivision or consolidation of Shares or other securities of any class, (ii) the payment of any dividend, or (iii) any other increase or decrease in the number of Shares or other securities of any class. Any issuance by the Company of equity securities of any class, or securities convertible into equity securities of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or Exercise Price or Purchase Price of Shares subject to an Award. The grant of an Option or Share Purchase Right shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, to merge or consolidate or to dissolve, liquidate, sell, or transfer all or any part of its business or assets.

### **13. Leaves of Absence.**

(a) Unless the Administrator provides otherwise, vesting of Awards granted hereunder will continue during the period of any unpaid leave of absence of an Employee or Director, consistent and approved pursuant to the Company's formal Leave of Absence policy then in-effect.

(i) Such continued vesting shall not exceed 90 days in the aggregate during any 12-month period or 180 days in the aggregate during any 36-month period following the commencement of the unpaid leave of absence (unless the Award sooner terminate in accordance with its terms).

(ii) Thereafter, the vesting of such Award shall be suspended for the remaining duration of such leave (unless the Award shall sooner terminate in accordance with its terms).

(iii) Vesting will recommence upon such Participant's return to active service as a Service Provider (and for avoidance of doubt, upon return to active status, no credit for vesting will be provided for the period during which vesting was suspended during the approved unpaid leave of absence, except as required by applicable law).

(a) A Service Provider will not cease to be an Employee or Director in the case of (i) any leave of absence approved by the Company, its Parent or any Subsidiary or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor.

Notwithstanding the foregoing, for purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91<sup>st</sup> day of such leave, any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

**14. Date of Grant.** The Date of Grant of an Award shall, for all purposes, be the date on which the Administrator makes the determination to grant the Award, or such other later date as is determined by the Administrator; provided, however, that the Date of Grant of an Incentive Stock Option shall be no earlier than the date on which the individual becomes an Employee.

**15. Securities Law Requirements.**

(a) ***Legal Compliance.*** Notwithstanding any other provision of the Plan or any agreement entered into by the Company pursuant to the Plan, the Company shall not be obligated, and shall have no liability for failure to deliver any Shares under the Plan unless the issuance and delivery of Shares comply with (or are exempt from) all Applicable Law, including, without limitation, the Securities Act, U.S. state securities laws and regulations, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) ***Investment Representations.*** Shares delivered under the Plan shall be subject to transfer restrictions, and the person acquiring the Shares shall, as a condition to the exercise of an Option or the purchase of Restricted Shares if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with Applicable Law, including, without limitation, the representation and warranty at the time of acquisition of Shares that the Shares are being acquired only for investment purposes and without any present intention to sell, transfer, or distribute the Shares.

(c) ***Regulation S Transfer Restrictions.*** Any Shares issued pursuant to a Reg S Share Purchase Right or the exercise of a Reg S Option shall not be offered or sold to a U.S. Person or for the account or benefit of a U.S. Person prior to the first anniversary of the Acquisition Date. Any Shares issued pursuant to a Reg S Share Purchase Right or the exercise of a Reg S Option prior to the first anniversary of the Acquisition Date may be offered or sold only if permitted by the Administrator in accordance with the following conditions: (i) the purchaser of Shares issued pursuant to a Reg S Share Purchase Right or the exercise of a Reg S Option certifies that it is not a U.S. Person and is not acquiring the Shares for the account or benefit of any U.S. Person or is a U.S. Person who is purchasing the Shares in a transaction that does not require registration under the Securities Act; (ii) the purchaser of the Shares issued pursuant to a Reg S Share Purchase Right or the exercise of a Reg S Option agrees to resell such Shares only in accordance with the provisions of Regulation S promulgated under the Securities Act, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration; and agrees not to engage in hedging transactions with regard to such Shares unless in compliance with the Securities Act; and (iii) the certificate evidencing the Shares shall contain restrictive legends to a similar effect as set forth in (ii). The restrictions described in this Section 15(c) shall be set forth in the applicable Award Agreement and shall apply in addition to any restrictions that may apply to holders of Shares generally.

**16. Inability to Obtain Authority.** The inability of the Company, a Parent or a Subsidiary to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained. In addition, the inability of a Participant who is a resident of the People's Republic of China to obtain authority (including approval and registration) from relevant regulatory bodies of the People's Republic of China, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company, any Parent and any Subsidiary of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained, and if the inability is revealed or occurs after such Shares have been issued or sold by the Company, the inability shall entitle the Company to redeem or request the Participant to transfer the Shares so issued on such terms as the Administrator determines, subject to Applicable Law. The Company, any Parent and any Subsidiary shall be relieved from any liability for the redemption and the request for transfer.

**17. Approval by Stockholders.** The Plan shall be subject to approval by the Stockholders of the Company

within twelve (12) months before or after the date the Plan is adopted by the Board. Such approval by Stockholders of the Company shall be obtained in the degree and manner required under Applicable Law. Awards may be granted but Options may not be exercised and Restricted Shares may not be purchased prior to approval of the Plan by Stockholders of the Company.

#### **18. Duration and Amendment.**

(a) **Term of Plan.** Subject to approval by Stockholders of the Company in accordance with Section 17 hereof, the Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the Stockholders of the Company as described in Section 17 hereof. In the event that the Stockholders of the Company fail to approve the Plan within 12 months prior to or after its adoption by the Board, any Awards that have been granted and any Shares that have been awarded or purchased under the Plan shall be rescinded, and no additional Awards shall be granted thereafter. Unless sooner terminated under Section 18(b) hereof, the Plan shall continue in effect for a term of ten (10) years.

(b) **Amendment and Termination.** The Administrator may at any time amend, alter, suspend, or terminate the Plan.

(c) **Approval by Stockholders.** The Administrator shall obtain approval of the Stockholders of any Plan amendment to the extent necessary or desirable to comply with Applicable Law.

(d) **Effect of Amendment or Termination.** No amendment, alteration, suspension, or termination of the Plan shall materially and adversely impair the rights of any Participant with respect to an outstanding Award, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination. No Shares shall be issued or sold under the Plan after the termination thereof, except upon exercise of an Award granted prior to the termination of the Plan.

**19. Legending Share Certificates.** In order to enforce any restrictions imposed upon Shares issued upon the exercise of Options or the acquisition of Restricted Shares, including, without limitations, the restrictions described in Sections 6(j), 7(e), and 15(c) hereof, the Administrator may cause a legend or legends to be placed on any share certificates representing the Shares, which legend or legends shall make appropriate reference to the restrictions, including, without limitation, a restriction against sale of the Shares for any period as may be required by Applicable Law.

**20. No Retention Rights.** Neither the Plan nor any Award shall confer upon any Participant any right to continue his or her relationship as a Service Provider with the Company for any period of specific duration or interfere in any way with his or her right or the right of the Company (or any Parent or Subsidiary employing or retaining the Participant), which rights are hereby expressly reserved by each, to terminate this relationship at any time, with or without cause, and with or without notice.

**21. No Trust or Fund Created.** Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Parent or Subsidiary and a Participant or any other person. To the extent that any Participant acquires a right to receive payments from the Company or any Parent or Subsidiary pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company, a Parent, or any Subsidiary.

**22. No Rights to Awards.** No Participant, eligible Service Provider, or other person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Service Providers, Participants, or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

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### **EXHIBIT A**

#### **CALIFORNIA AWARD TERMS AND CONDITIONS**

This Exhibit A to the Aerohive Networks, Inc. 2006 Global Share Plan will apply only to Participants who are residents of the State of California and who are receiving an Award under the Plan. Capitalized terms contained herein will have the same meanings given to them in the Plan, unless otherwise provided by this Exhibit A. Notwithstanding any provisions contained in the

Plan to the contrary and to the extent required by Applicable Laws, the following terms will apply to all Awards granted to residents of the State of California, until such time as the Administrator amends this Exhibit A or the Administrator otherwise provides. This Exhibit A will be deemed to be part of the Plan and the Administrator will have the authority to amend this Exhibit A in accordance with Section 18 of the Plan.

