AEROHIVE NETWORKS, INC
Form 10-Q
August 04, 2016

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

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

o 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	20-4524700
(State or other jurisdiction of incorporation or organization)	(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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the registrant's common stock, par value $0.001, outstanding as of August 1, 2016 was 50,599,217.

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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)

	June 30, 2016	December 31, 2015 (As Adjusted)*
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$39,337	$45,741
Short-term investments	39,642	46,593
Accounts receivable, net of allowance for doubtful accounts of $34 and $15 as of June 30, 2016 and December 31, 2015, respectively	29,493	22,824
Inventories, net	14,652	10,775
Prepaid expenses and other current assets	12,399	7,613
Deferred cost of goods sold	441	757
Total current assets	135,964	134,303
Property and equipment, net	9,929	9,156
Goodwill	513	513
Other assets	5,382	3,680
Total assets	$151,788	$147,652
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$17,085	$15,140
Accrued liabilities	16,878	11,856
Debt, current	20,000	—
Deferred revenue, current	29,792	27,893
Total current liabilities	83,755	54,889
Debt, non-current	—	20,000
Deferred revenue, non-current	33,607	31,369
Other liabilities	1,747	463
Total liabilities	119,109	106,721
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, par value of $0.001 per share - 25,000,000 shares authorized as of June 30, 2016 and December 31, 2015; no shares issued and outstanding as of June 30, 2016 and December 31, 2015	—	—
Common stock, par value of $0.001 per share - 500,000,000 shares authorized as of June 30, 2016 and December 31, 2015; 50,570,502 and 49,017,293 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	51	49
Additional paid–in capital	244,340	231,289
Treasury stock - 261,515 shares as of June 30, 2016	(1,451)	—
Accumulated other comprehensive gain (loss)	20	(61)
Accumulated deficit	(210,281)	(190,346)
Total stockholders' equity	32,679	40,931
Total liabilities and stockholders' equity	$151,788	$147,652

See notes to condensed consolidated financial statements.

* Certain amounts have been adjusted for the retrospective changes in accounting policy for sales commissions (See Note 1).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015 (As Adjusted)*	2016	2015 (As Adjusted)*
Revenue:				
Product	$39,536	$30,751	$71,992	$51,231
Software subscription and services	8,095	6,085	15,767	11,422
Total revenue	47,631	36,836	87,759	62,653
Cost of revenue (1):				
Product	12,413	9,619	22,852	16,427
Software subscription and services	3,050	2,526	5,953	4,354
Total cost of revenue	15,463	12,145	28,805	20,781
Gross profit	32,168	24,691	58,954	41,872
Operating expenses:				
Research and development (1)	10,562	8,883	20,772	16,393
Sales and marketing (1)	21,322	20,195	42,390	38,689
General and administrative (1)	7,725	6,206	15,620	12,453
Total operating expenses	39,609	35,284	78,782	67,535
Operating loss	(7,441)	(10,593)	(19,828)	(25,663)
Interest income	117	19	236	33
Interest expense	(110)	(173)	(236)	(927)
Other income, net	90	19	106	154
Loss before income taxes	(7,344)	(10,728)	(19,722)	(26,403)
Income tax provision	(68)	(99)	(213)	(207)
Net loss	$(7,412)	$(10,827)	$(19,935)	$(26,610)
Net loss attributable to common stockholders	$(7,412)	$(10,827)	$(19,935)	$(26,610)
Net loss per share allocable to common stockholders, basic and diluted	$(0.15)	$(0.23)	$(0.40)	$(0.57)
Weighted-average shares used in computing net loss per share allocable to common stockholders, basic and diluted	49,798,994	46,888,236	49,467,667	46,595,172

(1) Includes stock-based compensation as follows:

Cost of revenue	$321	$217	$593	$382
Research and development	1,366	1,001	2,711	1,987
Sales and marketing	2,063	1,727	3,831	3,224
General and administrative	1,704	1,419	3,215	2,593
Total stock-based compensation	$5,454	$4,364	$10,350	$8,186

See notes to condensed consolidated financial statements.

* Certain amounts have been adjusted for the retrospective changes in accounting

policy for
sales
commissions
(See Note 1).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015 (As Adjusted)*	2016	2015 (As Adjusted)*
Net loss	$(7,412)	$(10,827)	$(19,935)	$(26,610)
Unrealized gain on available-for-sale investments, net of tax	7	—	81	—
Comprehensive loss	$(7,405)	$(10,827)	$(19,854)	$(26,610)

See notes to condensed consolidated financial statements.

* Certain amounts have been adjusted for the retrospective changes in accounting policy for sales commissions (See Note 1).

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

	Six Months Ended June 30, 2016	2015 (As Adjusted)*
Cash flows from operating activities		
Net loss	$ (19,935)	$ (26,610)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,795	1,602
Stock-based compensation	10,350	8,186
Other	224	296
Changes in operating assets and liabilities:		
Accounts receivable	(6,669)	3,912
Inventories	(3,877)	(3,582)
Prepaid expenses and other current assets	(4,470)	(1,671)
Other assets	(202)	(420)
Accounts payable	1,095	1,791
Accrued liabilities	5,097	189
Other liabilities	226	(119)
Deferred revenue	4,137	4,826
Net cash used in operating activities	(12,229)	(11,600)
Cash flows from investing activities		
Purchases of property and equipment	(735)	(936)
Capitalized software development costs	—	(1,913)
Maturities and sales of short-term investments	11,400	—
Purchases of short-term investments	(4,592)	—
Investment in privately held company	(1,500)	—
Net cash provided by (used in) investing activities	4,573	(2,849)
Cash flows from financing activities		
Proceeds from exercise of vested stock options	353	866

Proceeds from employee stock purchase plan	2,890			2,271		
Payment for shares withheld for tax withholdings on vesting of restricted stock units	(540		)	(1,367		)
Payment to repurchase common stock	(1,451		)	—		
Proceeds from issuance of debt	—			10,000		
Repayments of debt	—			(10,000		)
Net cash provided by financing activities	1,252			1,770		
Net decrease in cash and cash equivalents	(6,404		)	(12,679		)
Cash and cash equivalents at beginning of period	45,741			98,044		
Cash and cash equivalents at end of period	$	39,337		$	85,365	
Supplemental disclosure of cash flow information						
Income taxes paid	$	391		$	356	
Interest paid	$	249		$	704	
Supplemental disclosure of noncash investing and financing activities						
Unpaid property and equipment purchased	$	1,987		$	368	
Unpaid capitalized software development costs	$	—		$	94	
Vesting of early exercised stock options	$	—		$	30	
Stock-based compensation in capitalized software development	$	—		$	257	

See notes to condensed consolidated financial statements.

