

1 Laurence M. Rosen, Esq. (SBN 219683)
2 **THE ROSEN LAW FIRM, P.A.**
3 355 South Grand Avenue, Suite 2450
4 Los Angeles, CA 90071
5 Telephone: (213) 785-2610
6 Facsimile: (213) 226-4684
7 Email: lrosen@rosenlegal.com

8 Counsel for Plaintiff

9 **UNITED STATES DISTRICT COURT**
10 **NORTHERN DISTRICT OF CALIFORNIA**

11 JACOB MCGOVNEY, Individually and on
12 behalf of all others similarly situated,

13 Plaintiff,

14 v.

15 AEROHIVE NETWORKS, INC.,
16 DAVID K. FLYNN, and JOHN RITCHIE,

17 Defendants.

Case No:

**CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS**

JURY TRIAL DEMANDED

18 Plaintiff Jacob McGovney (“Plaintiff”), individually and on behalf of all other persons
19 similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against Defendants
20 (defined below), alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s
21 own acts, and information and belief as to all other matters, based upon, inter alia, the investigation
22 conducted by and through Plaintiff’s attorneys, which included, among other things, a review of
23 the defendants’ public documents, conference calls and announcements made by defendants,
24 United States Securities and Exchange Commission (“SEC”) filings, wire and press releases
25 published by and regarding Aerohive Networks, Inc. (“Aerohive” or the “Company”), analysts’
26 reports and advisories about the Company, and information readily obtainable on the Internet.
27 Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein
28 after a reasonable opportunity for discovery.

1 **NATURE OF THE ACTION**

2 1. This is a federal securities class action on behalf of a class consisting of all persons
3 and entities other than Defendants who purchased or otherwise acquired the publicly traded
4 securities of Aerohive between November 1, 2017 and January 16, 2018, both dates inclusive (the
5 “Class Period”). Plaintiff seeks to recover compensable damages caused by Defendants’ violations
6 of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the
7 Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder.
8

9 **JURISDICTION AND VENUE**

10 2. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the
11 Exchange Act (15 U.S.C. §§78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC
12 (17 C.F.R. §240.10b-5).

13 3. This Court has jurisdiction over the subject matter of this action under 28 U.S.C.
14 §1331 and §27 of the Exchange Act.

15 4. Venue is proper in this Judicial District pursuant to §27 of the Exchange Act (15
16 U.S.C. §78aa) and 28 U.S.C. §1391(b) as Defendants conduct business and are headquartered in
17 this Judicial District.

18 5. In connection with the acts, conduct and other wrongs alleged in this Complaint,
19 Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,
20 including but not limited to, the United States mail, interstate telephone communications and the
21 facilities of the national securities exchange.
22

23 **PARTIES**

24 6. Plaintiff, as set forth in the accompanying Certification, purchased Aerohive
25 securities at artificially inflated prices during the Class Period and was damaged upon the revelation
26 of the alleged corrective disclosure.

27 7. Defendant Aerohive, together with its subsidiaries, designs and develops cloud
28 networking and enterprise Wi-Fi solutions in Americas, Europe, the Middle East and Africa, and the

1 Asia Pacific. The Company is incorporated in Delaware and its principal executive offices are
2 located at 1011 McCarthy Boulevard, Milpitas, CA 95035. Aerohive's common stock is traded on
3 the New York Stock Exchange ("NYSE") under the ticker symbol "HIVE."

4 8. Defendant David K. Flynn ("Flynn") has been the Chief Executive Officer, President
5 and Chairman of Aerohive since July 2007, November 2007 and July 2013 respectively.

6 9. Defendant John Ritchie ("Ritchie") has been the Chief Financial Officer and Senior
7 Vice President at Aerohive since September 1, 2015 and its Chief Operating Officer since February
8 2017.

9 10. Defendants Flynn and Ritchie are sometimes referred to herein as the "Individual
10 Defendants."