1. Exercise Price. Subject to the terms of the Plan, the exercise price of each Option and the purchase price of each Restricted Share shall be determined by the Administrator. Notwithstanding the foregoing, the exercise price of a Nonstatutory Stock Option shall not be less than (i) 110% of Fair Market Value on the Date of Grant if granted to a Ten Percent Owner, or (ii) 85% of Fair Market Value on the Date of Grant if granted to a Service Provider who is not a Ten Percent Owner. In addition, the purchase price of a Restricted Share shall not be less than (i) 100% of Fair Market Value on the Date of Grant if granted to a Ten Percent Owner, or (ii) 85% of Fair Market Value on the Date of Grant if granted to a Service Provider who is not a Ten Percent Owner.
2. Option Exercisability. In the case of an Option granted to a Service Provider who is not an officer of the Company, a Director, or a Consultant, the Option shall become exercisable at a rate no slower than as to 20% of the Shares subject to the Option per year over five years from the Date of Grant.
3. Termination of Service.
  - (a) If a Participant ceases to be a Service Provider, such Participant may exercise his or her Option within thirty (30) days of termination, or such longer period of time as specified in the Award Agreement, to the extent that the Option is vested on the date of termination (but in no event later than the expiration date determined by Section 6(e) of the Plan).
  - (b) If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within twelve (12) months of termination, or such longer period of time as specified in the Award Agreement, to the extent the Option is vested on the date of termination (but in no event later than the expiration date determined by Section 6(e) of the Plan).
  - (c) If a Participant dies while a Service Provider, the Option may be exercised within twelve (12) months following Participant's death, or such longer period of time as specified in the Award Agreement, to the extent that the Option is vested on the date of death (but in no event later than the expiration date determined by Section 6(e) of the Plan), as set forth in Section 6(i)(ii) of the Plan.
4. Transferability. Unless determined otherwise by the Administrator, Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator in its sole discretion makes an Award transferable, such Award may only be transferred (i) by will, (ii) by the laws of descent and distribution, or (iii) to family members (within the meaning of Rule 701 of the Securities Act) through gifts or domestic relations orders, as permitted by Rule 701 of the Securities Act.
5. Financial Reports. The Company will provide to each Participant and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Participant has one or more Awards outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company will not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.
6. Right of Repurchase. In the case of a Participant who is not an officer of the Company, a Director, or a Consultant, any Company right of repurchase or right to redeem Shares issued pursuant to an Option or Restricted Shares at the original Exercise Price or Purchase Price upon termination of the Participant's status as a Service Provider shall lapse at a rate no slower than as to 20% of the Shares or Restricted Shares per year over five years from the Date of Grant. Any such repurchase or redemption right may be exercised only within 90 days following the termination of the Participant's status as a Service Provider (or, in the case of Shares issued upon exercise of an Option after the termination, within 90 days following the date of exercise) for cash or cancellation of indebtedness incurred purchasing the Shares.
7. Voting Rights. Notwithstanding any provision of the Plan to the contrary (including, without limitation, the requirement that a Participant execute a Stockholders Agreement), Shares issued pursuant to an Award shall carry voting rights no less favorable

than any other issued and outstanding Share.

8. **Adjustments.** In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, may (in its sole discretion) adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award; provided, however, that the Administrator will make such adjustments to the extent required by Section 25102(o) of the California Corporations Code.

## **Exhibit B**

### **AEROHIVE NETWORKS, INC. 2006 GLOBAL SHARE PLAN SUB PLAN FOR FRANCE**

#### **1. Purpose of Sub Plan.**

This Aerohive Networks, Inc. Sub-Plan for France (the “Sub Plan”) of the 2006 Global Share Plan (the “Plan”) was established by the Board for the purpose of granting Options which qualify for the favorable income tax and social tax treatment in France applicable to options granted under Sections L. 225-177 to L. 225-186 of the French Commercial Code (“French Qualified Stock Option”). The additional terms and conditions detailed below are to be read in conjunction with the rules of the Plan. To the extent that the terms and conditions of this Sub Plan conflict with the terms and conditions set forth in the Plan or any French Qualified Stock Option Agreement, the terms and conditions of this Sub Plan shall prevail. Unless otherwise defined herein, the capitalized terms in this Sub Plan shall have the meanings ascribed to those terms in the Plan.

#### **2. Administration.**

Notwithstanding any other provision of the Plan, unless otherwise agreed by the Administrator, French Qualified Stock Options will be exercisable under the vesting schedule set out in the Award Agreement relating to the French Qualified Stock Option (the “French Qualified Stock Option Agreement”) for Employees subject to the laws in France. Notwithstanding any other provision of the Plan, the Administrator is authorized to unilaterally accelerate, reduce, lift or cancel vesting of any Option granted under this Sub Plan, as may be necessary or desirable to comply with applicable French social or tax laws.

Furthermore, the Administrator has the discretion to impose a restriction of up to three (3) years on the sale of Shares issued as a result of the exercise of a French Qualified Stock Option. Notwithstanding any other provision of the Plan, the exercise price shall remain unchanged, provided that the exercise price can be adjusted upon the occurrence of the events specified under the July 24, 1966 corporate law (section 208-5) in accordance with French law. The total number of Shares subject to French Qualified Stock Options granted and remaining unexercised (outstanding French Qualified Stock Options) will never cover a number of Shares exceeding one-third of the share capital of the Company.

#### **3. Definitions.**

For purposes of this Sub Plan, a “Group company” is a company having the following capital links with the granting Company:

- (a) at least 10% of the subsidiary’s capital is held, directly or indirectly, by the granting Company,
- (b) the subsidiary directly or indirectly holds at least 10% of the granting Company’s capital, or
- (c) at least 50% of the subsidiary’s capital is held, directly or indirectly by a company which holds, directly or indirectly, at least 50% of the granting Company’s capital.

#### **4. Eligibility.**



Options may not be issued under this Sub Plan to Employees or executives owning upon the date of grant more than ten percent (10%) of the Company's capital shares. Notwithstanding any other provision of the Plan, French Qualified Stock Options may only be granted to individuals (the "Participants"):

(a) having an employment contract with the Company, or with an agent of the company, a subsidiary or a Group company as defined below, upon the date of grant; and/or

(b) to non-employed directors having a management function (the "président-directeur general," the "directeur-général," the "members of the "directoire") of a French subsidiary or a Group company as defined in Section 3 of this Sub Plan, upon the date of grant.

Nothing in this Section 4 of the Sub Plan is intended to expand the class of individuals eligible to receive Awards under the Plan as set forth in Section 5 thereto and the provisions of this Section 4 shall be interpreted as such.

## **5. Option Price.**

Notwithstanding any other provision of the Plan, the Administrator can set the exercise price of any French Qualified Stock Options granted under this Sub Plan as the greater of Fair Market Value on the date of grant or 80% of the average stock exchange price during the twenty (20) days preceding the related grant or 80% of the average repurchase price of its own Shares held by the Company to be allocated to Participants.

## **6. Timing of Option Grant.**

Notwithstanding any other provision of the Plan, Options granted within the following time periods shall be deemed not to have been granted under this Sub Plan and will not be considered to be French Qualified Stock Options:

(a) twenty (20) day period following a distribution of dividends or a capital increase of the Company;

(b) during the period of time between the ten (10) stock exchange sessions preceding and following the date consolidated accounts are made public, or if no consolidated accounts, the date of publication of annual accounts; and

(c) during the period of time between the date the Company becomes aware of information which would have a significant impact on the Company's shares and the date after the end of ten (10) stock exchange sessions following the date upon which the information is made public (pursuant to Article 70 of the bill modifying the last paragraph of Article 208-1 of law 66-537 of 24 July 1966).

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## **Section 3: EX-10.2 (EXHIBIT 10.2)**

**AEROHIVE NETWORKS, INC.**

**2014 EQUITY INCENTIVE PLAN**

(As amended effective April 1, 2017)

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) “Administrator” means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) “Applicable Laws” means the legal and regulatory requirements relating to the administration of equity-based awards, including but not limited to U.S. federal and state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any non-U.S. country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) “Award” means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(d) “Award Agreement” means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) “Board” means the Board of Directors of the Company.

(f) “Change in Control” means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group (“Person”), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, (1) the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control and (2) if the stockholders of the Company immediately before such change in ownership continue to retain immediately after the change in ownership, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately prior to the change in ownership, direct or indirect beneficial ownership of fifty percent (50%) or more of the total voting power of the stock of the Company or of the ultimate parent entity of the Company, such event will not be considered a Change in Control under this clause (i). For this purpose, indirect beneficial ownership will include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company, as the case may be, either directly or through one or more subsidiary corporations or other business entities; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company’s assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company’s assets: (A) a transfer to an entity that is controlled by the Company’s stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company’s stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a

corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board, or a duly authorized committee of the Board, in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Aerohive Networks, Inc., a Delaware corporation, or any successor thereto.

(k) "Consultant" means any natural person, including an advisor, engaged by the Company or a Parent or Subsidiary to render bona fide services to such entity, provided the services (i) are not in connection with the offer or sale of securities in a capital-raising transaction, and (ii) do not directly promote or maintain a market for the Company's securities, in each case, within the meaning of Form S-8 promulgated under the Securities Act, and provided, further, that a Consultant will include only those persons to whom the issuance of Shares may be registered under Form S-8 promulgated under the Securities Act.