* Certain amounts have been adjusted for the retrospective changes in

accounting policy for sales commissions (See Note 1).

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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 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 selling price 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.
Changes in Accounting Policy
In the first quarter of 2016, the Company voluntarily changed its accounting policy for sales commissions related to products, which include hardware and software revenue, and software subscription and services, which include post-contract support ("PCS") and Software-as-a-Service (“SaaS”) contracts. The Company changed its accounting policy from recording an expense when incurred to deferral of the sales commissions in proportion to the consideration allocated to each element in the arrangement and amortization in, or over, the same period the revenue is recognized for each of the elements in the arrangement (i.e., upon delivery for the product deliverables and over the non-cancellable term of the contract for the PCS and SaaS deliverables).
The Company believes the deferral method described above is preferable primarily because the direct incremental sales commission charges are so closely related to obtaining the revenue from the non-cancellable contracts that they should be deferred and charged to expense over the same period that the related revenue is recognized. Deferred commission amounts are recoverable through the future revenue streams (including up-front payments) under the non-cancellable arrangements.
Short-term deferred commissions are included in prepaid expenses and other current assets, while long-term deferred commissions are included in other assets in the accompanying consolidated balance sheets. The amortization of deferred commissions is included in sales and marketing expense in the accompanying consolidated statements of operations.
The accompanying consolidated financial statements and related notes have been adjusted to reflect the impacts of this change with the associated deferred tax impacts retrospectively for all prior periods presented. Under the as previously reported basis, there were no book / tax basis differences related to commission expense. Under the as adjusted basis, the deferred commission asset creates a deferred tax liability related to commission expense. Creating this deferred tax

liability reduces the valuation allowance on the deferred tax assets by the same amount. The increase in the deferred tax liability is fully offset by

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the reduction in the deferred tax asset valuation allowance and has no net impact to income tax provision in the consolidated statements of operations.

The cumulative effect of the change on accumulated deficit was $4.8 million as of January 1, 2015. The following tables present the effects of the retrospective application of the voluntary change in accounting principle for sales commissions related to non-cancellable product, PCS, and SaaS contracts for the current periods and the corresponding preceding periods presented (in thousands, except per share data):

Consolidated Balance Sheet (in thousands)

	June 30, 2016			December 31, 2015		
	Computed under Prior Method	Impact of Commission Adjustment	As Reported	As Previously Reported	Impact of Commission Adjustment	As Adjusted
Prepaid expenses and other current assets	$9,278	$ 3,121	$12,399	$4,129	$ 3,484	$7,613
Total current assets	$132,843	$ 3,121	$135,964	$130,819	$ 3,484	$134,303
Other assets	$1,973	$ 3,409	$5,382	$426	$ 3,254	$3,680
Total assets	$145,258	$ 6,530	$151,788	$140,914	$ 6,738	$147,652
Accumulated deficit	$(216,811)	$ 6,530	$(210,281)	$(197,084)	$ 6,738	$(190,346)
Total stockholders' equity	$26,149	$ 6,530	$32,679	$34,193	$ 6,738	$40,931
Total liabilities and stockholders' equity	$145,258	$ 6,530	$151,788	$140,914	$ 6,738	$147,652

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

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Computed Under Prior Method	Impact of Commission Adjustment	As Reported	As Previously Reported	Impact of Commission Adjustment	As Adjusted
Sales and marketing	$21,375	$ (53)	$21,322	$20,804	$ (609)	$20,195
Operating loss	$(7,494)	$ 53	$(7,441)	$(11,202)	$ 609	$(10,593)
Net loss	$(7,465)	$ 53	$(7,412)	$(11,436)	$ 609	$(10,827)
Net loss per share allocable to common stockholders, basic and diluted	(0.15)	—	(0.15)	(0.24)	0.01	(0.23)
Weighted-average shares used in computing net loss per share allocable to common stockholders, basic and diluted	49,798,994	—	49,798,994	46,888,236	—	46,888,236

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Computed Under Prior Method	Impact of Commission Adjustment	As Reported	As Previously Reported	Impact of Commission Adjustment	As Adjusted
Sales and marketing	$42,182	$ 208	$42,390	$39,574	$ (885)	$38,689
Operating loss	$(19,620)	$ (208)	$(19,828)	$(26,548)	$ 885	$(25,663)
Net loss	$(19,727)	$ (208)	$(19,935)	$(27,495)	$ 885	$(26,610)
Net loss per share allocable to common stockholders, basic and diluted	(0.40)	—	(0.40)	(0.59)	0.02	(0.57)
Weighted-average shares used in computing net loss per share allocable to common	49,467,667	—	49,467,667	46,595,172	—	46,595,172

stockholders, basic and diluted

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Consolidated Statements of Comprehensive Loss (in thousands)

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Computed Under Prior Method	Impact of Commission Adjustment	As Reported	As Previously Reported	Impact of Commission Adjustment	As Adjusted
Net loss	$(7,465)	$ 53	$(7,412)	$(11,436)	$ 609	$(10,827)
Comprehensive loss	(7,458)	53	(7,405)	$(11,436)	$ 609	$(10,827)

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Computed Under Prior Method	Impact of Commission Adjustment	As Reported	As Previously Reported	Impact of Commission Adjustment	As Adjusted
Net loss	$(19,727)	$ (208)	$(19,935)	$(27,495)	$ 885	$(26,610)
Comprehensive loss	(19,646)	(208)	(19,854)	(27,495)	885	(26,610)

Consolidated Statements of Cash Flows (in thousands)

	Six Months Ended June 30 2016			Six Months Ended June 30, 2015		
	Computed Under Prior Method	Impact of Commission Adjustment	As Reported	As Previously Reported	Impact of Commission Adjustment	As Adjusted
Net loss	$(19,727)	$ (208)	$(19,935)	$(27,495)	$ 885	$(26,610)
Prepaid expenses and other current assets	$(4,833)	$ 363	$(4,470)	$(1,064)	$ (607)	$(1,671)
Other assets	$(47)	$ (155)	$(202)	$(142)	$ (278)	$(420)
Net cash used in operating activities	$(12,229)	$ —	$(12,229)	$(11,600)	$ —	$(11,600)

There have been no other material changes to the significant accounting policies during the three and six months ended June 30, 2016 as compared to those described in the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 26, 2016.

