

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GUID - Q2 2015 Guidance Software Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2015 / 9:00PM GMT



CORPORATE PARTICIPANTS

Rasmus Van der Colff *Guidance Software, Inc. - VP, Finance and Chief Accounting Officer*

Patrick Dennis *Guidance Software, Inc. - President and CEO*

Barry Plaga *Guidance Software, Inc. - Chief Operating and Financial Officer*

CONFERENCE CALL PARTICIPANTS

Mark Schappel *The Benchmark Company - Analyst*

Michael Kim *Imperial Capital - Analyst*

Sarkis Sherbetchyan *B. Riley & Co. - Analyst*

Hendi Susanto *Gabelli & Co. - Analyst*

PRESENTATION

Operator

Greetings and welcome to the Guidance Software second-quarter 2015 earnings conference call. At this time all participants are in a listen-only mode. The question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Rasmus van der Colff, Vice President of Finance and Chief Accounting Officer. Thank you, sir. You may begin.

Rasmus Van der Colff - *Guidance Software, Inc. - VP, Finance and Chief Accounting Officer*

Good afternoon and welcome to Guidance Software's second-quarter 2015 earnings conference call. With me today are Guidance Software's President and CEO, Patrick Dennis; and our COO and CFO, Barry Plaga.

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 reports 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 in today's conference call are based on information available as of today, July 30, 2015; and Guidance Software 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 Software's website.

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



Patrick Dennis - *Guidance Software, Inc. - President and CEO*

Thank you, Rasmus; and thanks, everyone, for joining us on Guidance Software's second-quarter 2015 earnings conference call. I am pleased to see the strong momentum build during the first half of 2015, and I have every confidence that will continue into the second half of the year. I will touch on three key contributors to our momentum before we discuss the second-quarter financials in detail.

First, I would like to discuss the progress made in our go-to-market transformation efforts, led by Jay Ackerman, our Chief Revenue Officer; and Michael Harris, our Chief Marketing Officer. Second, I would like to highlight the solutions that are bringing us success in our three key markets: forensics, eDiscovery, and endpoint detection and response, our segment of the cyber security market.

Third, I would like to recognize our strong operational command of the business, driven by Barry as our Chief Financial and Operating Officer. Following my remarks, Barry will take us through the quarter financial details, and we will then leave some time for questions.

The best evidence of our go-to-market transformation taking hold are the revenue results. The second quarter marked a continuation of the solid sales execution we saw in Q1 2015. Jay and his team delivered revenue ahead of our expectations for the quarter and surpassing our performance for the same period in the prior year.

Second-quarter revenue totaled \$27.5 million, up 10.2% sequentially and up 1.4% year over year. We are especially pleased that license revenues in the endpoint security market grew by 25% during the first half of 2015 as compared to the first half of 2014. I would also note that endpoint security now represents a third of our total revenues and is equivalent in size to our hallmark forensic business.

Michael and our marketing team hosted our best user conference ever in May. Building on that momentum, they announced enhancements being planned for next year's event earlier this week. We will be calling the event Enfuse, and we will be bringing even more of the collaboration and expertise our customers have asked for to the event.

Michael and his team also executed the first phase of a Web property modernization program. Anyone listening to this call and get more information about Enfuse on our enhanced website, www.guidancesoftware.com.

In the second quarter we also made material progress in maturing our channel sales capability and increasing aggregate sales capacity. We launched our Channel First initiative to accelerate worldwide delivery of our endpoint detection and response solutions. Specifically, we forged a partnership with Infinigate, a value-added distributor of IT security products, to distribute our endpoint security offerings. Infinigate has a solid reputation of helping security vendors gain market acceptance, especially in the United Kingdom.

We also announced our partnership with the WestconGroup earlier this month. Westcon is the recognized world leader in the distribution of security solutions. Westcon only partners with industry leaders, and we are pleased to be their partner for endpoint security.

Q2 marks our second consecutive quarter of solid sales execution. Our new marketing team is clearly beginning to put their stamp on our marketing efforts. Our Company continues to mature the channel sales capability we discussed last quarter. These are all examples of the progress we are making in our go-to-market transformation and why we are carrying momentum in the second half.

Strong go-to-market execution alone wouldn't fully characterize our results. It is equally important to recognize the leading solutions that Guidance Software brings to our three key markets. This is critically important, because I believe we have too tightly coupled our financial performance with the availability of future product.