(l) "Determination Date" means the latest possible date that will not jeopardize the qualification of an Award granted under the Plan as "performance-based compensation" under Section 162(m) of the Code.

(m) "Director" means a member of the Board.

(n) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(o) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(p) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(q) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is increased or reduced. This would include, but not be limited, to any:

- reduction of the Exercise Price or Purchase Price of an outstanding award;
- cancellation of an outstanding award in exchange for an award with a lower Exercise Price or Purchase Price;
- cancellation of an outstanding award in exchange for a new award, where the Exercise Price or Purchase Price

of the original award is less than the Fair Market Value of the award at the time of cancellation; or

- cancellation of an outstanding award in exchange for cash, where the Exercise Price or Purchase Price of the original award is less than the Fair Market Value of the award at the time of cancellation.

For the avoidance of doubt, the Administrator may not implement an Exchange Program.

(r) “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or, if no bids and asks were reported on that date, as applicable, on the last trading date such bids and asks were reported), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) For purposes of any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company’s Common Stock; or

(iv) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(s) “Fiscal Year” means the fiscal year of the Company.

(t) “Fully Diluted” means, with respect to Shares, as of a specified date, the sum of the number of outstanding Shares plus the number of Shares subject to the Company’s outstanding equity compensation awards (excluding outstanding equity compensation awards under any employee stock purchase plans of the Company).

(u) “Incentive Stock Option” means an Option that by its terms qualifies and otherwise is intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(v) “Inside Director” means a Director who is an Employee.

(w) “Nonstatutory Stock Option” means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(x) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(y) “Option” means a stock option granted pursuant to the Plan.

(z) “Outside Director” means a Director who is not an Employee.

(aa) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(bb) “Participant” means the holder of an outstanding Award.

(cc) “Performance Goals” will have the meaning set forth in Section 11 of the Plan.

(dd) “Performance Period” means the time period of any Fiscal Year of the Company or such other period as determined by the Administrator in its sole discretion.

(ee) “Performance Share” means an Award denominated in Shares which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(ff) “Performance Unit” means an Award which may be earned in whole or in part upon attainment of Performance Goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(gg) “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock is subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, continued service, the achievement of target levels of performance, the achievement of Performance Goals, or the occurrence of other events as determined by the Administrator.

(hh) “Plan” means this 2014 Equity Incentive Plan, as may be amended from time to time.

(ii) “Registration Date” means the effective date of the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company’s securities.

(jj) “Restricted Stock” means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(kk) “Restricted Stock Unit” means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(ll) “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(mm) “Securities Act” means the Securities Act of 1933, as amended.

(nn) “Section 16(b)” means Section 16(b) of the Exchange Act.

(oo) “Service Provider” means an Employee, Director or Consultant.

(pp) “Share” means a share of the Common Stock, as adjusted in accordance with Section 15 of the Plan.

(qq) “Stock Appreciation Right” means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.

(rr) “Subsidiary” means a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

### 3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 15 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is 10,106,812 Shares, plus (i) any Shares that, as of the Registration Date, have been reserved but not issued pursuant to any awards granted under the Company’s 2006 Global Share Plan, as amended (the “Existing Plan”) and are not subject to any awards granted thereunder, and (ii) any Shares subject to stock options or similar awards granted under the Existing Plan that, after the Registration Date, expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the Existing Plan that, after the Registration Date, are forfeited to or repurchased by the Company, with the maximum number of Shares to be added to the Plan pursuant to clauses (i) and (ii) equal to 8,520,656 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Automatic Share Reserve Increase. Subject to the provisions of Section 15 of the Plan, the number of Shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the 2016 Fiscal Year, in an amount equal to the least of (i) 4,000,000 Shares, (ii) five percent (5%) of the outstanding Shares on the last day of the immediately preceding Fiscal Year, or (iii) such number of Shares determined by the Board.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the

Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares), which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, only Shares actually issued (i.e., the net Shares issued) pursuant to a Stock Appreciation Right will cease to be available under the Plan; all remaining Shares under Stock Appreciation Rights will remain available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 15, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Sections 3(b) and 3(c).

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

#### 4. Administration of the Plan.

##### (a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;

(viii) to modify or amend each Award (subject to Section 20 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to Section 6(c) of the Plan regarding Incentive Stock Options);

(ix) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 16 of the Plan;

(x) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xi) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) No Exchange or Repricing. Notwithstanding the foregoing under Section 4(b), the Administrator may not implement an Exchange Program.

(d) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards and will be given the maximum deference permitted by law.

5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

#### 6. Stock Options.

(a) Limitations. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), the portion of the Options falling within such limit will be Incentive Stock Options and the excess Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Shares subject to Options granted to any Participant, provided that during any Fiscal Year, no Participant will be granted Options covering more than 5,000,000 Shares. Notwithstanding the foregoing limitation, in connection with a Participant's initial service as an Employee, the Participant may be granted Options covering up to an additional 1,000,000 Shares.

(c) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

#### (d) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

##### (1) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(e) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 15 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option for a period of twelve (12) months following Participant's termination of his or her status



as a Service Provider (or such longer period to the extent specified in the applicable Award Agreement with respect to Participant's Disability) to the extent the Option is vested on the date of termination (see Section 13(b) below), but in no event later than the expiration of the term of such Option as set forth in the Award Agreement. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within will remain exercisable for a period of twelve (12) months following Participant's termination of his or her status as a Service Provider (or such longer period to the extent specified in the applicable Award Agreement with respect to Participant's death) to the extent that the Option is vested on the date of death (see Section 13(b) below), but in no event may the Option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

In the event that the Participant dies while a Service Provider, or after the termination of the Participant's relationship as a Service Provider as a result of the Participant's Disability, but before the expiration of the Participant's Option as set forth in subsections (iii) or (iv), as applicable, all or part of the Option may be exercised (prior to expiration) by the executors or administrators of the Participant's estate or by any person who has acquired the Option directly from the Participant by beneficiary designation, bequest, or inheritance.

## 7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction (if any), the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Notwithstanding the foregoing sentence, for Restricted Stock intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, during any Fiscal Year no Participant will receive more than an aggregate of 5,000,000 Shares of Restricted Stock; provided, however, that in connection with a Participant's initial service as an Employee, the Participant may be granted an aggregate of up to an additional 1,000,000 Shares of Restricted Stock. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

(i) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goal(s). The Performance Goal(s) will be set by the Administrator on or before the Determination Date. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goal(s)).

#### 8. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. Each Restricted Stock Unit grant will be evidenced by an Award Agreement that will specify such terms and conditions as the Administrator in its sole discretion determines, including all terms, conditions, and restrictions related to the grant, the number of Restricted Stock Units and the form of payout, which, subject to Section 8(d), may be left to the discretion of the Administrator. Notwithstanding anything to the contrary in this subsection (a), for Restricted Stock Units intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code, during any Fiscal Year of the Company, no Participant will receive more than an aggregate of 5,000,000 Restricted Stock Units; provided, however, that in connection with a Participant’s initial service as an Employee, the Participant may be granted an aggregate of up to an additional 1,000,000 Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws or any other basis determined by the Administrator in its sole discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may pay earned Restricted Stock Units in cash, Shares, or a combination of both.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

(f) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock Units as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goal(s). The Performance Goal(s) will be set by the Administrator on or before the Determination Date. In granting Restricted Stock Units which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goal(s)).

#### 9. Stock Appreciation Rights.

(a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider, provided that during any Fiscal Year, no Participant will be granted Stock Appreciation Rights covering more than 5,000,000 Shares. Notwithstanding the foregoing limitation, in connection with a Participant’s initial service as an Employee, the Participant may be granted Stock Appreciation Rights covering up to an additional 1,000,000 Shares.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.

(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(c) relating to the maximum term and Section 6(e) relating to exercise also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

- (i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times
- (ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

#### 10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant provided that during any Fiscal Year, for Performance Units or Performance Shares intended to qualify as “performance-based compensation” within the meaning of Section 162(m) of the Code, (i) no Participant will receive Performance Units having an initial value greater than \$10,000,000, and (ii) no Participant will receive more than 5,000,000 Performance Shares; provided, however, that in connection with a Participant’s initial service as an Employee, the Participant may be granted up to an additional 1,000,000 Performance Shares.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Participant. Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

(g) Section 162(m) Performance Restrictions. For purposes of qualifying grants of Performance Units/Shares as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions

based upon the achievement of Performance Goal(s). The Performance Goal(s) will be set by the Administrator on or before the Determination Date. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Administrator will follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Award under Section 162(m) of the Code (e.g., in determining the Performance Goal(s)).