Foreign Currency

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Transactions denominated in currencies other than the functional currency are remeasured at the average exchange rate in effect during the period. At the end of each reporting period, the Company's subsidiaries' monetary assets and liabilities are remeasured to the U.S. dollar using exchange rates in effect at the end of the reporting period. Non-monetary assets and liabilities are remeasured at historical exchange rates. Gains and losses related to remeasurement are recorded 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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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. The guidance 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 clarifies guidance on identifying performance obligations, collectability criterion and noncash consideration. The Company is currently evaluating the potential impact of this standard on its 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 ASU will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company is currently evaluating the effects of the adoption of this standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the lease accounting requirements in Topic 840. ASU 2016-02 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 guidance 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 guidance is effective beginning in fiscal year 2019. The Company is currently evaluating the potential impact of this standard on its 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. This guidance is effective beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the potential impact of this standard on its 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 and accounts receivable. Cash equivalents are maintained 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, and value-added distributors, or VADs. 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 C) greater than 10% of total consolidated revenue were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
VAD A	13.9%	12.2%	13.6%	16.2%
VAD C	12.6%	*	*	*

* 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:

	June 30, 2016	December 31, 2015
VAD A	18.0%	18.5 %
VAD B	*	11.2 %
VAD C	15.5%	*

* Less than 10%

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2. FAIR VALUE MEASUREMENTS

The Company records its financial assets and liabilities at fair value. The inputs used in the valuation methodologies in measuring fair value are defined in the fair value hierarchy 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's cash equivalents and short-term marketable investments are classified within Level 1 and Level 2 in the fair value hierarchy as of June 30, 2016 and December 31, 2015. Level 1 assets include highly liquid money market funds that are included in cash and cash equivalents. These instruments are generally classified 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. 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 June 30, 2016, the Company held a convertible note from a privately held company, which the Company classified it as Level 3 in the fair value hierarchy (Note 3).

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

	June 30, 2016				
	Amortized Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value	Cash equivalents	Short-term investments
	(in thousands)				
Level 1:					
Money market funds	27,708	—	27,708	27,708	—
	$27,708	$ —	$27,708	$ 27,708	$ —
Level 2:					
U.S. treasuries	15,995	17	16,012	—	16,012
Corporate securities	21,440	2	21,442	—	21,442
Commercial paper	2,188	—	2,188	—	2,188
	$39,623	$ 19	$39,642	$ —	$ 39,642
Total	$67,331	$ 19	$67,350	$ 27,708	$ 39,642

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value	Cash equivalents	Short-term investments
	(in thousands)				
Level 1:					
Money market funds	33,436	—	33,436	33,436	—
	$33,436	$ —	$33,436	$ 33,436	—
Level 2:					
U.S. treasuries	15,988	(21)	15,967	—	15,967
Corporate securities	23,679	(40)	23,639	—	23,639
Commercial paper	6,987	—	6,987	—	6,987
	$46,654	$ (61)	$46,593	$ —	46,593
Total	$80,090	$ (61)	$80,029	$ 33,436	$ 46,593

As of June 30, 2016 and December 31, 2015, all short-term investments contractually matured within one year.

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 is no other-than-temporary impairment for these investments as of June 30, 2016 and December 31, 2015.

3. CONSOLIDATED BALANCE SHEET COMPONENTS

Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Deferred sales commissions, current portion (Note 1)	$3,121	$ 3,484
Insurance recovery related to litigation settlement (Note 5)	4,531	—
Prepaid expenses	2,834	2,950
Other	1,913	1,179
Total prepaid expenses and other current assets	$12,399	$ 7,613

Property and Equipment, net

Property and equipment, net consists of the following:

	Estimated Useful Lives	June 30, 2016	December 31, 2015
		(in thousands)	
Computer and other equipment	3 years	$1,794	$ 1,704
Manufacturing, research and development laboratory equipment	3 years	4,465	4,476
Software	2 to 5 years	8,451	8,470
Office furniture and equipment	3 to 7 years	2,549	1,041
Leasehold improvements	shorter of useful life or lease term	666	614
Construction in progress		497	—
Property and equipment, gross		18,422	16,305
Less: Accumulated depreciation and amortization		(8,493)	(7,149)
Property and equipment, net		$9,929	$ 9,156

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 $0.9 million and $1.0 million for the three months ended June 30, 2016 and 2015, respectively, and $1.8 million and $1.6 million for the six months ended June 30, 2016 and 2015, respectively.

Other assets

Other assets consist of the following:

	June 30, 2016	December 31, 2015
	(in thousands)	
Deferred sales commissions, non-current portion (Note 1)	$3,409	$ 3,254
Investment in privately held company	1,500	—
Other	473	426
Total other assets	$5,382	$ 3,680

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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 has no voting right 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 June 30, 2016, the fair value of the convertible note approximated its carrying value. The Company did not recognize an impairment for the three and six months ended June 30, 2016, 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 convertible note has a two-year contractual term and the Company does not intend to liquidate it 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:

	June 30,	December 31,
	2016	2015
	(in thousands)	
Accrued compensation	$8,287	$ 9,410
Accrual for class action litigation settlement (Note 5)	5,750	—
Accrued expenses and other liabilities	2,171	1,801
Warranty liability, current portion	670	645
Total accrued liabilities	$16,878	$ 11,856

Deferred Revenue

Deferred revenue consists of the following:

	June 30,	December 31,
	2016	2015
	(in thousands)	
Products	$1,839	$ 3,199
Software subscription and services	61,560	56,063
Total deferred revenue	63,399	59,262
Less: current portion of deferred revenue	29,792	27,893
Non-current portion of deferred revenue	$33,607	$ 31,369

