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GUIDANCE SOFTWARE, INC.

FORM 10-K
(Annual Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10–K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number 001-33197

GUIDANCE SOFTWARE, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4661210** (I.R.S. Employer Identification No.)
215 North Marengo Avenue **Pasadena, California 91101** (Address of principal executive offices)	**(626) 229-9191** (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.001 par value per share (Title of each class)	**The NASDAQ Stock Market LLC** (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation of S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐

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

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $71,486,000* based on the closing sale price as reported on the Global Market tier of The NASDAQ Stock Market LLC. As of February 13, 2012, there were approximately 23,561,000 shares of the registrant's Common Stock outstanding, net of treasury shares.

* Excludes shares of Common Stock held by executive officers, directors and stockholders whose ownership exceeds 5% of the shares outstanding on that date. This calculation does not reflect a determination that such persons are affiliates for any other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A in connection with the registrant's 2012 Annual Meeting of Stockholders (the "Proxy Statement") or portions of the registrant's 10-K/A, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Report. Such Proxy Statement or 10-K/A will be filed with the Commission not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2011.

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TRADEMARKS

"Guidance Software," "EnCase," "EnScript," "CEIC," "EnCE," "Neutrino," "EnCEP," "Tableau" and other trademarks or service marks of Guidance appearing in this Annual Report are registered trademarks or trademarks of Guidance in the United States and in certain other jurisdictions. This report also contains additional trade names, trademarks and service marks of ours and of other companies. We do not intend our use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by these other companies.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS

This Annual Report, including the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding our vision and business strategy, financial condition, results of operations, products and technologies, expectation of competitive pressures and prospects. Such statements are based upon current expectations that involve risks and uncertainties. For example, words such as "may," "will," "should," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements. Additionally, any statements contained herein that are not statements of historical facts or that concern future matters such as the development of new products, sales levels, expense levels and other statements regarding similar matters may be deemed to be forward-looking statements.

Although forward-looking statements in this Annual Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the heading "Risk Factors" below, as well as those discussed elsewhere in this Annual Report. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report. Readers are urged to carefully review and consider the various disclosures made in this Annual Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

PART I

Item 1. Business

Overview

Guidance Software, Inc. is the leading global provider of digital investigative solutions. Our EnCase ® platform provides an investigative infrastructure that enables our customers to search, collect, and analyze electronically stored information in order to address human resources matters, litigation matters, allegations of fraud, suspicious network endpoint activity and defend their organization's data assets.

EnCase ® Enterprise provides organizations with in-depth visibility into laptops, desktops, and file servers in order to conduct internal investigations and to quickly determine the root cause of suspicious network activity. In addition, EnCase ® Enterprise serves as a platform on which more powerful electronic discovery and Cybersecurity products, described below, are built.

EnCase ® eDiscovery is our enterprise-wide e-discovery solution that operates from a central location to automatically perform search, collection, preservation and processing of electronically stored information ("ESI") from unstructured and semi-structured data stores, such as: workstations, laptops, servers, removable storage devices, archiving and content management solutions, with no business disruption to end-users. EnCase ® eDiscovery scales to meet the needs of all sizes and types of organizations, while providing a time efficient, cost effective, complete in-house e-discovery solution.

EnCase ® Cybersecurity complements and augments existing IT Security applications, such as Data Loss Prevention (DLP), Intrusion Detection System (IDS), or Security Event Information Management (SEIM) tools, by providing organizations that have identified a high-level alert with forensic-level visibility of the offending endpoint data, valuable information from memory, and the ability to search the enterprise for identical or similar threats. These capabilities allow a complete investigation of the alert, so an organization can understand the extent and location(s) of the problem. In addition, powerful incident response capabilities allow an organization to determine exactly what, where, how and when an incident took place along with the tools to remediate any malicious code or processes running on the affected computers to return the network to a trusted state.

EnCase® Forensic, the industry-standard computer investigation solution, is for forensic practitioners who need to conduct efficient, forensically sound data collection and investigations. The EnCase® Forensic solution, lets examiners acquire data from a wide variety of devices, unearth potential evidence with disk level forensic analysis, and craft comprehensive reports on their findings, all while maintaining the integrity of the evidence.

Our Tableau product family of forensic hardware products including forensic duplicators, multiple write blockers and other hardware complements our industry-leading software to fulfill the needs of the computer forensic community.

The widespread reliance on digital business processes and the explosive growth in the volume of electronic data have resulted in exposure to electronic data-related risks and created the need to properly conduct digital investigations . The global adoption of local area networks, wide area networks, e-mail and the Internet have increased communications within and between organizations and have created the ability to generate, store, share and distribute massive amounts of electronic information instantaneously without regard to physical location. While the adoption and reliance on these technologies has significantly increased productivity and lowered the cost of doing business for Global 2000 companies, government agencies and other organizations, it has also exposed organizations to many increasing areas of risk associated with the continued proliferation of electronic data. Organizations now are increasingly faced with the need to recover and analyze vast amounts of electronic data quickly and efficiently through processes we refer to as digital investigations. Digital investigations are conducted to address various electronic data-related needs, including:

- searching, collecting and processing litigation-related data, or responding to discovery requests for electronic data, or "e-discovery" requests, where a company must conduct a thorough yet timely review of electronic data in order to produce forensically sound electronic documents or other digital evidence in connection with a particular civil or administrative proceeding;

- responding to regulatory data requests, where an organization must efficiently and rapidly produce electronic documents and digital evidence in connection with a project under regulatory review in a manner acceptable to the regulators;

- addressing corporate policy violations, such as intellectual property theft, employee fraud and employee policy violations, all of which must be investigated rapidly, described in a detailed, complete and comprehensible report of the incident and mitigated and remedied across an enterprise network as necessary, all while minimizing business interruption; and

- responding to IT security attacks or breaches, where an organization must expeditiously and unobtrusively determine which systems or files were affected, the nature of the attack and how to remediate the issue quickly before any further damage occurs.

Traditional digital investigations involve internal investigators or third-party consultants manually searching through multitudes of electronic data in an attempt to discover traces or “fingerprints” of electronic data-related incidents. Such investigators or third-party consultants typically use software applications, utilities or processes, such as taking the affected servers, desktops and laptops off-line, so that they can remove, image or copy the hard drives, manually extract the data in question on each affected computer and save the affected files to another hard drive for processing and analysis by consultants or other third-party experts. These traditional digital investigations suffer from several distinct problems in that they are costly and time-consuming, they require significant expertise to conduct across complex enterprise network environments, they may not adequately combat attempts to conceal data, they often result in unwanted exposure of sensitive materials and disrupt business, and they are difficult to conduct in a forensically sound manner. Establishing a comprehensive digital investigative software platform can help organizations address the inadequacies of traditional digital investigations and cost-effectively mitigate the risk of electronic data-related threats.

On February 7, 2012 we announced that we signed a definitive agreement to acquire CaseCentral, a privately held provider of cloud-based e-discovery review and production software for corporations and law firms. The CaseCentral products will provide early case assessment (“ECA”), review and production functions as software as a service (“Saas”) in the Cloud. The products allow geographically dispersed inside and outside counsel to efficiently review collected documents without needing special equipment or software other than a web browser and internet connectivity. See “Note 20-Subsequent Events” in the notes to the consolidated financials statements included in Item 8 for further information regarding the acquisition.

We complement our product offerings with a comprehensive array of professional and training services including technical support and maintenance services to help our customers implement our solutions, conduct investigations and train their IT and legal professionals to effectively and efficiently use our products. All of our brands are based on the EnCase ® platform, and our products are used by a wide variety of industries and some of the world’s best known technology, financial and insurance services, defense, energy, pharmaceutical, manufacturing, healthcare and retail companies. Our EnCase ® Enterprise customer base currently includes more than half of the Fortune 100 and nearly 200 companies in the Fortune 500, and we have sold our EnCase ® Forensic software to more than 1,000 government and law enforcement agencies and other customers worldwide.

For the fiscal year ended December 31, 2011, we reported total revenues of $104.6 million, employed approximately 378 employees and conducted business in over 75 countries. We were incorporated in California in November 1997 and reincorporated in Delaware in December 2006.

Our Internet address is http://www.guidancesoftware.com. The following filings are posted to our Investor Relations web site, located at http://investors.guidancesoftware.com as soon as reasonably practical after submission to the United States (U.S.) Securities and Exchange Commission (SEC): annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, the proxy statements related to our most recent annual stockholders’ meetings and any amendments to those reports or statements filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings are available free of charge on our Investor Relations web site. The contents of these web sites are not intended to be incorporated by reference into this report or in any other report or document we file and any reference to these web sites are intended to be inactive textual references only.

Business Strategy

Our business strategy is to develop and support superior solutions and services that provide the foundation for corporate, government and law enforcement organizations to conduct thorough and effective computer investigations of any kind, including intellectual property theft, incident response, compliance auditing and responding to e-discovery requests, all while maintaining the forensic integrity of the data. A key driver behind this strategy is the development and introduction of new products and improvements to our existing products. Our goal is to develop more powerful, user friendly and affordable products without compromising on our technological commitment. We are focused on gaining more EnCase ® Enterprise, EnCase ® eDiscovery and EnCase ® Cybersecurity customers, as the enterprise forensics, electronic discovery and cybersecurity markets continue to develop while continuing our leadership in computer forensics technology with innovative software and hardware for a complete forensic framework.

Our Products and Services

Our products and services give our customers the ability to conduct comprehensive, cost-effective and precise digital investigations. Our EnCase ® Enterprise software, EnCase ® eDiscovery, and EnCase ® Cybersecurity, provide the foundation to build an enterprise investigation infrastructure. Furthermore, we believe our EnCase ® Forensic software is the industry standard for searching, collecting, preserving, analyzing and authenticating electronic computer forensic data for use in criminal and civil court proceedings. Our forensic software and hardware products address the complete forensic process. We also offer a comprehensive array of investigative services and training to help our customers manage their internal digital investigations and learn how to effectively and efficiently use our software.

EnCase ® Enterprise

EnCase ® Enterprise provides an investigative platform that enables an organization to search, collect, preserve and analyze data on the servers, desktops and laptops across the network. EnCase ® Enterprise enables organizations to respond to electronic discovery requests and conduct internal investigations, including those related to human resources or those focused on compliance or fraud. Companies can also collect and preserve data in response to regulator requests or for civil litigation matters and take decisive action in the face of security and data breaches, whether the origin of the worm, virus or other exploit is internal (e.g., “rogue employees”) or external (e.g., “hackers”).

EnCase ® Enterprise serves as the platform for an enterprise investigative infrastructure, to which additional products can be added to enhance and automate the search, collection, preservation and analysis of data in order to accomplish specific business tasks such as: responding to electronic discovery requests; performing proactive, enterprise-wide, data audits for sensitive information, including personally identifiable information, classified data, and intellectual property; and responding to and remediating network threats or intrusions. These products, which can be added to perform the functions above, include EnCase ® eDiscovery, EnCase ® Portable and EnCase ® Cybersecurity.

EnCase ® eDiscovery

EnCase ® eDiscovery performs automated search, collection, preservation, processing, analysis, and first-pass review of ESI around the clock in a forensically sound manner. Using a distributed enterprise-wide scalable architecture, it collects and processes only potentially relevant data. In addition, evidence and metadata are preserved in the court validated EnCase ® Evidence File format to ensure complete chain of custody from the moment the legal hold is issued until load files are generated for attorney review. EnCase ® eDiscovery tracks activity at every step of the e-discovery process so that the status of projects can be viewed, audited, and communicated to others.

Once the initial search has been conducted and the information has been collected, EnCase ® eDiscovery culls and processes the data to further reduce the volume of irrelevant or duplicate information. The solution distributes processing in an organized fashion so that several dozen machines can process terabytes of data without disrupting business and degrading network performance. EnCase ® eDiscovery’s in-house processing capabilities enable secondary culling and load file creation for the most common attorney review platforms. The collected and processed data is placed in a court-validated digital container called an EnCase ® Logical Evidence file, or LEF, and the data can be uploaded to third-party e-discovery attorney review platforms to complete the e-discovery process.

The solution enables organizations to clean up irrelevant data before litigation strikes, processes all data located both on the corporate network and cloud-based data storage repositories without missing potential evidence, and automatically preserves all file and e-mail metadata — all provided with unlimited capacity.

EnCase ® eDiscovery enables better, faster case strategy decisions through early and continuous case assessment with pre-collection analytics, powerful search analytics, and first-pass review features that enable customers to conduct analysis at any point in the process. Through this optimized process, customers obtain the necessary facts, early, to understand and assess case merits, risk, and cost.

The e-discovery market has been fragmented, lacking a fully integrated solution, and relying on multiple point solutions, which breeds inefficiencies, causes delays, increase risk and, ultimately, costs. Typically, in any given technology market, the introduction of integrated offerings drives broader technology adoption, and the e-discovery market should be no different. EnCase ® eDiscovery is the industry’s first fully integrated e-discovery solution. EnCase ® eDiscovery provides customers’ legal and IT teams with one integrated, unified software solution that delivers all of the functionality that organizations desire for in-house electronic discovery, including:

- Legal hold,
- Pre-collection analytics,
- Identification, preservation and collection,
- Processing, analysis, and early case assessment, and
- First-Pass review.

EnCase ® Cybersecurity

EnCase ® Cybersecurity is a forensic response and data auditing software solution that automates time-sensitive aspects of the incident response process. It reduces the risk of exposing sensitive data by providing the ability to expose, triage, and remediate threats that have escaped detection by layered security solutions and have infiltrated the enterprise; and by providing the ability to enforce data policy compliance on endpoints. EnCase® Cybersecurity is designed to determine root cause and scope of any given event and provides forensic level visibility and analysis of endpoint data in order to find and remediate threats designed to evade layered security solutions, centralize incident response, enforce data policy, and return endpoints to a trusted state.

The EnCase® Cybersecurity data audit functionality searches out sensitive intellectual property (IP), personally identifiable information (PII), and classified data, exposing systems that pose a risk. With the ability to search memory and hard drives at the disk level, EnCase® Cybersecurity can target and locate sensitive data no matter where, or in what manner, it is stored, and even if it has been deleted, resides in unallocated space, or is “in use”.

EnCase ® Forensic

EnCase ® Forensic software is the industry leading tool for searching, collecting, preserving and analyzing computer forensic data and authenticating such data in court. EnCase ® Forensic enables an investigator to conduct the full array of forensic functions on a single machine while preserving the integrity of the evidence for future use in court. Used by investigators and consultants in law enforcement, government agencies, small businesses, consulting firms and corporations, EnCase ® Forensic software provides a robust way to authenticate, search and recover computer evidence rapidly and thoroughly.

EnCase ® Portable

EnCase ® Portable is a triage and collection solution, delivered on an USB device, that allows forensic professionals and non-experts to quickly and easily triage and collect digital evidence in a forensically sound and court proven manner. It enables personnel not trained in computer forensics to forensically acquire documents, internet history and artifacts, images, and other digital evidence, including entire hard drives by connecting a USB device rather than a laptop. Also, law enforcement, government, law firm and corporate customers can cost effectively target systems that are not on the network, cannot be transported or multiple systems simultaneously where it is cost prohibitive to acquire data with laptops. EnCase ® Portable leverages the powerful search and acquisition capabilities of EnCase ® software.

Tableau Hardware

Tableau hardware includes write blockers, forensic duplicators and storage devices. Write blockers and forensic duplicators are used to acquire forensically sound copies of digital storage devices such as hard disks and solid state drives. Users will typically analyze this data with forensic software such as EnCase ® Forensic. Tableau storage products, used in conjunction with write blockers or forensic duplicators, provide high performance, high availability storage for data acquired and produced during forensic examinations.

Professional Services

Professional services provide various consulting services to our clients, including e-discovery, network security incident response, civil/criminal digital investigation, implementation services, and a software advisory program. In addition, we offer certain packaged services based on the specific needs of our customers, including our government customers.

e-discovery Services . We offer complete end-to-end e-discovery consulting and project management services, from litigation hold to the production of files for attorney review. Leveraging our industry leading EnCase ® eDiscovery solution, our cost effective e-discovery services teams automate operations that other service providers perform manually, and are able to conduct large scale e-discovery search, collection and preservation from a central location, producing fast, accurate results with minimal business disruption.

Incident Response Services. Using EnCase ® Cybersecurity, consultants investigate and remediate security breaches in an organization’s network infrastructure. Consultants determine which methods of entry were used to break into the system, the extent and duration of the intrusion and exactly what data was compromised. They can also “kill” malware and/or rogue processes. In the event a breach draws the attention of regulatory agencies, results and reports can be processed into a court-approved, forensically sound file format to help an organization provide accurate, defensible evidence and information to regulators.

Implementation Services. We provide implementation and consulting services in connection with the deployment of our EnCase ® Enterprise, EnCase ® eDiscovery, EnCase ® Cybersecurity and related software. Our implementation typically takes one to two weeks, during which we conduct performance tests to ensure full functionality and integration with existing systems in the organization and provide on-site training to ensure our customers can maximize the use of the technology.

Guidance Software Advisory Program (GAP). GAP provides a comprehensive review of current policies and procedures, including a gap analysis which identifies risk areas that could impact the customer. Dedicated advisory consultants work with the customer to build and implement a customized plan to help automate procedures and eliminate wasted resources, establish a documented, defensible and repeatable e-discovery workflow, and align procedures with industry best practices.

Customer Service and Technical Support

Customers typically purchase software maintenance with each new product license. Maintenance generally involves software updates, telephone and e-mail support, on a 24 hours per day, five days per week basis, as well as customer self-service on our website. Customers are typically provided an option to renew their maintenance agreements on an annual basis. Our technical support organization provides product support to our current customers with multi-tiered offerings and includes support availability 24 hours per day, five days per week, in English, and is also available during normal business hours in several other languages, including German and Spanish.

Training

Training educates thousands of students per year in computer forensics principles and the use of our EnCase ® software products and methodology. Because of the sensitive nature of digital investigations and the need to conduct digital investigations in a forensically sound manner, our users will typically take one or more of our courses. We provide an array of training courses on topics such as computer forensics, digital investigations, the proper use of our software products and the EnScript ® programming language, which teach our customers' IT and data security professionals the basic principles of computer forensics, train them on the basic and advanced capabilities of our software products and teach them to write EnScript ® programs. We have retained third-party training partners in order to provide training around the world.

We operate two training classrooms in Pasadena, California, two near Washington, D.C., one in Houston, Texas, one near Chicago, Illinois and two near London, England. In addition, through our training staff, our authorized training partners and our OnDemand training program, certain courses are offered at off-site locations throughout North, Central and South America, Europe, Africa, the Middle East and Asia/the Pacific Rim (as permitted by U.S. Export Regulations). In 2011, we conducted training classes in 38 different countries. In addition to offering courses in English, we have begun to localize our courses by converting the course content and manuals into other languages, and delivering the courses in those languages. To date, our training courses have been instructed in German, Spanish, Korean, Romanian, Polish, Japanese, Hebrew, French, Arabic and Mandarin Chinese. We also offer online-training courses, called OnDemand training, and it is available worldwide.

Many of our courses are eligible for credit from a variety of organizations, including The State Bar of California, the International Information Systems Security Consortium, Inc., the National Association of State Boards of Accountancy, the Association of Certified Fraud Examiners, the High Tech Crime Network, the Texas Commission on Law Enforcement and the California Commission on Peace Officer Standards and Training. We are continually expanding our training offerings and we believe that we are the leading corporate provider of this type of digital investigation training.

EnCE ® Certification

The EnCE ® program certifies the competency of public and private sector employees in the best practices of computer forensic investigations and in the proper use of EnCase ® while conducting such investigations. In order to obtain EnCE ® certification, professionals must have at least 12 months of computer forensic experience or attended 64 hours of authorized computer forensic training and pass a dual-phase EnCE ® examination. EnCE ® certification acknowledges that professionals have mastered computer forensic investigation methodology as well as the use of EnCase ® during complex computer examinations. Our EnCE ® program is recognized by both the law enforcement and corporate communities as a symbol of in-depth computer forensics knowledge, and EnCE ® certification illustrates that an investigator is a skilled computer examiner. As of December 31, 2011, more than 3,400 people worldwide had achieved EnCE ® certification.

EnCEP ™ Certification

EnCase ® Certified eDiscovery Practitioner (EnCEP ™) program certifies private and public sector professionals in the use of EnCase ® eDiscovery software, as well as their proficiency in e-discovery planning, project management and best practices spanning legal hold to load file creation. EnCase ® eDiscovery is the leading e-discovery solution for the search, collection, preservation, and processing of ESI. Earning the EnCEP ™ certification illustrates that a practitioner is skilled in the application of the solution to manage and successfully complete all sizes of eDiscovery matters in accordance with the Federal Rules of Civil Procedure.

Sales and Distribution

We currently market our software and services primarily through a direct sales organization complemented by indirect sales channels. Our direct sales force is located throughout the Americas, Europe, the Middle East, Africa and Asia/the Pacific Rim.