11 11. Each of the Individual Defendants:

12 (a) directly participated in the management of the Company;

13 (b) was directly involved in the day-to-day operations of the Company at the highest
14 levels;

15 (c) was privy to confidential proprietary information concerning the Company and its
16 business and operations;

17 (d) was directly or indirectly involved in drafting, producing, reviewing and/or
18 disseminating the false and misleading statements and information alleged herein;

19 (e) was directly or indirectly involved in the oversight or implementation of the
20 Company's internal controls;

21 (f) was aware of or recklessly disregarded the fact that the false and misleading
22 statements were being issued concerning the Company; and/or

23 (g) approved or ratified these statements in violation of the federal securities laws.
24

25 12. The Company is liable for the acts of the Individual Defendants and its employees
26 under the doctrine of *respondeat superior* and common law principles of agency because all of the
27 wrongful acts complained of herein were carried out within the scope of their employment.
28

1 13. The scienter of the Individual Defendants and other employees and agents of the
2 Company is similarly imputed to the Company under *respondeat superior* and agency principles.

3 14. The Company and the Individual Defendants are referred to herein, collectively, as
4 the “Defendants.”

5 **SUBSTANTIVE ALLEGATIONS**

6 **Materially False and Misleading Statements**

7
8 15. On November 1, 2017, during aftermarket hours, Aerohive held a conference call
9 with investors and analysts to discuss its financial results for the period ended September 30, 2017
10 (the “Q3 2017 call”). On the Q3 2017 call, Defendant Ritchie stated that “[w]e are currently
11 expecting Q4 revenue in the range of \$40 million to \$42 million,” and touted Aerohive’s “sales
12 efficiency” and “sales productivity,” stating in pertinent part:

13 **John Ritchie**

14 We are currently expecting Q4 revenue in the range of \$40 million to \$42 million.

15 * * *

16 Before I go through the quarter in detail, I would like to highlight some financial
17 and operational milestones Aerohive achieved this quarter. **We realized**
18 **significant sales efficiency with our non-GAAP sales and marketing costs**
19 coming in at 39% of revenue driving this important metric to under 40% on a
20 year-to-date basis. We delivered gross margins and EPS at the high-end of our
21 guidance range and we were meaningfully cash generator, including cash and
equivalents and short-term investments in the third quarter and on a full year-to-
date basis.

22 * * *

23 During the quarter, we saw significant improvements in our sales efficiency as
24 non-GAAP sales and marketing costs came in at \$14.4 million or 39% of revenue
25 in Q3, down \$1.5 million from \$15.9 million recognized in the second quarter.
26 **We are encouraged by several metrics that point to improved sales**
27 **productivity.** For the third quarter in a row, we have reported year-over-year
decline in sales and marketing expenses. In addition, for the last two quarters and
also on a year-to-date basis, our sales and marketing costs as a percentage of
revenue were sub-40%.

1 [Emphasis added].

2 16. On the Q3 2017 call, Defendant Flynn touted Aerohive's sales team and operating
3 efficiency, and discussed Aerohive's sales efficiency, stating in pertinent part:

4
5 **David Flynn**

6 In parallel, we continued strengthen our go-to-market, both through our full
7 OEM relationship with Dell EMC and through the initiative we launched at
8 the start of this year to pivot to a more channel centric go-to-market model to
9 improve our sales efficiency and better address the mid-market. The
10 foundation of this plan was the launch of our Connect to Select offering and the
11 launch of a number of channel recruitment and development initiatives. Our sales
12 leader, Tom Wilburn's strength and passion is around larger enterprise direct
13 touch business.

14 So when we launched this initiative in Q1, he augmented his team with channel
15 centric sales leaders who built much of Ruckus' channel as well as new leadership
16 in APAC. With this new program and team, we recruited 600 new resellers in the
17 first half of the year and added 300 more in Q3. In Q3, we moved fully to a two-
18 tier model by transitioning our direct VAR business through SYNEX and we
19 signed Wave as a distributor to help us develop the MSP and HSP channels.

