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GUID - Q4 2014 Guidance Software Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, everyone, and welcome to Guidance Software's Q4 and full-year 2014 earning results conference call. After comments by management we will go directly to a question-and-answer session. As a reminder, this call is being recorded.

At this time, for opening remarks and introductions I would like to turn the call over to Kimberly Esterkin, Vice President at Addo Communications. Please go ahead.

Kimberly Esterkin - Addo Communications - IR

Thank you, and welcome to Guidance Software's fourth-quarter and fiscal 2014 earnings conference call. With me today are Interim CEO and CFO Barry Plaga, and VP of Finance and CIO Rasmus van der Colff. We would like to remind everyone that during today's conference call we will make certain forward-looking statements regarding the future operations, opportunities and financial performance of Guidance Software within the meaning of the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995.

These statements involve a high degree of known and unknown risks and uncertainties that could cause actual results to differ materially from those to be discussed. Please also refer to the risk factors and other disclosures contained in the Company's most recent report on Forms 10-K, 10-Q and 8-K filed with the SEC for a more detailed discussion of these factors.

The forward-looking statements made on today's conference call are based on information available as of today, February 12, 2015. Guidance assumes no obligation to update such statements to reflect events or circumstances after today's date. Additionally, unless otherwise noted we will discuss non-GAAP results during today's call.

Investors are encouraged to review the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP results, which can be found in today's press release and on Guidance's website.

Lastly, I would like to remind everyone that today's call is also available via webcast on Guidance's investor relations website. A replay will also be available on the site.

And with that, I would now like to turn the call over to Barry.



Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Thank you, Kimberly, and thanks, everyone, for joining us this afternoon on our fourth-quarter and fiscal 2014 earnings conference call.

2014 was a year of transition for Guidance. We saw a shift in our management team, representing a new chapter in our Company's vision and growth strategy. Beginning this past November, I assumed the role of Guidance's Interim CEO and remain CFO.

During this time, we also brought in a number of new employees including our new Chief Revenue Officer, Jay Ackerman, who will oversee our sales and services organizations. I very excited about what Jay brings to the table: customer focus; process; sales experience, both inside and outside; and, above all else, leadership.

In addition to these changes in our management team, we saw much progress in our customer base and technology partnerships with leading information security, threat investigation and e-discovery vendors. For the full year 2014, we added nearly 1,000 new customers on our Enterprise products. And, recently, we topped 50,000 downloads on our EnCase App Central, further extending the EnCase ecosystem.

We also added a growing number of technology integration partners like Cisco, ThreatGRID, Blue Coat, Box and Dropbox during the year to our list of existing integrations with FireEye, Sourcefire, HP ArcSight and IBM QRadar. Our integrations with these technologies significantly extends the power of our joint customers' security and e-discovery infrastructure, and the combination of Guidance and third-party partners is a much more compelling solution for our customers than any of these vendors might provide on a standalone basis.

We are excited about the early feedback from our target market for these combined solutions. Looking at 2015 we anticipate adding more technology partnerships to our network, and we will keep you posted as that happens.

Last, but certainly not least, we were honored to be named the number one market share leader in endpoint detection and response, or EDR, by Gartner, a market focused on significantly improving security monitoring, threat detection and incident response capabilities.

I will now review our high-level results for the year, and then I will discuss some of our key growth strategies as well as product and customer developments. I will then turn the call over to Rasmus to discuss our fourth-quarter financials in further detail.

Revenues for 2014 totaled \$108.7 million, down from \$110.8 million in 2013 but roughly in line with our revised guidance for the year. The year-over-year decline in revenues can be attributed to a combination of a decrease in our eDiscovery subscription business, some softness in the eDiscovery market and weak sales execution.

As I have mentioned before, we are taking proactive efforts to remediate our sales execution. And Jay Ackerman, our new CRO, has done a tremendous job thus far revitalizing our efforts and establishing a clear strategy for 2015.