Our revenue consists of product and service and maintenance fees from our customers and distributors. Product revenue represented approximately 50%, 48% and 46% of our total revenue in fiscal years 2011, 2010 and 2009, respectively. Revenue from service and maintenance represented approximately 50%, 52% and 54% of our total revenue in fiscal years 2011, 2010 and 2009, respectively.

Sales to customers outside the United States totaled $19.8 million, representing 19% of our total revenue in fiscal year 2011. For a geographic breakdown of our revenue and property and equipment, see Note 18 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

Marketing

We use a mix of market research, analyst updates, seminars, direct mail, print advertising, trade shows, speaking engagements, public relations, customer newsletters and web marketing in order to achieve our marketing goals. Our marketing department also produces collateral material for distribution to potential customers including presentation materials, white papers, brochures, magazines and fact sheets. We also host user events for our customers and provide support to our channel partners with a variety of programs, training and product marketing support materials.

In addition to our regional and vertical marketing initiatives, we also host the industry's largest conference dedicated solely to the subject of digital investigations. The Computer and Enterprise Investigations Conference ("CEIC ® ") serves as our annual user conference and draws attendees from global law enforcement, government agencies, corporations, law firms and judges. This event also draws industry analysts and experts and provides a valuable forum for users to connect, share information and learn about important topics in the industry. It enables us to efficiently connect with a broad range of customers, communicate our whole product offerings (products, services, training, etc.) and launch new products in a captive environment while simultaneously driving additional add-on sales to customers who have implemented one or more of the core platform products.

Customers

Our customers include government agencies and global corporations in a wide variety of industries such as financial and insurance services, technology, defense contracting, telecom, pharmaceutical, healthcare, manufacturing and retail. Our EnCase ® Enterprise customer base currently includes more than half of the Fortune 100 and more than 150 of the Fortune 500 and many federal and international government agencies, and we have deployed our EnCase ® Forensic software to more than 1,000 government and law enforcement agencies and other customers worldwide. Our EnCase ® Enterprise customers are primarily in North America, and also extend to Europe, Africa, the Middle East (as permitted by U.S. Export Regulations) and Asia/the Pacific Rim. Sales to customers outside of the United States accounted for 19%, 15% and 21% of our revenues for the fiscal years ended December 31, 2011, 2010 and 2009, respectively. The majority of our EnCase ® Forensic customers are national and local government agencies, law enforcement agencies, consultants and other organizations of the United States and foreign governments.

Research and Development

Our research and development effort is focused on the advancement of our core products and the development of new products, as well as the quality assurance of both core and new products. We conduct research on existing or new computer hardware or software technology to develop solutions for our law enforcement, government or corporate markets. We conduct research on file system support, search and analysis algorithms, hardware engineering and design, industry standards, technology integrations and user productivity and performance features. Our research and development efforts are often aimed at creating new standards in our industry and streamlining current processes. Under our customer contracts, we typically obtain the rights to use any improvements to our technology developed or discovered on a particular customer deployment on other customer deployments. Our research and development expenses were $18.9, $17.0, and $14.2 million in 2011, 2010 and 2009, respectively.

Competition

The market for our products is highly competitive, quickly evolving, and subject to rapidly changing technology. The market for software for electronic discovery is highly fragmented, and our EnCase ® eDiscovery product competes against enterprise search and content management vendors such as Autonomy and EMC, as well as electronic discovery point solutions from smaller, privately held companies. More generally, our EnCase ® eDiscovery software competes against providers of outsourced electronic discovery services, such as FTI or Navigant. In the IT Security market, we believe our EnCase ® Cybersecurity product provides certain unique capabilities, but we nevertheless compete for budget dollars against established IT security vendors such as Checkpoint and McAfee. In the computer forensics market we compete against a series of smaller, privately held companies, such as AccessData and Paraben. Additionally, in the broader enterprise market we compete with forensic vendors including Access Data and security software solution vendors including McAfee and Symantec. With respect to our e-discovery solution, we compete against e-discovery point solutions such as StoredIQ, Clearwell and Nuix, information and content management vendors including Autonomy, EMC (which acquired Kazeon), Iron Mountain (which acquired Stratify and Mimosa), as well as other privately held companies. Our e-discovery solutions also compete against outsourced e-discovery alternatives whether e-discovery service providers or consulting companies, such as the Big 4 consulting/accounting firms and others, that offer services for traditional digital investigations and e-discovery in place of implementing a packaged software solution.

We currently compete on the basis of the breadth and depth of our products' functionality as well as on the basis of price. Additionally, we compete on the basis of certain other factors, including forensic technology, forensic soundness and acceptance in court, time required to complete an investigation, ability to scale across large networks and expertise of consulting personnel. We believe that we currently compete favorably with respect to these factors. For a further discussion of our competition, see "Risk Factors—We face direct and indirect competition from other software companies, as well as other companies that provide training, consulting, and certification services in computer forensics, which could limit our growth and market share" in Item 1A.

Seasonality

Our business is influenced by seasonal factors, largely due to customer buying patterns. In recent years, we have generally had weaker demand for our software products and services in the first and second quarters of the year and stronger demand in the third quarter due to the federal government fiscal year end and in the fourth quarter due to commercial or corporate fiscal year end. Our consulting and education services have sometimes been negatively impacted in the third and fourth quarters of the year due to the summer and holiday seasons, which result in fewer billable hours for our consultants and fewer education classes.

Intellectual Property and Proprietary Rights

Our intellectual property rights are important to our business. We rely on a combination of copyrights, trade secrets, trademarks, and patents, as well as confidentiality procedures and contractual provisions to protect our proprietary technology, processes and intellectual property. We currently have 13 issued patents and 21 patent applications pending in the United States, the European Union or under the Patent Cooperation Treaty (often more than one pending application relates to a single invention). We own registered copyrights on various versions of our products and associated instructional documentation. We have registered trademarks or trademarks in the United States and in certain other jurisdictions, including the mark EnCase ® in the United States, Japan and the European Union, and in the marks EnCE ® , EnScript ® , FastBloc ® , CEIC ® , EnCEP™ and logo Guidance Software ® in the United States.

Others may develop products that are similar to our technology. We generally enter into confidentiality and other written agreements with our employees and partners, and through these and other written agreements, we attempt to control access to and distribution of our software, documentation and other proprietary technology and other information. Despite our efforts to protect our proprietary rights, third parties may, in an unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop a product with the same functionality as our software. Policing unauthorized use of our software and intellectual property rights is difficult, and nearly impossible on a worldwide basis. Therefore, we cannot be certain that the steps we have taken or will take in the future will prevent misappropriation of our technology or intellectual property rights, particularly in foreign countries where we do business or where our software is sold or used, where the laws may not protect proprietary rights as fully as do the laws of the United States or where the enforcement of such laws is not common or effective.

Substantial litigation regarding intellectual property rights exists in the software industry. From time to time, in the ordinary course of business, we may be subject to, or initiate, claims relating to our intellectual property rights or those of others, and we expect that third parties may commence legal proceedings or otherwise assert intellectual property claims against us in the future, particularly as we expand the complexity and scope of our business, the number of similar products increases and the functionality of these products further overlap. These claims and any resulting litigation could subject us to significant liability for damages. In addition, even if we prevail, litigation could be time-consuming and expensive to defend and could affect our business materially and adversely. Any claims or litigation from third parties may also limit our ability to use various business processes, software and hardware, other systems, technologies or intellectual property subject to these claims or litigation, unless we enter into license agreements with the third parties. However, these agreements may be unavailable on commercially reasonable terms, or not available at all. For a discussion of intellectual property claims that have recently been asserted against us, see "Item 3. Legal Proceedings" and "Note 17 — Contingencies" in the notes to the consolidated financial statements included in Item 8.

In addition to our proprietary technology, we rely on technology that we license from third parties. In particular, the next version of our products will incorporate document viewer technology that we license from Oracle Corporation (formerly, Stellent, Inc.). In November 2008, we agreed with Oracle to extend this license until November 27, 2012 at a higher price. In addition, Oracle may terminate this license agreement prior to the expiration of its term if we fail to make timely payments or fail to comply with any other material term of the license. (See Risk Factors: "Our success depends in part upon our ability to develop new products and enhance our existing products. Failure to successfully introduce new or enhanced products to the market may adversely affect our business, financial condition and results of operations" in Item 1A).

Employees

As of December 31, 2011, we employed approximately 378 full-time employees, including approximately 98 in research and development, 114 in selling and marketing and 51 in professional services. We have never had any work stoppage and none of our employees are represented by a labor organization or are party to any collective bargaining arrangements. We consider our employee relations to be good.

Item 1A. Risk Factors

You should consider each of the following factors as well as the other information in this Annual Report in evaluating our business and our prospects. Risks and uncertainties are described below. If any of the following risks actually occurs, our business and financial results could be harmed. In that case, the trading price of our common stock could decline. You should also refer to the other information set forth in this Annual Report, including our financial statements and the related notes.

Global market and economic conditions may adversely affect our business, results of operation and financial condition.

We are subject to the risks arising from adverse changes in global economic conditions, especially those in the US, Europe and the Asia-Pacific region. Economic conditions in the United States and worldwide macroeconomic conditions remained challenging during much of 2009, 2010 and 2011. If this economic weakness continues or worsens, customers may delay, reduce or forego technology purchases, both directly and through our channel partners and resellers. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. Further, deteriorating economic conditions could adversely affect our customers and their ability to pay amounts owed to us. Any of these events would likely harm our business, results of operations and financial condition.

Our operating results may fluctuate from period to period and within each period, which makes our operating results difficult to predict and could cause our revenues, expenses and profitability to fall short of expectations during certain periods.

Our operating results may fluctuate from period to period or within certain periods as a result of a number of factors, many of which are outside of our control. You should not rely on our past results as an indication of future performance, as our operating results in the future may fall below expectations, expenses could increase and revenues could decrease. Each of the risks described in this section, as well as other factors, may affect our operating results. For example, our quarterly revenues and operating results may fluctuate as a result of a variety of factors, including, but not limited to, our lengthy sales cycle, the proportion of revenues attributable to license fees versus services and maintenance revenue, changes in the level of fixed operating expenses, demand for our products and services, the introduction of new products and product enhancements or upgrades by us or our competitors, changes in customer budgets and capital expenditure plans, competitive conditions in the industry and general economic conditions. In addition, many customers make major software acquisitions near the end of their fiscal years, which tends to cause our revenues to be higher in the third and fourth calendar quarters which coincide with the fiscal year ends of many government agencies and corporations, and lower in the first and second calendar quarters. In addition, many customers tend to make software acquisitions or purchases near the end of a particular quarter, which tends to make our revenues for a particular period unpredictable for a significant portion of the period in question until software purchase decisions have been made. Since our EnCase® Enterprise product sales are generally large scale license agreements, a short delay in just one of these software sales from one quarter into a subsequent quarter or a loss of one of these potential sales could cause us to deliver results for a quarter that are below projections of securities analysts that follow our results. There can be no assurance that we will be able to successfully address these risks, and we may not be profitable in any future period.

If the corporate market for digital investigation software were not to develop, we would not be able to maintain our growth, and our revenues and results of operations would be adversely affected.

The market for digital investigation software is new and is being developed largely through our efforts. Our growth is dependent upon, among other things, the size and pace at which the market for such software develops. Our ability to achieve our anticipated growth rate may be impacted by a contraction in the global economy. If the market for such digital investigation software decreases, remains constant or grows more slowly than we anticipate, we will not be able to maintain historical growth rates. Continued growth in the demand for our products is uncertain because of, among other things:

- customers and potential customers may decide to use traditional methods of conducting enterprise investigations, such as reliance on in-house professionals or outside consultants to conduct manual investigations;

- customers may experience technical difficulty in utilizing digital investigation software or otherwise not achieve their expected return on their investment in such software; and

- marketing efforts and publicity related to digital investigation software may not be successful.

Even if digital investigation software gains wide market acceptance, our software may not adequately address market requirements and may not continue to gain market acceptance. If digital investigation software generally, or our software specifically, do not gain wide market acceptance, we may not be able to maintain our recent rate of growth and our revenues and results of operations would be adversely affected.

The failure of the legal community to adopt our eDiscovery solution could negatively affect future sales of EnCase ® Enterprise, which could have a material adverse effect on our results of operations.

We expect to derive a significant amount of sales of EnCase ® Enterprise from continuing demand for our EnCase ® eDiscovery solution. However, widespread adoption of e-discovery best practices will require a shift in the way the legal community approaches discovery of electronic documents and other electronically stored data. Currently, most large scale electronic discovery projects are conducted by outsourced service providers that manually retrieve documents from each computer subject to review. These service providers have longstanding and entrenched relationships with the corporations that are subject to large-scale discovery inquiries or security breaches and the large law firms that are typically retained in connection with such discovery projects. Corporations and law firms may continue to prefer to use service providers because of these ongoing established relationships, and because the service providers are widely known and accepted within the legal community, and may resist adoption of our EnCase ® eDiscovery solution. Moreover, the expense of relying on an outsourced service provider may frequently be covered by the corporation’s insurance policy that is otherwise covering the expense of the litigation, including complying with requests for discovery, while implementation of EnCase ® Enterprise and our EnCase ® eDiscovery would require a significant unreimbursed capital expenditure by the corporation. The failure of corporations and law firms to adopt our EnCase ® eDiscovery solution for e-discovery could have a material adverse effect on our sales and results of operations.

Courts could reject the use of our products, which would harm our reputation and negatively affect future sales of our products and services.

Our software products and services are often used in connection with legal investigations, civil litigation and criminal prosecutions. The admissibility of results generated by our products as evidence in civil and criminal trials is a key component of our customer value proposition. Evidence and the manner used to collect evidence is regularly the subject of challenges in legal investigations and litigation, and our products or personnel may be the direct or indirect subject of such legal challenges. Persons involved in litigation may, for example, challenge the reliability of our products, the admissibility of evidence generated, discovered or collected using our products, and/or the expertise, credibility or reliability of our personnel. Other unpredictable legal challenges may be brought that could reflect upon the reputation of our products or personnel. To date, courts that have addressed challenges to our products or services have ruled against such challenges. If in the future a court were to find that our products are not reliable or that persons representing us or users of our product are not credible, reliable or lack the expertise necessary to serve as a witness or to authenticate evidence, or that our training and certification process does not adequately prepare individuals to conduct competent digital investigations, this could have a material adverse impact on our revenues and results of operations.

We are dependent on our management and research and development teams, and the loss of any key member of either of these teams may prevent us from executing our business strategy.

Our future success depends in a large part upon the continued services of our executive officers and other key personnel. In particular, Shawn McCreight, our founder, Chairman and Chief Technology Officer, has been significantly responsible for the development of our products. In addition, Victor Limongelli, our President and Chief Executive Officer, is responsible for a number of our significant strategic initiatives. We are also substantially dependent on the continued services of our existing research and development personnel. The loss of one or more of our key employees, and in particular our research and development personnel, could seriously harm our business development, culture and strategic direction. We do not maintain key person life insurance policies on any of our executives. Any key person life insurance policy we maintain now or in the future would not be sufficient to cover the loss of any of our key personnel and any such loss could seriously harm our business and our ability to execute our business strategy. We have agreements that provide severance benefits to each of our Named Executive Officers. Our failure to retain these key employees could negatively impact our ability to execute our business strategy.

Changes or reforms in the law or regulatory landscape could diminish the need for our solutions, and could have a negative impact on our business.

One factor that drives demand for our products and services is the legal and regulatory framework in which our customers operate. Laws and regulations are subject to drastic changes and these could either help or hurt the demand for our products. Thus, certain changes in the law and regulatory landscape, such as tort law or legislative reforms that limit the scope and size of electronic discovery requests or the admissibility of evidence generated by such requests, as well as court decisions, could significantly harm our business. Changes in domestic and international privacy laws could also affect the demand and acceptance of our products, and such changes could have a material impact on our revenues.

We face direct and indirect competition from other software companies, as well as other companies that provide training, consulting and certification services in computer forensics, which could limit our growth and market share.

The markets for our software products and services are competitive, highly fragmented and subject to rapidly changing technology, shifting customer needs and frequent introductions of new products and services. We expect the intensity of competition to increase in the future as new companies enter our markets, existing competitors develop stronger capabilities and we expand into other markets. Many of our current competitors have longer operating histories, greater name recognition, access to larger customer bases and substantially more extensive resources than we have. They may be able to devote greater resources to the development, promotion and sale of their products than we can to ours, which could allow them to respond more quickly than we can to new technologies and changes in customer needs and achieve wider market acceptance. Because the barriers to entry into software industry segments are generally low, we expect to continue to face competition from new entrants, particularly as we expand into other segments of the software industry.

Several competing companies provide digital investigation software and applications that directly compete or will compete with our products, or offer solutions our products do not address. In addition, if the market for digital investigation software develops as we anticipate, other companies could enter this market through their own software development or through the acquisition of one of our current competitors. If these companies are more successful in providing similar, better or less expensive digital investigation solutions compared to those that we offer, we could experience a decline in customers and revenue. These companies include computer forensic companies, managed security services companies and consulting companies, such as the “Big 4” consulting/accounting firms, many of which have substantially greater resources and customer bases than we do. If our competitors are more successful than we are at generating professional services engagements, our growth rate or revenues may decline.

We also compete with companies or organizations that have developed or are developing and marketing software and services that diminish the need for our solutions or the budget available to our customers to purchase our solutions. These companies include traditional security companies, data storage infrastructure and data archiving companies, information management, records management and internal IT organizations that develop their own solutions.

Computer hackers may damage our products, services and systems, which could cause interruptions in our service and harm to our business, and hackers could gain access to our customers’ personal information which could result in the loss of existing clients, negative publicity and legal liability.

Computer hackers often attempt to access information, including personal information for purposes of identity theft and other criminal activity. In particular, due to the nature of our business, the products and services that we offer and the industry in which we operate, we are more likely to be the target of computer hackers who would like to undermine our ability to offer the products and services that we provide to our customers and possibly retaliate for the results or evidence that our products and services generate.

For example, in December 2005, we became aware of a security breach of our electronic records which contained, among other things, credit card information of approximately 5,000 customers. We promptly notified law enforcement authorities as well as each of the customers whose information may have been compromised. We conducted a forensic examination of the incident and took a number of steps to both remediate the underlying cause and strengthen our internal security system, including enhancing our internal information technology security department and redesigning our network architecture.

In early January 2006, the Federal Trade Commission (the "FTC") commenced an inquiry into the December 2005 security breach. In September 2006, we executed a consent decree proposed by the FTC that includes no monetary penalties. The consent decree finds that we failed to implement proper security measures to protect consumers' data, and requires us to provide the FTC with initial and biennial third-party assessments of our IT security for a period of 10 years. Additionally, the consent decree requires us to maintain a comprehensive IT security program, retain documentation of such program and provide notice of the consent decree to our executives and employees for a period of 20 years. The FTC formally approved the consent decree on November 15, 2006 and subsequently issued a press release announcing the investigation and its conclusion. In April 2007, we received formal notice and service of the decree from the FTC, effectively ending the inquiry. In 2007, we timely filed the first compliance report required by the consent decree. In 2009 and 2011, we timely complied with our biennial monitoring and reporting responsibilities required by the consent decree.

Given the incident, any subsequent breach of our security could be especially damaging to our reputation and business and may result in monetary penalties if the FTC were to find that the circumstances that lead to the breach constituted a violation of our obligations under the consent decree.

In addition, from time to time we may be the targets of computer hackers who, among other things, create viruses to sabotage or otherwise attack companies' networks, products and services. For example, there was recently a spread of viruses, or worms, that intentionally deleted anti-virus and firewall software. Our products, networks, websites and systems, may be the target of attacks by hackers. If successful, any of these events could damage our computer systems, force us to incur substantial costs to fix technical problems or result in hackers gaining access to our technical and other proprietary information, which could harm our business and results of operations.

The complexity of accounting regulations and related interpretations and policies, particularly those related to revenue recognition, could materially affect our financial results for a given period.

Although we use standardized sales agreements designed to meet current revenue recognition criteria under accounting principles generally accepted in the United States, we must often negotiate and revise terms and conditions of these standardized agreements, particularly in multi-product license and services transactions and Pay-Per-Use agreements. As our transactions have increased in complexity, particularly with the sale of larger, multi-product licenses, negotiation of mutually acceptable terms and conditions may require us to defer recognition of revenue on such licenses. We believe that we are in compliance with Accounting Standards Codification ("ASC") Software Industry—Revenue Recognition topic (ASC 985-605); however, more complex, multi-product license transactions require additional accounting analysis to account for them accurately. The professional technical guidance available regarding the application of software revenue recognition is very conceptual, and silent to specific implementation matters. As a consequence of this, we have been required to make assumptions and judgments, in certain circumstances, regarding the application of software revenue recognition. Incorrect assumptions or judgments as well as changes in, or clarification to accounting interpretations, could lead to unanticipated changes in our revenue accounting practices and may affect the timing of revenue recognition, which could adversely affect our financial results for any given period. If we discover that we have interpreted and applied revenue recognition rules differently than prescribed by accounting principles generally accepted in the United States, we could be required to devote significant management resources, and incur the expense associated with an audit, restatement or other examination of our financial statements.