20 Now with this team in place and the program on the right trajectory, Tom has
21 decided to move on to pursue opportunities that better align with his prefer to go-
22 to-market model. **Having successfully restructured my leadership team under
23 a COO organization paired with a unified products and marketing
24 organization, I now have the capacity to take on global sales leadership to
25 drive this critical initiative working directly with our three fleet of sales
26 leaders.**

27 * * *

28 I am encouraged by the significant progress of our product delivery and this has
given Dell EMC the confidence in us to expand into a full OEM relationship.
**Our results demonstrate that we are steadily improving our operating
efficiency while positioning ourselves to resume growth.**

[Emphasis added].

17. The statements referenced in ¶¶15-16 above were materially false and/or misleading
because they misrepresented and failed to disclose the following adverse facts pertaining to the
Company's business, operational and financial results, which were known to Defendants or

1 recklessly disregarded by them. Specifically, Defendants made false and/or misleading statements
2 and/or failed to disclose that: (1) there were underlying sales execution issues that were uncovered
3 at the end of the third quarter of 2017; (2) consequently, Aerohive's revenue guidance for the fourth
4 quarter of 2017 was overstated; and (3) as a result, Defendants' public statements were materially
5 false and misleading at all relevant times.

6 **The Truth Emerges**

7
8 18. On January 16, 2018, during aftermarket hours, Aerohive issued a press titled,
9 "Aerohive Networks Announces Preliminary Fourth Quarter 2017 Financial Results," revealing that
10 it "expects net revenue for the fourth quarter to be approximately \$37 million, which is below the
11 Company's previously stated guidance of \$40 million to \$42 million." Aerohive attributed the
12 reduced guidance to "underlying sales execution issues" uncovered at the end of the third quarter,
13 stating in pertinent part:

14 **Aerohive Networks Announces Preliminary Fourth Quarter 2017 Financial** 15 **Results**

16 Schedules Earnings Conference Call for February 8

17 January 16, 2018 04:15 PM Eastern Standard Time

18
19 MILPITAS, Calif.--(BUSINESS WIRE)--Aerohive Networks™ (NYSE: HIVE)
20 today announced preliminary results for the fourth quarter ended December 31,
21 2017.

22 * * *

- 23 • Aerohive® expects net revenue for the fourth quarter to be approximately
24 \$37 million, which is below the Company's previously stated guidance of
25 \$40 million to \$42 million.

26 * * *

27 "We delivered non-GAAP operating profitability in our fourth quarter but were
28 disappointed that our revenue was below our prior guidance," stated David Flynn,
President and Chief Executive Officer. "Following the change in our sales
leadership at the end of our third quarter, we uncovered underlying sales

1 execution issues which became fully apparent in the last month of the fourth
2 quarter. We have taken actions to replace underperforming sales team members,
3 and we believe that the new people we have been putting in place, combined with
4 other actions, will enable us to capitalize on our improved product offering and
5 exciting roadmap in 2018.”

6 19. On this news, shares of Aerohive fell \$1.63 per share, or over 29%, from its previous
7 closing price to close at \$4.07 per share on January 17, 2018, damaging investors.

8 20. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline
9 in the market value of the Company’s securities, Plaintiff and other Class members have suffered
10 significant losses and damages.

11 **PLAINTIFF’S CLASS ACTION ALLEGATIONS**

12 21. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
13 Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise
14 acquired the publicly traded securities of Aerohive during the Class Period (the “Class”); and were
15 damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are
16 Defendants herein, the officers and directors of the Company, at all relevant times, members of their
17 immediate families and their legal representatives, heirs, successors or assigns and any entity in
18 which Defendants have or had a controlling interest.

19 22. The members of the Class are so numerous that joinder of all members is
20 impracticable. Throughout the Class Period, Aerohive securities were actively traded on the NYSE.
21 While the exact number of Class members is unknown to Plaintiff at this time and can be
22 ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or
23 thousands of members in the proposed Class. Record owners and other members of the Class may
24 be identified from records maintained by the Company or its transfer agent and may be notified of
25 the pendency of this action by mail, using the form of notice similar to that customarily used in
26 securities class actions.