Warranty Liability

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Beginning balance	$997	$832	$978	$891
Charges to operations	199	411	373	528
Obligations fulfilled	(103)	(167)	(207)	(320)
Changes in existing warranty	(59)	(30)	(110)	(53)
Total product warranties	$1,034	$1,046	$1,034	$1,046
Current portion	$670	$504	$670	$504
Non-current portion	$364	$542	$364	$542

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

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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 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 was effective January 1, 2016. The weighted average interest rate of the revolving credit facility was 2.37% and 3.22%, for the six months ended June 30, 2016 and 2015, respectively.
The revolving credit facility currently provides, among other things, (i) a maturity date of March 31, 2017; 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. 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 credit facility. During the existence of an event of default, interest on the obligations under the credit facility could be increased by 5.0%. As of June 30, 2016 and December 31, 2015, the Company was in compliance with these covenants.
As of June 30, 2016, $20.0 million remains outstanding under the revolving credit facility, and is included in 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 and China under non-cancelable operating leases that expire at various times through May 2017. 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.
In February 2016, the Company entered into a sublease agreement to lease approximately 72,500 square feet of commercial office space located in Milpitas, California, for its new worldwide corporate headquarters. The lease commenced on April 1, 2016 and expires on June 30, 2023. Rent is paid on a monthly basis and will increase incrementally over the term of the lease for an aggregate net base rent of approximately $6.5 million. In addition to the monthly base rent, the Company is responsible for payment of certain operating expenses, including utilities and real estate taxes.
In June 2016, we relocated our headquarters from Sunnyvale, California to Milpitas, California and incurred lease abandonment costs of $0.6 million, which includes remaining lease obligation and other contractual obligations including utilities and real estate taxes. The lease abandonment costs are included in general and administrative expenses in the Company's condensed consolidated statements of operations. As of June 30, 2016, the facility exit obligation was $0.6 million.
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 June 30, 2016 are as follows:

Year Ending December 31,	Amount (in thousands)
2016 (remaining six months)	$ 891
2017	1,103
2018	1,038
2019	997
2020	973
Thereafter	2,562
Total	$ 7,564

Rent expense was $0.8 million and $0.6 million for the three months ended June 30, 2016 and 2015, respectively, and was $1.4 million and $1.3 million for the six months ended June 30, 2016 and 2015, respectively.

Manufacturing Commitments

The Company subcontracts with manufacturing companies to manufacture its hardware products. The contract manufacturers procure components based on non-cancellable orders placed by the Company. 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 June 30, 2016 and December 31, 2015, the Company had manufacturing commitments with contract manufacturers for inventory totaling approximately $8.8 million and $14.0 million, respectively.

Contingencies

The Company may be subject to legal proceedings and litigation arising in the ordinary course of business. 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. Significant judgment is required 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 outcome of any proceeding is not determinable in advance. Until the final resolution of any such matter for which the Company may be required to accrue, there may be an exposure to loss in excess of the amount 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.

- Mojo Networks, Inc., formerly known as AirTight Networks, or Mojo, alleges that the Company's products infringe U.S. Patent #7,339,914, or the '914 Patent. On January 23, 2013, in light of AirTight's allegations, the Company filed in the U.S. District Court, Northern District of California, a Complaint for Declaratory Judgment against AirTight asserting that the Company's products do not infringe the '914 Patent and that the '914 Patent is, in any case, invalid and not enforceable. AirTight filed a separate action asserting infringement of the '914 Patent by some or all of the Company's products, which was then related to the Company's initial action for declaratory judgment. The parties have resolved this matter, pursuant to which the related actions have been dismissed with prejudice.
- 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 #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 Patent have been rejected and Linex has appealed the final rejections of the claims, and the petition regarding the claims subject to the '503 Patent is still pending. 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, 8,942,107, 8,902,760 and 9,019,838. The complainant filed a separate action against a

channel partner based on that partner's sale of Company products. The Company filed with the PTO a petition to initiate reexamination of the '012 Patent, which the PTO granted.

- 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 Company is evaluating the possible application of these claims, if any, to its products.
- Anza Technology, Inc., or Anza, filed in May 2016 a complaint in the U.S. District Court, Southern District of California, asserting that certain of the Company's products which utilize flip-chip bonding infringe United States Patent Nos. 7,124,927 and 7,389,905 . The Company is evaluating the possible application of these claims, if any, to its products.

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.

The Company is also currently in litigation asserting claims under federal securities laws.

In June 2015, a class action complaint was filed in the Superior Court of the State of California, County of San Mateo, against the Company and certain of its current and former officers and directors. This action was subsequently related and consolidated with two identical, follow-on complaints and is captioned Hunter v. Aerohive Networks, Inc., et al., Shareholder Litigation, Master File No. 534070. The consolidated complaint alleges claims under federal securities laws that the Registration Statement which the Company filed with the Securities and Exchange Commission on Form S-1 in connection with its initial public offering in March 2014 contained false and/or misleading statements or omissions. The consolidated action also names as defendants the investment firms who underwrote the Company's initial public offering.

The consolidated complaint alleges that the Registration Statement failed to disclose, among other things, product deficiencies, poor sales, and a decline in sales-related personnel. The complaint additionally alleges that the Company improperly recognized revenue, including by booking certain sales with rights of return. The consolidated complaint seeks unspecified compensatory damages and other relief. The Company is advancing certain defense costs with respect to individual defendants, including the underwriting investment firms, under written indemnification agreements.

During mediation, the parties reached a settlement, providing for payment to the class of plaintiffs in the amount of $5.75 million in return for a release of all claims against the defendants, including Aerohive and its current and former officers and directors. The Court has preliminary approved the settlement, and directed the parties to take further actions to effect the settlement pending final Court approval. Pursuant to the terms of the settlement, Aerohive will pay approximately $1.22 million of the $5.75 million settlement amount (reflecting the amount remaining under Aerohive's insurance retention), and the Company's insurance carrier will pay the remainder of the settlement amount.