Our effective tax rate may fluctuate, which could increase our income tax expense and reduce our net income.

In preparing our quarterly and annual consolidated financial statements, we estimate our income tax liability in each of the foreign and domestic jurisdictions in which we operate by estimating our actual current tax exposure and assessing temporary differences resulting from differing treatment of items for tax and financial statement purposes. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws and our interpretation of current tax laws. Although we believe our judgments, assumptions and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the global tax implications are known and could significantly impact the amounts provided for income taxes.

Due to uncertainty in the application and interpretation of applicable state sales tax laws, we may be exposed to additional sales tax liability.

The application and interpretation of various state sales tax laws to certain of our products and services is uncertain. Accordingly, we may be exposed to additional sales tax liability to the extent various state jurisdictions determine that certain of our products and services are subject to their state's sales tax. During the three months ended March 31, 2011 we recorded a liability of approximately $1.3 million reflecting our best estimate of our potential sales tax liability and associated interest and penalties thereon. While we believe all of our estimates and assumptions are reasonable and will be sustained upon audit, the actual liabilities may be more or less than such estimates, and if so, such liability may negatively impact our financial condition.

Our operating results and business would be seriously impaired if our revenues from our EnCase ® Enterprise product offerings, which include EnCase ® eDiscovery and EnCase ® Cybersecurity, were to decline.

Historically, we have derived substantially all of our license revenues from sales of our EnCase ® Forensic and EnCase ® Enterprise product offerings. Although we have introduced new software modules, we expect that our EnCase ® Enterprise product offerings will account for the largest portion of our software product revenues for the foreseeable future. Although we have no reason to believe that sales of EnCase ® Forensic will decline in future periods, we believe that the degree of penetration for our EnCase ® Forensic product in the law enforcement market makes it unlikely that revenue from sales of EnCase ® Forensic will contribute dramatically to future revenue growth. For this reason, we are dependent on increased sales of EnCase ® Enterprise and related products to drive future growth.

As a result, if for any reason revenue from our EnCase ® Enterprise product offerings declines or does not increase as rapidly as we anticipate, our operating results and our prospects for growth will be significantly impaired. Further, if these products fail to meet the needs of our existing and target customers, or if they do not compare favorably in price and performance to competing products, our business will be adversely affected.

We may be limited in our ability to utilize indirect sales channels, such as value-added resellers, corporate resellers, professional services firms and other third-party distributors for the sale and distribution of our products, which may limit our ability to expand our customer base and our revenues.

We may be limited in our ability to market and distribute our products through value-added resellers, corporate resellers, professional services firms and other third-party distributors, which we collectively refer to as third-party resellers, due to various factors. Due to the complex nature of our products, sales professionals generally require a significant amount of time and effort to become sufficiently familiar with our products in order to be able to market them effectively, which makes our products unattractive to third-party resellers. In addition, our competitors include professional services organizations, such as accounting, consulting and law firms, that would otherwise serve as a natural distribution channel for our products and related services.

Moreover, there is significant competition in our industry for qualified third-party resellers. Even if we were to succeed in attracting qualified and capable third-party resellers, agreements with such third-party resellers are generally renewable annually, are not exclusive and contain no minimum purchase commitments. Such agreements may be terminated by either party: (a) for U.S. and Canadian resellers, with 30 days written notice after the initial one-year period; and (b) for non-U.S. or Canadian resellers, within 30 days after the initial six-month period of the agreement, and with 30 days notice after the initial one-year period. If we are not able to recruit new qualified third-party resellers, our sales growth may be constrained and our results of operations would suffer.

Our intellectual property rights are valuable, and if we are unable to protect our proprietary technologies and defend infringement claims, we could lose our competitive advantage and our business could be adversely affected.

Our success depends in part on our ability to protect our proprietary products and services and to defend against infringement claims. If we are unable to do so, our business and financial results may be adversely affected. To protect our proprietary technology, we rely upon a combination of copyright, patent, trademark and trade secret law, confidentiality restrictions in contracts with employees, customers and other third parties, software security measures, and registered copyrights, trademarks and patents. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology, and our business may be harmed. Any of our patents, trademarks, copyrights or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation proceedings. In addition, we may be unable to obtain patent, copyright or trademark protection on products that we spend significant time and expense to develop in the future. Despite our efforts to protect our proprietary technology, unauthorized persons may be able to copy, reverse engineer or otherwise use some of our proprietary technology. Furthermore, existing patent and copyright laws may afford only limited protection, and the laws of certain countries in which we operate do not protect proprietary technology as well as established law in the United States. For these reasons, we may have difficulty protecting our proprietary technology against unauthorized copying or use. If any of these events happen, there could be a material adverse effect on the value of our proprietary technology and on our business and financial results. In addition, litigation may be necessary to protect our proprietary technology. This type of litigation is often costly and time-consuming, with no assurance of success.

Claims that we misuse the intellectual property of others could subject us to significant legal liability and disrupt our business, which could have a material adverse effect on our financial condition and results of operations.

Because of the nature of our business, we may become subject to material claims of infringement by competitors and other third parties with respect to our current or future software applications, trademarks or other proprietary rights. The legal framework for software patents is rapidly evolving and we expect that software developers will increasingly be subject to infringement claims as the number of software applications and competitors in our industry segment grows. In certain circumstances, the owners of proprietary software could make copyright and/or patent infringement claims against us in connection with such activity. Any such claims, whether meritorious or not, could be time consuming and difficult to defend against, result in costly litigation, cause shipment delays or require us to enter into royalty or licensing agreements with third parties, which may not be available on terms that we deem acceptable, if at all. Any of these claims could disrupt our business, make it difficult to add or retain important features in our products and have a material adverse effect on our financial condition and results of operations. For a discussion of intellectual property claims that have recently been asserted against us, see "Item 3. Legal Proceedings" and "Note 17-Contingencies" in the notes to the consolidated financial statements included in item 8.

If we are unable to continue to obtain government licenses, approvals or authorizations regarding the export of our products abroad, or if current or future export laws limit or otherwise restrict our business, we could be prohibited from shipping our products to certain countries, which could negatively impact our business, financial condition and results of operations.

We must comply with United States laws regulating the export of our products to other countries. Our products contain encryption and decryption technologies that require us to obtain certain licenses from the United States government in order to export certain of our products abroad. In addition, we are required to obtain licenses from foreign governments in order to import our products into these countries. We cannot guarantee that we will be successful in obtaining such licenses, approvals and other authorizations required from applicable governmental authorities to export our products. The export regimes and the governing policies applicable to our business are subject to change, and we cannot assure you that such export approvals or authorizations will be available to us or for our products in the future. Our failure to receive any required export license, approval or authorization would hinder our ability to sell our products and could negatively impact our business, financial condition and results of operations.

We have grown rapidly, and if we are not able to effectively manage and support our growth or retain and attract highly skilled employees, our business strategy might not succeed.

In the past we have grown rapidly and we will need to continue to grow in all areas of our operations to execute our business strategy. Managing and sustaining our growth will place significant demands on management as well as on our administrative, operational, technical and financial systems and controls and other resources. We may not be able to expand our product offerings, our customer base and markets, or implement other features of our business strategy at the rate or to the extent presently planned. In addition, our traditionally high level of customer service may suffer as we grow, which could cause our software sales to suffer. If we are unable to successfully manage or support our future growth, we may not be able to maximize revenues or profitability.

In addition, in order to be able to effectively execute our growth plan, we must attract and retain highly qualified personnel. We may need to hire additional personnel in virtually all operational areas, but primarily in selling and marketing, research and development, professional services, training and customer service. Competition in our industry for experienced and qualified personnel in these areas is extremely intense, especially for software developers with high levels of experience in designing and developing software products and sophisticated technical sales people experienced in selling our complex type of software products and selling into government agencies. In order to expand sales of EnCase ® Enterprise, we may need to continue to hire highly qualified commissioned sales personnel to directly target potential EnCase ® Enterprise customers. These new commissioned sales personnel require several quarters of training and experience before being able to effectively market EnCase ® Enterprise, and, as a result of these hires, our sales and marketing expense may increase at a greater rate than our revenue, at least in the short term. The expense of hiring and training these commissioned sales personnel may never generate a corresponding increase in revenue. We may not be successful in attracting and retaining the necessary qualified personnel that our growth plan requires. In the past we have experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we fail to attract new personnel or retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

We also believe that a critical contribution to our successful growth prior to the recession in 2009, has been our corporate culture which fosters innovation, teamwork and excellence. As our organization grows and we are required to implement more complex organizational structures and institutional programs, we may find it difficult to maintain the beneficial aspects of our corporate culture, which could negatively affect our ability to attract and retain qualified and experienced personnel and therefore our future success in continuing to maintain our rapid growth.

Our software applications may be perceived as, or determined by the courts to be, a violation of privacy rights. Any such perception or determination could adversely affect our revenues and results of operations.

Because of the nature of digital investigations, our potential customers and purchasers of our products or the public in general may perceive that use of our products for these investigations result in violations of individual privacy rights. In addition, certain courts, legislative and regulatory authorities could determine that the use of our software solutions or similar products are a violation of privacy rights, particularly in jurisdictions outside of the United States. Any such determination or perception by potential customers, the general public, government entities or the judicial system could harm our reputation and adversely affect the sales of our products and our results of operations.

Our business depends, in part, on sales to governments and governmental entities and significant changes in the contracting or fiscal policies of governments and governmental entities could have a material adverse effect on our business.

We derive a portion of our revenues from contracts with federal, state, local and foreign governments and government agencies, and we believe that the success and growth of our business will continue to depend on our successful procurement of government contracts. Accordingly, changes in government contracting policies or government budgetary constraints could directly affect our business, financial condition and results of operations. Among the factors that could adversely affect our business, financial condition or results of operations are:

- changes in fiscal policies or decreases in available government funding;
- changes in government programs or applicable requirements;
- the adoption of new laws or regulations or changes to existing laws or regulations;
- changes in political or social attitudes with respect to security issues, computer crimes, discovery of computer files and digital investigations;
- potential delays or changes in the government appropriations process; and
- delays in the payment of our invoices by government payment offices.

These and other factors could cause governments and governmental agencies to refrain from purchasing the products and services that we offer in the future, the result of which could have an adverse effect on our business, financial condition and results of operations. In addition, many of our government customers are subject to stringent budgetary constraints. The award of additional contracts from government agencies could be adversely affected by spending reductions or budget cutbacks at government agencies that currently use or are likely to utilize our products and services.

Because we offer our EnScript® programming language for customization of and the creation of add-ons for EnCase®, customers or third-party programmers may be able to develop products that compete with our products or reduce the marketability or value of our products.

We have developed many of our major products, including EnCase® eDiscovery and EnCase® Information Assurance, to function as applications running on the EnCase® Enterprise platform. We created these applications using the EnScript® programming language. In order to enhance the attractiveness of EnCase® to potential customers and position EnCase® as a standard software for digital investigations, we have made available without charge the EnScript® programming language, which permits users of EnCase® to develop customized add-on features for their own or others' use, and we have trained our customers on how to write add-on programs using the EnScript® programming language, which is similar to Java or C++. As part of this strategy, we have encouraged the development of an active community of EnScript® programmers similar to those which have emerged for other software products. While we believe widespread use of our EnScript® programming language will ultimately create demand for our products, customers in the past have developed, and may in the future develop, software for use with EnCase® using the EnScript® programming language, rather than purchasing certain of our product offerings. Losses of sales to potential customers could have a material adverse impact on our revenues and results of operations.

Our success depends in part upon our ability to develop new products and enhance our existing products. Failure to successfully introduce new or enhanced products to the market may adversely affect our business, financial condition and results of operations.

Our future success depends in part on our ability to develop enhancements to our existing products and to introduce new products that keep pace with rapid technological developments and changes in customers' needs. Although our products are designed to operate on a variety of network hardware and software platforms, we must continue to modify and enhance our products to keep pace with changes in network platforms, operating systems, software technology and changing customer demands. We may not be successful in developing and documenting these modifications and enhancements or in bringing them to market in a timely manner. Any failure of our products to operate effectively with future network platforms and technologies could reduce the demand for our products and result in customer dissatisfaction. In addition, our products incorporate document viewer technology that we license from Oracle USA, Inc. Our license agreement with Oracle expires in November 2012. We may be unable to replace this technology if Oracle terminates this license agreement or it expires, or if the Oracle technology becomes obsolete or incompatible with our products.

Furthermore, any new products that we develop may not be released in a timely manner and may not achieve the market acceptance necessary to generate significant sales revenues. As a result, we may expend significant time and expense towards research and development for new or enhanced products, which may not gain market acceptance or generate sufficient sales to offset the costs of research and development. If we are unable to successfully develop new products or enhance and improve our existing products, or if we fail to position or price our products to meet market demand, our business, financial condition and results of operations will be adversely affected.

Errors in our products could adversely affect our reputation, result in significant costs to us, impair our ability to market our products and expose us to legal liability, any of which may adversely affect our operating results.

Products as complex as ours can contain undetected errors or failures. Despite extensive testing by us and by our customers, we have in the past discovered errors in our software applications and will likely continue to do so in the future. As a result of past discovered errors, we experienced delays and lost revenues while we corrected the problems in those software applications. In addition, customers in the past have brought to our attention "bugs" in our software exposed by the customers' unique operating environments. Although we have been able to fix these software bugs in the past, we may not always be able to do so in the future. In addition, our products may also be subject to intentional attacks by viruses that seek to take advantage of these bugs, errors or other weaknesses. Any of these events may result in the loss of, or delay in, market acceptance of our products and services, which would seriously harm our sales, financial condition and results of operations.

Furthermore, we believe that our reputation and name recognition are critical factors in our ability to compete and generate additional sales of our products and services. Promotion and enhancement of our brand name will depend largely on our success in continuing to provide effective software applications and services. The occurrence of errors in our software applications or the detection of bugs by our customers may damage our reputation in the market as well as our relationships with existing customers, which may result in our inability to attract or retain customers.

In addition, because our products are used in security and forensic functions that are often critical to our customers, the licensing and support of our products makes us potentially subject to product liability claims. Any product liability insurance we carry may not be sufficient to cover our losses resulting from any such product liability claims. The successful assertion of one or more large product liability claims against us could have a material adverse effect on our financial condition.

Incorrect or improper use of our products, our failure to properly train customers on how to utilize our software products or our failure to properly provide consulting and implementation services could result in negative publicity and legal liability.

Our products are complex and are deployed in a wide variety of network environments. The proper use of our software requires the end user to undergo extensive training and, if our software products are not used correctly or as intended, inaccurate results may be produced. Our customers or our professional services personnel may incorrectly implement or use our products. Our products may also be intentionally misused or abused by customers or non-customer third parties who obtain access and use of our products. Because our customers rely on our product and service offerings to manage a wide range of sensitive investigations and security functions, the incorrect or improper use of our products, our failure to properly train customers on how to efficiently and effectively use our products or our failure to properly provide consulting and implementation services to our customers may result in negative publicity or legal claims against us.

We cannot predict our future capital needs and we may be unable to obtain additional financing to develop new products, enhance existing products, offer additional services or fund strategic acquisitions, the failure of which could have a material adverse effect on our business, financial condition and results of operations.

We may need to raise additional funds in the future in order to develop new products, enhance existing products, offer additional services or make strategic acquisitions of complementary businesses, technologies, products or services. Any required additional financing may not be available on terms acceptable to us, or at all. If we raise additional funds by issuing equity securities, you will experience dilution of your ownership interest, which could be significant, and the newly-issued securities may have rights senior to those of the holders of our common stock. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational and financial flexibility and would also require us to incur additional interest expense. If additional financing is not available when required or is not available on acceptable terms, we may be unable to successfully develop or enhance our software products and services through internal research and development or acquisitions in order to take advantage of business opportunities or respond to competitive pressures, which could negatively impact our software products and services offerings and sales revenues, the failure of which could have a material adverse effect on our business, financial condition and results of operations.

Acquisitions that we may undertake in the future involve risks that could adversely affect our business, financial condition and results of operations.

We may pursue strategic acquisitions of businesses, technologies, products or services that we believe complement or expand our existing business, products and services. Acquisitions, including our planned acquisition of CaseCentral, involve numerous risks, including, but not limited to, the following:

- diversion of management’s attention during the acquisition and integration process;
- The possibility that acquisitions will not be completed successfully, or at all, and our potential exposure to termination fees and/or other costs associated therewith;
- The incurrence of substantial legal, accounting, financial advisory and/or other costs;
- costs, delays and difficulties of integrating the acquired company’s operations, technologies and personnel into our existing operations and organization;
- adverse impact on earnings as a result of amortizing the acquired company’s intangible assets or impairment charges related to write-downs of goodwill related to any acquisition;
- issuance of equity securities to pay for acquisitions, which may be dilutive to existing stockholders;
- potential loss of customers or key employees of acquired companies;
- impact on our financial condition due to the timing of the acquisition or our failure to meet operating or synergy expectations for any acquired business; and
- assumption of unknown liabilities of the acquired company.

Any acquisitions of businesses, technologies, products or services that we may undertake in the future, as well as our planned acquisition of CaseCentral, may not generate sufficient revenues or cost-saving synergies necessary to offset the associated costs of the acquisitions or may result in other material adverse effects.

Our international sales and operations are subject to factors that could have an adverse effect on our business, financial condition and results of operations.

We have significant sales and services operations outside the United States, and derive a substantial portion of our revenues from these operations. We also continue to expand and diversify our international operations via a global distribution and reseller channel which will increase our global reach but do so via an indirect sales model. For the years ended December 31, 2011, 2010 and 2009, we derived approximately 19%, 15% and 21%, respectively, of our revenues from sales of products and services outside the United States.

Our international operations are subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many countries, which risks include, but are not limited to:

- difficulties in staffing and managing our international operations;
- the fact that foreign countries may impose additional withholding taxes or otherwise tax our foreign income, impose tariffs or adopt other restrictions on foreign trade or investment, including currency exchange controls;
- the general economic conditions in the countries in which we operate could have an adverse effect on our earnings from operations in those countries;
- the imposition of, or unexpected adverse changes in, foreign laws or regulatory requirements, including those pertaining to export duties and quotas, trade and employment restrictions;
- longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;
- US and foreign import and export laws;
- difficulty in monitoring or effectively preventing business practices which may violate US laws including the Foreign Corrupt Practices Act;
- fluctuations in currency exchange rates;
- compliance with multiple, conflicting and changing governmental laws and regulations, including tax, privacy and data protection laws and regulations;
- costs and delays associated with developing software, documentation and training materials in multiple languages; and
- political unrest, war or acts of terrorism occurring in the foreign countries in which we currently operate or intend to operate in the future.

We may not continue to succeed in developing and implementing policies and strategies that will be effective in each location where we currently do business or intend to do business in the future. Furthermore, the occurrence of any of the foregoing factors may have a material adverse effect on our business, financial condition and results of operations.

Insiders control a majority of our outstanding stock, and this may delay or prevent a change of control of our company or adversely affect our stock price.

As of February 10, 2012, our executive officers, directors and affiliated entities together beneficially own approximately 44% of our common stock outstanding, including approximately 40% of our outstanding common stock held by our founder, Shawn McCreight, and his wife. As a result, these stockholders may have control over matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. Corporate actions favored by these stockholders might be taken even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control that other stockholders may view as beneficial.

Our charter documents and Delaware law may deter potential acquirers of our business and may thus depress our stock price.

Our amended and restated certificate of incorporation and our bylaws contain provisions that could delay or prevent a change of control of our company that our stockholders might consider favorable. In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may discourage, delay or prevent certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our charter documents may make it more difficult for stockholders or potential acquirers to initiate actions that are opposed by the then-current board of directors, including delaying or impeding a merger, tender offer, or proxy contest or other change of control transaction involving our company. Any delay or prevention of a change of control transaction could cause stockholders to lose a substantial premium over the then current market price of their shares.

The trading price of our common stock is volatile.

The trading prices of the securities of technology companies have historically been highly volatile. Accordingly, the trading price of our common stock has been subject to wide fluctuations since our initial public offering in December 2006. Factors that may affect the trading price of our common stock include:

- variations in our financial results;
- announcements of technological innovations, new solutions, pricing models, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;
- changes in the estimates of our financial results or changes in the recommendations of any securities analysts that elect to follow our common stock; and
- market conditions in our industry, the industries of our customers and the economy as a whole.

In addition, if the market for software or other technology stocks or the stock market in general experiences continued or greater loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business or financial results. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us.

Future sales of shares by existing stockholders could cause our stock price to decline.

All of our outstanding shares are eligible for sale in the public market, subject in certain cases to volume limitations under Rule 144 of the Securities Act of 1933, as amended. Also, shares subject to outstanding options and rights under our First Amended and Restated 2004 Equity Incentive Plan are eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements and Rules 144 and 701 under the Securities Act. If these shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline.

In addition, our founder, Shawn McCreight, and his wife, continue to hold a substantial number of shares of our common stock. Sales by Mr. McCreight or his wife of a substantial number of shares, or the expectation that such sales may occur, could significantly reduce the market price of our common stock.