#### 11. Performance-based Compensation Under Code Section 162(m).

(a) General. If the Administrator, in its discretion, decides to grant an Award intended to qualify as “performance-based compensation” under Code Section 162(m), the provisions of this Section 11 will control over any contrary provision in the Plan; provided, however, that the Administrator in its discretion may grant Awards that are not intended to qualify as “performance-based compensation” under Section 162(m) of the Code to such Participants that are based on Performance Goal(s) or other specific criteria or goals but that do not satisfy the requirements of this Section 11.

(b) Performance Goals. The granting and/or vesting of Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units and other incentives under the Plan may be made subject to the attainment of performance goals relating to one or more business criteria within the meaning of Section 162(m) of the Code and may provide for a targeted level or levels of achievement (“Performance Goals”) including (i) revenue; (ii) gross margin; (iii) operating margin; (iv) operating income; (v) pre-tax profit; (vi) earnings before stock-based compensation expense, interest, taxes and depreciation and amortization; (vii) earnings before interest, taxes and depreciation and amortization; (viii) earnings before interest and taxes; (ix) net income; (x) expenses; (xi) new product development; (xii) stock price; (xiii) earnings per share; (xiv) return on stockholder equity; (xv) return on capital; (xvi) return on net assets; (xvii) economic value added; (xviii) market share; (xix) customer service; (xx) customer satisfaction; (xxi) sales; (xxii) total stockholder return; (xxiii) free cash flow; (xxiv) net operating income; (xxv) operating cash flow; (xxvi) return on investment; (xxvii) employee satisfaction; (xxviii) employee retention; (xxix) balance of cash, cash equivalents and marketable securities; (xxx) product development; (xxxi) research and development expenses; (xxxii) completion of an identified special project; (xxxiii) completion of a joint venture or other corporate transaction; (xxxiv) inventory balance; or (xxxv) inventory turnover ratio. Any criteria used may be measured, as applicable, (A) in absolute terms, (B) in combination with another Performance Goal or Goals (for example, but not by way of limitation, as a ratio or matrix), (C) in relative terms (including, but not limited to, results for other periods, passage of time and/or against another company or companies or an index or indices), (D) on a per-share or per-capita basis, (E) against the performance of the Company as a whole or a segment of the Company (including, but not limited to, any combination of the Company and any subsidiary, division, business unit, joint venture and/or other segment), and/or (F) on a pre-tax or after-tax basis. The Performance Goals may differ from Participant to Participant and from Award to Award. Prior to the Determination Date, the Administrator will determine whether any significant element(s) will be included in or excluded from the calculation of any Performance Goal with respect to any Participant. In all other respects, Performance Goals will be calculated in accordance with the Company’s financial statements, generally accepted accounting principles, or under a methodology established by the Administrator prior to the issuance of an Award.

(c) Procedures. To the extent necessary to comply with the performance-based compensation provisions of Code Section 162(m), with respect to any Award granted subject to Performance Goal(s), within the first twenty-five percent (25%) of the Performance Period, but in no event more than ninety (90) days following the commencement of any Performance Period (or such other time as may be required or permitted by Code Section 162(m)), the Administrator will, in writing, (i) designate one or more Participants to whom an Award will be made, (ii) select the Performance Goal(s) applicable to the Performance Period, (iii) establish the Performance Goal(s), and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (iv) specify the relationship between Performance Goal(s) and the amounts of such Awards, as applicable, to be earned by each Participant for such Performance Period. Following the completion of each Performance Period, the Administrator will certify in writing whether the applicable Performance Goal(s) have been achieved for such Performance Period. In determining the amounts earned by a Participant, the Administrator will have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Administrator may deem relevant to the assessment of individual or corporate performance for the Performance Period. A Participant will be eligible to receive payment pursuant to an Award for a Performance Period only if the Performance Goal(s) for such period are achieved.

(d) Additional Limitations. Notwithstanding any other provision of the Plan, any Award which is granted to a Participant and is intended to constitute qualified performance based compensation under Code Section 162(m) will be subject to any additional limitations set forth in the Code (including any amendment to Section 162(m)) or any regulations and rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m) of the Code, and the Plan will be deemed amended to the extent necessary to conform to such requirements.

#### 12. Outside Director Limitations.

(a) Cash-Settled Awards. No Outside Director may be granted, in any Fiscal Year, cash-settled Awards with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of more than \$500,000, increased to \$1,000,000 in connection with his or her initial service.

(b) Stock-Settled Awards. No Outside Director may be granted, in any Fiscal Year, stock-settled Awards with a grant date fair value (determined in accordance with U.S. generally accepted accounting principles) of more than \$500,000, increased to \$1,000,000 in connection with his or her initial service.

13. Service Provider Status.

(a) Leaves of Absence/Transfer Between Locations.

(i) Continued Vesting. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will continue during any unpaid leave of absence of an Employee or Director, consistent with and approved under the Company's formal Leave of Absence policy then in effect. Such continued vesting will not exceed ninety (90) days in the aggregate during any twelve (12) month period or one hundred eighty (180) days in the aggregate during any thirty-six (36) month period following the commencement of the unpaid leave of absence (unless the Award sooner terminates in accordance with its terms). Thereafter, the vesting of such Award will be suspended for the remaining duration of such leave (unless the Award sooner terminates in accordance with its terms). Vesting will recommence upon such Participant's return to active service as a Service Provider (and for avoidance of doubt, upon return to active status, no credit for vesting will be provided for the period during which vesting was suspended during the approved unpaid leave of absence, except as required by applicable law).

(ii) Suspended Vesting. Except as set forth in subsection (i) above and unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence.

(iii) Approved Leaves; Transfers. A Participant will not cease to be an Employee or Director in the case of (A) any leave of absence approved by the Company or (B) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary.

(iv) Incentive Stock Options. For purposes of Incentive Stock Options, no leave of absence may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1st) day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

(b) Additional Vesting Upon Death or Disability. Unless the Administrator determines otherwise in its sole discretion, if a Participant ceases to be a Service Provider as a result of the Participant's death or Disability, then with respect to Awards that the Participant holds as of immediately prior to the cessation of the Participant's status as a Service Provider, the Participant will be deemed to fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares that otherwise would not be vested or exercisable, all restrictions on Awards other than Options and Stock Appreciation Rights will lapse, and, with respect to Awards with performance-based vesting, all performance goals and other applicable vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met (the "Additional Vesting").

Unless the Administrator determines otherwise in its sole discretion for purposes of this Additional Vesting, "Service Provider" shall be limited to mean a Participant who at the time of such death or Disability is an Employee or Director (and not a Consultant), and who has provided services to the Company (or any Parent or Subsidiary of the Company) in good standing in such capacity for more than one (1) year (and, in the case of an Employee, on a regular, full-time basis).

14. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

15. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities,

or other property), recapitalization, stock split, reverse stock split, reorganization, reincorporation, reclassification, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits in Sections 3, 6(b), 7(b), 8(a), 9(b) and 10(a) of the Plan.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger of the Company with or into another corporation or other entity or a Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 15(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

Notwithstanding anything in this Section 15(c) to the contrary, if a payment under an Award Agreement is subject to Code Section 409A and if the change in control definition contained in the Award Agreement does not comply with the definition of "change in control" for purposes of a distribution under Code Section 409A, then any payment of an amount that otherwise is accelerated under this Section will be delayed until the earliest time that such payment would be permissible under Code Section 409A without triggering any penalties applicable under Code Section 409A.

(d) Outside Director Awards. With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant (unless such resignation is at the request of the acquirer), then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares which would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

16. Tax.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof) or such earlier time as any tax withholding obligations are due, the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld and any employer tax liability shifted to a Participant with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, provided the delivery of such Shares will not result in adverse accounting consequences as the Administrator determines in its sole discretion, or (d) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. The amount of the withholding requirement will be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that such Shares are withheld or delivered, as applicable.

(c) Compliance with Code Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A. Notwithstanding the foregoing, in no event will the Company reimburse any Participant for any taxes that may be imposed upon Participant as a result of Code Section 409A.

17. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company or any Parent or Subsidiary, nor will they interfere in any way with the Participant's right or the right of the Company or any Parent or Subsidiary, as applicable, to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

18. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

19. Term of Plan. Subject to Section 23 of the Plan, the Plan will become effective upon the later to occur of (i) its adoption by the Board or (ii) the business day immediately prior to the Registration Date. It will continue in effect for a term of ten (10) years from the date adopted by the Board, unless terminated earlier under Section 20 of the Plan.

20. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

21. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

22. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any registration or other qualification of the Shares under any state, federal or foreign law or under the rules and regulations of the Securities and Exchange Commission, the stock exchange on which Shares of the same class are then listed, or any other governmental or regulatory body, which authority, registration, qualification or rule compliance is deemed by the Company's counsel to be necessary or advisable for the issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority, registration, qualification or rule compliance will not have been obtained.

23. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

24. Captions. Captions are provided herein for convenience only, and will not serve as a basis for interpretation or construction of the Plan.

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## **Section 4: EX-10.3 (EXHIBIT 10.3)**

### **FIRST AMENDMENT TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT**

**THIS FIRST AMENDMENT TO AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT** (this "**Amendment**") is entered into this 21<sup>st</sup> day of March, 2017, by and between **SILICON VALLEY BANK**, a California corporation ("**Bank**") and **AEROHIVE NETWORKS, INC.**, a Delaware corporation ("**Borrower**").

#### **RECITALS**

A. Bank and Borrower have entered into that certain Amended and Restated Loan and Security Agreement dated as of February 18, 2016 (as the same may from time to time be further amended, modified, supplemented or restated, the "**Loan Agreement**").

B. Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

C. Borrower has requested that Bank amend the Loan Agreement to (i) extend the Revolving Line Maturity Date, (ii) modify the definition of Streamline Eligible, and (iii) make certain other revisions to the Loan Agreement as more fully set forth herein.

D. Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

#### **AGREEMENT**



**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

**1. Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

**2. Amendments to Loan Agreement.**

**2.1 Section 2.1.1 (Revolving Advances).** Subsection (a) of Section 2.1.1 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

(a) Formula Availability. Subject to the terms and conditions of this Agreement and to deduction of Reserves, Bank shall make formula advances (the "**Formula Advances**") not exceeding the Availability Amount. Amounts borrowed hereunder may be repaid and, prior to the Revolving Line Maturity Date, reborrowed, subject to the applicable terms and conditions precedent herein.

**2.2 Section 2.2 (Overadvances).** Section 2.2 of the Loan Agreement is hereby amended by deleting the reference to “the Default Rate (as hereinafter defined)” therein and inserting in lieu thereof “a per annum rate equal to the rate that is otherwise applicable to Advances plus five percent (5.0%)”.

**2.3 Section 2.3 (Payment of Interest on the Credit Extensions).** Subsection (g) of Section 2.3 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

(g) Reserved.

**2.4 Section 2.4 (Fees).** Section 2.4 of the Loan Agreement is hereby amended by adding the following immediately after clause (e) as clause (f):

(f) Unused Revolving Line Facility Fee. Payable quarterly in arrears on the last day of each calendar quarter prior to the Revolving Line Maturity Date and on the Revolving Line Maturity Date, a fee (the “**Unused Revolving Line Facility Fee**”) in an amount equal to three-tenths of one percent (0.30%) per annum of the average unused portion of the Revolving Line, as determined by Bank.

**2.5 Section 2.5 (Payments; Application of Payments).** The first sentence of Subsection (b) of Section 2.5 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

Subject to the terms of Section 6.13(c), Bank shall apply the whole or any part of collected funds against the Revolving Line or credit such collected funds to a depository account of Borrower with Bank (or an account maintained by an Affiliate of Bank), the order and method of such application to be in the sole discretion of Bank.

**2.6 Section 3.3 (Conditions Precedent to all Credit Extensions).** Subsections (a) and (b) of Section 3.3 of the Loan Agreement are hereby deleted in their entirety and replaced with the following:

(a) timely receipt of the Credit Extension request and any materials and documents required by Section 3.5;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the proposed Credit Extension and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower’s representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided,

however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; and

**2.7 Section 3.5 (Procedures for Borrowing).** Subsection (a)(i) of Section 3.5 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

(i) Subject to the prior satisfaction of all other applicable conditions to the making of an Advance set forth in this Agreement, an Advance shall be made upon Borrower's irrevocable written notice delivered to Bank in the form of a Notice of Borrowing or without instructions if any Advances is necessary to meet Obligations which have become due. The Notice of Borrowing shall be made by Borrower through Bank's online banking program; provided, however, if Borrower is not utilizing Bank's online banking program, then such Notice of Borrowing shall be in the form attached hereto as Exhibit F and shall be executed by an Authorized Signer. Bank shall have received satisfactory evidence that the provision of such notices and the requests for Advances have been approved by the Board. The Notice of Borrowing must be received by Bank prior to 12:00 p.m. Pacific time, (i) at least three (3) Business Days prior to the requested Funding Date, in the case of any LIBOR Advance, and (ii) on the requested Funding Date, in the case of a Prime Rate Advance, specifying: (1) the amount of the Advance; (2) the requested Funding Date; (3) whether the Advance is to be comprised of LIBOR Advances or Prime Rate Advances; and (4) the duration of the Interest Period applicable to any such LIBOR Advances included in such notice; provided that if the Notice of Borrowing shall fail to specify the duration of the Interest Period for any Advance comprised of LIBOR Advances, such Interest Period shall be one (1) month. Notwithstanding any terms in this Agreement to the contrary, each LIBOR Advance shall not be less than One Million Dollars (\$1,000,000). In addition to such Notice of Borrowing, Borrower must promptly deliver to Bank by electronic mail or through Bank's online banking program such reports and information, including without limitation, sales journals, cash receipts journals, accounts receivable aging reports, as Bank may request in its sole discretion.

**2.8 Section 3.6 (Conversion and Continuation Elections).** Subsection (b) of Section 3.6 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

(b) Borrower shall deliver a Notice of Conversion/Continuation by electronic mail via Bank's online banking program to be received by Bank prior to 12:00 p.m. Pacific time (i) at least three (3) Business Days in advance of the Conversion Date or Continuation Date, if any Advances are to be converted into or continued as LIBOR Advances; and (ii) on the Conversion Date, if any Advances are to be converted into Prime Rate Advances, in each case specifying the:

- (1) proposed Conversion Date or Continuation Date;
- (2) aggregate amount of the Advances to be converted or continued;

- (3) nature of the proposed conversion or continuation; and
- (4) if the resulting Advance is to be a LIBOR Advance, the duration of the requested Interest Period.

**2.9 Section 5.3 (Accounts Receivable).** Section 5.3 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

**5.3 Accounts Receivable.**

(a) For each Account with respect to which Advances are requested, on the date each Advance is requested and made, such Account shall be an Eligible Account.

(b) All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing the Eligible Accounts are and shall be true and correct in all material respects and all such invoices, instruments and other documents, and all of Borrower's Books are genuine and in all material respects what they purport to be. All sales and other transactions underlying or giving rise to each Eligible Account shall comply in all material respects with all applicable laws and governmental rules and regulations. Borrower has no knowledge of any actual or imminent Insolvency Proceeding of any Account Debtor whose accounts are Eligible Accounts in any Borrowing Base Report. To the best of Borrower's knowledge, all signatures and endorsements on all documents, instruments, and agreements relating to all Eligible Accounts are genuine, and all such documents, instruments and agreements are legally enforceable in accordance with their terms.

**2.10 Section 6.2 (Financial Statements, Reports, Certificates).** Subsections (a) and (b) of Section 6.2 of the Loan Agreement are hereby deleted in their entirety and replaced with the following:

(a) Borrowing Base Reports. In the event that Borrower is not Streamline Eligible, a Borrowing Base Report (and any schedules related thereto and including any other information requested by Bank with respect to Borrower's Accounts) within thirty (30) days after the end of each month;

(b) A/R Aging Reports. In the event that Borrower is not Streamline Eligible, within thirty (30) days after the end of each month, (A) monthly accounts receivable agings, aged by invoice date, (B) monthly accounts payable agings, aged by invoice date, and outstanding or held check registers, if any, and (C) monthly reconciliations of accounts receivable agings (aged by invoice date), transaction reports, Deferred Revenue report, and general ledger;

**2.11 Section 6.6 (Operating and Investment Accounts).** Section 6.6 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

**6.6 Operating and Investment Accounts.**

(a) Maintain all of its primary operating and investment accounts with Bank and Bank's Affiliates and conduct all of its primary domestic banking services and foreign currency exchange and letters of credit through Bank and Bank's Affiliates. Notwithstanding the foregoing, or anything to the contrary herein, Borrower may maintain the Bank of America deposit account having the account number \*\*\*\*\*7979 (last four digits) (the "**External BOA Account**"), provided that the funds in the External BOA Account do not exceed at any time an aggregate of Five Hundred Thousand Dollars (\$500,000).

(b) Provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates. For each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to (i) deposit accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such, (ii) Borrower's PayPal account having the account number \*\*\*\*\*THHQ (last four digits) ("**External Paypal Account**"), provided that the funds in the External Paypal Account do not exceed at any time an aggregate of Five Hundred Thousand Dollars (\$500,000), or (iii) the External BOA Account provided that the funds in the External BOA Account do not exceed at any time an aggregate of Five Hundred Thousand Dollars (\$500,000).