27 23. Plaintiff’s claims are typical of the claims of the members of the Class as all
28 members of the Class are similarly affected by Defendants’ wrongful conduct in violation of federal
law that is complained of herein.

1 24. Plaintiff will fairly and adequately protect the interests of the members of the Class
2 and has retained counsel competent and experienced in class and securities litigation. Plaintiff has
3 no interests antagonistic to or in conflict with those of the Class.

4 25. Common questions of law and fact exist as to all members of the Class and
5 predominate over any questions solely affecting individual members of the Class. Among the
6 questions of law and fact common to the Class are:

- 7 • whether the federal securities laws were violated by Defendants' acts as alleged
8 herein;
- 9 • whether statements made by Defendants to the investing public during the Class
10 Period misrepresented material facts about the financial condition, business,
11 operations, and management of the Company;
- 12 • whether Defendants' public statements to the investing public during the Class
13 Period omitted material facts necessary to make the statements made, in light of the
14 circumstances under which they were made, not misleading;
- 15 • whether the Individual Defendants caused the Company to issue false and misleading
16 SEC filings and public statements during the Class Period;
- 17 • whether Defendants acted knowingly or recklessly in issuing false and misleading
18 SEC filings and public statements during the Class Period;
- 19 • whether the prices of Aerohive securities during the Class Period were artificially
20 inflated because of the Defendants' conduct complained of herein; and
- 21 • whether the members of the Class have sustained damages and, if so, what is the
22 proper measure of damages.

23 26. A class action is superior to all other available methods for the fair and efficient
24 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the
25 damages suffered by individual Class members may be relatively small, the expense and burden of
26 individual litigation make it impossible for members of the Class to individually redress the wrongs
27 done to them. There will be no difficulty in the management of this action as a class action.

28

1 27. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-
2 on-the-market doctrine in that:

- 3 • Defendants made public misrepresentations or failed to disclose material facts during
4 the Class Period;
- 5 • the omissions and misrepresentations were material;
- 6 • Aerohive securities are traded in efficient markets;
- 7 • the Company's securities were liquid and traded with moderate to heavy volume
8 during the Class Period;
- 9 • the Company traded on the NYSE, and was covered by multiple analysts;
- 10 • the misrepresentations and omissions alleged would tend to induce a reasonable
11 investor to misjudge the value of the Company's securities; and
- 12 • Plaintiff and members of the Class purchased and/or sold Aerohive securities
13 between the time the Defendants failed to disclose or misrepresented material facts
14 and the time the true facts were disclosed, without knowledge of the omitted or
15 misrepresented facts.

16 28. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a
17 presumption of reliance upon the integrity of the market.

18 29. Alternatively, Plaintiff and the members of the Class are entitled to the presumption
19 of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United*
20 *States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their
21 Class Period statements in violation of a duty to disclose such information, as detailed above.

22 **COUNT I**

23 **Violation of Section 10(b) of The Exchange Act and Rule 10b-5**
24 **Against All Defendants**

25 30. Plaintiff repeats and realleges each and every allegation contained above as if fully
26 set forth herein.

27 31. This Count is asserted against the Company and the Individual Defendants and is
28 based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated
thereunder by the SEC.

1 32. During the Class Period, the Company and the Individual Defendants, individually
2 and in concert, directly or indirectly, disseminated or approved the false statements specified above,
3 which they knew or deliberately disregarded were misleading in that they contained
4 misrepresentations and failed to disclose material facts necessary in order to make the statements
5 made, in light of the circumstances under which they were made, not misleading.