If our prior S Corporation election was not properly made and maintained, we would be liable for federal and certain state income taxes.

In October 1998, we elected to be treated for federal income tax purposes as an “S Corporation” under Subchapter S of the Internal Revenue Code. In addition, we elected or were otherwise treated as an S Corporation for certain state tax purposes. As an S Corporation, our earnings were included in the income of our stockholders for federal and certain state income tax purposes. We filed an election to revoke our S Corporation status in December 2006. If our S Corporation election was not properly made and maintained prior to its revocation, we would be liable for federal and certain state income taxes during prior open periods, together with interest thereon and, possibly, penalties. Such taxes and penalties may be material to our operating results.

Disruption in component supplies or a breakdown in the manufacturing supply chain could adversely impact hardware revenues.

Tableau brand hardware products typically incorporate hundreds or more components from a wide range of manufacturing sources. In some cases these components are "sole source", so it is possible for a disruption at a single supplier to constrain or entirely halt production of one of more Tableau brand products, perhaps for an extended period.

Additionally, we use offshore contract manufacturing facilities for most of the assembly work related to Tableau brand hardware products. A breakdown in international transportation or political or economic upheaval could negatively impact our ability to manufacture or transport products leading to a loss of hardware product revenue.

Our balance sheet contained intangible assets (net) and goodwill (net) totaling $7.5 million at December 31, 2011 that are subject to impairment review annually, or whenever events or changes in circumstances indicate that the value may not be recoverable, resulting in write-downs or write-offs. Such write-downs or write-offs could adversely impact our future earnings and stock price, our ability to obtain financing and our customer relationships.

At December 31, 2011, we had $4.0 million in indefinite-lived intangible assets and goodwill on our balance sheet. Accounting Standards Codification *Intangibles — Goodwill and Other (ASC 350)* requires that goodwill and indefinite-lived intangible assets be tested for impairment annually, or whenever events or changes in circumstances indicate that the value may not be recoverable. Such testing could result in write-downs or write-offs to our goodwill and indefinite-lived intangible assets. Impairment is measured as the excess of the carrying value of the goodwill or intangible assets over the implied fair value of the underlying asset. Accordingly, we may, from time to time, incur impairment charges, which are recorded as operating expenses when they are incurred and would reduce our net income and adversely affect our operating results in the period in which they are incurred.

As of December 31, 2011, we had $3.4 million of other net intangible assets, consisting of core technology, existing and developed technology, customer relationships and tradenames that we amortize over time. Any material impairment to any of these items could adversely affect our results of operations and could affect the trading price of our common stock in the period in which they are incurred.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters is located in Pasadena, California, where we lease approximately 68,588 square feet in two locations. We also lease an additional 64,372 square feet at facilities in Houston, Texas, New York City, New York, Waukesha, Wisconsin, near San Francisco, California, Washington, D.C., Chicago, Illinois and near London, England. We also maintain a small regional facility in Singapore. Our leases expire at various points through 2015. We believe that our current facilities are suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

Item 3. Legal Proceedings

In early January 2006, the Federal Trade Commission (the "FTC") commenced an inquiry into the December 2005 security breach discussed in "Risk Factors—Computer hackers may damage our products, services and systems, which could cause interruptions in our service and harm to our business, and hackers could gain access to our customers' personal information which could result in the loss of existing clients, negative publicity and legal liability." On September 20, 2006, we executed a consent decree proposed by the FTC that includes no monetary penalties. The consent decree finds that we failed to implement proper security measures to protect consumers' data, and requires us to provide the FTC with initial and biennial third-party assessments of our IT security for a period of 10 years. Additionally, the consent decree requires us to maintain a comprehensive IT security program, retain documentation of such program and provide notice of the consent decree to our executives and employees for a period of 20 years. On April 9, 2007, the Company received formal notice and service of the decree, which effectively ended the inquiry. On October 9, 2007, the Company timely filed the first compliance report required by the consent decree. In 2009 and 2011, we timely complied with our biennial monitoring and reporting responsibilities required by the consent decree.

On May 20, 2011, MyKey Technology Inc. ("MyKey") filed a complaint against us and certain other parties for patent infringement in the United States District Court for the District of Delaware. With respect to the Company, the complaint alleges that certain of our data acquisition forensic hardware products that we acquired as a result of our acquisition of certain assets of Tableau, LLC infringe three of MyKey's patents relating to write blocking, duplication and data removal technologies, respectively. The complaint seeks a declaration of infringement, a finding of willful infringement, compensatory damages, treble damages, injunctive relief, interest, expenses, costs and attorneys' fees.

On July 22, 2011, MyKey also filed a complaint with the United States International Trade Commission (the "ITC"), alleging infringement by the Company and certain other parties of the three patents discussed in the preceding paragraph and requesting that the ITC commence an investigation pursuant to Section 337 of the Tariff Act of 1930. The complaint seeks injunctive relief barring the Company from the importation of products that allegedly infringe the three patents of MyKey. On August 24, 2011, the ITC commenced the investigation of the Company and certain other parties related to the complaint by MyKey. On August 31, 2011 the proceeding in the District Court was stayed pending the resolution of the ITC matter.

We intend to defend the MyKey matters vigorously and, at this time, are unable to estimate what, if any, liability we may have in connection with these matters. We are unable to estimate a range of reasonably possible losses due to various reasons, including, among others, that (1) the proceedings are at an early stage, (2) there is uncertainty as to the outcome of pending appeals, motions, or settlements, (3) there are significant factual issues to be resolved, (4) there are unresolved negotiations with certain indemnitors or indemnitees of the Company, related to the actions, and (5) we have meritorious defenses that we intend to assert.

From time to time, we may become involved in various other lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not currently aware of any such other legal proceedings or claims.

Item 4. Mine Safety Disclosure
(not applicable)

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock has been traded on the NASDAQ Global Market under the symbol "GUID" since December 13, 2006. Prior to that time, there was no public market for our common stock. The following table sets forth the range of high and low sales prices on the NASDAQ Global Market of the common stock for the periods indicated, as reported by NASDAQ.

	Fiscal 2011		Fiscal 2010	
	High	Low	High	Low
First Quarter	$ 8.71	$ 6.50	$ 6.11	$ 5.00
Second Quarter	8.47	6.97	6.00	4.94
Third Quarter	8.58	5.74	5.87	4.57
Fourth Quarter	6.84	5.54	7.64	5.65

As of February 13, 2012, there were 23 holders of record of our common stock. On February 13, 2012, the last sale price reported on the NASDAQ Global Market for our common stock was $11.33 per share.

In October 1998, we elected to be treated for federal income tax purposes as an "S Corporation" under Subchapter S of the Internal Revenue Code. In addition, we elected or were otherwise treated as an S Corporation for certain state tax purposes. We filed an election to revoke our S Corporation status in December 2006. As an S Corporation, we historically paid dividends to our stockholders. We anticipate that any future earnings will be retained to finance continuing development of our business. Accordingly, we do not anticipate paying dividends on our common stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operation, financial condition and other factors as the Board of Directors, in its discretion, deems relevant.

Purchases of Equity Securities by the Issuer

In August 2008, our Board of Directors authorized a program to repurchase shares of our common stock having an aggregate value of up to $8.0 million. As of December 31, 2011, we had approximately $3.6 million remaining under this authorization. The authorization allows us to repurchase our common stock from time to time through open market purchases and negotiated transactions, or otherwise. The timing, nature and amount of such transactions will depend on a variety of factors, including market conditions, and the program may be suspended, discontinued or accelerated at any time. The sources of funds for the purchases under the remaining authorization are our existing cash on hand and cash from operations. Purchases are made in the open market, through block trades and other negotiated transactions. Repurchased shares are held in Treasury Stock and have not been retired.

In addition to the repurchased shares outlined below, the Company withheld approximately 204,000, 86,400 and 52,800 common shares in 2011, 2010 and 2009, respectively, from employees to satisfy their personal income tax withholding requirements upon the vesting of restricted stock awards issued under our equity compensation plans. Withheld shares are held in Treasury Stock and have not been retired. The Company may engage in similar transactions from time to time related to future vesting of employee restricted stock awards.

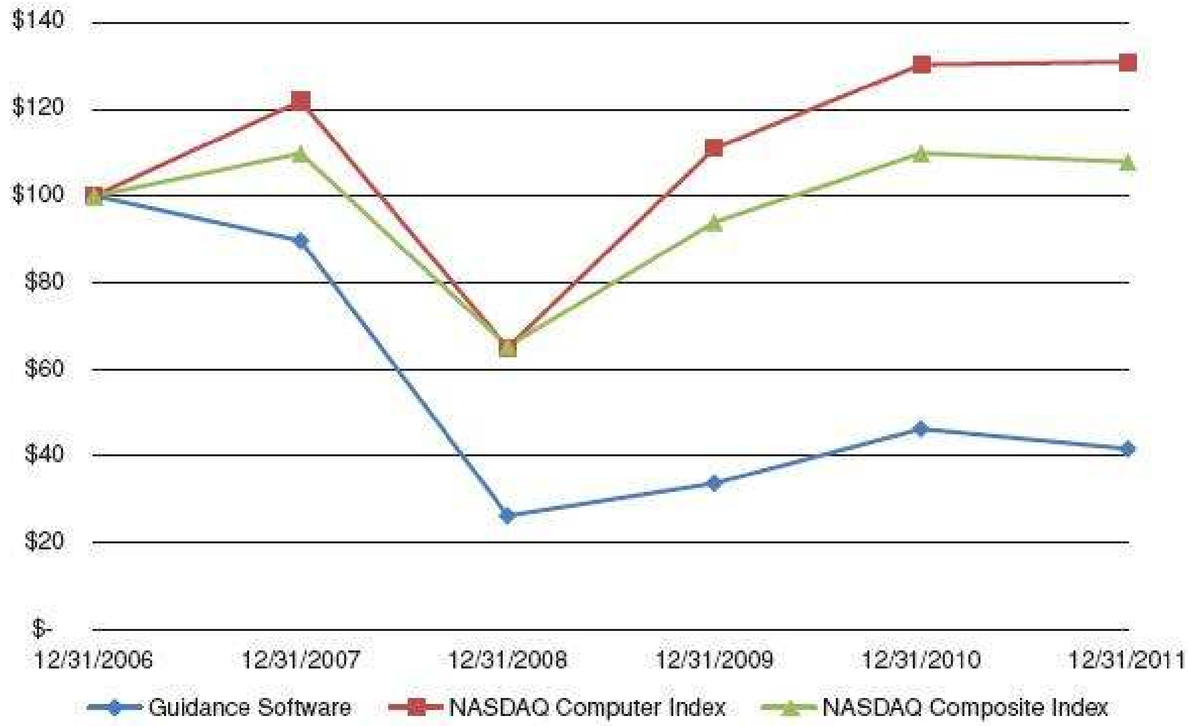
The following table summarizes our purchases of common stock:

Calendar Month	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program
July 2008	—	$ —	—	$ 8,000,000
August 2008	22,500	$ 5.99	22,500	$ 7,866,000
September 2008	20,000	$ 5.98	20,000	$ 7,750,000
May 2009	98,915	$ 3.31	98,915	$ 7,422,000
June 2009	173,100	$ 3.63	173,100	$ 6,794,000
July 2009	95,836	$ 3.78	95,836	$ 6,432,000
August 2009	54,850	$ 3.86	54,850	$ 6,220,000
August 2010	141,356	$ 5.07	141,356	$ 5,503,000
September 2010	125,045	$ 5.27	125,045	$ 4,844,000
October 2010	13,003	$ 5.85	13,003	$ 4,768,000
November 2010	224	$ 6.00	224	$ 4,766,000
September 2011	21,625	$ 5.96	21,625	$ 4,637,000
October 2011	54,952	$ 5.97	54,952	$ 4,310,000
November 2011	49,006	$ 5.97	49,006	$ 4,017,000
December 2011	61,394	$ 6.00	61,394	$ 3,649,000
Total	931,806		931,806	$ 3,649,000

Stock Performance Graph and Cumulative Total Return

The following graph illustrates a comparison of the total cumulative stockholder return on our common stock for each of the last five fiscal years with two indices: (i) the NASDAQ Composite Index (symbol: IXIC) and (ii) the NASDAQ Computer Index (symbol: IXCO). The graph assumes an initial investment of $100 at the beginning of the five year period and that all dividends have been reinvested. No cash dividends have been declared on our common stock. The quotes were obtained from http://finance.yahoo.com. The comparisons in the graph are required by the SEC and are not intended to forecast or be indicative of the possible future performance of our common stock.

COMPARISON OF CUMULATIVE TOTAL RETURN



Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data.” The selected consolidated balance sheet data as of December 31, 2011 and 2010 and the selected consolidated statement of operations data for each of the three years in the period ended December 31, 2011, have been derived from our audited consolidated financial statements, which are included in “Item 8. Financial Statements and Supplementary Data” to this Annual Report. The selected consolidated balance sheet data as of December 31, 2008 and 2007 and selected consolidated statement of operations data for the years ended December 31, 2008 and 2007 have been derived from our audited consolidated financial statements not included in this Annual Report. Historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Consolidated Statements of Operations Data:					
Revenues:					
Product revenue	$ 52,345	$ 43,930	$ 34,068	$ 48,245	$ 44,314
Services and maintenance revenue	52,256	47,970	40,822	43,221	34,566
Total revenues	104,601	91,900	74,890	91,466	78,880
Cost of revenues (excluding amortization and depreciation, shown below):					
Cost of product revenue	5,973	4,937	2,793	3,143	2,754
Cost of services and maintenance revenue	22,453	19,874	17,898	22,805	19,280
Total cost of revenues (excluding amortization and depreciation, shown below)	28,426	24,811	20,691	25,948	22,034
Operating expenses:					
Selling and marketing	36,992	35,947	36,475	39,714	32,964
Research and development	18,882	17,012	14,225	13,022	9,067
General and administrative	16,432	13,985	13,497	18,054	14,637
Depreciation and amortization	5,424	4,700	4,427	4,098	3,453
Total operating expenses	77,730	71,644	68,624	74,888	60,121
Operating (loss) income	(1,555)	(4,555)	(14,425)	(9,370)	(3,275)
Other income and expense:					
Interest income	53	78	86	720	1,463
Interest expense	(9)	(5)	(10)	(49)	(107)
Other income, net	20	1	44	70	130
Total other income and expense	64	74	120	741	1,486
Income (loss) before income taxes	(1,491)	(4,481)	(14,305)	(8,629)	(1,789)
Income tax provision (benefit)	158	121	(380)	1,967	1,078
Net income (loss)	$ (1,649)	$ (4,602)	$ (13,925)	$ (10,596)	$ (2,867)
Net income (loss) income per share:					
Basic	$ (0.07)	$ (0.20)	$ (0.60)	$ (0.46)	$ (0.13)
Diluted	$ (0.07)	$ (0.20)	$ (0.60)	$ (0.46)	$ (0.13)
Weighted average number of shares used in per share calculations(1):					
Basic	23,252	23,024	23,093	23,160	22,600
Diluted	23,252	23,024	23,093	23,160	22,600

	Year Ended December 31, 2011	2010	2009	2008	2007
Non-Cash Share-Based Compensation Data(2):					
Cost of product revenue	$ 82	$ 54	$ 23	$ 36	$ 81
Cost of services and maintenance revenue	898	847	1,098	1,788	818
Selling and marketing	1,613	1,601	1,992	2,923	1,332
Research and development	1,373	1,192	1,320	1,433	594
General and administrative	1,566	1,493	1,510	2,796	1,520
Total non-cash share-based compensation	$ 5,532	$ 5,187	$ 5,943	$ 8,976	$ 4,345

	As of December 31, 2011	2010	2009	2008	2007
Balance Sheet Data:					
Cash and cash equivalents	$ 37,048	$ 27,621	$ 36,585	$ 36,006	$ 37,591
Total assets	$ 77,328	$ 67,440	$ 69,019	$ 78,844	$ 75,937
Notes payable and capital leases	$ 113	$ 192	$ 171	$ 163	$ 771
Deferred revenues	$ 39,582	$ 33,614	$ 36,088	$ 33,285	$ 27,201
Total stockholders’ equity	$ 24,311	$ 22,529	$ 23,462	$ 33,094	$ 33,896

(1) See Note 4 to our consolidated financial statements for an explanation of the determination of the number of shares used to compute basic and diluted per share amounts.

(2) Non-cash compensation recorded in each of the five years ended December 31, 2011 relates to stock options granted to employees measured under the fair value method and includes costs related to nonvested share grants.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read together with the financial statements and related notes that are included elsewhere in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” or in other parts of this Annual Report on Form 10-K.

Overview

We develop and provide the leading software and hardware solutions for digital investigations, including EnCase ® Enterprise, a network-enabled product primarily for corporations and government agencies, and EnCase ® Forensic, a desktop-based product primarily for law enforcement agencies and digital investigators.

We were incorporated and commenced operations in 1997. From 1997 through 2002, we generated a substantial portion of our revenues from the sale of our EnCase ® Forensic products and related services. We have experienced increases in our revenue as a result of the release of our EnCase ® Enterprise products in late 2002, which expanded our customer base into corporate enterprises and federal government agencies. In addition, the releases of our EnCase ® eDiscovery solution in late 2005 and EnCase ® Information Assurance solution in late 2006 (which was replaced by our EnCase ® Cybersecurity solution in 2009) have increased our average transaction size. In May 2010, we added a family of data acquisition forensic hardware products including forensic duplicators, multiple write blockers and other hardware through our acquisition of Tableau, LLC (“Tableau”). We anticipate that sales of our EnCase ® Enterprise products and related services, in particular our EnCase ® eDiscovery and EnCase ® Cybersecurity solutions, and sales of our forensic hardware products will comprise a substantial portion of our future revenues.

Important Factors Affecting Our Results of Operations

There are a number of trends that may affect our business and our industry. We have identified factors that we expect to play an important role in our future growth and profitability. Some of these trends or other factors include:

- *Legislative and regulatory developments.* Our digital investigation solutions allow law enforcement agencies, government organizations and corporations to conduct investigations within the legal and regulatory framework. Historically, the implementation of new laws and regulations surrounding digital investigations has helped create demand for our products. Future changes in applicable laws or regulations could enhance or detract from the desirability of our products.

- *Information technology budgets.* Deployment of our solutions may require a substantial capital expenditure by our customers. Budgets for information technology-related capital expenditures at corporations and all levels of government organizations are typically cyclical in nature, with generally higher budgets in times of improving economic conditions and lower budgets in times of economic slowdowns.

- *Law enforcement agency budgets.* We sell our EnCase ® Forensic products and training services primarily to law enforcement agencies. Because of the limited nature of law enforcement budgets, funds are typically initially allocated toward solving issues perceived to be the most pressing. Sales of our products could be impacted by changes in the budgets of law enforcement agencies or in the relative priority assigned to digital law enforcement investigations.

- *Prevalence and impact of hacking incidents and spread of malicious software.* The increasing sophistication of hacking attacks on government and private networks and the global spread of malicious software, such as viruses, worms and rootkits, have increased the focus of corporations and large government organizations on digital investigations and other aspects of network security, which has, in turn, increased demand for our products. Future changes in the number and severity of such attacks or the spread of malicious software could have an effect on the demand for our products.

- *Seasonality in revenues.* We experience seasonality in our revenues, with the third and fourth quarters typically having the highest revenues for the year. We believe that this seasonality results primarily from our customers' budgeting cycles. The federal government budget year ends in the third calendar quarter of the year and a majority of corporate budget years end in the fourth calendar quarter of the year. In addition, our customers also tend to make software purchases near the end of a particular quarter, which tends to make our revenues for a particular period unpredictable for a significant portion of that period. We expect that this seasonality within particular years and unpredictability within particular quarterly periods will continue for the foreseeable future.

- *Amount of commercial litigation.* Because commercial litigation often involves e-discovery, an increase in commercial litigation could increase demand for our products and services, while a decrease in commercial litigation could decrease demand.

Summary of Results of Operations

Our total revenue for the year ended December 31, 2011 was $104.6 million, an increase of $12.7 million, or 14%, from 2010. Product revenue was $52.3 million for the year ended December 31, 2011, an increase of $8.4 million, or 19%, from 2010. Services and maintenance revenue was $52.3 million for the year ended December 31, 2011, an increase of $4.3 million, or 9%, from 2010. The increase in our total revenue was primarily due to growth in the forensic software market, increased sales of the latest version of our EnCase ® Forensic product released in June 2011, increase in sales of our EnCase ® Enterprise family of products, and improved overall economic conditions and the resulting increases in spending by our customers during 2011.

Our net loss for the year ended December 31, 2011 was $1.6 million, or $0.07 per share, compared to a net loss of $4.6 million, or $0.20 per share, for 2010. Our profitability is primarily dependent upon revenue from the sale of our products. Cost of revenues increased by $3.6 million, or 15%, in the year ended December 31, 2011 compared to 2010. The increase was primarily the result of increased sales of products and professional services. Profitability is also affected by the costs and expenses associated with developing, selling and marketing our products. Operating expenses increased by $6.1 million, or 8%, in 2011 as compared to 2010, due primarily to an increase in general and administrative expenses and increased research and development costs.