**2.12 Section 6.10 (Access to Collateral; Books and Records).** Section 6.10 of the Loan Agreement is hereby amended by deleting the reference therein to "Eight Hundred Fifty Dollars (\$850)" and replacing it with "One Thousand Dollars (\$1,000)".

**2.13 Section 6.13 (Accounts Receivable).** Section 6.13 of the Loan Agreement is hereby inserted immediately following Section 6.12:

### **6.13 Accounts Receivable.**

(a) Schedules and Documents Relating to Accounts. Borrower shall deliver to Bank transaction reports and schedules of collections, as provided in Section 6.2, on Bank's standard forms; provided, however, that Borrower's failure to execute and deliver the same shall not affect or limit Bank's Lien and other rights in all of Borrower's Accounts, nor shall Bank's failure to advance or lend against a specific Account affect or limit Bank's Lien and other rights therein. If requested by Bank, Borrower shall furnish Bank with copies (or, at Bank's request, originals) of all contracts, orders, invoices, and other similar documents, and all shipping instructions, delivery receipts, bills of lading, and other evidence of delivery, for any goods the sale or disposition of which gave rise to such Accounts. In addition, Borrower shall deliver to Bank, on its request, the originals of all instruments, chattel paper, security agreements, guarantees and other documents and property evidencing

or securing any Accounts, in the same form as received, with all necessary indorsements, and copies of all credit memos.

(b) Disputes. Borrower shall promptly notify Bank of all disputes or claims relating to Accounts. Borrower may forgive (completely or partially), compromise, or settle any Account for less than payment in full, or agree to do any of the foregoing so long as (i) Borrower does so in good faith, in a commercially reasonable manner, in the ordinary course of business, in arm's-length transactions, and reports the same to Bank in the regular reports provided to Bank; (ii) no Event of Default has occurred and is continuing; and (iii) after taking into account all such discounts, settlements and forgiveness, the total outstanding Advances will not exceed the lesser of the Revolving Line or the Borrowing Base.

(c) Collection of Accounts. Borrower shall direct Account Debtors to deliver or transmit all proceeds of Accounts into a lockbox account, or such other "blocked account" as specified by Bank (either such account, the "**Cash Collateral Account**"). Whether or not an Event of Default has occurred and is continuing, Borrower shall immediately deliver all payments on and proceeds of Accounts to the Cash Collateral Account. Subject to Bank's right to maintain a reserve pursuant to Section 6.13(d), all amounts received in the Cash Collateral Account shall be either (1) applied to immediately reduce the Obligations at times when an Event of Default exists, or (1) transferred on a daily basis to Borrower's operating account with Bank at times when no Event of Default exists. Borrower hereby authorizes Bank to transfer to the Cash Collateral Account any amounts that Bank reasonably determines are proceeds of the Accounts (provided that Bank is under no obligation to do so and this allowance shall in no event relieve Borrower of its obligations hereunder).

(d) Reserves. Notwithstanding any terms in this Agreement to the contrary, at times when an Event of Default exists, Bank may hold any proceeds of the Accounts and any amounts in the Cash Collateral Account that are not applied to the Obligations pursuant to Section 6.13(c) above (including amounts otherwise required to be transferred to Borrower's operating account with Bank) as a reserve to be applied to any Obligations regardless of whether such Obligations are then due and payable.

(e) Returns. Provided no Event of Default has occurred and is continuing, if any Account Debtor returns any Inventory with a book value in excess of Two Hundred Fifty Thousand Dollars (\$250,000) to Borrower, Borrower shall promptly (i) determine the reason for such return, (ii) issue a credit memorandum to the Account Debtor in the appropriate amount, and (iii) provide a copy of such credit memorandum to Bank, upon request from Bank. In the event any attempted return occurs after the occurrence and during the continuance of any Event of Default, Borrower shall hold the returned Inventory in trust for Bank, and immediately notify Bank of the return of the Inventory.

(f) Verifications; Confirmations; Credit Quality; Notifications. Bank may, from time to time and after written notice to and consultation with Borrower (provided no such notice and consultation is required from Bank when an Event of Default has occurred

and is continuing), (i) verify and confirm directly with the respective Account Debtors the validity, amount and other matters relating to the Accounts, either in the name of Borrower or Bank or such other name as Bank may choose, and notify any Account Debtor of Bank's security interest in such Account and/or (ii) conduct a credit check of any Account Debtor to approve any such Account Debtor's credit.

(g) No Liability. Bank shall not be responsible or liable for any shortage or discrepancy in, damage to, or loss or destruction of, any goods, the sale or other disposition of which gives rise to an Account, or for any error, act, omission, or delay of any kind occurring in the settlement, failure to settle, collection or failure to collect any Account, or for settling any Account in good faith for less than the full amount thereof, nor shall Bank be deemed to be responsible for any of Borrower's obligations under any contract or agreement giving rise to an Account. Nothing herein shall, however, relieve Bank from liability for its own gross negligence or willful misconduct.

**2.14 Section 6.14 (Remittance of Proceeds).** Section 6.14 of the Loan Agreement is hereby inserted immediately following Section 6.13:

**6.14 Remittance of Proceeds.** Except as otherwise provided in Section 6.13(c), deliver, in kind, all proceeds arising from the disposition of any Collateral to Bank in the original form in which received by Borrower not later than the following Business Day after receipt by Borrower, to be applied to the Obligations (a) prior to an Event of Default, pursuant to the terms of Section 6.13(c) hereof, and (b) after the occurrence and during the continuance of an Event of Default, pursuant to the terms of Section 9.4 hereof; provided that, if no Event of Default has occurred and is continuing, Borrower shall not be obligated to remit to Bank the proceeds of the sale of worn out or obsolete Equipment disposed of by Borrower in good faith in an arm's length transaction for an aggregate purchase price of Two Hundred Fifty Thousand Dollars (\$250,000) or less (for all such transactions in any fiscal year). Borrower agrees that it will not commingle proceeds of Collateral with any of Borrower's other funds or property, but will hold such proceeds separate and apart from such other funds and property and in an express trust for Bank. Nothing in this Section 6.14 limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement.

**2.15 Section 6.15 (Online Banking).** Section 6.15 of the Loan Agreement is hereby inserted immediately following Section 6.14:

**6.15 Online Banking.** Utilize Bank's online banking platform for all matters requested by Bank which shall include, without limitation (and without request by Bank for the following matters), uploading information pertaining to Accounts and Account Debtors, requesting approval for exceptions, requesting Credit Extensions, and uploading financial statements and other reports required to be delivered by this Agreement (including, without limitation, those described in Section 6.2 of this Agreement).

**2.16 Section 8.2 (Covenant Default).** Subsection (a) of Section 8.2 of the Loan Agreement is deleted in its entirety and replaced with the following:

(a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6, 6.7, 6.8(b), 6.10, 6.13, 6.14, or 6.15 or violates any covenant in Section 7; or

**2.17 Section 9.1 (Rights and Remedies).** Subsection (e) of Section 9.1 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

(e) settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, notify any Person owing Borrower money of Bank's security interest in such funds, and verify the amount of such account. Borrower shall collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the Account Debtor, with proper endorsements for deposit;

**2.18 Section 9.2 (Power of Attorney).** Section 9.2 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

**9.2 Power of Attorney.** Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact, exercisable by Bank following the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's name on any checks, payment instruments, or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) demand, collect, sue, and give releases to any Account Debtor for monies due, settle and adjust disputes and claims about the Accounts directly with Account Debtors, and compromise, prosecute, or defend any action, claim, case, or proceeding about any Collateral (including filing a claim or voting a claim in any bankruptcy case in Bank's or Borrower's name, as Bank chooses); (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, or other claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations (other than inchoate indemnity obligations) have been satisfied in full and the Loan Documents have been terminated. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations (other than inchoate indemnity obligations) have been fully repaid and performed and the Loan Documents have been terminated.



**2.19 Section 10 (Address for Notices).** Borrower's address for notices set forth in Section 10 of the Loan Agreement is hereby amended in its entirety and replaced with the following:

If to Borrower:           Aerohive Networks, Inc.  
                                  1011 McCarthy Blvd.  
                                  Milpitas, California 95035  
                                  Attn: John Ritchie, Chief Financial Officer  
                                  Email: jritchie@aerohive.com

With copy to:             General Counsel  
                                  email: generalcounsel@aerohive.com

**2.20 Section 13 (Definitions).**

(a) The following terms and their respective definitions set forth in Section 13.1 of the Loan Agreement are hereby deleted in their entirety and replaced with the following:

**"Authorized Signer"** is any individual listed in Borrower's Borrowing Resolution who is authorized to execute the Loan Documents, including making (and executing if applicable) any Credit Extension request, on behalf of Borrower.