For the full year of 2014, our non-GAAP net loss was \$0.10 per share compared to a net loss of \$0.47 per share for the previous year. Improvements in our bottom line resulted from initiatives during the first half of 2014 aimed at streamlining our operations, improving efficiencies, including headcount reductions, which have significantly improved our cost structure.

Enterprise product bookings, while they were flat year over year, we did add almost 1,000 new customers including 568 new Enterprise customers, 157 new Cybersecurity customers, 99 new Analytics customers and 137 eDiscovery customers.

Cybersecurity in particular has been a growing portion of our total business. Cybersecurity-related revenues were up 35% year over year, and we anticipate they will continue to grow roughly 25% to 30% per year for the near future. Given the recent state of the industry and the growing number of data breaches, Guidance has positioned itself very well to build a strong pipeline of cyber business, particularly in the retail and financial services verticals.

Although not formally disclosed by our customers, Guidance has been assisting a number of them lately in some high-profile data breach attacks, making a strong impact on the way in which data is investigated and remediated at the endpoint.

Our unique Cybersecurity product offering enables users to defend their organizations with real-time incident response and sensitive data discovery using endpoint data for context. Furthermore, a recent addition to Guidance's product lineup, EnCase Analytics, delivers the next level of security intelligence by exposing risks and threats that evade detection using insights derived from the entirety of a customer's endpoint data.

Speaking specifically about the importance of endpoints, as I mentioned earlier, Gartner released its first Competitive Landscape Report this past November on Endpoint Detection and Response tools. In this report, Guidance was named the number one market share leader in the EDR market. In fact, Gartner calculates that Guidance has an 18.2% market share, the largest among the EDR providers.

Being named number one for market share by Gartner is certainly a great honor for Guidance, especially after having spent 15 years of experience accessing the endpoint.

Today's cyber attacks are more sophisticated than ever before. Traditional security technology, such as signature-based anti-virus technologies, are being purposely bypassed by customized targeted malware attack tool kits. And as we have seen many times in the last year, alerting technologies by themselves are insufficient to respond to or to remediate threats.

While the cyber security market certainly represents the largest opportunity for growth for Guidance, we remain focused on our core forensics and eDiscovery businesses. Specifically, we're excited to be previewing our newest version of EnCase, EnCase 8, at CEIC this upcoming May.

We expect to release portions of the EnCase 8 suite later in the year, most likely towards the end of Q4. EnCase 8 is unlike any other forensic e-discovery or information security product in the market and offers true next-generation enterprise visibility to the endpoint. EnCase 8 will introduce a major breakthrough in endpoint power by harnessing the multi-threading processing capabilities of all endpoints, not just a single one.

In addition, EnCase 8 will offer users Linked Review architecture to identify relationships between all facets of data and processes and users on their network.

Before I turn the call over to Rasmus, I would like to take some time to discuss our growth strategies for 2015. Since taking the helm of guidance, I have focused on building out my team and returning the Company to growth. I have already made significant changes in sales leadership, professional services leadership and HR leadership. One of my current priorities is to find marketing leadership that can take our products and articulate our message effectively to customers, prospects and the market in general.

In the meantime, we have kicked off 2015 with the following approach to returning to growth, starting with putting the customer first. Specifically, we have combined three customer-facing groups under one leader, which were separately managed in the past. Our pre-sales, sales, post-sales, consulting and post-sales technical support groups now report into our Chief Revenue Officer, Jay Ackerman, as of this past December. Knowing how our customers use our products and the value they receive from our solutions is key to growing our markets. This change in approach is already being acknowledged by our customers.

Second, winning through our partners. Guidance has a vast network of reseller channel partners and technology partners. We will increase our focus on enabling these partners to best sell our leading products and on bringing better solution synergies to our customers.

Third, driving a sales and marketing culture. We want all 400-plus of our employees to be salespeople inside the Company. Our goal is to become the thought leader in forensics, eDiscovery and endpoint security and, in doing so, ensure that all of Guidance's employees are focused on being the voice of that leadership.