During 2011, we released EnCase ® Forensic version 7 which includes a new streamlined interface, automated evidence processing and optimized case management capabilities, as well as integrated support for smart phones and tablets.

Sources of Revenue

Our software sales transactions typically include the following elements: a software license fee paid for the use of our products under a perpetual license term, or for a specific term; an arrangement for first-year support and maintenance, which includes unspecified software updates, upgrades and post-contract support; and professional services for installation, implementation, consulting and training. We derive the majority of our revenues from sales of our software products. We sell our software products and services primarily through our direct sales force, while we sell our hardware products primarily through resellers.

We recognize revenue in accordance with the Accounting Standards Codification ("ASC") *Software Industry—Revenue Recognition* topic (*ASC 985*) and *Revenue Recognition (ASC 605)* , which, if revenues are to be recognized upon product delivery, requires among other things vendor-specific objective evidence of fair value, or VSOE, for each undelivered element of multiple element customer contracts.

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**Change %**	**2010**	**Change %**	**2009**
Product revenues:					
Enterprise products	$ 24,771	*9%*	$ 22,694	*17%*	$ 19,334
Forensic products	27,574	*30%*	21,236	*44%*	14,734
Total product revenues	52,345	*19%*	43,930	*29%*	34,068
Services and maintenance revenues:					
Professional services	15,037	*3%*	14,609	*42%*	10,270
Training	7,728	*— %*	7,762	*— %*	7,793
Maintenance and other	29,491	*15%*	25,599	*12%*	22,759
Total services and maintenance revenues	52,256	*9%*	47,970	*18%*	40,822
Total revenues	$ 104,601	*14%*	$ 91,900	*23%*	$ 74,890

Product Revenues

We generate product revenues principally from two product categories: Enterprise products and Forensic products. Our Enterprise products include licenses related to our EnCase ® Enterprise, EnCase ® eDiscovery, and EnCase ® Cybersecurity. Our Forensic products include revenues related to EnCase ® Forensic, Portable, Field Intelligence Model and a line of forensic hardware products. Revenues from OEM, Field Intelligence Modal and other hardware were previously reported as "Other" product revenue. For comparability purposes, we have reclassified the 2009 categories as defined above; however, total product revenues remains unchanged as a result of the reclassification. During the first two quarters of each fiscal year, we typically experience our lowest levels of product sales due to the seasonal budgetary cycles of our customers. The third quarter is typically the strongest quarter for sales to our federal government customers. Typically, sales to our corporate customers are highest in the fourth quarter.

Product revenues increased by $8.4 million, or 19%, for the year ended December 31, 2011 from 2010, primarily due to increased Forensic sales. Forensic product revenue increased by $6.3 million, or 30%, for the year ended December 31, 2011 from 2010. The increase in Forensic product revenues was due to increased sales of the latest version of our EnCase ® Forensic product released in June 2011, growth in the forensic software market and the addition of revenue through sales of forensic hardware products that we acquired as a result of our acquisition of Tableau in May 2010. Enterprise product revenues increased by $2.1 million, or 9%, for the year ended December 31, 2011 from 2010. The increase in Enterprise revenues is primarily attributable to increased sales to our customers resulting from additional functionality made available in our Enterprise products during the year and the continued overall strengthening of the economy.

Product revenues increased by $9.9 million, or 29%, for the year ended December 31, 2010 from 2009, primarily due to a $6.5 million increase in Forensic product revenues. The increase in Forensic product revenues was due to the addition of revenue through sales of forensic hardware products that we acquired as a result of our acquisition of Tableau in May 2010 and growth in the forensic software market. Enterprise product revenue increased by $3.4 million, or 17%, for the year ended December 31, 2010 from 2009. The increase in Enterprise revenue is primarily attributable to the overall strengthening of the economy.

Services and Maintenance Revenues

Services and maintenance revenues increased $4.3 million, or 9%, for the year ended December 31, 2011, compared to 2010. Professional services revenues increased $0.4 million, or 3%, for the year ended December 31, 2011, compared to 2010, primarily due to a general increase in demand for our e-discovery services and revenue from certain significant consulting engagements performed during the first six months of 2011.

Training revenue for the year ended December 31, 2011 remained unchanged compared to 2010. The anticipation of new product releases in June 2011 resulted in a delay in customers scheduling training classes during the first half of the year.

Maintenance and other revenues increased $3.9 million, or 15%, for the year ended December 31, 2011, compared to 2010, primarily as a result of sustained increases in our installed product base and a high annual renewal rates by customers desiring continuing maintenance support on our products.

Services and maintenance revenues increased $7.1 million, or 18%, for the year ended December 31, 2010, compared to 2009. Professional services revenues increased by $4.3 million for the year ended December 31, 2010, or 42%, compared to 2009 as demand for both e-discovery and implementation services increased as a result of the increase in Enterprise product sales as compared to 2009. Training revenue for the year ended December 31, 2010 was flat compared to 2009, as our customers continued to experience restrictive travel and training budgets during the economic recovery. Maintenance and other revenue increased by $2.8 million, or 12%, for the year ended December 31, 2010 compared to 2009, primarily as a result of the overall increase in our installed product base and a high annual renewal rate by customers desiring continuing maintenance support on our products.

Cost of Revenues

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**Change %**	**2010**	**Change %**	**2009**
Cost of product revenues	$ 5,973	*21%*	$ 4,937	*77%*	$ 2,793
Cost of services and maintenance revenues:					
Professional services	14,179	*19%*	11,903	*18%*	10,068
Training	5,735	*5%*	5,474	*— %*	5,465
Maintenance and other	2,539	*2%*	2,497	*6%*	2,365
Total cost of services and maintenance revenues	22,453	*13%*	19,874	*11%*	17,898
Total cost of revenues	$ 28,426	*15%*	$ 24,811	*20%*	$ 20,691
Share-based compensation included above:					
Cost of product revenues	$ 82		$ 54		$ 23
Cost of services and maintenance revenues	$ 898		$ 847		$ 1,098
Gross Margin Percentage					
Products	88.6%		88.8%		91.8%
Services and maintenance	57.0%		58.6%		56.2%
Total	72.8%		73.0%		72.4%

Cost of Product Revenues

Cost of product revenues consists principally of the cost of producing our software products, the cost of manufacturing our hardware products and product distribution costs, including the cost of compact discs, packaging, shipping, customs duties, and, to a lesser extent, compensation and related overhead expenses. While these costs are primarily variable with respect to sales volumes, they remain low in relation to the revenues generated and result in higher gross margins than our services and training businesses. Our gross margins can be affected by product mix, as our Enterprise products are generally higher margin products than our Forensic products, which include software and hardware.

Cost of product revenues increased by $1.0 million, or 21%, for the year ended December 31, 2011, compared to 2010. The increase was primarily a result of an increase in forensic hardware product revenues due to our acquisition of Tableau in May 2010. Product gross margin decreased slightly to 88.6% in 2011 from 88.8% in 2010 primarily due to an increase in sales of forensic hardware products which have lower margins.

Cost of product revenues increased by $2.1 million, or 77%, for the year ended December 31, 2010, compared to 2009. The increase was primarily a result of an increase in forensic hardware product revenues due to our acquisition of Tableau in May 2010. Product gross margin decreased slightly to 88.8% in 2010 from 91.8% in 2009 due to the introduction in 2010 of our forensic hardware products resulting in a higher mix of forensic versus enterprise sales.

Cost of Services and Maintenance Revenues

The costs of services and maintenance revenues are largely comprised of employee compensation costs, including share-based compensation, related overhead expenses, and travel and facilities costs. The cost of maintenance revenue is primarily outsourced, but also includes employee compensation costs for customer technical support and related overhead costs.

Total cost of services and maintenance revenues increased $2.6 million, or 13%, for the year ended December 31, 2011, compared to 2010. The increase in the cost of services and maintenance revenues in 2011 compared to 2010 is due primarily to the increase in compensation and related expenses, associated with higher revenues and higher utilization rates in our professional services organization, as well as an increase in third-party consultants on certain engagements.

Services and maintenance gross margin was 57.0% in 2011, compared to 58.6% in 2010. The lower services and maintenance gross margin in 2011 was primarily a result lower margins on services revenue in 2011 due to an increase in the number of third-party consultants used on certain professional engagements.

Total cost of services and maintenance revenues increased by $2.0 million, or 11%, for the year ended December 31, 2010, compared to 2009. The increase in revenues in 2010 compared to 2009 is due primarily to an increase in compensation costs resulting from the increase in professional services.

Services and maintenance gross margin was 58.6% in 2010, compared to 56.2% in 2009. The higher services and maintenance gross margin in 2010 was primarily due to higher professional services gross margins resulting from an increase in utilization rates in our professional services organization during the year. Gross margins on maintenance and other revenues in 2010 increased slightly compared to 2009, primarily due to continued high renewal rates with our existing customer base and lower average costs associated with maintenance renewals.

Operating Expenses

	Year Ended December 31,				
(Dollars in thousands)	**2011**	**Change %**	**2010**	**Change %**	**2009**
Selling and marketing expenses	$ 36,992	*3%*	$ 35,947	*(1)%*	$ 36,475
Research and development expenses	$ 18,882	*11%*	$ 17,012	*20%*	$ 14,225
General and administrative expenses	$ 16,432	*18%*	$ 13,985	*4%*	$ 13,497
Depreciation and amortization expense	$ 5,424	*15%*	$ 4,700	*6%*	$ 4,427
As a percent of revenue:					
Selling and marketing expenses	35.4%		39.1%		48.7%
Research and development expenses	18.1%		18.5%		19.0%
General and administrative expenses	15.7%		15.2%		18.0%
Depreciation and amortization expense	5.2%		5.1%		5.9%
Share-Based Compensation Included Above:					
Selling and marketing expenses	$ 1,613		$ 1,601		$ 1,992
Research and development expenses	$ 1,373		$ 1,192		$ 1,320
General and administrative expenses	$ 1,566		$ 1,493		$ 1,510

Selling and Marketing Expenses

Selling and marketing expenses consist primarily of personnel costs and costs related to our sales force and marketing staff. Selling and marketing expenses also include expenses relating to advertising, brand building, marketing promotions and trade show events (net of amounts received from sponsors and participants), product management, travel and allocated overhead.

Although we expense our sales commissions at the time the related sale is invoiced to the client, revenues from our EnCase ® Enterprise term licenses, EnCase ® Forensic product, Premium License Support Program, the Annual Training Passport, and our consulting, maintenance and implementation services are recognized over the relevant performance or license period. Accordingly, we generally experience a delay between when we experience increased selling and marketing expenses and when we recognize a portion of the corresponding revenue. We employed 114 sales and marketing personnel at the end of 2011, 113 at the end of 2010 and 119 at the end of 2009.

Selling and marketing expenses increased $1.0 million, or 3%, for the year ended December 31, 2011, compared to 2010. The increase was primarily due to higher compensation costs and related expenses associated with increased product revenues, offset by a reduction in marketing events expenses.

Selling and marketing expenses decreased $0.5 million, or 1%, for the year ended December 31, 2010, compared to 2009. The decrease was primarily due to lower compensation costs resulting from lower headcount during the year, offset by an increase in commissions as a result of increased product revenues.

Research and Development Expenses

Research and development expenses consist primarily of compensation, including share-based compensation, and related overhead expenses. In order to develop new product offerings, continue developing existing products and improve quality assurance, we increased the number of research and development personnel that we employ to 98 in 2011 from 93 in 2010 and 84 in 2009.

Research and development expenses increased $1.9 million, or 11%, for the year ended December 31, 2011, compared to 2010. The increase was driven primarily by compensation and related expenses resulting from increased headcount during the year and an increase in temporary help and consultants due to the number of products in development, as well as the acquisition of Tableau in May 2010.

Research and development expenses increased $2.8 million, or 20%, for the year ended December 31, 2010, compared to 2009. The increase was driven primarily by increases in headcount and other employee-related expenses, as well as the acquisition of Tableau in May 2010 and the number of products in development.

General and Administrative Expenses

General and administrative expenses consist of personnel and related costs for accounting, legal, information systems, human resources and other administrative functions. In addition, general and administrative expenses include professional service fees, bad debt expense, and other corporate expenses and related overhead. We employed 64 general and administrative personnel at the end of 2011 and 61 at the end of 2010 and 2009.

General and administrative expenses increased by $2.4 million, or 18%, for the year ended December 31, 2011, compared to 2010, which is primarily attributable to a charge of $1.3 million related to certain state sales tax obligations including related interest and penalties, an increase in legal fees related to the patent infringement complaints filed in May and July of 2011 and compensation and related expenses due to increased headcount.

General and administrative expenses increased by $0.5 million, or 4%, for the year ended December 31, 2010, compared to 2009, primarily as a result of increased professional fees.

Depreciation and Amortization Expenses

Depreciation and amortization expenses consist of depreciation and amortization of our leasehold improvements, furniture, computer hardware and software and intangible assets. In 2011, 2010 and 2009, we invested $2.1 million, $2.3 million and $2.6 million, respectively, in capital equipment and leasehold improvements. In May 2010, we acquired intangible assets through our acquisition of Tableau. The increase in depreciation and amortization expense for the year ended December 31, 2011 of $0.7 million, or 15%, compared to 2010, was primarily a result of the amortization of intangible assets we acquired through our acquisition of certain assets of Tableau in May 2010.

Depreciation and amortization expense in 2010 increased $0.3 million, or 6%, compared to 2009, primarily due to the additional investment in capital equipment and the acquisition of intangible assets during the year.

Other Income and Expense

Total other income and expense consists of interest earned on cash balances, interest expense paid and other miscellaneous income and expense items. In 2011, total other income and expense decreased $10,000, or 14%, compared to 2010. The decrease is primarily due to the decrease in interest income of $25,000, or 32%, compared to 2010, offset by an increase in other income, net, of $19,000.

In 2010, total other income and expense decreased $46,000, or 38%, compared to 2009. The decrease is primarily due to the decrease in other income, net, of $43,000, or 98%.

Income Tax Provision (Benefit)

The effective tax rate in years 2011, 2010, and 2009 was 10.6%, 2.7%, and (2.6)% , respectively. The effective tax rate in these years differed from the federal statutory rate of 34% primarily due to the tax impact of certain share-based compensation charges that are not deductible for tax purposes, and the impact of providing a valuation allowance against deferred tax assets, partially offset by research and development credits. See Note 8 to our Consolidated Financial Statements for additional information.

Liquidity, Capital Resources and Financial Condition

Since inception, we have largely financed our operations from our cash flow from operations. In December 2006, we issued and sold 3,250,000 shares of our common stock at $11.50 per share, for net proceeds of $34.8 million in our initial public offering. As of December 31, 2011, we had $37.0 million in cash and cash equivalents. On February 7, 2012 the company announced that it has signed a definitive agreement to acquire CaseCentral, a privately held provider of cloud-based e-discovery review and production software for corporations and law firms, for $17.1 million, consisting of approximately $8.3 million in cash and $8.3 million in company common stock and the assumption of $0.5 million in debt, net of cash. Depending on CaseCentral's SaaS revenue growth, Guidance Software may pay up to an additional $33 million in cash over the next three years. The transaction is subject to customary conditions and is expected to close during the first quarter of 2012. We believe that our cash flow from operations and our cash and cash equivalents are sufficient to fund our working capital and capital expenditure requirements for at least the next 12 months.

Changes in Cash Flow

We generate cash from operating activities primarily from cash collections related to the sale of our products and services. Net cash provided by operating activities was $13.7 million in 2011, compared with $5.6 million in 2010. The increase in cash provided by operations was primarily a result of an increase in deferred revenue of $6.0 million in 2011 compared to a decrease in deferred revenue of $2.5 million in 2010, a decrease in our net loss to $1.6 million from $4.6 million in 2010, partially offset by an increase in trade receivables of $3.2 million in 2011 compared to a decrease of $1.2 million in 2010.

Net cash provided by operating activities was $5.6 million in 2010, compared with $5.0 million in 2009. The increase in cash provided by operations was primarily a result of a decrease in our net loss to $4.6 million from $14.0 million in 2009, a decrease in deferred revenue of $2.5 million compared to an increase of $2.8 million in 2009, offset by an increase in our accrued liabilities of $2.4 million in 2010 compared to a decrease of $2.4 million in 2009 and an increase in trade receivables of $1.2 million compared to an increase of $8.3 million in 2009. The change in trade receivables was due primarily to higher cash collections in the fourth quarter of 2010 as compared to the fourth quarter of 2009. The first and fourth quarters of our fiscal year are our strongest quarters for cash collections, a consequence of the higher sales volumes typically experienced in the third and fourth quarters.

Net cash used in investing activities was $2.1 million in 2011 compared to $13.0 million in 2010 and $2.6 million in 2009. The increase in 2010 was due to the acquisition of Tableau in May 2010 for the net cash purchase price of $10.7 million.

Net cash used in financing activities was $2.2 million in 2011 compared to $1.6 million in 2010 and $1.8 million in 2009. Cash used in financing activities in 2011 included $2.6 million of repurchases and withholding of common stock, partially offset by $0.5 million in proceeds from stock option exercises. Cash used in financing activities in 2010 included $2.0 million of repurchases and withholdings of common stock, partially offset by $0.4 million in proceeds from stock option exercises and lower principal payments on our capital lease obligations.

We maintain a $3.0 million revolving line of credit with a bank. Borrowings under this line of credit would be collateralized by substantially all our assets. The line of credit requires that we remain in compliance with certain financial covenants and in March 2010, an amendment to the credit agreement was entered into to extend the expiration date to May 31, 2012 and decrease the maximum cumulative net loss permitted under the credit facility to $5.0 million (excluding non-cash share-based compensation) during any one fiscal year. Borrowings under the amended credit agreement bear interest at one of the following rates (as selected by us): a rate equal to the bank's alternate base rate plus 2% or the bank's LIBOR plus 3%. At December 31, 2011, there were no amounts outstanding under this line of credit.

As of December 31, 2011, we had an outstanding stand-by letter of credit in the amount of $112,500, related to one of our facility leases, secured by the revolving line of credit. There were no amounts outstanding under this line of credit at December 31, 2011 or 2010.

Contractual Obligations and Commitments

We currently have no material cash commitments, other than the definitive agreement to acquire CaseCentral (see "Note 20-Subsequent Events" in the notes to the consolidated financial statements included in Item 8 for further information regarding the acquisition) and our normal recurring trade payables, expense accruals and leases. All commitments are expected to be funded through existing working capital and future cash flows from operations. At December 31, 2011, our outstanding contractual cash commitments were largely limited to our non-cancelable lease obligations, primarily relating to office facilities, as follows:

	Payments Due by Period				
(Dollars in thousands)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Capital lease obligations, including interest	$ 120	$ 62	$ 58	$ —	$ —
Non-cancelable operating lease obligations	$ 8,305	$ 3,756	$ 3,875	$ 674	$ —
Purchase obligations	$ 1,047	$ 1,047	$ —	$ —	$ —

Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our selling and marketing activities, the timing and extent of research and development spending to support product development and enhancement efforts, costs associated with expansion into new territories or markets, the timing of the introduction of new products and services and the enhancement of existing products and the continuing market acceptance of our products and services. To the extent that our existing cash, cash from operations, or the availability of cash under our line of credit, are insufficient to fund our future activities and planned growth, we may need to raise additional funds through public or private equity or debt financings. We may enter into arrangements in the future, which could also require us to seek additional debt or equity financing. Additional funds may not be available on terms favorable to us, or at all. Furthermore, although we cannot accurately anticipate the effect of inflation or foreign exchange markets on our operations, we do not believe these external economic forces have had, or are likely in the foreseeable future to have, a material impact on our results of operations. We have omitted unrecognized tax benefits from this table due to the inherent uncertainty regarding the timing and recognition related to these unrecognized tax benefits. See "Note 8—Income Taxes" in the notes to the consolidated financial statements included in Item 8 for further information regarding the unrecognized tax benefits.

Off-Balance Sheet Arrangements

As of December 31, 2011, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of the SEC's Regulation S-K. We do not have material relationships or transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties except as disclosed in this report.

Stock Repurchases

In August 2008, our Board of Directors authorized management to repurchase up to $8.0 million of our outstanding common stock. Under the authorization, the timing and actual number of shares subject to repurchase are at the discretion of management and are contingent on a number of factors, such as levels of cash generation from operations, market conditions and our share price. Repurchased shares are held in Treasury Stock and have not been retired. As of December 31, 2011, we had approximately $3.6 million remaining under this authorization.

In addition to the shares we have repurchased on the open market, we withheld approximately 204,000, 86,400 and 52,800 common shares in 2011, 2010 and 2009, respectively, from employees to satisfy their personal income tax withholding requirements upon the vesting of share awards issued under our equity compensation plans during the quarter. Withheld shares are held in Treasury Stock and have not been retired. The Company may engage in similar transactions from time to time related to future vesting of employee restricted stock awards.