While we are extremely excited about the prospects of future releases, we are equally committed to delivering new software value every quarter to help our customers keep up with the pace of change. This is of particular importance in the fast-changing world of cyber security.

The product leaders and I are all committed to bringing software improvements to our existing customers on a regular basis. We are also confident that increasing the rate at which we bring improvements to the market will also help our quarterly solutions sales efforts.

There has never been more focused on aligning product time-to-market with the individual needs of our three key markets. In short, we are increasing the frequency that we will bring new capabilities to market. These more frequent product releases will also have more focused scope, clearly aligned to customer demand.

For example, we have made improvements to our endpoint security product, which we released in version 5.9 this quarter. These improvements will help our customers detect threats faster, with new threat and anomaly detection and new dashboards alongside improvements for large site deployments. This release is a good example of us adding value for our existing customers while at the same time bringing new capabilities to market for our prospective customers. I will reiterate: we plan to continue to bring these types of releases to market each quarter, so customers get continuous value from our new innovations as quickly as possible.

I can think of no better way to highlight the pertinence of our solutions to our customers than to share some specific examples. In Q2 Scotiabank, a global financial institution with over 21 million customers and 86,000 employees, selected Guidance Software to help detect breaches early, reduce incident response time, remediate malware, and provide analytics for improved threat intelligence.

Scotiabank will be using our eDiscovery and endpoint security solutions to address these needs in a forensically sound, court-proven manner. Guidance solutions are truly differentiated in our ability to partner with customers like Scotiabank to address these types of challenges.

Thales is a global organization focused on aerospace, defense, and security. They take security very seriously and understand the important role it plays in our everyday lives. They also have a deep appreciation for the value of the intellectual property created by their best and brightest.

In Q2, we partnered with Thales to bring our endpoint security technology to thousands of endpoints in an effort to better protect and secure the company's critical information. These are just two examples from the quarter that help illustrate how Guidance Software is preparing customers to meet the challenges of today's rapidly changing threat landscape.

In addition to these customer examples, studies from Piper Jaffray and Morgan Stanley all acknowledge security is the top spending priority this year. Guidance Software is fortunate to have leading solutions today for the immediate challenges our customers are facing. The strong demand for our solutions contributed to the strong first-half performance.

The progress in our go-to-market transformation and in leading solutions would not be possible without the strong operational foundation we have built at Guidance Software. Based on the growth rate and size of the endpoint security opportunity, we have strategically allocated our resources and prioritized investments in that market.

It is our strong operational and financial acumen that has allowed us to do that while maintaining our full-year guidance. Ultimately, our performance for the first half of the year puts us on target to meet our full-year 2015 guidance.

Now let me turn the call over to Barry to cover the financials in more detail and share his thoughts on the first half.

Barry Plaga - *Guidance Software, Inc. - Chief Operating and Financial Officer*

Thank you, Patrick. I will now discuss our second-quarter 2015 performance as well as provide a review of our guidance for the full-year and the upcoming third quarter. As Patrick noted in his opening remarks, not only do we have some momentum going to the second half of the year, we had a strong second quarter, with revenue exceeding our guided range and earnings per share in line with our expectations.

Second-quarter revenues were \$27.5 million compared to \$27.2 million in the prior-year period. Going forward, we are going to look at revenue in three different categories: first, product revenue, which includes all software and appliance product revenue; second, services revenues, which include professional services and hosting revenues; and, third, recurring SMS revenue.

Each of these revenue streams is distinct, and each category has its own gross margin profile. Product revenues totaled \$8.3 million compared to \$8.9 million in the second quarter of 2014. Forensics software was lower year over year and made up most of the year-over-year decline. Gross margin on product revenue was 73% in Q2 versus 79% in the prior year due to a higher mix of appliances sold in the current year's quarter.

Services revenues increased to \$9.3 million, up from \$8.5 million in the year-ago period, with the increase primarily driven by growth in our professional services revenue, especially around incident response. As the shift in our services offerings move more toward incident response solutions, we should see improved revenue growth and higher gross margin. Gross margin on services increased to 35% versus 27% in the prior year.

SMS revenues, which represent our recurring revenue stream, were \$10 million, an increase of 2% year over year. Gross margin on maintenance revenues was 94% and in line with our expectations for the year and the prior year.