Fourth is driving sales expansion. We will continue to invest in new territories that have a strong addressable market while at the same time continue to refine our sales model and routes to market, be it field, inside sales or channel.



Fifth is driving customer stickiness through product innovation. EnCase 8 will be a game changer for the Company in all of our markets. Although EnCase 8 will likely not be out until the end of the year, it will drive brand and product awareness of Guidance in the interim while promoting not only our thought leadership in eDiscovery with Linked Review, but also in endpoint security with our new EnPoint technology.

Now I would like to turn the call over to Rasmus to speak further in detail about the fourth quarter. Rasmus.

Rasmus van der Colff - *Guidance Software, Inc. - VP Finance and CAO*

Thank you, Barry. Good afternoon, everyone. As Barry spoke about our full-year performance, I will focus my commentary on the fourth quarter. As a reminder, financial information provided on this call will be presented on a non-GAAP basis only. Any information we present on a GAAP basis will be noted as such.

Starting with the income statement, Q4 revenues improved slightly to \$28.2 million, up from \$28 million in the prior-year period. Product revenues totaled \$9.2 million as compared to \$9.5 million in the year-ago period. The decrease in product revenues can be attributed to several Enterprise deals slipping from the fourth quarter into 2015. Service and maintenance revenues improved to \$17.5 million, up from \$16.6 million in the year-ago period.

Subscription, or SaaS, revenues totaled \$1.5 million in line with our expectations for the quarter. Geographically, North America comprised 74% of revenues, while EMEA comprised 14% and rest of world was 12%.

There continues to be a large opportunity to expand outside of North America. While we are already making global progress, it is our long-term goal that international revenues reach 50% of total revenues in the next few years.

Gross margin for the fourth quarter totaled 69%, roughly on par with 70% in the previous year's period. Total operating expenses for the fourth quarter were \$18.7 million as compared to \$21.6 million in Q4 of 2013. The \$2.9 million decrease in operating expenses over the prior-year period can be attributed to our lower headcount and related expenses.

Reviewing specific line items, for the quarter research and development expenses totaled \$4.7 million, selling and marketing expenses totaled \$8.8 million, and G&A expenses were \$4 million.

Net income was \$900,000, or \$0.03 per diluted share, as compared to a net loss of \$1.9 million, or \$0.07 per share, in Q4 of 2013.

As Barry mentioned before, the implementation of certain cost-cutting measures in the first half of fiscal 2014, including lowering our headcount, contributed to our improved earnings.

Turning to the balance sheet and related metrics, cash and cash equivalents as of December 31, 2014, totaled \$18.4 million as compared to \$19.9 million in the prior-year period. We remain debt free.

Cash flow from operations for the fourth quarter were \$3 million compared to cash flow from operations of \$5 million in Q4 of 2013. We expect cash and cash equivalents to be \$14 million to \$15 million at the end of Q1 2015.

I would now like to discuss our forward-looking guidance for 2015. We anticipate that revenue for 2015 will be in the range of \$108 million to \$112 million, and non-GAAP pre-tax earnings for the year are expected to be in the range of a loss of \$0.15 per share to \$0.08 per share. That's a loss of \$0.15 to a loss of \$0.08 per share.

As Barry mentioned, our newest version of EnCase is slated to come out late in 2015, and therefore its release will not have as big an impact on this year's revenue as we initially had planned. We also anticipate additional marketing expenses in 2015 related to the release of this new version.



Additionally, for the full year we expect the following: product revenue in the range of \$32 million to \$35 million; gross margins of 67% to 69%. And as a percent of revenues for 2015, we anticipate R&D expenses to be 19% to 20% of revenues, sales and marketing expenses to be 35% to 36%, and G&A expenses to be 14% to 15% of total revenues for the year.

We anticipate depreciation of approximately \$5.5 million to \$6 million and capital expenditures of \$3 million to \$4 million for the year.