Critical Accounting Policies and Estimates

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described below and in Note 2 to our Consolidated Financial Statements, included herein at Item 8, have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. There have been no significant changes in those critical accounting policies and estimates during the twelve months ended December 31, 2011.

Revenue Recognition

We recognize revenue in accordance with *Software Industry- Revenue Recognition* topic (ASC 985-605) and *Revenue Recognition* (ASC 605). While the standard governs the basis for revenue recognition, in applying our revenue recognition policy we must determine which portions of our revenue should be recognized currently and which portions, if any, should be deferred. In order to determine current and deferred revenue, we make judgments and estimates with regard to future deliverable products and services and the appropriate pricing for those products and services. In general, we recognize revenue when persuasive evidence of an arrangement exists, we have delivered the product or performed the service, the fee is fixed or determinable and collectability is probable, as follows:

- Persuasive evidence of an arrangement: If we either enter into contracts or receive written purchase orders issued by a customer that legally bind us and the customer, we consider that as evidence of an arrangement.

- Delivery: We deem delivery of products to have occurred when the title and risk of ownership have passed to the buyer. Services revenue is recognized as services are performed.

- Fixed or determinable fee: We consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment and the payment terms are within normal established practices. If the fee is not fixed or determinable, we recognize the revenue as amounts become due and payable, provided all other revenue recognition criteria have been met.

- Collection is deemed probable: We conduct a credit review for all significant transactions at the time of the arrangement to determine the credit-worthiness of the customer. Collection is deemed probable if we have a reasonable basis to expect that the customer will pay amounts under the arrangement as payments become due.

However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue reported. For example, for multiple element arrangements we must make assumptions and judgments in order to allocate the total purchase price (irrespective of invoiced allocations) among the various elements we deliver, to determine whether undelivered services are essential to the functionality of the delivered products and services, to determine whether vendor-specific evidence (“VSOE”) of fair value exists for each undelivered element and to determine whether and when each element has been delivered. The VSOE of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately and, for software license updates and product support services, is additionally measured by the renewal rate offered to the customer. If we were to change our pricing practices or any of our other assumptions or judgments in the future, our future revenue recognition could differ significantly from our historical results.

Amounts for fees collected or invoiced and due relating to arrangements when revenue cannot be recognized are reflected on our balance sheet as deferred revenue and recognized when the product is delivered or over the period in which the service is performed, in accordance with our revenue recognition policy for such element. If we cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, we defer revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, we use the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Product Revenue. The timing of product revenue recognition is dependent on the nature of the product sold. We do not have any product offerings where software components and non-software components function together to deliver the tangible product's essential functionality. Product arrangements comprising multiple deliverables, including software and hardware, are generally categorized into one of the following:

- EnCase ® Enterprise, EnCase ® Forensic, EnCase ® eDiscovery, and related products: License revenue associated with these arrangements, exclusive of amounts allocated to maintenance and other undelivered elements for which we have vendor-specific objective evidence ("VSOE") of fair value, is recognized upon delivery, provided that all other criteria for revenue recognition have been met.

- Hardware: Revenue associated with the sale of forensic hardware is recognized upon shipment to the customer, provided that all other criteria for revenue recognition have been met.

Services and Maintenance Revenue. Services and maintenance revenue consists of professional services, training, and maintenance. Revenue from such services is generally recognized as the services are provided. Training revenues are either recognized on a per-class basis upon a participant's attendance or, for those customers who have subscribed to our Annual Training Passport program, revenue is recognized ratably over the annual period. We refer to revenue related to technical product support and software updates on a when-and-if available basis as maintenance revenue, which is recognized ratably over the applicable contractual period. We determine the amount of maintenance revenue to be deferred through reference to substantive maintenance renewal provisions contained in each arrangement. We consider substantive maintenance provisions to be provisions where the cost of the maintenance renewal, stated in the contract with our customer as a percentage of the product fee, is comparable to the normal pricing for maintenance-only renewals. Substantially all of our customers purchase maintenance support when they acquire new software licenses and substantially all renew their maintenance support contracts annually or otherwise.

Goodwill and indefinite-lived intangibles

We account for our goodwill and indefinite-lived intangible assets in accordance with *Intangibles — Goodwill and Other* (ASC 350). Goodwill represents the excess of purchase price over fair value of net assets acquired and is assigned to a reporting unit at the date the goodwill is initially recorded. Goodwill and indefinite-lived intangible assets are not amortized but evaluated for impairment annually, or whenever events or changes in circumstances indicate that the value may not be recoverable. A two-step test is performed at the reporting unit level to assess goodwill for impairment. First, the fair value of the reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, the reporting unit is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. If the carrying value of the reporting unit exceeds its implied fair value, an impairment loss equal to the difference will be recorded. Indefinite-lived intangible assets are assessed for impairment by comparing the carrying value of the assets with their fair values. If the carrying value of an indefinite-lived intangible asset exceeds its implied fair value, an impairment loss equal to the difference will be recorded. Application of the impairment test requires significant judgment to estimate the fair value. Changes in estimates and assumptions could materially affect the determination of fair value and/or impairment.

We performed our annual impairment test as of April 30, 2011. Goodwill was assessed at the reporting unit level for hardware products which is one level below our reportable segment level. We determined the fair value of the reporting unit based on a discounted cash flow model and a guideline transaction model. Under both models the estimated fair value of the reporting unit exceeded its carrying value by a substantial margin.

Share-Based Compensation

We use the Black-Scholes option pricing model to determine the grant date fair value of share-based payments and recognize that cost, net of an estimated forfeiture rate, as compensation expense on a straight-line basis over the vesting period. The determination of the grant date fair value of share-based awards using that model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the estimated number of years that we expect employees to hold their stock options (the option "term") and our expected stock price volatility, risk-free interest rates and dividends to be paid on our stock over that term.

The expected term (life) of stock option awards has been calculated using the "simplified method" because we lack sufficient historical data to provide a reasonable basis to estimate the expected term. We lack this historical data because of two factors: first, our 2004 Equity Incentive Plan (the "Plan") was adopted in 2004 and we do not have a sufficient history of exercises and forfeitures over the typical 10-year life of our awards to predict future option holder behavior, which is critical in estimating an expected term for our options, and, second, we believe that our December 2006 initial public offering has likely changed the historical patterns that were experienced during the brief period of time from the Plan's adoption to our initial public offering. The volatility of our common stock is estimated at the date of grant based on a weighted-average of the implied volatility of publicly traded 30-day to 270-day options on the common stock of a select peer group of similar companies ("Similar Companies"), the historical volatility of the common stock of Similar Companies and, beginning in late 2007, the historical volatility of our common stock. The risk-free interest rate used in option valuation is based on the implied yield in effect at the time of each option grant, based on US Treasury zero-coupon issues with equivalent expected terms. We use a dividend yield of zero in the Black-Scholes model, as we have no intention to pay any cash dividends on our common stock in the foreseeable future. *Compensation-Stock Compensation* also requires that we estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. Quarterly changes in the estimated forfeiture rate can potentially have a significant effect on reported share-based compensation, as the cumulative effect of adjusting the forfeiture rate for all expense amortization after January 1, 2006 is recognized in the period the forfeiture estimate is changed.

If we change the terms of our employee share-based compensation programs, refine future assumptions or if we change to other acceptable valuation models, the stock-based compensation expense that we record in future periods may differ significantly from historical trends and could materially affect our results of operations. As of December 31, 2011, there was approximately $0.6 million of total unrecognized share-based compensation cost related to stock options that is expected to be recognized over a weighted-average period of 1.9 years and approximately $9.4 million of total unrecognized share-based compensation cost related to restricted stock awards that is expected to be recognized over a weighted-average period of 3.0 years. We expect to record approximately $3.9 million in share-based compensation in 2012 related to options and restricted stock awards outstanding at December 31, 2011. See Note 13 to our Consolidated Financial Statements for further information regarding share-based compensation.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance is established through a provision for bad debt expense. We determine the adequacy of this allowance by evaluating individual customer accounts receivable, through consideration of the customer's financial condition, credit history and current economic conditions. In addition, we analyze our historical credit loss history and apply these loss rates to our current accounts receivable balances to verify the reasonableness of our allowance. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in the future, which would result in increased general and administrative expense.

Accounting for Income Taxes

In preparing our consolidated financial statements, we estimate our income tax liability in each of the foreign and domestic jurisdictions in which we operate by estimating our actual current tax exposure and assessing temporary differences resulting from differing treatment of items for tax and financial statement purposes. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of audits conducted by foreign and domestic tax authorities. Reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities will be established if necessary. Although we believe our judgments, assumptions and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

We calculate our current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed and the global tax implications are known, which can significantly impact our effective tax rate. Tax law and rate changes are reflected in the income tax provision in the period in which such changes are enacted.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such a determination. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance.

On January 1, 2007, we adopted the accounting for uncertainty in income taxes which contains a two-step approach to recognizing and measuring uncertain tax positions taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The standard also provides guidance on de-recognition, classification, accounting in interim periods and disclosure requirements for tax contingencies.

Commitments and Contingencies

We are subject to certain legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. We periodically evaluate all pending or threatened contingencies and commitments, if any, that are reasonably likely to have a material adverse effect on our operations or financial position. We assess the probability of an adverse outcome and determine if it is remote, reasonably possible or probable as defined in accordance with the provisions of *Contingencies (ASC 450).* If management determines that it is probable that an asset had been impaired or a liability had been incurred at the date of our financial statements, and the amount of the loss, or the range of probable loss can be reasonably estimated, we record an accrued liability and an expense for the estimated loss. If no accrual is made for a loss contingency because one or both of the conditions pursuant to *Contingencies* are not met, but the probability of an adverse outcome is at least reasonably possible, we would disclose the nature of the contingency, if material, and provide an estimate of the possible loss or range of loss, or state that such an estimate cannot be made.

Significant judgment is required in both the determination of probability and the determination of whether an exposure is reasonably estimable. Because of uncertainties related to these matters, any accruals recorded are based on the best information available at the time. As additional information becomes available, we would reassess the potential liability related to our pending claims and litigation and may revise our estimates favorably or unfavorably. Potential legal liabilities and the revision of estimates of potential legal liabilities could have a material impact on our financial position and results of operations.

Recent Accounting Pronouncements

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820)—Fair Value Measurement (ASU 2011-04) . In May 2011, the FASB issued Accounting Standards Update No. 2011-04, to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

Testing Goodwill for Impairment (ASU) 2011-08 , gives the option to qualitatively determine whether the two-step goodwill impairment test under FASB Accounting Standards Codification® (ASC) 350-20 , *Intangibles — Goodwill and Other* , can be bypassed. Under the new guidance, if an entity chooses to perform a qualitative assessment and determines that it is more likely than not (a more than 50 percent likelihood) that the fair value of a reporting unit is less than its carrying amount, it would then perform Step 1 of the annual goodwill impairment test in ASC 350-20 and, if necessary, proceed to Step 2. Otherwise, no further evaluation would be necessary. The decision to perform a qualitative assessment is made at the reporting unit level, and an entity with multiple reporting units may utilize a mix of qualitative assessments and quantitative tests among its reporting units. The amended guidance is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

Non-Audit Services of Independent Registered Public Accounting Firm

Our Audit Committee of the Board of Directors has pre-approved all non-audit services including tax compliance services.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk. Market risk represents the risk of loss that may impact our financial position due to adverse changes in the financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign exchange rates, interest rates and credit risk. We do not hold or issue financial instruments for trading purposes.

Foreign Currency Risk. To date, substantially all of our international sales have been denominated in US dollars, and therefore, the majority of our revenues are not subject to foreign currency risk. Our operating expenses and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, but historically have had relatively little impact on our operating results and cash flows. A strengthening of the dollar could make our products and services less competitive in foreign markets and therefore could reduce our revenues. In the future, an increased portion of our revenues and costs may be denominated in foreign currencies. We do not enter into derivative instrument transactions for trading or speculative purposes.

Interest Rate Risk. Our investment portfolio, consisting of highly liquid debt instruments of the US government at December 31, 2011, is subject to interest rate risk. The fair value of our investment portfolio would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of the major portion of our investment portfolio.

Item 8. Financial Statements and Supplementary Data

Our financial statements and supplementary data are included at the end of this report, beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management, with the participation of the President and Chief Executive Officer and Chief Financial Officer, has performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). This evaluation includes consideration of the controls, processes and procedures that are designed to ensure that information required to be disclosed by us in the reports we file under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our President and Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2011, our disclosure controls and procedures were effective.

Management Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15 (f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011, utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Controls—Integrated Framework.* Based on the results of this assessment, management (including our President and Chief Executive Officer and our Chief Financial Officer) has concluded that, as of that date, our internal control over financial reporting was effective.

The attestation report concerning the effectiveness of our internal control over financial reporting as of December 31, 2011, issued by our independent registered public accounting firm, Deloitte & Touche LLP, appears on page F-2 of our Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be set forth in the Proxy Statement or Form 10-K/A and is incorporated in this report by reference.

Item 11. Executive Compensation

The information required by this item will be set forth in the Proxy Statement or Form 10-K/A and is incorporated in this report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be set forth in the Proxy Statement or Form 10-K/A and is incorporated in this report by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be set forth in the Proxy Statement or Form 10-K/A and is incorporated in this report by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item will be set forth in the Proxy Statement or Form 10-K/A and is incorporated in this report by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

Financial statement schedules other than those listed above have been omitted because they are either not required, not applicable or the information is otherwise included.

(3) List of exhibits required by Item 601 of Regulation S-K. See part (b) below.

(b) Exhibits:

The following exhibits are filed or furnished herewith or are incorporated by reference to exhibits previously filed with the SEC (the original Exhibit number is included parenthetically).

Exhibit Number	Description of Documents
3.1(2)	Amended and Restated Certificate of Incorporation of Guidance Software, Inc. (Exhibit 3.2)
3.2(13)	Third Amended and Restated Bylaws of Guidance Software, Inc. (Exhibit 3.4)
4.1(1)	Investor's Rights Agreement, dated as of September 26, 2003, by and between Guidance Software, Inc. and Matthew Healey. (Exhibit 4.1)
10.1(1)	Restated Lease Agreement, dated as of April 1, 2003, by and between Guidance Software, Inc. and The Walnut Plaza. (Exhibit 10.1)
10.2(9)	Guidance Software, Inc. Second Amended and Restated 2004 Equity Incentive Plan. (Exhibit 10.27) #
10.3(10)	Guidance Software, Inc. Amended and Restated Executive Retention and Severance Plan, dated as of December 19, 2008. (Exhibit 10.3) #
10.4(12)	Amended and Restated Employment Agreement, dated February 23, 2011, by and between Guidance Software, Inc. and Victor Limongelli. #
10.5(3)	Amended and Restated Stock Option Agreement, dated January 19, 2008, by and between Guidance Software, Inc. and Victor Limongelli. (Exhibit 10.9) #
10.6(3)	Stock Option Agreement, dated January 19, 2008, by and between Guidance Software, Inc. and Victor Limongelli. (Exhibit 10.10) #

10.7(3)	Restricted Stock Cancellation Agreement, dated January 19, 2008, by and between Guidance Software, Inc. and Victor Limongelli. (Exhibit 10.11) #
10.8(3)	Restricted Stock Agreement, dated January 19, 2008, by and between Guidance Software, Inc. and Victor Limongelli. (Exhibit 10.12) #
10.9(4)	Form of Offer Letter, dated August 5, 2008, by and between Guidance Software, Inc. and Barry J. Plaga. (Exhibit 99.2) #
10.10(3)	Amended and Restated Credit Agreement dated as of May 1, 2007, by and between Bank of the West and Guidance Software, Inc. (Exhibit 10.13)
10.11(2)	Form of Tax Matters Agreement. (Exhibit 10.10)
10.12(8)	Oracle PartnerNetwork Embedded Software License Distribution Agreement dated as of November 28, 2008, by and between Oracle USA, Inc. and Guidance Software, Inc. *
10.13(2)	Form of Indemnification Agreement. (Exhibit 10.13)
10.14(11)	First Amendment to Guidance Software, Inc. Second Amended and Restated 2004 Equity Incentive Plan. (Exhibit 10.28) #
10.15(6)	Form of Amendment to Employment Letter (the Non-Participant Amendment). (Exhibit 99.1) #
10.16(6)	Form of Amendment to Employment Letter (the Participant Amendment). (Exhibit 99.2) #
10.17(7)	Form of Amendment to Restricted Stock Agreement. (Exhibit 99.1) #
10.18(10)	Form of Second Amended and Restated 2004 Equity Incentive Plan Restricted Stock Agreement. (Exhibit 10.21) #
10.19(10)	Amendment to Offer Letter, dated December 18, 2008, by and between Guidance Software, Inc. and Barry J. Plaga. (Exhibit 10.22) #
10.20(10)	Employment Agreement dated August 1, 2004 by and between Guidance Software, Inc. and Mark E. Harrington. (Exhibit 10.23) #
10.21(10)	Employment Agreement dated November 3, 2006 by and between Guidance Software, Inc. and Larry A. Gill. (Exhibit 10.24) #
10.22	Offer Letter, dated March 9, 2009, by and between Guidance Software, Inc. and Rasmus van der Colff. #
10.23	Employment Agreement, dated March 9, 2009, by and between Guidance Software, Inc. and Rasmus van der Colff.#
10.24(5)	Second Amendment to Amended and Restated Credit Agreement dated as of July 22, 2009, by and between Bank of the West and Guidance Software, Inc. (Exhibit 10.22)
10.25(11)	Third Amendment to Amended and Restated Credit Agreement as of March 22, 2010, by and between Bank of the West and Guidance Software, Inc. (Exhibit 10.26)
21.1(8)	Subsidiaries of Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 †
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 †
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to Guidance Software Inc.'s Form S-1 Registration Statement (File No. 333-137381) filed September 15, 2006.
(2) Incorporated by reference to Amendment No. 4 to Guidance Software Inc.'s Form S-1 Registration Statement (on Form S-1/A) filed November 22, 2006.
(3) Incorporated by reference to Guidance Software Inc.'s Form 10-K for the year ended December 31, 2007.
(4) Incorporated by reference to Guidance Software Inc.'s Current Report on Form 8-K dated and filed on August 7, 2008.
(5) Incorporated by reference to Guidance Software Inc.'s Form 10-Q for the quarterly period ended June 30, 2009.
(6) Incorporated by reference to Guidance Software Inc.'s Current Report on Form 8-K dated and filed on November 13, 2009.
(7) Incorporated by reference to Guidance Software Inc.'s Current Report on Form 8-K dated November 20, 2009 and filed on November 24, 2009.
(8) Incorporated by reference to Guidance Software Inc.'s Form 10-K for the year ended December 31, 2008.
(9) Incorporated by reference to Guidance Software Inc.'s Definitive Proxy Statement dated March 19, 2010 and filed on March 30, 2010.
(10) Incorporated by reference to Guidance Software Inc.'s Form 10-K for the year ended December 31, 2009.
(11) Incorporated by reference to Guidance Software Inc.'s Form 10-Q for the quarterly period ended March 31, 2010.
(12) Incorporated by reference to Guidance Software, Inc.'s Current Report on Form 8-K dated and filed on March 1, 2011.
(13) Incorporated by reference to Guidance Software, Inc.'s Current Report on Form 8-K dated and filed on March 18, 2011.

# Indicates management contract or compensatory plan.
* Incorporated by reference to Guidance Software Inc.'s Form 10-K for the year ended December 31, 2008. Portions of this exhibit have been redacted pursuant to a confidential treatment request filed with the SEC.
† These certifications are being furnished solely to accompany this Annual Report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of Guidance Software, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Schedules not listed above have been omitted since they are not applicable or are not required, or the information required to be set therein is included in the Consolidated Financial Statements or Notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Guidance Software, Inc.
Pasadena, California

We have audited the accompanying consolidated balance sheets of Guidance Software, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Guidance Software, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
Los Angeles, California
February 16, 2012

GUIDANCE SOFTWARE, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,048	$ 27,621
Trade receivables, net of allowance for doubtful accounts of $520 and $558, respectively	19,505	16,344
Inventory	1,394	987
Prepaid expenses and other current assets	2,209	1,934
Total current assets	60,156	46,886
Long-term assets:		
Property and equipment, net	9,273	11,351
Intangible assets, net	3,754	5,058
Goodwill, net	3,711	3,711
Other assets	434	434
Total long-term assets	17,172	20,554
Total assets	$ 77,328	$ 67,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,895	$ 2,568
Accrued liabilities	9,774	7,255
Capital lease obligations	58	76
Deferred revenues	33,630	30,279
Total current liabilities	46,357	40,178
Long-term liabilities:		
Rent incentives	498	1,221
Capital lease obligations	55	116
Deferred revenues	5,952	3,335
Deferred tax liabilities	155	61
Total long-term liabilities	6,660	4,733
Commitments and contingencies (Notes 11 and 17)		
Stockholders' equity:		
Preferred stock, $0.001 par value: 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized; 24,631,000 and 23,873,000 shares issued, respectively; 23,342,000 and 22,976,000 shares outstanding, respectively	23	23
Additional paid-in capital	74,297	68,311
Treasury stock, at cost, 1,288,000 and 897,000 shares, respectively	(6,594)	(4,039)
Accumulated deficit	(43,415)	(41,766)
Total stockholders' equity	24,311	22,529
Total liabilities and stockholders' equity	$ 77,328	$ 67,440

The accompanying notes are an integral part of these consolidated financial statements.

