

# GUIDANCE SOFTWARE, INC.

## Corporate Governance Guidelines

The Board of Directors (the “**Board**”) of Guidance Software, Inc. (the “**Company**”) has adopted the following Corporate Governance Guidelines (the “**Guidelines**”) to exercise its responsibilities and to serve the interests of the Company and its stockholders. These Guidelines should be interpreted in the context of applicable laws and the Company’s Articles of Incorporation, Bylaws and other corporate governance documents. These Guidelines acknowledge the leadership exercised by the Board’s standing committees and their chairs and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. The Guidelines are subject to modification from time to time by the Board as the Board may deem appropriate and in the best interests of the Company and its stockholders or as required by applicable laws and regulations.

These Guidelines are available on the Company’s website at “[www.guidancesoftware.com](http://www.guidancesoftware.com)” and to any stockholder who otherwise requests a copy. The Company’s Annual Report on Form 10-K will state the foregoing.

### **The Board**

#### *Size of the Board*

The Company’s Bylaws provide that the number of directors will be fixed from time to time by the Board, but in no event will be less than 5 or more than 11. It is the sense of the Board that a number of directors within this range permits diversity of experience without hindering effective discussion or diminishing individual accountability. The Board will periodically review and consider whether its size and composition are appropriate for the needs of the Company and its stockholders.

#### *Independence of the Board*

The Board will be comprised of a majority of directors who qualify as independent directors (the “**Independent Directors**”) under the listing standards of the Nasdaq (the “**NASDAQ**”). No more than 2 management executives who are employed by the Company or who were employed by the Company in the previous 3 years may serve on the Board at the same time.

The Nominating and Governance Committee will review annually the relationships that each director has with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company). Following such annual review, only those directors who the Board affirmatively determines have no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) will be considered Independent Directors, subject to additional qualifications prescribed under the listing standards of the

NASDAQ. The basis for any determination that a relationship is not material will be published in the Company's annual proxy statement or, in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission.

#### *Lead Independent Director*

In the event the Chairman's role is performed by a director who is an executive of the Company, the Board will appoint a lead Independent Director (the "**Lead Independent Director**"). The Lead Independent Director's duties will include: serving as a member or otherwise participating in each of the Company's standing committees meeting in executive session with the Independent Directors for the purpose of conducting the Chief Executive Officer's annual performance evaluations, conveying the results of the annual performance evaluations to the Chief Executive Officer, coordinating the activities of the Independent Directors, coordinating the agenda for and chairing sessions of the Board's Independent Directors and facilitating communications between the Independent Directors and the other members of the Board and the management of the Company and, establishing with the Chief Executive Officer at the beginning of each year, a schedule of agenda subjects to be discussed during the year (to the extent this can be foreseen). In performing the duties described above, the Lead Independent Director is expected to consult with the chairs of the appropriate Board committees and solicit their participation in order to avoid diluting the authority or responsibility of such committee chairs.

#### *Separate Sessions of Independent Directors*

The Independent Directors will meet in executive session without management directors or management present at the close of every Board meeting. The name of the Lead Independent Director/chair of such meetings will be published along with a means for stockholders to communicate with the Independent Directors. The Independent Directors will review the Company's implementation of and compliance with these Guidelines and consider such matters as they may deem appropriate at such meetings. Independent Directors are all Directors who are not company officers (as that term is defined in Rule 16a-1(f) under the Securities Act of 1933), including such Directors who are not independent by virtue of a material relationship, former status or family membership, or for any other reason.

#### *Director Qualification Standards*

The Nominating and Governance Committee is responsible for reviewing with the Board, on an annual basis, the appropriate characteristics, skills and experience required for the Board as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current Board members), the Nominating and Governance Committee, in recommending candidates for election, and the Board, in approving (and, in the case of vacancies, appointing) such candidates, take into account many factors, including ability to make independent analytical inquiries, general understanding of marketing, finance and other elements relevant to the success of a publicly-traded company in today's business environment, experience in the Company's

industry and with relevant social policy concerns, understanding of the Company's business on a technical or operational level, other board service and educational and professional background. Each candidate nominee must also possess fundamental qualities of intelligence, honesty, good judgment, high ethics and standards of integrity, fairness and responsibility. The Board evaluates each individual in the context of the Board as a whole, with the objective of assembling a group that can best perpetuate the success of the business and represent the balanced interests of all stockholders through the exercise of sound judgment using its diversity of experience in these various areas. In determining whether to recommend a director for re-election, the Nominating and Governance Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board.