**"Domestic Borrowing Base"** is eighty percent (80%) of Eligible Accounts, as determined by Bank from Borrower's most recent Borrowing Base Report; provided, however, that Bank may decrease the foregoing percentage in its good faith business judgment based on events, conditions, contingencies, or risks which, as determined by Bank, may adversely affect Collateral.

**"Foreign Borrowing Base"** is seventy percent (70%) of Eligible Foreign Accounts, as determined by Bank from Borrower's most recent Borrowing Base Report; provided, however, that Bank may decrease the foregoing percentage in its good faith business judgment based on events, conditions, contingencies, or risks which, as determined by Bank, may adversely affect Collateral.

**"Interest Payment Date"** means, with respect to any LIBOR Advance, the last day of each Interest Period applicable to such LIBOR Advance and, with respect to Prime Rate Advances, the last calendar day of each month (or, if that day does not fall on a Business Day, then on the last Friday prior to such date).

**"Obligations"** are Borrower's obligations to pay when due any debts, principal, interest, fees, Bank Expenses, the Unused Revolving Line Facility Fee, and other amounts Borrower owes Bank now or later, whether under this Agreement, the other Loan Documents, or otherwise, including, without limitation, all obligations relating to Bank Services and interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower's duties under the Loan Documents.

**“Revolving Line Maturity Date”** is March 31, 2019.

**“Streamline Eligible”** means, at all times that Borrower’s Net Cash is greater than or equal to Thirty-Five Million Dollars (\$35,000,000) and no Event of Default has occurred and is continuing; provided, however, if Borrower’s Net Cash is less than Thirty-Five Million Dollars (\$35,000,000) on any day, Borrower will not be Streamline Eligible until such time as Bank confirms that Borrower’s Net Cash was greater than or equal to Thirty-Five Million Dollars (\$35,000,000) at all times during the immediately preceding full calendar month. A period in which Borrower is Streamline Eligible (other than one commencing on the Effective Date, if applicable) may only commence on the first (1<sup>st</sup>) day of a calendar month.

(b) The preamble in the definition of Eligible Accounts set forth in Section 13.1 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

**“Eligible Accounts”** means Accounts which arise in the ordinary course of Borrower’s business that meet all Borrower’s representations and warranties in Section 5.3, that have been, at the option of Bank, confirmed in accordance with Section 6.13(f) of this Agreement, and are due and owing from Account Debtors deemed creditworthy by Bank in its good faith business judgment. Bank reserves the right upon prior written notice to Borrower at any time after the Effective Date to adjust any of the criteria set forth below and to establish new criteria in its good faith business judgment. Unless Bank otherwise agrees in writing, Eligible Accounts shall not include:

(c) The following new defined terms are hereby inserted alphabetically in Section 13.1 of the Loan Agreement:

**“Borrowing Base Report”** is that certain report of the value of certain Collateral in the form attached hereto as Exhibit C.

**“Reserves”** means, as of any date of determination, such amounts as Bank may from time to time establish and revise in its good faith business judgment, reducing the amount of Advances and other financial accommodations which would otherwise be available to Borrower (a) to reflect events, conditions, contingencies or risks which, as determined by Bank in its good faith business judgment, do or may adversely affect (i) the Collateral or any other property which is security for the Obligations or its value (including without limitation any increase in delinquencies of Accounts), (ii) the assets, business or prospects of Borrower or any Guarantor, or (iii) the security interests and other rights of Bank in the Collateral (including the enforceability, perfection and priority thereof); or (b) to reflect Bank’s reasonable belief that any collateral report or financial information furnished by or on behalf of Borrower or any Guarantor to Bank is or may have been incomplete, inaccurate or misleading in any material respect; or (c) in respect of any state of facts which Bank determines constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default.

**“Unused Revolving Line Facility Fee”** is defined in Section 2.4(f).

**2.21 Section 13 (Definitions).** The defined terms “**Borrowing Base Certificate**”, “**Minimum Interest**”, “**Minimum Interest Period**”, and “**Payment/Advance Form**”, and their respective definitions as set forth in Section 13.1 of the Loan Agreement are hereby deleted in their entirety and all occurrences of and references to such terms in the Loan Agreement are hereby deleted in their entirety and from and after the date of this Amendment shall be of no further force and effect under the Loan Agreement.

**2.22 Exhibit B (Payment/Advance Form).** The Payment/Advance Form (as defined in the Loan Agreement until the date of this Amendment) appearing as Exhibit B to the Loan Agreement is hereby deleted in its entirety.

**2.23 Exhibit C (Borrowing Base Certificate).** The Borrowing Base Certificate (as defined in the Loan Agreement until the date of this Amendment) appearing as Exhibit C to the Loan Agreement is hereby deleted in its entirety and replaced with the Borrowing Base Report attached hereto as Exhibit C. From and after the date of this Amendment, all references in the Loan Agreement to the Borrowing Base Certificate shall mean the Borrowing Base Report in the form attached hereto as Exhibit C.

**2.24 Exhibit D (Compliance Certificate).** The Compliance Certificate attached to the Loan Agreement as Exhibit D is hereby amended in its entirety and replaced with the Compliance Certificate attached hereto as Exhibit D. From and after the date of this Amendment, all references in the Loan Agreement to the Compliance Certificate shall mean the Compliance Certificate in the form attached hereto as Exhibit D.

### **3. Limitation of Amendments.**

**3.1** The amendments set forth in Section 2, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (1) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (1) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

**3.2** This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

**4. Representations and Warranties.** To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

**4.1** Immediately after giving effect to this Amendment (1) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (1) no Event of Default has occurred and is continuing;

**4.2** Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

**4.3** The organizational documents of Borrower delivered to Bank on the March 31, 2015 remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

**4.4** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

**4.5** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (1) any law or regulation binding on or affecting Borrower, (1) any contractual restriction with a Person binding on Borrower, (1) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (1) the organizational documents of Borrower;

**4.6** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on Borrower, except as already has been obtained or made; and

**4.7** This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

**5. Integration.** This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Amendment and the Loan Documents merge into this Amendment and the Loan Documents.

**6. Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

**7. Effectiveness.** This Amendment shall be deemed effective upon (1) the due execution and delivery to Bank of this Amendment by each party hereto, and (1) Borrower's payment of Bank's legal fees and expenses incurred in connection with this Amendment.

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

**BORROWER:**

AEROHIVE NETWORKS, INC.

By     /s/ John Ritchie      
Name: John Ritchie  
Title: SVP CFO

**BANK:**

SILICON VALLEY BANK

By     /s/ Rebecca Kinsella      
Name: Rebecca Kinsella  
Title: Vice President

## EXHIBIT C

### BORROWING BASE REPORT – A/R LEDGER

NOTE: The information set forth below in this Exhibit is for purposes of example only and is not intended to be the actual calculation of the Borrowing Base.

A/R Ledger: A table with one row for each open invoice shall be supplied with the following columns:

Column Number	Column Header	Mandatory	Format	Max length	Description	Example
1	Record Type	Yes	Code	2	Technical field, indicates the type of record (always "02" for invoices).	2
2	Debtor ID	Yes	Alpha-numeric	20	Debtor identifier. The unique value by which you identify your debtor or debtor account	DB-1994-0014
3	Debtor Name	No	Alpha-numeric	50	Debtor name	COCA COLA
4	Document Number	Yes	Alpha-numeric	50	Document (invoice or credit note) identifier.	IN-1994-0014/33
5	Document Date	Yes	Date		Issue date of the invoice or credit note	20100315
6	Due Date	No	Date		Invoice due date.	20100331
7	Currency	Yes	Alpha-numeric	3	Invoice, credit note currency. ISO code.	EUR
8	Amount	No	Amount	13.3	Total (gross) invoice or credit note amount. Original amount.	98000.25
9	Open Amount	Yes	Amount	13.3	Invoice open amount or credit note open amount. Unpaid amount for invoice or amount of non-allocated credit note. If the whole invoice is unpaid it is equal to INVOICE_AMOUNT.	98000.25
10	Document Type	Yes	Alpha-numeric	1	Indicates if it is an invoice or credit note. D – debit = invoice C – credit = credit note	D
11	Related Invoice	No	Alpha-numeric	50	For credit notes only. Number of invoice which is credited with this credit note.	IN-1998-9014/63

Debtors: A table with one row for each new debtor:

No.	Field Name	Mandatory	Field Type	Max Length	Description	Valid Values
1	Record Type	Yes	Code	2	Identifies the type of line. Hardcode to "02"	2
2	Debtor ID	Yes	Alphanumeric	20	Unique identifier for the debtor	DB-1994-0014
3	Currency	No	Alphanumeric	3	ISO currency code	USD
4	Debtor Type	Yes	Alphanumeric	1	Identifies if the debtor is a person or company M - Company P - Person	M
5	Debtor Name	Yes	Alphanumeric	100	Name of the debtor (If debtor is an individual, enter Last Name here)	COCA COLA
6	Legal Form	No	Alphanumeric	10	Entity type, such as Corporation or Trust	Co
7	Debtor First Name	No	Alphanumeric	80	If Debtor is a person, enter first name here	
8	Debtor Code Type	No	Alphanumeric	25	If using external source for debtor, such as Dun & Bradstreet, enter the code type	DUNS_NO
9	Debtor Code	No	Alphanumeric	40	If using code type (preceding field), enter code value here	234876875
10	Address 1	No	Alphanumeric	100	Street Address line of debtor	
11	Address 2	No	Alphanumeric	100	Additional Street address line of debtor	
12	Zip Code	No	Alphanumeric	15	Debtor zip code	41-821
13	City	No	Alphanumeric	60	Debtor city	London
14	State	No	Alphanumeric	6	Debtor state (abbreviation)	VA
15	Country	Yes	Alphanumeric	2	Country where debtor is domiciled - 2 digit code	DE
16	Language	No	Alphanumeric	2	Language of the debtor	AN
17	Phone	No	Alphanumeric	250	Debtor's phone number	330934821
18	Fax	No	Alphanumeric	250	Debtor's fax number	
19	Email	No	Alphanumeric	100	Debtor's email address	debtor@aaa.com

20	Contact Name	No	Alphanumeric	80	Contact person at debtor company	JOHN SMITH
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**EXHIBIT D**

**COMPLIANCE CERTIFICATE**

TO: SILICON VALLEY BANK  
FROM: AEROHIVE NETWORKS, INC.

Date: \_\_\_\_\_

The undersigned authorized officer of Aerohive Networks, Inc. (“Borrower”) certifies on behalf of Borrower and not in any individual capacity that under the terms and conditions of the Amended and Restated Loan and Security Agreement between Borrower and Bank (the “Agreement”):

(1) Borrower is in complete compliance for the period ending \_\_\_\_\_ with all required covenants except as noted below; (2) no Events of Default have occurred and are continuing; (3) all representations and warranties in the Agreement are true and correct in all material respects on this date except as noted below; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; (4) Borrower, and each of its Subsidiaries, has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 5.9 of the Agreement; and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Bank.

Attached are the required documents supporting the certification. The undersigned certifies that these are prepared in accordance with GAAP (subject in the case of unaudited financial statements to normal year-end adjustments and the absence of footnotes) consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

**Please indicate compliance status by circling Yes/No under “Complies” column.**

<b><u>Reporting Covenant</u></b>	<b><u>Required</u></b>	<b><u>Complies</u></b>
Monthly financial statements with Compliance Certificate (“CC”)	When not Streamline Eligible: Monthly within 30 days	Yes No
Quarterly Compliance Certificate (“CC”) with latest quarterly SEC Filings	When Streamline Eligible: Quarterly within 45 days	Yes No
Annual financial statement (CPA Audited) + CC	FYE within 90 days	Yes No
SEC Filings (i.e., 10-Q, 10-K and 8-K)	Within 5 days after filing with SEC	Yes No
Borrowing Base Report	Only when not Streamline Eligible: Monthly within 30 days	Yes No
A/R & A/P Agings, Deferred Revenue Reports	Only when not Streamline Eligible: Monthly within 30 days	Yes No
Annual Board-Approved Financial Projections	Within 15 days after Board Approval	Yes No

<b><u>Streamline Eligibility</u></b>	<b><u>Required</u></b>	<b><u>Actual</u></b>	<b><u>Complies</u></b>	<b><u>Non-Formula Amount</u></b>
If Net Cash is greater than or equal to:	\$35,000,000	\$ _____	Yes No	\$20,000,000
If Net Cash is less than:	\$35,000,000	\$ _____	Yes No	\$10,000,000

<u>Financial Covenant</u>	<u>Required</u>	<u>Actual</u>	<u>Complies</u>
Maintain on a Monthly Basis:			
Minimum Adjusted Quick Ratio	1.25:1.00	_____:1.00	Yes No

<u>External Accounts</u>	<u>Maximum Funds Allowed Therein</u>	<u>Actual</u>	<u>Complies</u>
External BOA Account	Up to \$500,000 in the aggregate	\$ _____	
External Paypal Account	Up to \$500,000 in the aggregate	\$ _____	Yes No

The following financial covenant analysis and information set forth in Schedule 1 attached hereto are true and accurate as of the date of this Certificate.

The following is a list of (i) any material change in the composition of the Intellectual Property, (ii) the registration of any copyright, including any subsequent ownership right of Borrower in or to any copyright, patent or trademark not previously disclosed in writing to Bank, and (iii) Borrower's knowledge of an event that could reasonably be expected to materially and adversely affect the value of the Intellectual Property:

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 -----  
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(For the avoidance of doubt, Section 6.2(j) of the Agreement requires that Borrower provide written notice of the matters described in the aforementioned clauses (i), (ii) and (iii) promptly, but in no event later than forty-five (45) days after the last day of each quarter.)

The following are the exceptions with respect to the certification above: (If no exceptions exist, state "No exceptions to note.")

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AEROHIVE NETWORKS, INC.

**BANK USE ONLY**

By: \_\_  
 Name: \_\_  
 Title: \_\_

Received by: \_\_\_\_\_  
 AUTHORIZED SIGNER  
 Date: \_\_\_\_\_  
 Verified: \_\_\_\_\_  
 AUTHORIZED SIGNER  
 Date: \_\_\_\_\_

Compliance Status: Yes No

## Schedule 1 to Compliance Certificate

### Financial Covenants of Borrower

In the event of a conflict between this Schedule and the Loan Agreement, the terms of the Loan Agreement shall govern.

Dated: \_\_\_\_\_

**I. Adjusted Quick Ratio** (Section 6.7(a))

Required: 1.25:1.00

Actual:

A.	Aggregate value of Borrower and its Subsidiaries' consolidated, unrestricted cash and cash equivalents maintained with Bank	\$ _
B.	Aggregate value of Borrower and its Subsidiaries' consolidated net billed accounts receivable	\$ _
C.	Quick Assets (line A plus line B)	\$ _
D.	Aggregate value of Obligations to Bank	\$ _
E.	Aggregate value of obligations that should, under GAAP, be classified as liabilities on Borrower and its Subsidiaries' consolidated balance sheets, but excluding all subordinated debt (if any), and not otherwise reflected in line D above that matures within one (1) year	\$ _
F.	Current Liabilities (line D plus line E), minus all amounts received or invoiced in advance of performance under contracts and not yet recognized as revenue	\$ _
G.	On a consolidated basis, the sum (without duplication) of Borrower and its Subsidiaries' (a) outstanding principal amount of all Indebtedness, whether current or long-term, for borrowed money and all obligations and indebtedness evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) purchase money Indebtedness, (c) the face amount of all outstanding letters of credit (including standby and commercial), and all Indebtedness arising under bankers' acceptances, bank guaranties, surety bonds and similar instruments, (d) indebtedness in respect of the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business), (e) Indebtedness in respect of capital leases and synthetic lease obligations, (f) without duplication, guaranties with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than the Borrower or any Subsidiary, and (g) indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which the Borrower or a Subsidiary is a general partner or joint venturer, unless such indebtedness is expressly made non-recourse to the Borrower or such Subsidiary.	\$ _
H.	Aggregate Liabilities (line F plus line G)	\$ _
I.	Adjusted Quick Ratio (line C divided by line H)	_

Is line I equal to or greater than 1.25:1:00?

No, not in compliance       Yes, in compliance

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## **Section 5: EX-31.1 (EXHIBIT 31.1)**

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David K. Flynn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aerohive Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2017

/s/ David K. Flynn

David K. Flynn  
President and Chief Executive  
Officer

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## **Section 6: EX-31.2 (EXHIBIT 31.2)**

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John Ritchie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Aerohive Networks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2017

/s/ John Ritchie

John Ritchie

Chief Financial Officer

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## Section 7: EX-32.1 (EXHIBIT 32.1)

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, David K. Flynn, President and Chief Executive Officer of Aerohive Networks, Inc. (the "Company"), hereby certify that, to the best of my knowledge:

1. The Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2017

By: /s/ David K. Flynn  
Name: David K. Flynn  
Title: President and Chief Executive Officer

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## **Section 8: EX-32.2 (EXHIBIT 32.2)**

**Exhibit 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), I, John Ritchie, Chief Financial Officer of Aerohive Networks, Inc. (the "Company"), hereby certify that, to the best of my knowledge:

1. The Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, to which this Certification is attached as Exhibit 32.2 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2017

By: /s/ John Ritchie  
Name: John Ritchie  
Title: Chief Financial Officer

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