GUIDANCE SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31, 2011	2010	2009
Revenues:			
Product revenue	$ 52,345	$ 43,930	$ 34,068
Services and maintenance revenue	52,256	47,970	40,822
Total revenues	104,601	91,900	74,890
Cost of revenues (excluding amortization and depreciation, shown below):			
Cost of product revenue	5,973	4,937	2,793
Cost of services and maintenance revenue	22,453	19,874	17,898
Total cost of revenues (excluding amortization and depreciation, shown below)	28,426	24,811	20,691
Operating expenses:			
Selling and marketing	36,992	35,947	36,475
Research and development	18,882	17,012	14,225
General and administrative	16,432	13,985	13,497
Depreciation and amortization	5,424	4,700	4,427
Total operating expenses	77,730	71,644	68,624
Operating income (loss)	(1,555)	(4,555)	(14,425)
Other income and expense:			
Interest income	53	78	86
Interest expense	(9)	(5)	(10)
Other income, net	20	1	44
Total other income and expense	64	74	120
Income (loss) before income taxes	(1,491)	(4,481)	(14,305)
Income tax provision (benefit)	158	121	(380)
Net income (loss)	$ (1,649)	$ (4,602)	$ (13,925)
Net income (loss) per common share—basic	$ (0.07)	$ (0.20)	$ (0.60)
Net income (loss) per common share—diluted	$ (0.07)	$ (0.20)	$ (0.60)
Shares used in the calculation of net income (loss) per common share—basic	23,252	23,024	23,093
Shares used in the calculation of net income (loss) per common share—diluted	23,252	23,024	23,093

The accompanying notes are an integral part of these consolidated financial statements.

GUIDANCE SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2009, 2010 and 2011
(in thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount		Shares	Amount			
Balances at December 31, 2008	23,255	$ 23	$ 56,622	56	$ (312)	$ —	$ (23,239)	$ 33,094
Share-based compensation	—	—	5,943	—	—	—	—	5,943
Exercise of stock options	27	—	118	—	—	—	—	118
Vesting of restricted stock awards	168	—	—	—	—	—	—	—
Common stock repurchased or withheld	(475)	—	—	475	(1,768)	—	—	(1,768)
2009 net loss	—	—	—	—	—	—	(13,925)	(13,925)
Balances at December 31, 2009	22,975	23	62,683	531	(2,080)	—	(37,164)	23,462
Share-based compensation	—	—	5,187	—	—	—	—	5,187
Exercise of stock options	95	—	441	—	—	—	—	441
Vesting of restricted stock awards	272	—	—	—	—	—	—	—
Common stock repurchased or withheld	(366)	—	—	366	(1,959)	—	—	(1,959)
2010 net loss	—	—	—	—	—	—	(4,602)	(4,602)
Balances at December 31, 2010	22,976	23	68,311	897	(4,039)	—	(41,766)	22,529
Share-based compensation	—	—	5,532	—	—	—	—	5,532
Exercise of stock options	99	—	454	—	—	—	—	454
Vesting of restricted stock awards	658	—	—	—	—	—	—	—
Common stock repurchased or withheld	(391)	—	—	391	(2,555)	—	—	(2,555)
2011 net loss	—	—	—	—	—	—	(1,649)	(1,649)
Balances at December 31, 2011	23,342	$ 23	$ 74,297	1,288	$ (6,594)	$ —	$ (43,415)	$ 24,311

The accompanying notes are an integral part of these consolidated financial statements.

GUIDANCE SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2011	2010	2009
Operating Activities:			
Net loss	$ (1,649)	$ (4,602)	$ (13,925)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	5,424	4,700	4,427
Benefit for doubtful accounts	—	(48)	(252)
Share-based compensation	5,532	5,187	5,943
Deferred taxes	94	61	—
Loss on disposal of assets	—	35	1
Changes in operating assets and liabilities:			
Trade receivables	(3,161)	1,159	8,313
Inventory	(407)	17	(38)
Prepaid expenses and other assets	(275)	25	175
Accounts payable	402	(775)	(86)
Accrued liabilities	1,795	2,351	(2,402)
Deferred revenues	5,967	(2,474)	2,803
Net cash provided by operating activities	13,722	5,636	4,959
Investing Activities:			
Purchase of property and equipment	(2,116)	(2,317)	(2,576)
Proceeds from sale of property and equipment	—	1	6
Acquisition, net of cash acquired	—	(10,686)	—
Net cash used in investing activities	(2,116)	(13,002)	(2,570)
Financing Activities:			
Proceeds from the exercise of stock options	454	441	118
Common stock repurchased or withheld	(2,555)	(1,959)	(1,768)
Principal payments on capital lease obligations	(78)	(80)	(160)
Net cash used in financing activities	(2,179)	(1,598)	(1,810)
Net (decrease) increase in cash and cash equivalents	9,427	(8,964)	579
Cash and cash equivalents, beginning of year	27,621	36,585	36,006
Cash and cash equivalents, end of year	$ 37,048	$ 27,621	$ 36,585
Supplemental disclosures of cash flow information:			
Interest expense paid	$ 2	$ 3	$ 6
Income taxes paid	$ 31	$ 117	$ 234
Supplemental disclosures of non-cash investing and financing activities:			
Purchase of property and equipment included in accounts payable	$ 75	$ 152	$ 219
Capital lease obligations incurred to acquire assets	$ —	$ 101	$ 168

The accompanying notes are an integral part of these consolidated financial statements.

GUIDANCE SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of the Business

General

Guidance Software, Inc. was incorporated in the state of California in 1997 and reincorporated in Delaware on December 11, 2006. Guidance and its subsidiaries are collectively referred to herein as “Guidance,” “we” or the “Company.” Headquartered in Pasadena, California, Guidance is a global provider of software and hardware solutions to conduct digital investigations.

Our main products are: *EnCase* ® *Enterprise* , a comprehensive, network-enabled digital investigative solution that enables corporations and government agencies to search, collect, preserve and analyze data across all of the servers, desktops and laptops that comprise their entire network from a single location; *EnCase* ® *eDiscovery* , which automates the search, collection, preservation and processing of electronically stored information for litigation and compliance purposes; *EnCase* ® *Cybersecurity* , which provides the ability to identify potential threats and analyze them, identify other advanced hacking techniques that evade traditional network or host-based defenses, provides investigative capabilities that target confidential or sensitive data, and mitigates risk by removing sensitive data from unauthorized locations; *EnCase* ® *Forensic* , a desktop-based product primarily used by law enforcement and government agencies for collecting, preserving, analyzing and authenticating electronic computer forensic data for use in criminal and civil court proceedings. In 2009, we launched *EnCase* ® *Portable* , a data acquisition solution that enables customers to leverage the search and acquisition capabilities of EnCase ® software in a wide range of field applications through the use of a portable device and in May 2010, we added a family of data acquisition forensic hardware products including forensic duplicators, multiple write blockers and other hardware through our acquisition of Tableau, LLC (“Tableau”). In addition, we complement our offerings with a comprehensive array of professional and training services including technical support and maintenance services to help our customers implement our solutions, conduct investigations and train their IT and legal professionals to effectively and efficiently use our products.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), and include the accounts of Guidance and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Prior Period Adjustment

The Company recorded out-of-period adjustments which decreased the net loss and the deferred revenue balance by $531,000, in the third quarter of 2010. The adjustments relate to deferred revenue of $408,000 and bad debt recoveries of $123,000 that should have been recognized in income in prior periods. Had the Company recorded these adjustments in the appropriate periods, net loss for 2009, 2008, and 2007 would have been reduced by $23,000, $167,000, $145,000, respectively, and the opening accumulated deficit as of January 1, 2007 would have been reduced by $196,000.

The Company and the Audit Committee have determined that these adjustments are not material to the prior periods, the trend of earnings, and the annual 2010 consolidated financial statements.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to revenue recognition, share-based compensation, bad debts, income taxes, commitments, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Cash and Cash Equivalents

We invest excess cash in money market funds and highly liquid debt instruments of the US government and its agencies. Highly liquid investments with stated maturities of three months or less from the date of purchase are classified as cash and cash equivalents.

Fair Value of Financial Instruments

The carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term maturities of these instruments. Based on borrowing rates currently available to us for borrowings with similar terms, the carrying values of our capital lease obligations also approximate fair value.

Trade Receivables

Trade receivables are carried at original invoice amount less an allowance for doubtful accounts. The allowance is established through a provision for bad debt expense. We determine the adequacy of this allowance by evaluating individual customer accounts receivable, through consideration of the customer's financial condition, credit history and current economic conditions. In addition, we analyze our historical credit loss history and apply these loss rates to our current accounts receivable balances to verify the reasonableness of our allowance. Trade receivables are written off when deemed uncollectible. A trade receivable is generally considered past due if any portion of the receivable balance is outstanding for more than 30 days unless alternate terms are provided.

Inventory

Inventory is comprised of hardware components, packaged software components and finished goods and is valued at the lower of cost or market, using the weighted average cost method. We conduct quarterly inventory reviews for obsolescence, and inventory considered unlikely to be sold is adjusted to net realizable value.

Property and Equipment

The cost of property and equipment, less applicable estimated residual values, is depreciated over the shorter of their estimated useful lives or the life of the lease (if applicable), on the straight-line method, from the date the specific asset is completed, installed, and ready for use, as follows:

	Estimated Useful Life
Leasehold improvements	Shorter of life of asset or lease term
Furniture and office equipment	5 years
Computer hardware and software	3-5 years

Also included in property and equipment is software maintained for internal use. Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of two to five years.

Impairment of Long-Lived Assets

We review our long-lived assets in accordance with *Property, Plant and Equipment (ASC 360)* . Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. To date, we have not determined that any of our long-lived assets have been impaired.

Amortization of Intangible Assets with Finite Lives

Intangible assets with finite lives are carried at the implied fair value of such assets at the time of acquisition. With the exception of our customer relationships intangible asset, which is amortized on a double-declining basis, the implied fair values of such assets are amortized on a straight-line basis over the estimated useful lives.

Goodwill and Indefinite-Lived Intangibles

Goodwill represents the excess of purchase price over fair value of net assets acquired and is assigned to a reporting unit at the date the goodwill is initially recorded. Goodwill and indefinite-lived intangible assets are not amortized but evaluated for impairment annually, or whenever events or changes in circumstances indicate that the value may not be recoverable. A two-step test is performed at the reporting unit level to assess goodwill for impairment. First, the fair value of the reporting unit is compared to its carrying value. If the fair value exceeds the carrying value, the reporting unit is not impaired and no further testing is performed. The second step is performed if the carrying value exceeds the fair value. If the carrying value of the reporting unit exceeds its implied fair value, an impairment loss equal to the difference will be recorded. Indefinite-lived intangible assets are assessed for impairment by comparing the carrying value of the assets with their fair values. If the carrying amounts of the indefinite-lived intangible assets exceeds its implied fair value, an impairment loss equal to the difference will be recorded.

Application of the impairment test requires significant judgment to estimate the fair value. Changes in estimates and assumptions could materially affect the determination of fair value and/or impairment.

Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. We restrict our investments in cash and cash equivalents to financial institutions, US government or federal agency instruments and obligations of corporations with high credit standing. At December 31, 2011, the majority of our cash balances were held at financial institutions located in California, in accounts that are insured by the Federal Deposit Insurance Corporation up to $250,000. Uninsured balances aggregate approximately $36.5 million as of December 31, 2011. At December 31, 2011, all of our cash equivalents consisted of financial institution obligations. We periodically perform credit evaluations of our customers and maintain reserves for potential losses on our accounts receivable. We do not believe we are subject to concentrations of credit risk with respect to such receivables.

Revenue Recognition

We generate revenues principally from the sale of EnCase ® Enterprise and EnCase ® Forensic software products. These proprietary products are generally sold with one to three years of maintenance, which can be renewed at a stated renewal rate. Revenue associated with the sale of software licenses and revenue associated with forensic hardware sales are referred to as product revenue and revenue associated with maintenance services is referred to as maintenance revenue. We also generate revenues from training courses and implementation and consulting services, in which we assist customers with the performance of digital investigations and train their IT professionals in the use of our software products, which we collectively refer to as services revenue. To a lesser extent, we also generate revenue from the sale of our EnCase ® Portable, which is also included in product revenues.

We recognize revenue in accordance with the Accounting Standards Codification (ASC) *Software Industry- Revenue Recognition* topic (ASC 985-605) and *Revenue Recognition* (ASC 605). While the standard governs the basis for revenue recognition, significant judgment and the use of estimates are required in connection with the allocation of revenue between product revenue and services and maintenance revenue, as well as the amount of deferred revenue to be recognized in each accounting period.

Product revenue. The timing of product revenue recognition is dependent on the nature of the product sold. We do not have any product offerings where software components and non-software components function together to deliver the tangible product's essential functionality. Product arrangements comprising multiple deliverables including software and hardware are generally categorized into one of the following:

- *EnCase ® Enterprise Solutions and EnCase ® Forensic Solutions:* Revenue associated with these arrangements, exclusive of amounts allocated to maintenance and other undelivered elements, for which we have vendor-specific objective evidence ("VSOE") of fair value, is recognized upon delivery, provided that all other criteria for revenue recognition have been met.
- *Hardware:* Revenue associated with the sale of forensic hardware is recognized upon shipment to the customer, provided that all other criteria for revenue recognition have been met.

Services and Maintenance Revenue. The majority of our consulting and implementation services are performed under per hour, per disk drive or fixed fee arrangements. Revenue from such services is recognized as the services are provided or upon expiration of the contractual service period.

Training revenues are either recognized on a per-class basis upon a participant's attendance or, for those customers who have subscribed to our Annual Training Passport program, revenue is recognized ratably over the annual period.

Revenue related to technical support and software updates on a when-and-if available basis is referred to as maintenance revenue. We recognize maintenance revenue ratably over the applicable maintenance period. We determine the amount of maintenance revenue to be deferred through reference to substantive maintenance renewal provisions contained in multiple element arrangements. We consider substantive maintenance provisions to be provisions where the cost of the maintenance renewal, stated in the contract with our customer as a percentage of the product fee, is comparable to the normal pricing for maintenance only renewals.

Revenue Recognition Criteria. Our basic revenue recognition criteria are as follows:

- *Persuasive evidence of an arrangement:* If we either enter into contracts or receive written purchase orders issued by a customer that legally bind us and the customer, we consider that as evidence of an arrangement.

- *Product delivery:* We deem delivery of a product to have occurred when the title and risk of ownership have passed to the buyer. Services revenue is recognized as delivered.

- *Fixed or determinable fee:* We consider the fee to be fixed or determinable if the fee is not subject to refund or adjustment and the payment terms are within normal established practices. If the fee is not fixed or determinable, we recognize revenue as amounts become due and payable provided all other revenue recognition criteria have been met.

- *Collection is deemed probable:* We conduct a credit review for all significant transactions at the time of the arrangement to determine the credit-worthiness of the customer. Collection is deemed probable if we have a reasonable basis to expect that a customer will make pay amounts due under an arrangement as they become due.

Deferred Revenue

Deferred revenue consists primarily of payments received in advance of delivery of products and services associated with the sale of EnCase ® product and service offerings including deferral of annual post contract support agreements. Deferred revenue also includes revenue related to undelivered elements that may or may not have been sold in conjunction with the sale of EnCase ® products for which VSOE of the undelivered elements exists.

Research and Development

We maintain a research and development staff to develop new products and enhance or maintain existing products. In accordance with *Software Industry—Costs of Software to Be Sold, Leased, or Marketed (ASC 985-20)* software costs are expensed as incurred until technological feasibility of the software is determined and the recovery of the cost can reasonably be expected, after which any additional costs are capitalized. To date, we have expensed all software development costs because the establishment of technological feasibility of products and their availability for sale has substantially coincided.

Commissions

Although we expense our sales commissions at the time the related sale is invoiced to the customer, revenues from certain of our products are recognized over the relevant performance or license period. Accordingly, for those products, we generally experience a delay between when sales commissions are expensed and when we recognize the corresponding revenue.

Leases

We lease office facilities under operating leases and certain equipment under capital leases, and account for those leases in accordance with *Leases (ASC 840).* For operating leases that contain rent escalation or rent concession provisions, the total rent expense during the lease term is recorded on a straight-line basis over the term of the lease, with the difference between rent payments and the straight-line rent expense recorded as rent incentives in the accompanying consolidated balance sheets.

Advertising Costs

Advertising costs are charged to operations as incurred and were not significant for any period presented.

Accounting for Income Taxes

We account for income taxes in accordance with *Income Taxes (ASC 740)* . Deferred income taxes are recorded for the expected tax consequences of temporary differences between the tax bases of assets and liabilities for financial reporting purposes and amounts recognized for income tax purposes. We record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized.

On January 1, 2007, we adopted accounting for uncertainty in income taxes in accordance with *Income Taxes* , which requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. The standard also provides guidance on de-recognition, classification, accounting in interim periods and disclosure requirements for tax contingencies. In addition, we have applied the standards in determining whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits.

Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are remeasured at the balance sheet date. Resulting exchange rate gains or losses are included as a component of current period earnings. We incurred approximately $22,000 of net foreign exchange gain for the year ending 2011 and $164,000 and $31,000 of net foreign exchange losses in the years 2010 and 2009, respectively. In 2011, the US dollar strengthened significantly against certain foreign currencies in which we had assets denominated, resulting in a foreign exchange gain in comparison to the foreign exchange loss in 2010.

Commitments and Contingencies

We periodically evaluate all pending or threatened litigation and contingencies or commitments, if any, that are reasonably likely to have a material adverse effect on our operations or financial position. In so doing, we assess the probability of an outcome and determine if it is remote, reasonably possible or probable as defined in accordance with the provisions of *Contingency (ASC 450)* . If information available prior to the issuance of our financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and the amount of the loss, or the range of probable loss can be reasonably estimated, then such loss is accrued and charged to operations. If no accrual is made for a loss contingency because one or both of the conditions are not met, but the probability of an outcome is at least reasonably possible, we disclose the nature of the contingency and provide an estimate of the possible loss or range of loss, or state that such an estimate cannot be made.

Recent Accounting Pronouncements

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820)—Fair Value Measurement (ASU 2011-04) . In May 2011, the FASB issued Accounting Standards Update No. 2011-04, to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

Testing Goodwill for Impairment (ASU) 2011-08 , gives the option to qualitatively determine whether the two-step goodwill impairment test under FASB Accounting Standards Codification® (ASC) 350-20 , *Intangibles — Goodwill and Other* , can be bypassed. Under the new guidance, if an entity chooses to perform a qualitative assessment and determines that it is more likely than not (a more than 50 percent likelihood) that the fair value of a reporting unit is less than its carrying amount, it would then perform Step 1 of the annual goodwill impairment test in ASC 350-20 and, if necessary, proceed to Step 2. Otherwise, no further evaluation would be necessary. The decision to perform a qualitative assessment is made at the reporting unit level, and an entity with multiple reporting units may utilize a mix of qualitative assessments and quantitative tests among its reporting units. The amended guidance is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

Note 3. Business Combination

On May 7, 2010, we acquired certain of the assets of Tableau, a privately-held developer and manufacturer of computer forensic products, for approximately $10.7 million in cash (net of cash acquired of $1.6 million), which we accounted for as a business combination. We incurred $0.2 million in acquisition-related costs. We acquired Tableau to extend our existing leadership in computer forensics technology by offering software and hardware to better fulfill the needs of the computer forensic community. This transaction closed on May 7, 2010 and the results of operations of Tableau have been included in the Company’s consolidated financial statements subsequent to the date of acquisition.

Based upon the fair values as of May 7, 2010, we made an allocation of the purchase price to the net tangible and intangible assets acquired. The excess of the purchase price over the estimated fair values of the underlying net tangible and intangible assets has been recorded as goodwill. The factors that contributed to the recognition of goodwill included intangible assets acquired that do not qualify for separate recognition and expected synergies that will increase revenue and profits. Goodwill is assigned to our products reporting segment and we expect the full balance of goodwill to be tax deductible for tax purposes.

Purchase price allocation is as follows (in thousands):

	Weighted Average Estimated Useful Life		Fair Market Values
Cash and cash equivalents			$ 1,643
Trade receivables			523
Inventory			730
Property and equipment, net			185
Identifiable intangible assets:			
Core technology	10	$ 1,100	
Existing and developed technology	2	1,200	
In-process research and development	Indefinite-lived	1,100	
Customer relationships	5	575	
Trade name	10	1,800	
Total identifiable intangible assets			5,775
Goodwill			3,711
Accounts payable			(185)
Other accrued liabilities			(53)
Total purchase price			$ 12,329

The following are unaudited pro forma condensed consolidated financial statements of the combined entity as though the business combination had been as of the beginning of our annual reporting period and as of the beginning of the comparable annual reporting period . The twelve month period ended December 31, 2011 represents our actual condensed consolidated financial statement and is presented for comparability purposes (in thousands, except per share amounts).