For 2015, basic shares outstanding will be approximately \$27.5 million, and fully diluted shares outstanding will be approximately \$29.5 million.

In terms of other forward-looking guidance on a non-GAAP basis, we expect the following for the first quarter of 2015: revenues in the range of \$24 million to \$25 million, and a net loss in the range of \$0.12 to a loss of \$0.08 per share.

With that, let me turn the call back over to Barry to conclude our prepared remarks.

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

All right. Thank you, Rasmus. Our transition strategy from being a predominantly forensics and eDiscovery business to a more robust cyber security Company is working. We are aware that this transition will take some time and has been taking some time, but we have built a good foundation on which to have success in 2015, 2016 and beyond.

Thanks again for your time this afternoon, and this concludes our prepared remarks. Operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Jordan, Noble Financial.

Mark Jordan - *Noble Financial Group - Analytics*

What is the full-year outlook for cash generation implied in your full-year guidance? I know you gave guidance as to where you expect cash to be at the end of Q1, but what do you expect for the full year?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

I would expect we would end up more or less where we were at the end of the year this year, at the end of 2015, so somewhere between \$18 million to \$20 million in cash at the end of the year. It will dip in Q2 and Q3 like it did in 2014.

Mark Jordan - *Noble Financial Group - Analytics*

Okay. You had mentioned that you're going to be continue to emphasize general partner relationships. Are these relationships generating incremental revenue for you, or are they viewed more as strengthening the value proposition you take to your customers?



Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Over time, it should definitely be incremental. At first, it's going to be a process of enabling more partners to effectively introduce us into accounts to take on some of the training and implementation capabilities related to some of the products. And over time, that will generate a better ecosystem with our reseller channel.

Today, it represents a significant portion; worldwide is almost 100% channel. And our focus -- renewed focus is to have a more effective, close to 100% channel in North America.

Mark Jordan - *Noble Financial Group - Analytics*

Okay. The international you talked about is 26%, currently driving it to 50% over the longer term as a goal. In terms of what are your strategies in the next 2015 and 2016 to derive stronger growth there than the Corporation as a whole?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Yes, good question, Mark. From an international perspective, over the last 18 months we made some investments, additional investments, in EMEA and Asia-Pacific. They are starting to get traction. They are starting to -- as you saw this past quarter, 26% of our revenue was international. That was an all-time record for us. It's usually been 20% or less.

We have opened new offices in France and Germany over the past year. At the end of this year, we opened an operation in Japan. That will be some time before it gets rolling and get some traction there.

But as you look at the market for our products, when we were solely an eDiscovery company the market was more focused on North America, which made sense from a litigation perspective and the customers that needed our products for those uses and those solutions. But as we go into more information management, endpoint security management, access to all these endpoints and the sensitive data issues, it's a worldwide problem. And over time, that will become to dominate our revenue base, and as a result it will be a much bigger mix of international. And that's why we think over time we can grow our international business to be half of our overall base.

Mark Jordan - *Noble Financial Group - Analytics*

Okay, final question for me, if I may. Subscription revenues continue to decline. Is there a point at which you think that stabilizes, or is that just in a longer-term erosion path?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

I think it has stabilized. It was in line with our expectations for Q4. And the Q1 expectation is it's going to be close to flat with Q4 sequentially. So I think it has flattened and stabilized going forward, and we are looking in many ways to get that product into more of our existing eDiscovery customers and get more subscriptions out of that.

Mark Jordan - *Noble Financial Group - Analytics*

Okay. Thank you very much.

Operator

Hendi Susanto, Gabelli & Co.

Hendi Susanto - *Gabelli & Co. - Analytics*

First question, do you have updates on search for the new CEO including the timeline and characteristics you are looking for?