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 repair any infringement, replace product with a non-infringing equivalent-in-function product, 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 June 30, 2016 and December 31, 2015, the Company had, on an as-if converted basis, reserved shares of common stock for future issuance as follows:

	June 30, 2016	December 31, 2015
Common stock reserved for future grant under the 2014 Equity Incentive Plan	4,520,759	5,017,525
Common stock reserved for future purchase under the 2014 Employee Stock Purchase Plan	2,138,737	1,804,669
Options and Restricted Stock Units issued and outstanding	12,397,881	10,589,268
Warrants to purchase common stock	—	73,883
Total reserved shares of common stock for future issuance	19,057,377	17,485,345

Common Stock Warrants

On March 25, 2016, TriplePoint Capital LLC net exercised common stock warrants to purchase 27,715 shares of common stock, and 46,168 shares of common stock warrants used to satisfy the exercise price were cancelled.

As of June 30, 2016, no shares of the Company's common stock warrants remained outstanding.

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 (ISO), only to employees of the Company or any parent or subsidiary of the Company, and for the grant of nonstatutory stock options (NSO), 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.

On the first day of each fiscal year beginning January 1, 2017 through January 1, 2024, the number of shares of common stock reserved for issuance under the 2014 Plan may increase by an amount equal to the lesser of (i) 4,000,000 Shares, (ii) 5% of the Company’s outstanding shares on the last day of the immediately preceding fiscal year, or (iii) such number of shares determined by the board of directors. In January 2016, the Company effected an increase of 2,450,865 in the number of shares reserved under the 2014 Plan. As of June 30, 2016, the Company had 4,520,759 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 June 30, 2016:

	Shares Available for Grant
Balance, December 31, 2015	5,017,525
Authorized	2,450,865
Options granted	(900,000)
Options canceled	557,078
Awards granted	(3,038,736)
Awards canceled	434,027
Balance, June 30, 2016	4,520,759

Stock Options

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

	Options Outstanding			
	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
				(in thousands)
Balance, December 31, 2015	6,543,162	$ 6.05	7.03	$ 6,570
Options granted	900,000	6.13		
Options exercised	(203,214)	2.12		
Options canceled	(557,078)	7.44		
Balance, June 30, 2016	6,682,870	$ 6.06	7.36	$ 9,669
Options exercisable, June 30, 2016	3,691,435	$ 5.23	6.22	$ 8,596
Options vested and expected to vest, June 30, 2016	6,275,981	$ 6.00	7.25	$ 9,539

The weighted-average-grant-date fair value of options granted was $3.22 and $3.16 per share for the three and six months ended June 30, 2016, and the aggregate-grant-date fair value of the Company's stock options granted was $2.6 million and $2.8 million for the three and six months ended June 30, 2016. The weighted-average-grant-date fair value of the options granted was $3.57 per share for the three and six months ended June 30, 2015, and the aggregate-grant-date fair value of the Company's stock options granted was $4.9 million for the three and six months ended June 30, 2015. There were no options granted for the three months ended March 31, 2015.

The aggregate intrinsic value of stock options exercised was $0.3 million and $0.8 million for the three months ended June 30, 2016 and 2015, respectively, and $0.7 million and $1.7 million for the six months ended June 30, 2016 and 2015 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.

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 four 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 six months ended June 30, 2016:

	Restricted Stock Units Outstanding	
	Shares	Weighted Average Grant Date Fair Value Per Share
Balance, December 31, 2015	4,046,106	$ 6.49
Awards granted	3,038,736	6.24
Awards vested	(1,031,352)	$ 6.66
Awards canceled	(338,479)	$ 6.08
Balance, June 30, 2016	5,715,011	$ 6.33

The weighted-average-grant date fair value of RSUs granted was $6.43 and $6.89 per share for the three months ended June 30, 2016 and 2015, respectively, and was $6.24 and $6.62 per share for the six months ended June 30, 2016 and 2015, respectively. The aggregate grant date fair value of RSUs granted was $16.9 million and $16.2 million, respectively for the three months ended June 30, 2016 and 2015, and was $19.0 million and $17.2 million, respectively, for the six months ended June 30, 2016 and 2015. The aggregate fair value of shares vested as of the respective vesting dates was $3.4 million and $3.1 million, respectively, for the three months ended June 30, 2016 and 2015 and was $5.9 million and $4.5 million, respectively, for the six months ended June 30, 2016 and 2015.

The number of RSUs vested includes shares that the Company withheld to satisfy the minimum statutory tax withholding requirements, as determined by the Company, on behalf of certain employees. During the three months ended June 30, 2016 and 2015, the Company withheld 36,758 and 116,342 shares of stock, respectively, for an aggregate value of $0.2 million and $0.8 million, respectively. During the six months ended June 30, 2016 and 2015, the Company withheld 95,548 and 230,994 shares of stock, respectively, for an aggregate value of $0.5 million and $1.4 million, respectively. Such shares were returned to the Company’s 2014 Equity Incentive Plan and are available under the plan terms for future issuance.

The number of RSUs granted includes 222,875 shares of performance-based restricted stock units (PBRSUs) that the Company granted to certain executives in March 2016 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 a revenue target. As of June 30, 2016, the Company expects the revenue target to be met. Accordingly, the Company recorded expense related to all of the PBRSUs, net of estimated forfeitures, on a straight-line basis.

The number of RSUs granted also includes 404,000 shares of market-based restricted stock units (MBRSUs) that the Company granted to certain executives effective June 2016 pursuant to the 2014 Plan. Each MBRSU represents the right to receive one share of the Company's common stock upon vesting subject to the Company's achievement of stock price targets. The Company estimates the fair value of the MBRSUs using the Monte Carlo option-pricing model on the date of grant as the MBRSUs contain both market and service conditions. The Company recorded the expense related to all of the MBRSUs, net of estimated forfeitures, on a graded-vesting method.

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 issuance of shares of common stock pursuant to purchase rights granted to employees of the Company and its designated subsidiaries. Under the ESPP, on the first day of fiscal year 2017, the number of shares of common stock reserved and available for issuance may increase in an amount equal to the lesser of (i) 1,000,000 Shares, (ii) 2.0% of the Company’s outstanding shares on January 1, 2017, or (iii) such number of shares determined by the board of directors. On the first day of each fiscal year beginning January 1, 2018 through January 1, 2024, the number of shares of common stock reserved for issuance may increase in an amount equal to the lesser of (i) 1,000,000 shares, (ii) 1.0% of the Company’s outstanding shares on the first day of the applicable fiscal year, or (iii) such number of shares determined by the board of directors. In January 2016, the Company effected an increase of 980,346 shares with respect to the number of shares reserved under the ESPP. As of June 30, 2016, the Company had 2,138,737 total shares of common stock reserved for issuance under the ESPP.