#### *Election and Appointment of New and Continuing Directors*

The entire Board will stand for election by the stockholders of the Company each year at the Company's annual meeting. Each year, prior to the annual meeting, the Nominating and Governance Committee will recommend to the Board a slate of directors for election by the stockholders. In accordance with the Bylaws of the Company, the Board will also be responsible for filling vacancies or newly-created directorships on the Board that may occur between annual meetings of stockholders. The Nominating and Governance Committee is responsible for identifying, screening and recommending candidates to the entire Board for filling vacancies, newly created directorships, or reelection of current directors upon expiration of their term.

#### *Selection of Chairman of the Board*

The Board will select the Chairman of the Board in accordance with the Company's Bylaws. The Chairman will be selected from the Board's membership and may be either a director who is also an executive of the Company or an Independent Director.

#### *No Specific Limitation on Other Board Service*

The Board does not believe that its members should be prohibited from serving on boards of other organizations and has not adopted any guidelines limiting such activities, except with respect to members serving on the Audit Committee, as described below. However, the Nominating and Governance Committee and the Board will take into account the nature of and time involved in a director's service on other boards and/or committees in evaluating the suitability of individual director candidates and current directors and making its recommendations to the Company's stockholders.

Directors should advise the Chief Executive Officer and the Chairman of the Nominating and Governance Committee in advance of accepting an invitation to serve on another public company board. There should be an opportunity for the Board through the Nominating and Governance Committee to consider the Director's capacity to continue to fulfill his or her responsibilities as a Director.

Due to the demanding nature of service on the Audit Committee, the members of the Audit Committee may not serve on the audit committees of the boards of directors of more than three public companies at the same time as they are serving on the Audit Committee.

Service on other boards and/or committees should be consistent with the Company's conflict of interest policies set forth below.

#### *Directors Who Change Their Current Positions With Their Company or Principal Employment*

It is the sense of the Board that Directors who change their principal occupation, position or responsibilities they held when they were elected to the Board shall submit to the Chairman of the Nominating and Governance Committee an offer to resign from the Board. It is not the sense of the Board that in every instance the Directors who retire or change from the position they held when they joined the Board should necessarily leave the Board. There should, however, be an opportunity for the Board through the Nominating and Governance Committee to review the continued appropriateness of Board membership under the circumstances.

#### *Term Limits*

As each director is subject to election by stockholders on an annual basis, the Board does not believe it is in the best interests of the Company to establish term limits, as such term limits might cause the Company to lose the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company's business and therefore can provide an increasingly significant contribution to the Board.

#### *Retirement*

It is the general policy of the Company that no director may stand for election to the Board after his or her 75th birthday. The Board may, however, make exceptions to this standard, based on the recommendation of the Nominating and Governance Committee, as it deems appropriate in the interests of the Company's stockholders.

#### *Director Responsibilities*

**The basic responsibility of the directors is to exercise their reasonable business judgment on behalf of the Company.** Each director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. These include:

- (1) overseeing the conduct of the Company's business, to evaluate whether the business is being properly managed;
- (2) reviewing and, where appropriate, approving the Company's major financial objectives, plans and actions;

- (3) reviewing and, where appropriate, approving major changes in, and determinations of other major issues respecting, the appropriate auditing and accounting principles and practices to be used in the preparation of the Company's financial statements;
- (4) reviewing and, where appropriate, approving major changes in, and determinations under the Company's Guidelines, Code of Business Conduct and Ethics and other Company policies;
- (5) reviewing and, where appropriate, approving actions to be undertaken by the Company that would result in a material change in the financial structure or control of the Company, the acquisition or disposition of any businesses or asset(s) material to the Company or the entry of the Company into any major new line of business;
- (6) with respect to the Independent Directors, regularly evaluating the performance and approving the compensation of the Chief Executive Officer;
- (7) with the input of the Chief Executive Officer and the Compensation Committee, regularly evaluating the performance of principal senior executives;
- (8) planning for succession with respect to the position of Chief Executive Officer and monitoring management's succession planning for other key executives; and
- (9) ensuring that the Company's business is conducted with the highest standards of ethical conduct and in conformity with applicable laws and regulations.