Barry Plaga - *Guidance Software, Inc. - Inerim CEO and CFO*

Okay, so, the timeline, first, Hendi -- we kicked this off in early November when we announced this transition. The Board is engaged with a retained recruiter to work on this position with them, so they are still going through that process. I can't give you exact dates, but I would say within the next 45 to 90 days this will be resolved, and we will have a decision made either with an internal candidate such as myself or an external candidate.

In terms of what we are looking for in that role or in that leader is strong leadership capabilities, someone who can drive a sales- and marketing-driven culture. Cyber security experience would be an added plus. It's one of our areas of focus. It's one of the areas where we are not as strong a thought leader as we are in eDiscovery and forensics, where we are the thought leader there. We want to develop that more and more on our cyber and our security practices.

So those are some of the key metrics. But sales and marketing leadership, fast growth driver with a focus on driving that sales culture. We have made some steps towards that aim quite quickly here over the last couple of months with bringing in a new Chief Revenue Officer, and we're going to focus on making that a high priority for us.

Hendi Susanto - *Gabelli & Co. - Analytics*

Then if I look from a higher-level point of view at product revenue, product revenue is roughly about flat in 2014 versus 2013. Then you mentioned that growth in EnCase Analytics is encouraging and positive. So where is the revenue decline within the product revenue category?

Barry Plaga - *Guidance Software, Inc. - Inerim CEO and CFO*

Within our eDiscovery offerings, that price -- that revenue declined year to year, so that was offset by the growth in cyber. As you know, we had lowered the price of some of our introductory products, so those had an impact on our Enterprise standalone business, not just -- not eDiscovery/Cyber but the platform itself. That's -- the lowered price there resulted, though, in more than double the amount of number of new customers in that category for us in 2014. So we held flat on that line item. I think we can get that propelled and growing again based on some of our initiatives going into this year.

I think that's -- and cyber is going to continue to grow -- cyber and analytics is going to continue to grow as a percentage of our revenue in that mix.

Hendi Susanto - *Gabelli & Co. - Analytics*

Got it. And then how should we think of subscription revenue expectation for 2015?

Barry Plaga - *Guidance Software, Inc. - Inerim CEO and CFO*

It should be flat from Q4 into Q1, and I would say for the year it is probably going to end up somewhere between \$5.5 million and \$6 million, somewhere in the middle there. It's more or less flattened out from where it was at the end of 2014.

Hendi Susanto - *Gabelli & Co. - Analytics*

Then, Barry, if I look at the sell-side marketing projection for 2015 of 35% to 36%, that represents an increase from 33% in 2014. Would you give some color on that? Then, secondly, if I look at general and administrative, the percentage of revenue is also slightly higher. So I am wondering where the increase in spending will be.

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

In the G&A one, I will take that one first, it's a combination of where we are forecasting headcount to be in some of those areas, mainly in our IT and support organizations for the hosting infrastructure. That's one area.

In sales and marketing, we are doing a couple of things there. I don't think we are going to end up quite at 35% to 36%; I think we will end up beating that number. We are driving some management costs out of the system there, but we are at the same time taking those dollars and reinvesting them in additional quota-carrying salespeople, both inside and in international territories. So that's what's driving that along with an incremental spend in marketing in the back half of 2015 for the EnCase 8 launch.

Hendi Susanto - *Gabelli & Co. - Analytics*

Then similarly, CapEx, I think Rasmus mentioned \$3 million to \$4 million, so it's an increase from \$1.9 million in 2014. Is there any new big project or something --?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Yes, there is one big, specific IT project in that related to our data center, and expanding that and the storage and making it faster for our customers along with getting it ready for anticipated SaaS offerings around EnCase 8.

Hendi Susanto - *Gabelli & Co. - Analytics*

Okay. And then for the CaseCentral subscription products, when should we expect major revamp or a major development? Will it come with EnCase 8?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

It is going to come after EnCase 8. Some of the things we are doing in EnCase 8 we want to do in that review platform down the road. But Shawn's priority is to get the platform and the Enterprise product suite out first, and then secondarily they will be layering some of those capabilities into the SaaS platform.