For the second quarter in a row, our average enterprise deal sizes increased year over year. In Q2 we added 113 new customers of our enterprise products. While we haven't reduced our focus on landing new logos with our platform, we are emphasizing our upsell and cross-sell activities across our sales teams. And this emphasis has resulted in higher average deal sizes.

Total operating expenses for the second quarter were \$19.9 million as compared to \$19.3 million in the prior-year period. We will continue to manage expenses closely, and we will continue to invest appropriately in our sales capacity as it relates to the endpoint security market, especially as we continue to innovate and release new endpoint security features, capabilities, and offerings, as Patrick mentioned in his remarks.

Moving on to specific operating expense line items, research and development expenses were 18% of revenues as compared to 20% of revenues in the prior-year period. Selling and marketing expenses were 36% of revenues versus 34% in the prior-year period, while G&A was 15% of revenues versus 13% in the prior year.

Our total sales and marketing expenses, while moving slightly higher as a percentage of revenues, continue to be more efficient than our competitors' in our common markets. Non-GAAP net loss for Q2 was \$1.3 million or \$0.05 per share as compared to a non-GAAP net loss of \$700,000 or \$0.02 per share in the second quarter of 2014.

Turning to the balance sheet and some related metrics, cash and cash equivalents as of June 30 totaled \$21 million as compared to \$18.8 million as of June 30 in 2014. We anticipate cash trending around \$17 million to \$20 million for the balance of the year. Cash flow used in operations was \$1.7 million as compared to cash used in operations last year of \$2.4 million.

I would now like to discuss our forward-looking guidance. Given our strong performance during the first half of the year, we remain on track to deliver on our full-year guidance, as previously stated. As such, we are reiterating our 2015 guidance as follows.

Revenue for the full-year is expected to be \$108 million to \$112 million. Non-GAAP pretax EPS for the year is expected to be a loss of \$0.15 to a loss of \$0.08 per share. And for Q3, we expect revenues in the range of \$27.5 million to \$28.5 million, with a non-GAAP EPS loss of \$0.06 to \$0.04 per share.

As Patrick mentioned earlier, we are pleased to see the strong momentum built during the first half of 2015. And I, too, have every confidence it will continue in the second half of this year. We hope to see many of you at the Oppenheimer Technology Conference in Boston on August 11.

We will now open up the call to questions. Operator?



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Schappel, Benchmark.

Mark Schappel - The Benchmark Company - Analyst

I just have a couple questions here. Barry, just starting with the normal questions I ask here: forensics revenue in the quarter -- I think you said it was down year over year. I was surprised there, given that the product cycle is kind of a little bit lengthy here. But what was the exact number for forensics revenue?

Barry Plaga - Guidance Software, Inc. - Chief Operating and Financial Officer

Mark, maybe we can take that one offline, and we can run through those differences, talk about it later.

Mark Schappel - The Benchmark Company - Analyst

Okay. And then the new enterprise deals in the quarter -- looked like it was down a little bit. I don't know if we should read anything into that; maybe you'd just comment a little bit about that?

Patrick Dennis - Guidance Software, Inc. - President and CEO

On the land strategy over the last couple of years, we were adding a lot of platform customers. I think we added close to 1,000 in the last 30 months, maybe six quarters, I think, or eight quarters.

As part of that, we are now focusing our efforts on upselling and cross-selling those customers to the higher-priced products. Although there were less number of deals in the quarter with new logos, we had pretty good, strong transaction count with both new and existing customers and a higher average deal size as a result. So a much higher-quality type of revenue stream is starting to arise.

Mark Schappel - The Benchmark Company - Analyst

Okay, great. And then the cyber security business -- as a percentage of total sales, where did that wind up? I think in the past it's been somewhere between 15% and 20%. I was wondering if that was consistent this quarter.

Barry Plaga - Guidance Software, Inc. - Chief Operating and Financial Officer

Yes, actually it's up to about a third of our business, and almost equal to the forensic side of the house -- our more traditional line. So we are doing really well and growing that business as fast as the market is growing. And we see some potential to hopefully outpace that market growth over the coming year.

Mark Schappel - The Benchmark Company - Analyst

Okay, and what was that business up year over year in the quarter?