### *Compensation*

The Company's executive officers shall not receive additional compensation for their service as Directors. The Compensation Committee on behalf of the Board will evaluate on an annual basis the Company's Independent Director compensation in relation to other U.S. companies of comparable size and the Company's competitors. Such evaluation will include consideration of both direct and indirect forms of compensation to the Company's Independent Directors. Following a review of the evaluation, the Compensation Committee will recommend any changes in Independent Director compensation to the Board.

### *Stock Ownership*

The Company encourages directors to own shares of the Company's stock. The Board believes that within five years of joining the Board, a director should hold a minimum number of Company shares that is equivalent in value to five times the then-current annual retainer for directors.

### *Conflicts of Interest*

Directors are expected to avoid any action, position or interest that conflicts with the interests of the Company or gives the appearance of a conflict. If an actual, apparent or potential conflict of interest develops, the director should immediately report the matter to the Chief Executive Officer and/or the Lead Independent Director. Any significant conflict must be resolved or the director should resign. If a director has a personal interest in a matter before the Board, the director will disclose the interest to the Board, excuse himself or herself from discussion on the matter and not vote on the matter.

#### *Board Orientation and Continuing Education of Board Members*

The Company shall provide new directors with a director orientation program to familiarize them with, among other things, the Company's business, strategic plans, significant financial, accounting and management issues, compliance programs, conflicts policies, Code of Business Conduct and Ethics, Guidelines, principal officers, internal auditors and independent auditors.

The Company shall provide or otherwise make available to directors continuing education programs, and each director is expected to participate in such programs.

#### *Interaction with Institutional Investors, the Press and Customers*

The Board believes that except in extraordinary circumstances, it is preferable that management speak for the Company. Directors should refer inquiries from institutional investors, the press or customers to management. Individual Board members may, from time to time at the request of the management, meet or otherwise communicate with various constituencies involved with the Company. If comments from the Board are appropriate, they should, in most circumstances, come from the CEO or the Lead Independent Director.

#### *Board Access to Senior Management*

The Board will have complete access to Company management in order to ensure that directors can ask any questions and receive all information necessary to perform their duties. Directors should exercise judgment to ensure that their contact with management does not distract managers from their jobs or disturb the business operations of the Company.

#### *Board Access to Independent Advisors*

The Board committees may hire independent advisors as set forth in their applicable charters. The Board as a whole shall have access to such advisors and such other independent advisors that the Company retains or that the Board considers necessary to discharge its responsibilities.

### *Annual Self-Evaluation*

Following the end of each fiscal year, the Nominating and Governance Committee will oversee an annual assessment by the Board of the Board's performance. The Nominating and Governance Committee will be responsible for establishing the evaluation criteria and implementing the process for such evaluation, as well as communicating the results of the Board's self assessment and leading discussion of any recommendations for actions which surface.

### **Board Meetings**

#### *Frequency of Meetings*

The Board will meet as a whole, at least 4 times annually. One or more of these meetings, which may be scheduled for multiple days, will be focused primarily on strategic planning and succession planning. Additional meetings may be called from time to time as determined by the needs of the business.

#### *Director Attendance*

A director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. Accordingly, a director is expected to regularly prepare for and attend meetings of the Board and all committees on which the director sits (including any separate meetings of the Independent Directors), with the understanding that, on occasion, a director may be unable to attend a meeting. A director who is unable to attend a meeting is expected to notify the Chief Executive Officer, the Lead Independent Director or the Chairman of the appropriate committee in advance of such meeting, and, whenever possible, to participate in such meeting via video or teleconference.

#### *Attendance of Non-Directors*

The Board encourages the Chief Executive Officer or the Chairman of any committee to bring Company management and outside advisors or consultants from time to time into Board and/or committee meetings to (i) provide insight into items being discussed by the Board which involve the manager, advisor or consultant, (ii) make presentations to the Board on matters which involve the manager, advisor or consultant, and (iii) bring managers with high potential into contact with the Board. Attendance of non-directors at Board meetings is at the discretion of the Board.

#### *Agendas*

The Chief Executive Officer and Lead Independent Director establish the agenda for each Board meeting with input from the management and from the other directors.

#### *Advance Receipt of Meeting Materials*

Information regarding the topics to be considered at a meeting is essential to the Board's understanding of the business and the preparation of the directors for a productive meeting. To the extent feasible, the meeting agenda and any written materials relating to a Board meeting will be distributed to the directors sufficiently in advance to allow for meaningful review of such agenda and materials by the directors. Directors are expected to have reviewed and be prepared to discuss all materials distributed in advance of any meeting. Presenters to the Board should be advised to expect that such material has already been reviewed so that the Board can engage on significant issues raised by the materials and/or presentations.