Hendi Susanto - *Gabelli & Co. - Analytics*

Thank you, Barry, and thank you, Rasmus.

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

All right. Thank you, Hendi.

Operator

Mark Schappel, Benchmark Company.

Mark Schappel - *The Benchmark Company - Analytics*

Barry, with respect to your emerging security business, how large is that business as a percentage of total sales today?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

It's roughly about 20% of our overall revenues. So the majority, the 80%, is split between eDiscovery, investigations and forensics.

Mark Schappel - *The Benchmark Company - Analytics*

Okay, great. With respect to your federal business and the pipelines, are the pipelines shaping up with respect to the upcoming September quarter, which is historically a big federal quarter for the Company?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Yes. And as you know, Mark, we have struggled in that sector over the last two years. We have a renewed focus there with the team. We are starting to build a better pipeline. We are getting into more accounts. There is putting a lot more pressure on sales execution there.

And I am on our CTO, Shawn, to get a demo of all POC product available for EnCase 8 to get in there into the Fed space as early as possible because I think there's a lot of potential upside with the capabilities and the scalability of EnCase 8 in the federal sector. I think the sooner we can get that in their hands and let them see it, the sooner they are going to get excited about it and re-look at where they are spending on their budgets on other projects to maybe prioritize EnCase 8.

Probably not in 2015, but definitely in 2016.

Mark Schappel - *The Benchmark Company - Analytics*

Okay. Thank you. And then, finally, Barry, with respect to the former CaseCentral business, where are you and the Board with respect to that business? Has there been any more discussions on whether the business is truly strategic for the Company?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Well, our eDiscovery business is definitely strategic for us, and having a complete end-to-end solution from legal hold to collection to review in the cloud is definitely a part of that strategy. Yes, we will admit the traction with new customers has been challenging there. But the existing customer base that we are now have in the system and are paying those subscriptions is a strong set of customers and ones we want to keep happy for a long time.

Mark Schappel - *The Benchmark Company - Analytics*

Okay, great. Thank you.



Operator

Michael Kim, Imperial Capital.

Michael Kim - *Imperial Capital - Analytics*

Going back to security, are you starting to see a lot more proof of values, more evals taking place? And typically, are they looking just at Analytics or Cybersecurity or both in conjunction with each other?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

A growing portion of our pipeline is definitely in cyber and analytics, and we showcase those two together when we are demoing to customers entering proof-of-concepts. They lend themselves to more of a complete solution around collecting the data with the cyber product, having the remediation capabilities and the response tools there. Then, also, in the Analytics -- as you collect that data over time, being able to discover those anomalies, et cetera.

And the reporting capabilities that are in EnCase Analytics are a clear preview into what EnCase 8 is going to look like down the road. That's -- it was an interim step we took in going from version 7 to version 8, and we brought out Analytics in the middle, and it was to really show the capability of a business intelligence layer put on top of a company's entire endpoint data set. It's providing a lot of insight to customers. It demos really well. It shows a lot of power. And it's one of the things we got to get when we really drive customers towards doing that POC and that demo in-depth on some of their data, and it really shows the power of the product.

Michael Kim - *Imperial Capital - Analytics*

Do you think you can leverage your current go-to-market channels, or do you essentially need to build out a separate security-oriented group and work a lot more closely with some of the security resellers and other channel partners?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

When we ventured into the reseller market in North America -- and I will focus on North America for now -- as we put our feet into that one a few years ago, it was definitely -- it was 100% focused around our cyber business. And we, at the same time, took our eDiscovery business -- and we are doing most of those deals, if not all of those deals, direct.

Our channel itself lends itself much more towards cyber and security than eDiscovery. But we are finding from a regional VAR reseller level that they each have different capabilities and that there is quite a strong regional VAR system out there for all of our products, and we are starting to take advantage of that. And we have seen some early successes, but now we're going all in on that strategy now rather than just the security piece.