Under the ESPP, the Company grants stock purchase rights to all eligible employees, currently covering a two-year offering period ending December 1, 2016, with purchase dates at the end of each interim six-month purchase period. Shares are purchased 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 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 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 will be reset 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 and six months ended June 30, 2016, the Company issued 646,278 shares under the ESPP plan. For the six months ended June 30, 2015, the Company issued 552,109 shares 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 may be suspended, modified or discontinued at any time without prior notice. Unless modified, or earlier suspended or discontinued, the authorization will expire as of June 30, 2017, without further action of the Company.

During the six months ended June 30, 2016, the Company repurchased a total of 261,515 shares of its common stock on the open market at a total cost of $1.5 million with an average price per share of $5.55.

Determination of Fair Values

Weighted-average assumptions for the Company's stock options granted during the three and six months ended June 30, 2016 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Stock options:				
Expected term (in years)	5.77	6.02	5.78	6.02
Expected volatility	55.11%	51.41%	55.16%	51.41%
Risk free interest rate	1.50 %	1.74 %	1.50 %	1.74 %

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
ESPP purchase rights:				
Expected term (in years)	0.5 - 2.00	0.50 - 1.5	0.5 - 2.00	0.50 - 1.5
Expected volatility	35% - 55.3%	41.0% - 55.3%	35% - 55.3%	41.0% - 55.3%
Risk free interest rate	0.07% - 0.51%	0.07% - 0.45%	0.07% - 0.51%	0.07% - 0.45%

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Cost of revenue	$321	$217	$593	$382
Research and development	1,366	1,001	2,711	1,987
Sales and marketing	2,063	1,727	3,831	3,224
General and administrative	1,704	1,419	3,215	2,593
Total stock-based compensation	$5,454	$4,364	$10,350	$8,186

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Stock Options	$1,185	$988	$2,331	$2,136
Restricted Stock Units	3,544	2,794	6,691	5,139
Employee Stock Purchase Plan	725	582	1,328	911
Total stock-based compensation	$5,454	$4,364	$10,350	$8,186

As of June 30, 2016, unrecognized stock-based compensation related to outstanding stock options, RSUs (including PBRSUs and MBRSUs) and ESPP purchase rights, net of estimated forfeitures, was $9.0 million, $28.1 million and $1.0 million, respectively, which the Company expects to recognize over weighted-average periods of 2.55 years, 2.68 years and 0.42 years, respectively. For the six months ended June 30, 2015, the Company capitalized $0.3 million stock-based compensation expense to the development of its internal-use cloud services platform.

8. NET LOSS PER SHARE

The Company calculates basic and diluted net loss per share of common stock allocable to common stockholders by dividing the net loss allocable to common stockholders by the weighted average number of common shares outstanding during

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the period. Diluted net loss per share of common stock is the same as basic net loss per share of common stock, since the effects of potentially dilutive securities are antidilutive.
The following table presents the computation of basic and diluted net loss per share allocable to common stockholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands, except for share and per share data)			
Numerator:				
Net loss	$(7,412)	$(10,827)	$(19,935)	$(26,610)
Denominator:				
Weighted-average shares used to compute net loss per share, basic and diluted	49,798,99	46,888,236	49,467,667	46,595,172
Net loss per share:				
Basic and diluted	$(0.15)	$(0.23)	$(0.40)	$(0.57)

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

	As of June 30,	
	2016	2015
Shares of common stock issuable under the Equity Incentive Plan	12,397,881	11,513,177
Common stock subject to repurchase	—	9,000
Common stock issuable upon exercise of warrants	—	73,883
Employee Stock Purchase Plan	99,054	94,094
Total	12,496,935	11,690,154

9. INCOME TAXES

The provision for income taxes was approximately $0.1 million for the three months ended June 30, 2016 and 2015, and was $0.2 million for the six months ended June 30, 2016 and 2015. The provision for income taxes consisted primarily of state taxes and foreign income taxes.
For the three and six months ended June 30, 2016 and 2015, the provisions for income taxes differed from the statutory amount primarily due to 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.
Realization of deferred tax assets is dependent 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 June 30, 2016 and December 31, 2015.

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 hardware 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 VAR or the VAD:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Americas	$28,685	$24,818	$53,045	$38,911
Europe, Middle East and Africa	12,143	9,170	24,157	18,296
Asia Pacific	6,803	2,848	10,557	5,446
Total revenues	$47,631	$36,836	$87,759	$62,653

Included within Total Americas in the above table is revenue from sales in the United States of $27.4 million and $23.8 million, respectively, for the three months ended June 30, 2016 and 2015, and $50.2 million and $37.0 million, respectively, for the six months ended June 30, 2016 and 2015. Aside from the United States, no country comprised 10% or more of the Company's total revenue for the three and six months ended June 30, 2016 and 2015.

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

	June 30, 2016	December 31, 2015
	(in thousands)	
United States	$8,540	$ 7,561
People's Republic of China	1,201	1,360
United Kingdom	188	235
Total property and equipment, net	$9,929	$ 9,156