Barry Plaga - *Guidance Software, Inc. - Chief Operating and Financial Officer*

The front half was 25%. So it was pretty consistent Q1 and Q2.

Mark Schappel - *The Benchmark Company - Analyst*

Great, thank you. That's all for me.

Operator

Michael Kim, Imperial Capital.

Michael Kim - *Imperial Capital - Analyst*

With the expansion in go-to-market, especially on the endpoint side of your business, are you seeing a lot -- the bulk of your wins from larger enterprises, or getting better response from midmarket enterprises?

And secondarily, are you seeing a lot of these as head-to-head evals? And I know maybe it's too early to comment on a win rate.

Patrick Dennis - *Guidance Software, Inc. - President and CEO*

Let's start at the end. It's probably too early to comment on the win rate. And I think part of the reason for that is, frankly, as we add sales capacity, we will wind up in more transactions. And as we wind up in more transactions, the answer to that question might be more representative. I don't think it would be right now.

As it relates to the deals, I think we are seeing a nice balance in mix of transactions. We gave you a couple of examples on the call today of large global enterprises. I think we like that kind of transaction. As Barry mentioned a second ago, many of these transactions have been of high quality, and particularly like how strong our mix of commercial business has been here in the front half.

Michael Kim - *Imperial Capital - Analyst*

Great. And then as you expand into some of these enterprises, have you been rethinking or evolving the pricing model? Or do you expect that to be relatively consistent?

Barry Plaga - *Guidance Software, Inc. - Chief Operating and Financial Officer*

I think I have said before that we are always considering what level of price elasticity might exist. There is a fair amount of focus here in the management team on making sure we understand how much value our solutions are delivering to clients, and that we are appropriately capturing that value with our software. I think we have made some improvements in that area, but I still see some room for us to continue to push in that space.

Michael Kim - *Imperial Capital - Analyst*

Great. Thank you very much.

Operator

Sarkis Sherbetchyan, B. Riley.

Sarkis Sherbetchyan - *B. Riley & Co. - Analyst*

Guys, what accounted for the upside in the quarter? Was it just pure execution, or was there something that you were able to pull in from the quarter that we are in right now?

Patrick Dennis - *Guidance Software, Inc. - President and CEO*

I would say it was overall pretty good sales execution across the board. We had a really good services quarter, especially around incident response. So that provided -- we had a little benefit from that during the quarter, with more customers needing help using our software in their given situations. So I think that helped.

And Jay continues to focus the sales force on closing deals and marching to the finish line in a very efficient manner. And it happened again here in Q2 as it did in Q1. So we are pretty pleased on that front.

We made some remarks earlier. I will recap a couple of them here, because I think it's a reasonable time to do that. We mentioned in last quarter's call that we had previously said we had some sales execution challenges. I think for all of you, I had broadened the aperture on that and said we really have some go-to-market execution challenges, lumping marketing and sales into that category.

And as mentioned earlier, I really do believe that the marketing team has started to put their own stamp on things, up to and including what was our best conference ever -- and, frankly, probably did create some demand for product, which was executed in-quarter. And we could count on that execution, given Jay's performance in-role and ability to get the sales teams to rally.

So we've been pleased with the improvement in overall go-to-market execution. It's one of the reasons why we think there is some momentum heading into the second half.

Sarkis Sherbetchyan - *B. Riley & Co. - Analyst*

Yes, that is certainly helpful. And I guess along those lines, on last quarter's call you guys did mention that the federal pipeline was looking strong. And I think you did mention also the enterprise pipeline was shaping up nicely, too. Can you maybe give us some updated comments around how the federal pipeline looks today -- if you are seeing some more strength and build, as well as maybe give some color around enterprise?

Patrick Dennis - *Guidance Software, Inc. - President and CEO*

Sure. On the federal side, Q3 is usually the large year-end for that spend. We've seen some pretty good progress, both in Q1 and Q2, in our federal business across the board -- across all the product lines, in fact. So that is showing some promise for a pretty solid Q3. And at the same time, we are starting to see a much healthier commercial pipeline build, especially in terms of deal sizes and -- urgency to buy, I think, is improving quite a bit given the climate we are in in cyber security right now.

I think you know last quarter -- you know, we will apply the same language this quarter that we did quarter prior. As it relates to the government spending, we know that quarter three is a big quarter. Barry and I and the rest of the team are comfortable that we are doing the right things on our end of things.