Michael Kim - *Imperial Capital - Analytics*

Okay, great. Thank you very much.

Operator

Kevin Liu, B. Riley & Co.

Kevin Liu - *B. Riley & Co. - Analytics*

Barry, coming in to last year, the price cut and the -- driving the number of transactions was certainly a big focus for you guys. Is that still a continued focus this year, or should we expect a bit more either of selling, cross-selling and bundled sales of your solutions?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Yes, Kevin, that's a good question. We are -- I don't know if we will do 1,000 -- almost 1,000 new customers again in 2015. We've got a growing installed base that's very much faster on the platform than any of the add-on suite products. So we are focused on cross-selling and up-selling to that existing customer base.

But we are still, with our inside sales efforts around the globe, really focused on getting EnCase everywhere. That strategy is not going to stop. We have got a very price-appealing intro product that is getting in the hands of a lot of customers. People know what EnCase is, they know who we are and they really appreciate what that product does in terms of ROI and savings when they're doing investigations and data discovery. And it really leads them down the path towards our cyber and eDiscovery products.

Kevin Liu - *B. Riley & Co. - Analytics*

Got it. And you mentioned a number of engagements you have related to some high-profile breaches. Can you just give some color around what sort of revenue opportunity that is for you? Is it primarily on the services side? Do you have opportunity to push products into these customers?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

It's definitely both. At first, it tends to be in the early part of the situation services opportunity. And sometimes it is with existing Enterprise customers or eDiscovery customers, and they want us to then focus our efforts on (technical difficulty) attack where they need remediation help. And so we turn and we use our tools, our cyber product, and help them out with that.

As we show them the proof of the capabilities in cleaning up their data after these things have happened, we try to turn those into sales opportunities around product revenue. But in a lot of instances, some of these engagements tend to be close to seven-figure engagements with a lot of our consultants on-site.

Kevin Liu - *B. Riley & Co. - Analytics*

Great. And then just lastly, you had mentioned a number of flip deals that impacted the Q4 number. Can you just talk about the relative size of those, how many different products those tend to include, and whether any of those have closed already or if you expect to close them early this year?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Yes, so, I'd quantify it as about \$1 million worth of deals that really focus when -- when they were in the Q4 pipeline that weren't close locked, they were close delayed. I would say about \$0.5 million of that is the near-term Q1/Q2 type deals, and the balance pulls down into later part of the year.

The dollars were really focused not so much around the platform, but around both eDiscovery and cyber/analytics. In a lot of those instances, we were -- when you're doing proof-of-concepts in the third month of the quarter, it's really too late to get that deal in that quarter. And it's forecasting issues and, again, one of the reasons for a sales leadership change in the twelfth month of the year.

Kevin Liu - *B. Riley & Co. - Analytics*

Understood. And then maybe just one more. As you look at your pipeline heading into the year, obviously your revenue guidance is for a fairly flattish year here. How much visibility or confidence do you have that you have enough pipeline today to drive that conversion?

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

I am confident in our pipeline. What I have been skeptical about over the last few quarters is our closure rates. And I am really focusing on driving metrics around that and other pipeline discipline around staging and why deals are stalling, et cetera. We have a bunch of different folks reviewing the pipeline here going into 2015, and it's got the sales management team pretty excited and engaged. They are embracing it, because they see the value in what Jay is proposing to them as a process solution.

I think we have the pipeline, and I think we're going to have better sales execution in 2015. As we came out of 2014 given -- we got a new sales leader, a new professional services leader. I'm trying to be prudent and conservative in the front half of the year. I think if we get those teams working properly the way they should -- and we will be doing pretty well this year and hopefully moving that number upward. But for now I am pretty solid with that revenue range.

Kevin Liu - *B. Riley & Co. - Analytics*

Great. Thanks for taking the questions.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone have a wonderful day.

Barry Plaga - *Guidance Software, Inc. - Interim CEO and CFO*

Thank you.

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