## **Committee Matters**

### *Number, Name, Responsibilities and Independence of Committees*

The Board currently has three committees, each composed entirely of Independent Directors. From time to time, as needed, the Board may form or disband committee. Each committee will perform its duties as assigned by the Board in compliance with the Company's Bylaws and the committee's charter.

The current committees are:

(1) Audit Committee. The Audit Committee consists of at least 3 members and reviews the work of the Company's internal accounting and audit processes and independent auditors. The committee has sole authority to appoint and fire the Company's independent auditors and to approve any significant non-audit relationship with the independent auditors.

Each member of the Audit Committee must satisfy the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934 and must be financially literate, as determined by the Board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment, and at least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment. In addition, at least one member of the Audit Committee must meet the definition of "audit committee financial expert" as determined by the Board in its business judgment in accordance with Item 401(h) of Regulation S-K.

(2) Compensation Committee. The Compensation Committee consists of at least 3 members and reviews and approves the Company's goals and objectives relevant to compensation, stays informed as to market levels of compensation and, based on evaluations submitted by management or external advisors, recommends to the Board compensation levels and systems for Board members, the Chief Executive Officer, executive officers and other senior employees that correspond to the Company's goals and objectives. The committee also produces an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations.



(3) Nominating and Governance Committee. The Nominating and Governance Committee consists of at least 3 members and is responsible for recommending to the Board individuals to be nominated as directors and committee members. This includes evaluation of new candidates as well as evaluation of current directors. This committee is also responsible for developing and recommending to the Board the Guidelines, as well as reviewing and recommending revisions to the Guidelines on a regular basis. This committee also performs other duties as described in these Guidelines and prepares any disclosure of the nominating process required by applicable rules and regulations.

#### *Assignment and Rotation of Committee Members*

Based on the recommendations of the Nominating and Governance Committee, the Board appoints committee members and committee chairs according to criteria set forth in the applicable committee charter and such other criteria that the Board determines to be appropriate in light of the responsibilities of each committee. Committee membership and the position of committee chairs will be considered by the Nominating and Governance Committee but will not periodically be rotated on a mandatory basis unless the Board determines that rotation is in the best interest of the Company.

#### *Frequency of Committee Meetings*

Each committee will meet at least 4 times annually. Additional meetings may be called by the Chairman of the committee from time to time as determined by the needs of the business.

#### *Committee Agendas*

The Chairman of each committee, in consultation with the appropriate members of the Committee and the Chief Executive Officer or relevant member of the Company's senior leadership team, will develop his or her committee's agenda.

#### *Committee Self-Evaluations*

Following the end of each fiscal year, each committee will review its performance and charter and recommend to the Board any changes it deems necessary.

### **Leadership Development**

#### *Annual Review of Chief Executive Officer*

The Board, with input from the Chief Executive Officer, shall annually establish the performance criteria (including both long-term and short-term goals) to be considered in connection with the Chief Executive Officer's next annual performance evaluation. At the end of each year, the Chief Executive Officer shall make a presentation or furnish a

written report to the Board indicating his or her progress against such established performance criteria.

The Compensation Committee shall make a recommendation to the Board as to the components and amounts of the Chief Executive Officers compensation. Thereafter, with the Chief Executive Officer absent, the Board shall meet to review the Chief Executive Officer's performance, consider the recommendations of the Compensation Committee, and determine the components and amounts of the Chief Executive Officer's compensation. The results of the review and evaluation shall be communicated to the Chief Executive Officer by the Lead Independent Director who will provide the Chief Executive Officer with any feedback from Independent Directors throughout the year.

#### *Succession Planning*

The Board works on a periodic basis with the Chief Executive Officer to review, maintain and revise, if necessary, the Company's succession plan upon the Chief Executive Officer's retirement or departure as a result of an unexpected occurrence. The Chief Executive Officer shall report annually to the Board on succession planning for the Chief Executive Officer and senior management positions, including a discussion of assessments, leadership development plans and other relevant factors. There should also be available to the Board, on a continuing basis, the Chief Executive Officer's recommendations regarding his or her successor should he or she be unexpectedly disabled.

#### *Management Development*

The Board will determine that a satisfactory system is in effect for the education, development and orderly succession of senior and mid-level managers throughout the Company.