And just like last quarter, I will gently remind everyone that the government also has to execute on things. So I think we are as well positioned as we can be this quarter. That would be kind of the updated comment. And really, really similar position to what we said last time.

Sarkis Sherbetchyan - *B. Riley & Co. - Analyst*

All right. That is certainly helpful. And I guess last one for me: do you still plan to release EnCase 8 by year-end?

Patrick Dennis - *Guidance Software, Inc. - President and CEO*

You know, I think the product strategy is -- we've observed that in the three markets we serve, there is different rates at which those markets are involving (sic) and different rates at which we can deliver innovation.

As you might expect, we started to increase the amount and frequency of content that we are going to put into the software quarter in and quarter out. In this call I mentioned release 5.9, where we are making some updates so that our existing customers and, frankly, our prospects can get more of our innovation more quickly.

Right now, I am less focused on a big release of content. And I am more focused on making sure we have content available in our key markets that is timely. So I think it is reasonable for us to all expect more timely, tighter content delivery so that we can address market demands as they shape up quarter to quarter.

Sarkis Sherbetchyan - *B. Riley & Co. - Analyst*

All right, thanks much.

Operator

Hendi Susanto, Gabelli and Company.

Hendi Susanto - *Gabelli & Co. - Analyst*

The first question is for Patrick. How should we think of the direction of the product roadmap of Guidance endpoint security?

Patrick Dennis - *Guidance Software, Inc. - President and CEO*

Hendi, I think -- well, I tried to outline a few things for you. I think we serve three key markets. I will reiterate: we serve a forensic market, an eDiscovery market, and this endpoint market. And as you might expect, I'm starting to contemplate, as the rest of the team is, how we bring software each of those markets that serves each of those markets effectively.

I think on this call today, we were pretty clear that we have put some priority around cyber, both because of the opportunity that it presents to the Company and, frankly, because of the challenges our customers face. So we are acutely aware of this window of opportunity for the Company and, frankly, the needs of our clients.

We gave you a couple of examples from this quarter, where people really need solutions today. And since our software solves problems today, we are most focused on making sure we bring these customers the capabilities that we have today along with the capabilities that are near-term in the pipeline as quickly as we can, so we can continue to deliver these types of strong quarters. I think it's just really important for everybody to recognize that we are delivering these quarters based upon the products that we have today, because those products are solving customer complications and problems that are pertinent right, right now.



So I think it's fair for you to think of a product roadmap addressing the three key markets that we serve. I think it's reasonable for you to expect us to develop that roadmap at the pace of each of those markets. And the one that I highlighted on this call was cyber. I think it's reasonable for people to expect us to have things to talk about quarter in and quarter out, since it's such a fast-paced market.

Hendi Susanto - *Gabelli & Co. - Analyst*

So in the cyber endpoint security market, should we expect Guidance to focus on security remediation and attendant response? Or should we expect to go beyond that?

Patrick Dennis - *Guidance Software, Inc. - President and CEO*

We think we're pretty clear that our segment of the cyber security market relates to endpoint. That said, there are a suite of adjacent services that help customers get full and complete solutions from our software. So as you might imagine, we are going to develop software focused on the target market. And then we'll enhance that software with services capabilities that help clients with appropriate solution.

One of those that we highlighted was incident response. We think we have some skills and capabilities in that area that customers have drawn upon over the last several quarters, and we have done a nice job. So we will continue to make some developments in that capability, just like we would consider making improvements in our product capabilities on our roadmap. So you should expect us to have a plan for both products and services on a roadmap so that we can develop full and complete solutions, since that is what has been successful for us, at least the last couple of quarters.

Hendi Susanto - *Gabelli & Co. - Analyst*

Okay. And then with regard to cross-selling and upselling opportunities, would you be able to share some statistics? For example, some companies share, let's say, average number of products their customers have, or what the typical penetration of land expansion opportunity is.

Barry Plaga - *Guidance Software, Inc. - Chief Operating and Financial Officer*

That is a good question, Hendi. Let's see. In terms of number of products, it's probably between -- it's probably close to two. You know, they are a platform customer; and then they are either, on top of that, a cyber or eDiscovery customer. And I'm kind of excluding forensics, because that kind of counts in a lot of places all by itself.