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 the words “believe,” “will,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “expect,” “predict,” “could,” “potentially” and similar expressions that convey uncerta future events or outcomes to identify forward-looking statements. The following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results and the timing of events may differ materially from those discussed 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 maintain revenue growth while managing our operating expenses in order to achieve and maintain profitability;
- our ability to timely develop, deliver and transition to new product offerings and transition existing and new end-customers to such offerings, while maintaining existing product revenue 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 achieve growth in key verticals, including the educational sector;
- our ability to maximize the economic opportunity of the U.S. Federal Communications Commission's (“FCC”) E-Rate program and the timing of the availability of 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 offering and bring new products and product functionality to market;
- the performance of our product offerings in the field, including in applications and environments which we do not anticipate or could not replicate during development;
- our ability to attract, hire, train and retain qualified employees and key personnel, particularly in sales and engineering;
- the transition of newly hired management-level employees and their ability to improve our sales execution processes;
- our ability to maximize our sales execution process and effectively ramp sales in underdeveloped territories;
- our ability to sell our products and effectively expand internationally;
- the ability of our manufacturing partners and component suppliers to timely deliver products in response to our demand forecasts, particularly with respect to our newer products;
- our ability to attract new end-customers within the verticals and geographies in which we currently operate and those that we target;
- our ability to predict economic, political and business conditions in the markets in which we operate;
- changes in global consumer confidence and other effects, including changes to foreign currency exchange rates, following the decision of the United Kingdom to withdraw from the European Union ("Brexit");
- our ability to maintain effective internal controls;
- the quality of our products and services;
- 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, such as Dell;
- claims from shareholders that we have violated the securities laws and claims that we infringe intellectual property rights of others, the expense to defend such claims and the uncertainty such claims create for us, including, with respect to intellectual property claims, our ability to continue to sell and support our products;
- our ability to effectively manage our growth;
- our ability to maintain, protect and enhance our brand;
- the effects of fluctuations in currency exchange rates, in particular the recent strengthening of the U.S. dollar relative to certain currencies, and our ability to price competitively our products and secure orders at such pricing, while maintaining our expected revenue and gross margin performance;
- our ability to protect our intellectual property and 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 discussed in this report may not occur, and actual results could differ materially and adversely from those anticipated or implied 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

As a company, our goal is to be the leading independent cloud networking company, by delivering an open mobility platform that simplifies and transforms the connected experience through information, applications and insights. We have designed and developed a leading cloud-managed mobile networking platform that enables enterprises to deploy a mobile-centric network edge. Managing the network edge is becoming more complex because of the proliferation of mobile devices and the ways in which businesses use such devices. Increasingly, employees and clients are using Wi-Fi-enabled smartphones, tablets, laptops and other mobile devices instead of desktop computers for mission-critical business applications. The number

and types of users continue to increase, as do the breadth of applications that users need to access on their mobile devices. As the difficulty and complexity of managing the network edge expands, we believe our platform offers simplicity, scalability, and security.

We derive revenue by selling our hardware products and related software licenses or software subscription and services, which together comprise our cloud-managed networking platform. 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 organization. Together, these products, service platforms and applications create a simple, scalable, and secure solution to deliver a better connected experience. Customers around the world, from Fortune 500 businesses to small schools, have chosen our products.

We sell our products and software subscription and services through our channel partners to our end-customers, who hold the licenses to use our products and our software subscription and services. We define end-customers as holding or having held licenses to our products and software subscription and services. When our end-customers purchase hardware products they are generally required to purchase for every hardware unit a software license for our unified management system, either as a perpetual license with PCS or as a SaaS license with a one-, three- or five-year term. Both our PCS and SaaS offerings include updates and upgrades of our software applications and our HiveOS operating system that are embedded in our hardware.

In the three and six months ended June 30, 2016, we continued our year-over-year revenue growth. For the three months ended June 30, 2016 and 2015, our revenue was $47.6 million and $36.8 million, respectively, and for the six months ended June 30, 2016 and 2015, our revenue was $87.8 million and $62.7 million, respectively. However, we have yet to achieve profitability in any quarter. In the three months ended June 30, 2016 and 2015, our net losses were $7.4 million and $10.8 million, respectively, and for the six months ended June 30, 2016 and 2015, our net losses were $19.9 million and $26.6 million, respectively.

We typically experience seasonal sequential decreases in our product revenue in our first fiscal quarter, but sequential increases in product revenue 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. Given the buying cycle for K-12 schools in the United States, prior to 2015, the second quarter has been the strongest for our education vertical, which historically has driven strong sequential growth in the second quarter. In addition, we typically see continued growth in our revenue to carry over from our second quarter to our third quarter. We also historically typically see a sequential increase in revenue in our fourth quarter from our third quarter due to end-of-year spending by enterprise customers. Beginning in 2015, however, our seasonal trend changed as compared to prior years, due to the timing and availability of funding under the federal E-Rate program. E-Rate is the commonly used name for the Schools and Libraries Program of the Universal Service Fund, which is administered by the Universal Service Administrative Company (USAC) under the direction of the Federal Communications Commission (FCC). The program provides discounts to assist schools and libraries in the United States to obtain affordable telecommunications and Internet access. Significant funding available for Wi-Fi products in the 2015 E-Rate funding cycle led certain schools to seek E-Rate funding for their projects; however, 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 secured E-Rate funding and received 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 from the first half of the year into the second half of the year, and into our fiscal 2016 as well. We believe such deferrals and delays are continuing during the 2016 annual E-Rate funding cycle. In 2016 E-Rate cycle, USAC also experienced significant administrative challenges 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. Based on publicly reported information, the total value of submissions of Form 471 funding requests for "Category 2" projects in the 2016 funding cycle was 17% below the total value of funding requests submitted in the 2015 funding cycle. Aerohive increased its reported share of the funding requests for Wi-Fi products from 10% in 2015 to 11% in 2016; however, due to the overall reduction in funding requests, total Aerohive-related awards in 2016 appear to be 12% lower than the 2015 funding cycle. 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. This is evidenced by the level of funds released through the 2016 "Wave 5" funding release being more than 69% below the comparable funding release period in 2015. We expect the timing of the availability of this reduced level of funding to delay schools' purchases of Aerohive products. For these reasons, we expect these delays, deferrals and apparently lower levels of E-Rate-funded transactions to impact our revenue performance for the second half of 2016 and potentially into 2017.

We primarily conduct business in three geographic regions: (1) Americas, (2) Europe, the Middle East and Africa, or EMEA, and (3) Asia Pacific, or APAC. From a geographic perspective, year-over-year revenue for the three months ended June 30, 2016 increased by 16% in the Americas, 32% in EMEA and 139% in APAC. For the three months ended June 30, 2016, 60% of our total revenue was generated from Americas, 26% from EMEA and 14% from APAC.

We outsource the manufacturing of all of our products to contract manufacturers. We currently outsource the warehousing and delivery of our products to a third-party logistics provider for worldwide fulfillment, located in California and in the Netherlands.

We 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 expect to continue to invest in our organization and our channel and strategic partnerships to meet the needs of our customers and 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.

However, we may not in fact realize any long-term benefit from these investments.

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; continue to stabilize and improve performance of our sales function; increase our sales capacity 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); and at the same time demonstrate to our investors and financial analysts that we can achieve profitability on an acceptable timeline.