6 33. The Company and the Individual Defendants violated §10(b) of the 1934 Act and
7 Rule 10b-5 in that they:

- 8 • employed devices, schemes and artifices to defraud;
- 9 • made untrue statements of material facts or omitted to state material facts necessary
10 in order to make the statements made, in light of the circumstances under which they
11 were made, not misleading; or
- 12 • engaged in acts, practices and a course of business that operated as a fraud or deceit
13 upon plaintiff and others similarly situated in connection with their purchases of
14 Aerohive securities during the Class Period.

15 34. The Company and the Individual Defendants acted with scienter in that they knew
16 that the public documents and statements issued or disseminated in the name of the Company were
17 materially false and misleading; knew that such statements or documents would be issued or
18 disseminated to the investing public; and knowingly and substantially participated, or acquiesced in
19 the issuance or dissemination of such statements or documents as primary violations of the
20 securities laws. These defendants by virtue of their receipt of information reflecting the true facts of
21 the Company, their control over, and/or receipt and/or modification of the Company's allegedly
22 materially misleading statements, and/or their associations with the Company which made them
23 privy to confidential proprietary information concerning the Company, participated in the
24 fraudulent scheme alleged herein.

25 35. Individual Defendants, who are the senior officers and/or directors of the Company,
26 had actual knowledge of the material omissions and/or the falsity of the material statements set forth
27 above, and intended to deceive Plaintiff and the other members of the Class, or, in the alternative,
28 acted with reckless disregard for the truth when they failed to ascertain and disclose the true facts in

1 the statements made by them or other personnel of the Company to members of the investing
2 public, including Plaintiff and the Class.

3 36. As a result of the foregoing, the market price of Aerohive securities was artificially
4 inflated during the Class Period. In ignorance of the falsity of the Company's and the Individual
5 Defendants' statements, Plaintiff and the other members of the Class relied on the statements
6 described above and/or the integrity of the market price of Aerohive securities during the Class
7 Period in purchasing Aerohive securities at prices that were artificially inflated as a result of the
8 Company's and the Individual Defendants' false and misleading statements.

9 37. Had Plaintiff and the other members of the Class been aware that the market price of
10 Aerohive securities had been artificially and falsely inflated by the Company's and the Individual
11 Defendants' misleading statements and by the material adverse information which the Company's
12 and the Individual Defendants did not disclose, they would not have purchased Aerohive securities
13 at the artificially inflated prices that they did, or at all.

14 38. As a result of the wrongful conduct alleged herein, Plaintiff and other members of
15 the Class have suffered damages in an amount to be established at trial.

16 39. By reason of the foregoing, the Company and the Individual Defendants have
17 violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the
18 Plaintiff and the other members of the Class for substantial damages which they suffered in
19 connection with their purchases of Aerohive securities during the Class Period.

20 **COUNT II**

21 **Violation of Section 20(a) of The Exchange Act**
22 **Against The Individual Defendants**

23 40. Plaintiff repeats and realleges each and every allegation contained in the foregoing
24 paragraphs as if fully set forth herein.

25 41. During the Class Period, the Individual Defendants participated in the operation and
26 management of the Company, and conducted and participated, directly and indirectly, in the
27 conduct of the Company's business affairs. Because of their senior positions, they knew the adverse
28 non-public information regarding the Company's business practices.

1 C. Awarding Plaintiff and the other members of the Class prejudgment and post-
2 judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and

3 D. Awarding such other and further relief as this Court may deem just and proper.

4 **DEMAND FOR TRIAL BY JURY**

5 Plaintiff hereby demands a trial by jury.

6
7 Dated: January 19, 2018

Respectfully submitted,

8 **THE ROSEN LAW FIRM, P.A.**

9 By: /s/ Laurence Rosen
10 Laurence M. Rosen, Esq. (SBN 219683)
11 355 S. Grand Avenue, Suite 2450
12 Los Angeles, CA 90071
13 Telephone: (213) 785-2610
14 Facsimile: (213) 226-4684
15 Email: lrosen@rosenlegal.com

16
17
18
19
20
21
22
23
24
25
26
27
28
Counsel for Plaintiff