In terms of the quality of the mix, we are getting -- I would say this quarter it was close to 70% of revenue came from existing customers. That shows you the value of that land and that upsell opportunity.

And we, again, are starting to measure the add-ons to the add-ons. So we've had a lot of customer expansions of either eDiscovery or cyber deployments over the last couple quarters, where they had a certain number of nodes covered, and then they increased it up and above that -- either due to their own growth, or their comfort with the product -- and pushing it out farther and wider. Or they've gone through some kind of acquisition or something like that, where now they have suddenly many more endpoints than they did under their original license.

Hendi Susanto - *Gabelli & Co. - Analyst*

That is very helpful, Barry.



Patrick Dennis - *Guidance Software, Inc. - President and CEO*

It's also reasonable to just remind everybody -- you know, this market -- we have some tailwinds right now. There are certainly a number of factors in the market this quarter that raised the level of visibility to these types of challenges.

And as we remarked earlier, Piper Jaffray, or Morgan Stanley, or several of the well-respected financial institutions have clearly identified that GIO's funding priorities have shifted towards this segment. So as you might expect, we wind up in a very fortunate position, given that we have capabilities today to meet the needs of those people as they have shifted their spending priorities toward -- in our favor. So there's some market tailwind here that is also very helpful.

Hendi Susanto - *Gabelli & Co. - Analyst*

Okay, yes. It's interesting to see the new segmentation and the gross margin. Perhaps you can help us. If you look at the service gross margin and maintenance gross margin, could you help us, sharing some color in terms of how they are compared to historicals? And how should we think of long-term gross margin profile as you move toward land-and-expand cross-selling, upselling into higher price package?

Patrick Dennis - *Guidance Software, Inc. - President and CEO*

Yes, that was a good multipart question there. So on the services side, we've been running kind of in the upper 20s, 27% to 30% margins over the last couple of years when we look at the new presentation. In this past quarter we were at about 35%.

We see some opportunities to expand that a couple percentage points. As you know, we put in a new leader in our professional services business who has been focused on utilization and productivity. And we are seeing some good margin improvements there.

On the maintenance side, I think that will be consistently 93% to 95% a quarter. Very consistent with last year. And then in terms of overall gross margin profile, we've been in the, like, 67% to 68% range for the last, I'd say, five or six quarters. I think as we see our enterprise product revenue increase, that immediately has a big impact on and leverages that up to where we can get that back into the low 70s next year, and potential for higher.

Hendi Susanto - *Gabelli & Co. - Analyst*

And then Barry how should we think of the trajectory of operating expenses in the second half of the year?

Barry Plaga - *Guidance Software, Inc. - Chief Operating and Financial Officer*

They are going to be pretty consistent with Q2. So Q3 is going to go up a little, just due to sales commissions; kind of got a -- the full management team will be on board for the first full quarter. We had a lot of new adds in Q2, but nothing that crazy in terms of expense increases. And we are looking -- we were \$19.9 million, so the guidance I gave you ranges for Q3 and Q4 in the \$20 million to \$20.5 million kind of OpEx number for Q3 and Q4. So it's modestly up, but not a lot.

Hendi Susanto - *Gabelli & Co. - Analyst*

And then if I look at CapEx, it is higher than my expectation. Do you have any insight into that?

Barry Plaga - *Guidance Software, Inc. - Chief Operating and Financial Officer*

Good catch, Hendi. So on CapEx, we did have a large expenditure in Q2 where we did a refresh on our storage related to our hosting business. It was long overdue, and that came through this quarter.

Hendi Susanto - *Gabelli & Co. - Analyst*

Okay. So for CapEx for the year, what should be our expectation, Barry?

Barry Plaga - *Guidance Software, Inc. - Chief Operating and Financial Officer*

It's probably going to be another \$500,000 to \$1 million for the rest of the year.

Hendi Susanto - *Gabelli & Co. - Analyst*

Okay, thank you.

Operator

Thank you. Ladies and gentlemen, there are no further questions at this time. I will now turn the conference back to Rasmus van der Colff to conclude. Thank you.

Rasmus Van der Colff - *Guidance Software, Inc. - VP, Finance and Chief Accounting Officer*

Great. Thank you, Diego. That concludes our call, and I would like to thank everybody for joining us today. We look forward to speaking again next quarter. Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.