We operate in the highly competitive wired and wireless network access products market. This market continues to evolve and 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, announcing HiveManager NG in April 2015. Over the four quarters ended June 30, 2016, approximately 76% of our end-customers and approximately 43% of our Wi-Fi access point products in operation were deployed using our public cloud platform. We also continue to invest to extend our product offering to include a family of Ethernet switches and branch routers to complement our wireless offering and allow us to deliver a unified wired and wireless network edge.

In addition, our market continues an evolution in related wireless technology standards from 802.11n to the new 802.11ac standard, which uses new radio hardware to deliver substantially higher wireless performance. As these standards were being developed and finalized, we performed hardware and software development, both internally and with our original design manufacturers, or ODMs, to incorporate these standards into our product offerings. We also continue to develop new functionality in our product offerings to take advantage of the changes that these industry standards incorporated. Overall, our 802.11 ac products accounted for 72% of our Wi-Fi access point unit volume shipments in the quarter ended June 30, 2016.

In order to maintain a competitive position in this market, we continue to develop our next-generation “Wave 2” 802.11ac Wi-Fi access points to extend our portfolio and address higher-performance use cases. We announced in August 2015 that our AP250 and AP245X access points, which are our initial Wave 2 access point products would not be commercially available until early 2016. Strong demand for products combined with limited availability in component parts may affect availability of our AP250 and AP245X access points and the ability of our manufacturing partners and component suppliers to timely deliver sufficient quantities of this product to meet our demand and sales forecasts.

We have developed a cloud services platform to provide network management and support additional value-added applications. HiveManager NG, 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. Our focus is to continue 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. However, we have extended our transition timeline, which we are now targeting for late-2017. This extended 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. As a result, revenue from our switch products which we expected in the second half of our 2016 fiscal year could be delayed into 2017.

When we introduce new product offerings, such as the release of the new version of HiveManager NG, our cloud services, or new hardware platforms, such as our AP250 and AP245X initial Wave 2 access points, we must effectively manage the timing of such releases to minimize the disruption to our existing product offerings and revenue streams. We must manage the orderly transition of our end-customers to these new products and services to reduce the amount of inventory for products that may become obsolete or slow-moving due to our new product introductions and to limit the disruption to our end-customers’ ordering practices and the pricing environment for our legacy products and services. In addition, we also must monitor the performance of these products and provide additional support as they are adopted and first used in the field and performance issues are identified at scales of use greater than we may be able to create or anticipate during product development. We will need to continue to react and respond to these changes through innovation and improved execution in order for our business to succeed, and will incur related research and development and support expenses as we do it.

Our ability to develop and make more productive relationships with our solution and channel partners and our channel partners’ ability to effectively develop sales opportunities and distribute our products continues to be a key opportunity for us. 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 September 2015, we announced with Brocade and Juniper Networks collaborations that allow us to meet in the channel and co-sell a combined wired and wireless solutions to our end-customers. 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 new 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.

Key Components of Our Results of Operations and Financial Condition

Revenue

We generate revenue from the sales of our products and services, and recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. Our total revenue comprises the following:

Product Revenue. Our product revenue consists of revenue 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 of 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. Our software subscription and services revenue consists of revenue 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.

Cost of Revenue

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.

Gross Profit

Our 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 hardware products sold, because our hardware 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 in the event we experience additional competitive pricing pressure. For example, competitors such as Cisco Systems, Hewlett Packard (who recently acquired Aruba Networks) and Brocade (who recently acquired Ruckus Networks), have significantly greater financial resources and could attempt to gain a competitive advantage over us by aggressively lowering prices. Their ability to develop broader suites of products, and provide a complete and integrated wired and wireless hardware solution may be preferable to our end-customers. The continuing strength of the U.S. dollar relative to the currencies of the countries of our VADs or end-customer who purchase our products, or our contract manufacturers or the component suppliers to our contract manufacturers, 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. We also expect that our revenue and gross margin will fluctuate from period to period depending on these and other factors.

Operating Expenses

Our operating expenses include the following:

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.

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. Commission expenses have historically been based on completed contracts, which might not match with revenue recognized in the same period. In the first quarter of 2016, we voluntarily changed our accounting policy for sales commissions to defer the sales commission in proportion to the same period that the revenue is recognized. (See Note 1 of our consolidated financial statements included elsewhere in this Form 10-Q for more information about our accounting policy for sales commissions.) 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

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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.

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. As a public company we also have experienced increased litigation, relating both to intellectual property claims of others as well as securities claims brought by certain of our stockholders. Defending and resolving these claims, including under indemnity commitments we have made to third parties, has imposed costs on us. 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.

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.

Interest Expense

Our interest expense consists primarily of interest on our indebtedness. See Note 4 of our condensed consolidated financial statements included elsewhere in this Form 10-Q for more information about our debt.

Other Income (Expense), Net

Our other income (expense), net primarily consists of gains and losses from foreign currency exchange transactions. Historically, our other income (expense) has not been material.

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 foreign entities a profit, and to a lesser extent federal and state income tax expense. As of June 30, 2016 and December 31, 2015, 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.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Product	$39,536	$30,751	$71,992	$51,231
Software subscription and services	8,095	6,085	15,767	11,422
Total revenue	47,631	36,836	87,759	62,653
Cost of revenue[1]:				
Product	12,413	9,619	22,852	16,427
Software subscription and services	3,050	2,526	5,953	4,354
Total cost of revenue	15,463	12,145	28,805	20,781
Gross profit	32,168	24,691	58,954	41,872
Operating expenses:				
Research and development[1]	10,562	8,883	20,772	16,393
Sales and marketing[1]	21,322	20,195	42,390	38,689
General and administrative[1]	7,725	6,206	15,620	12,453
Operating loss	(7,441)	(10,593)	(19,828)	(25,663)
Interest income	117	19	236	33
Interest expense	(110)	(173)	(236)	(927)
Other income, net	90	19	106	154
Loss before income taxes	(7,344)	(10,728)	(19,722)	(26,403)
Income tax provision	(68)	(99)	(213)	(207)
Net loss	$(7,412)	$(10,827)	$(19,935)	$(26,610)

[1]Includes stock-based compensation as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Cost of revenue	$321	$217	$ 593	