	Year Ended December 31, 2011	2010	2009
Total revenues	$ 104,601	$ 94,134	$ 81,163
Total net expenses	106,092	98,296	93,965
Loss before income taxes	(1,491)	(4,162)	(12,802)
Income tax provision	158	121	(308)
Net loss	$ (1,649)	$ (4,283)	$ (12,422)
Net loss per share — basic and diluted	$ (0.07)	$ (0.19)	$ (0.54)

Note 4. Net Income (Loss) Per Share

Basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted net income (loss) per share is calculated based on the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of the shares issuable upon the exercise of stock options and upon the vesting of restricted stock awards under the treasury stock method. In net loss periods, basic net loss per share and diluted net loss per share are identical since the effect of potential common shares is anti-dilutive and therefore excluded.

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share data):

	Year Ended December 31, 2011	2010	2009
Numerator:			
Net income (loss)	$ (1,649)	$ (4,602)	$ (13,925)
Denominator:			
Basic weighted average shares outstanding	23,252	23,024	23,093
Effect of dilutive share-based awards	—	—	—
Diluted weighted average shares outstanding	23,252	23,024	23,093
Net income (loss) per share:			
Basic	$ (0.07)	$ (0.20)	$ (0.60)
Diluted	$ (0.07)	$ (0.20)	$ (0.60)

Antidilutive securities, which consist of stock options and restricted stock awards that are not included in the diluted net loss per share calculation, consisted of an aggregate of approximately 3,866,000, 5,500,000 and 4,828,000 shares as of December 31, 2011, 2010 and 2009, respectively.

Note 5. Inventory

Inventory is comprised of hardware components, packaged software components and finished goods and is valued at the lower of cost or market, using the weighted average cost method. The following table sets forth inventory by major classes:

	December 31, 2011	2010
	(in thousands)	
Components	$ 565	$ 306
Finished goods	829	681
Total inventory	$ 1,394	$ 987

Note 6. Property and Equipment

Property and equipment, including assets held under capital leases, consist of the following:

	December 31, 2011	December 31, 2010
	(in thousands)	
Leasehold improvements	$ 7,687	$ 7,687
Computer hardware and software	18,286	15,876
Office equipment and furniture	3,200	2,997
Leased computers and office equipment	680	674
Assets not yet placed in service	565	1,374
	30,418	28,608
Accumulated depreciation and amortization	(21,145)	(17,257)
Property and equipment, net	$ 9,273	$ 11,351

Depreciation and amortization expense related to property and equipment was $4,120,000, $3,983,000 and $4,427,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Note 7. Goodwill and Other Intangibles

We assess goodwill and indefinite-lived intangible assets for impairment annually as of April 30, or more frequently if circumstances indicate impairment may have occurred. There were no impairment charges related to goodwill or indefinite-lived intangible assets as of December 31, 2011. We performed our annual impairment test as of April 30, 2011. Goodwill was assessed at the reporting unit level for hardware products which is one level below our reportable segment level. We determined the fair value of the reporting unit based on a discounted cash flow model and a guideline transaction model. Under both models the estimated fair value of the reporting unit exceeded its carrying value by a substantial margin. Goodwill is assigned to our products reporting segment and we expect the full balance of goodwill to be tax deductible for tax purposes. In-process research and development intangible assets acquired are considered to be indefinite-lived until completion or abandonment of the associated research and development efforts. The Company will determine the estimated useful lives and amortization method of the asset upon completion of the research and development efforts. During the period the assets are considered infinite-lived, impairment will be assessed annually or whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

The following table summarizes goodwill and indefinite-lived intangible assets as of (in thousands):

	December 31, 2011	December 31, 2010
Goodwill acquired	$ 3,711	$ 3,711
In-process research and development	332	1,015
Total	$ 4,043	$ 4,726

In May 2010, the Company acquired certain of the assets of Tableau resulting in acquired intangible assets. With the exception of customer relationships, which is amortized on a double-declining basis, the acquired intangible assets are being amortized over their estimated useful life as noted in Note 3 above.

Amortization expense for intangible assets with finite lives was $1.3 million and $0.7 million for the years ended December 31, 2011 and 2010, respectively. The following table summarizes cumulative amortization expense related to intangible assets subject to amortization as of: (in thousands):

	Year Ended December 31, 2011			2010		
	Gross Costs	Accumulated Amortization	Net	Gross Costs	Accumulated Amortization	Net
Core technology	$ 1,100	$ (181)	$ 919	$ 1,100	$ (71)	$ 1,029
Existing and developed technology	1,968	(1,260)	708	1,285	(393)	892
Customer relationships	575	(283)	292	575	(137)	438
Trade names	1,800	(297)	1,503	1,800	(116)	1,684
Total	$ 5,443	$ (2,021)	$ 3,422	$ 4,760	$ (717)	$ 4,043

The following table summarizes the estimated remaining amortization expense through the year 2016 and thereafter (in thousands):

Year ending	Amortization Expense
2012	$ 755
2013	522
2014	460
2015	355
2016	326
Thereafter	1,004
Total amortization expense	$ 3,422

Note 8. Income Taxes

We are subject to federal, state and foreign corporate income taxes. The provision for income taxes consists of the following:

	Year Ended December 31, 2011	2010	2009
		(in thousands)	
Current:			
Federal	$ (3)	$ —	$ (419)
State	27	29	31
Foreign	40	31	8
	64	60	(380)
Deferred:			
Federal	84	54	—
State	10	7	—
	94	61	—
	$ 158	$ 121	$ (380)

A reconciliation of the provision for income taxes at the federal statutory rate compared to our actual tax provision is as follows:

	Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Federal income tax benefit at statutory rate	$ (507)	$ (1,523)	$ (4,864)
State income taxes, net of federal benefit	(295)	(300)	(733)
Foreign income taxes, net of federal benefit	40	20	(26)
Nondeductible share-based compensation	272	656	1,002
Change in valuation allowance affecting income tax expense	994	1,510	4,582
Research and development tax credits	(478)	(356)	(367)
Nondeductible meal and entertainment expense	108	109	97
Other, net	24	5	(71)
	$ 158	$ 121	$ (380)

The components of deferred tax assets and liabilities are as follows:

	December 31,	
	2011	2010
	(in thousands)	
Deferred tax assets:		
Accrued expenses	$ 1,700	$ 1,413
Deferred revenues	1,594	2,071
Share-based compensation	3,328	3,473
Tax credits	3,290	2,201
Net operating losses	5,080	4,816
Intangible assets	649	284
Total deferred tax assets	15,641	14,258
Deferred tax liabilities:		
Goodwill	(155)	(61)
Depreciable assets	(1,189)	(800)
Net deferred tax assets prior to valuation allowance	14,297	13,397
Valuation allowance	(14,452)	(13,458)
Net deferred tax liabilities	$ (155)	$ (61)

The valuation allowance at December 31, 2011 is $14.4 million. We have fully reserved against our deferred tax assets based on our assessment of the future realizability of our deferred tax assets. In performing these assessments, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income in assessing the need for a valuation allowance. A cumulative taxable loss in recent years makes it more difficult for us to realize our deferred tax assets. We have had three years of cumulative U.S. tax losses and can no longer rely on common tax planning strategies to use U.S. tax losses and we are precluded from relying on projections of future taxable income to support the recognition of deferred tax assets. As such, the ultimate realization of our deferred tax assets is dependent upon the existence of sufficient taxable income generated in the carryforward periods.

At December 31, 2011, we have federal and state research and development tax credit carryforwards of approximately $1.9 million and $2.1 million, respectively. The federal tax credits begin to expire in 2026. The state tax credit carryforward can be carried forward indefinitely.

As of December 31, 2011, our federal and state net operating loss carryforwards for income tax purposes are approximately $13.5 million and $11.0 million, respectively, which expire through 2031.

We file income tax returns with the Internal Revenue Service, and the taxing authorities of various state and foreign jurisdictions. We adopted the provisions of accounting for uncertain tax positions in accordance with the *Income Taxes* (ASC 740) topic on January 1, 2007 and, accordingly, performed a comprehensive review of our uncertain tax positions as of that date. In this regard, an uncertain tax position represents our expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. A reconciliation of our total unrecognized tax benefits at December 31, 2011, 2010 and 2009 follows:

	Year Ended December 31,		
	2011	2010 (in thousands)	2009
Balance at beginning of year	$ 297	$ —	$ 13
Additions based on tax positions in the current period	148	297	—
Additions based on tax positions in prior periods	—	—	—
Reductions based on tax positions in prior periods	—	—	—
Settlements	—	—	—
Expiration of statutes	—	—	(13)
Balance at end of year	$ 445	$ 297	$ —

Our unrecognized tax benefit as of December 31, 2011 is $0.4 million. We are subject to routine corporate income tax audits in the United States and foreign jurisdictions. The statute of limitations for tax years 2008 through 2010 remains open for U.S. purposes. Most foreign jurisdictions have statute of limitations that range from three to six years.

Since we have fully reserved against our deferred tax assets, the liability for uncertain tax positions is merely a reduction to our deferred tax assets and related valuation allowance which is reflected in our consolidated balance sheets. Any subsequent reduction of the valuation allowance and the recognition of the associated tax benefit would affect our effective tax rate. Our policy is to recognize interest and penalties related to uncertain tax positions, if any, in the income tax provision. Interest and penalties are computed based upon the difference between our uncertain tax positions under *Income Taxes* and the amount deducted or expected to be deducted in our tax returns. Amounts accrued or paid for interest and penalties were insignificant in 2011, 2010 and 2009.

Note 9. Debt Obligations

We maintain a $3.0 million revolving line of credit with a bank. Borrowings under this line of credit would be collateralized by substantially all our assets. At December 31, 2011, there were no amounts outstanding under this line of credit. The line requires that we maintain certain financial covenants and in March 2010, an amendment to the credit agreement was entered into to extend the expiration date to May 31, 2012 and to decrease the maximum cumulative net loss permitted under the credit facility to $5.0 million (excluding non-cash share-based compensation) during any one fiscal year. Borrowings under the amended credit agreement bear interest at one of the following rates (as selected by us): a rate equal to the bank's alternate base rate plus 2% or the bank's LIBOR plus 3%. At December 31, 2011, we were in compliance with the covenants associated with the revolving line of credit.

As of December 31, 2011, we had an outstanding stand-by letter of credit in the amount of $112,500, related to one of our facility leases, secured by the revolving line of credit. There were no amounts outstanding under this line of credit at December 31, 2011 or 2010.

Note 10. Related Party Transactions

Certain of our stockholders guarantee substantially all of the obligations due under our capital and operating leases (Note 11).

Note 11. Leases

We lease certain facilities and equipment under non-cancellable operating leases extending through 2016. The Company also subleases certain facilities under non-cancellable operating leases. The present value of the remaining future minimum lease payments under capital leases is recorded in the consolidated balance sheets. The following is a schedule of future minimum lease payments under capital leases and operating leases (in thousands):

Years Ending December 31,	Future Minimum Capital Lease Payments	Future Minimum Operating Lease Payments	Net Future Minimum Lease Payments
2012	$ 62	$ 3,756	$ 3,818
2013	36	3,048	3,084
2014	22	827	849
2015	—	674	674
2016	—	—	—
Thereafter	—	—	—
Total	$ 120	$ 8,305	$ 8,425
Less amounts representing interest (2.5%—8.0%)	(6)		
	$ 114		

Rent expense related to operating leases for 2011, 2010 and 2009 was approximately $3,429,000, $3,650,000 and $3,827,000, respectively. As of December 31, 2011 and 2010, we did not have sublease rental income. Sublease rental income was approximately $131,000 in 2009. Substantially all of the capital leases and one operating lease are guaranteed by certain stockholders of the Company.

Note 12. Equity Incentive Plan

In 2004, our Board of Directors and stockholders approved the 2004 Equity Incentive Plan (the “Plan”). A total of 2,062,000 shares of common stock were initially authorized and reserved for issuance under the Plan in the form of incentive and non-qualified stock options and stock purchase rights for restricted stock. The Plan was amended in 2005 to increase the number of shares available for issuance to 3,977,000. In May 2006, the Board of Directors and stockholders approved the First Amended and Restated 2004 Equity Incentive Plan (the “First Amended and Restated Plan”), which amended and restated the Plan in its entirety, and provided for increases in the number of shares available for issuance by an additional 1,126,994 shares on May 3, 2006, an additional 828,073 shares on January 1, 2007, and an additional 828,123 shares on each of January 1, 2008 and 2009. At our 2008 Annual Meeting of Stockholders, our stockholders approved an amendment to the First Amended and Restated Plan that accelerated to July 1, 2008 the automatic increase in the number of shares available under the plan that was scheduled to occur on January 1, 2009.

At our 2010 Annual Meeting of Stockholders, our stockholders approved the Second Amended and Restated 2004 Equity Incentive Plan (the “Second Amended and Restated Plan”), which amended and restated the First Amended and Restated Plan in its entirety, and provided for an increase in the number of shares available for issuance by an additional 1,500,000 shares to a total of 9,088,313 shares. On April 22, 2010, the Board of Directors approved an amendment to the Second Amended and Restated Plan that accelerated the vesting of new grants of annual restricted stock awards granted to independent directors to occur on the earlier of the Company’s next annual meeting of stockholders following the grant date or the first anniversary of the grant date, subject to the independent director’s continued status as a service provider through such date. Employees, officers, consultants and directors are eligible to receive awards under the Second Amended and Restated Plan, which is generally administered by the Compensation Committee of the Board of Directors, who determines the terms and conditions of each grant.

At December 31, 2011, approximately 977,000 shares remain available for grant as options or restricted stock awards under the Second Amended and Restated Plan.

Stock Options

The terms of the options granted under the Second Amended and Restated Plan are determined at the time of grant, and generally vest 25% annually over a four-year service period and typically must be exercised within 10 years from the date of grant.

A summary of stock option activity follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, December 31, 2008	4,141,000	$ 9.11	7.6	$ 152,000
Granted	269,000	4.01		
Exercised	(27,000)	4.34		
Forfeited or expired	(598,000)	9.72		
Outstanding, December 31, 2009	3,785,000	$ 8.67	6.7	$ 1,237,000
Granted	327,000	5.42		
Exercised	(95,000)	4.63		
Forfeited or expired	(378,000)	9.74		
Outstanding, December 31, 2010	3,639,000	$ 8.37	6.1	$ 4,432,000
Granted	4,000	6.92		
Exercised	(99,000)	4.57		
Forfeited or expired	(167,000)	10.15		
Outstanding, December 31, 2011	3,377,000	$ 8.39	5.1	$ 2,884,000
Exercisable, December 31, 2011	2,478,000	$ 7.94	4.5	$ 2,320,000

We define in-the-money options at December 31, 2011 as options that had exercise prices that were lower than the $6.48 fair market value of our common stock at that date. The aggregate intrinsic value of options outstanding at December 31, 2011 is calculated as the difference between the exercise price of the underlying options and the fair market value of our common stock for the 1,708,000 options that were in-the-money at that date, of which 1,369,000 were exercisable. The total intrinsic value of stock options exercised, determined as of the date of exercise, was $315,000, $104,000 and $32,000 during the years 2011, 2010 and 2009, respectively.

The following summarizes information about options unvested at December 31, 2011 that, based on current forfeiture rates, are expected to ultimately vest:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options expected to vest	856,000	$ 9.87	6.6	$ 499,000

Restricted Stock Awards

During 2007, we began issuing restricted stock awards to certain directors, officers and employees under the Plan. Compensation expense for such awards, based on the fair market value of the awards on the grant date, is recorded during the vesting period. Restricted stock awards generally vest 25% annually over a four-year service period.

A summary of restricted stock awards activity follows:

	Number of Shares	Weighted Average Fair Value
Outstanding, December 31, 2008	756,000	$ 10.76
Granted	604,000	4.33
Vested and issued	(168,000)	10.76
Forfeited	(149,000)	9.05
Outstanding, December 31, 2009	1,043,000	7.27
Granted	1,280,000	5.75
Vested and issued	(272,000)	7.56
Forfeited	(190,000)	6.59
Outstanding, December 31, 2010	1,861,000	6.25
Granted	1,165,000	6.76
Vested and issued	(658,000)	7.39
Forfeited	(458,000)	6.29
Outstanding, December 31, 2011	1,910,000	$ 6.16

The total grant date fair value of shares vested under such grants during 2011, 2010 and 2009 was $4,866,000, $2,053,000, and $1,809,000, respectively.

Note 13. Share-Based Compensation

We account for share-based compensation in accordance with *Compensation-Stock Compensation (ASC 718).* Share-based compensation expense for all share-based awards is recognized using the Black-Scholes option pricing model to determine the grant date fair value of share-based payments. We recognize the cost, net of an estimated forfeiture rate, as compensation expense on a straight-line basis over the vesting period.

The fair values of awards granted under the Second Amended and Restated Plan were estimated at the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

	Year Ended December 31, 2011	2010	2009
Risk-free interest rate	2.40%	2.86%	2.26%
Dividend yield	—%	—%	—%
Expected life (years)	6.25	6.25	6.25
Volatility	65.5%	56.2%	60.9%
Weighted average grant date fair value	$ 4.27	$ 3.04	$ 2.38

The volatility of our common stock is estimated at the date of grant based on a weighted-average of the implied volatility of publicly traded 30-day to 270-day options on the common stock of a select peer group of similar companies ("Similar Companies"), the historical volatility of the common stock of Similar Companies and, beginning in late 2007, the historical volatility of our common stock. The risk-free interest rate that was used in the Black-Scholes option valuation model is based on the implied yield in effect at the time of each option grant, based on US Treasury zero-coupon issues with equivalent remaining terms. We use an expected dividend yield of zero in the Black-Scholes option valuation model, as we have no intention of paying any cash dividends on our common stock in the foreseeable future. We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. We amortize share-based compensation on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. The expected term (life) of all stock option awards has been calculated using the "simplified method" as defined by *Compensation-Stock Compensation* because, due to the limited time our common stock has been publicly traded, we lack sufficient historical data to provide a reasonable basis to estimate the expected term of these options.

The following table summarizes the share-based compensation expense we recorded:

	Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Stock option awards	$ 1,256	$ 1,856	$ 3,475
Restricted stock awards	4,276	3,331	2,468
Share-based compensation expense	$ 5,532	$ 5,187	$ 5,943

	Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Cost of product revenue	$ 82	$ 54	$ 23
Cost of services and maintenance revenue	898	847	1,098
Selling and marketing	1,613	1,601	1,992
Research and development	1,373	1,192	1,320
General and administrative	1,566	1,493	1,510
Total non-cash share-based compensation	$ 5,532	$ 5,187	$ 5,943

As of December 31, 2011, there was approximately $0.6 million of total unrecognized share-based compensation cost related to stock options that is expected to be recognized over a weighted-average period of 1.9 years and approximately $9.4 million of total unrecognized share-based compensation cost related to restricted stock awards that is expected to be recognized over a weighted-average period of 3.0 years. We expect to record approximately $3.9 million in share-based compensation in 2012 related to options and restricted stock awards outstanding at December 31, 2011.

Note 14. Other Employee Benefit Plans

Defined Employee Contribution Plans

The Company has a 401(k) plan that allows all full-time eligible employees to contribute up to 15% of their semi-monthly earnings, up to the maximum limit set by the IRS each year. We match $0.50 on each dollar up to 6% of the employee’s semi-monthly contribution. Additionally, the Company may make discretionary contributions to the Plan regardless of profitability. In 2010, we reinstated the Company matching contribution under the 401(k) plan that was temporarily suspended in July 2009. We recorded contribution related expense of $766,000, $324,000 and $409,000 in the years 2011, 2010 and 2009, respectively.

Severance Policy

In October 2009, the Board of Directors approved a Severance Policy (“Severance Policy”) to promote the interests of our business and stockholders by attracting and retaining executive personnel and employees. The Severance Policy is applicable to all full-time eligible employees who have completed at least six months of service to the Company and, provides for certain compensation benefits in the event an employee is involuntarily terminated without cause.

Note 15. Stockholders’ Equity

In August 2008, our Board of Directors authorized a program to repurchase shares of our common stock having an aggregate value of up to $8.0 million. As of December 31, 2011, we had approximately $3.6 million remaining under this authorization. Acquisitions of shares may be made from time-to-time at management’s discretion, at prevailing prices in the open market, or in privately negotiated transactions, as permitted by securities laws and other legal requirements, and are subject to market conditions and other factors. The program may be discontinued at any time. During 2011, we repurchased 186,977 shares under this program. Additionally, approximately 204,000 shares that were withheld from employees for personal income tax purposes upon the vesting of restricted stock awards. Collectively, these shares are recorded as treasury stock, at cost, in the Consolidated Balance Sheets.

Note 16. Fair Value Measurements

We adopted *Fair Value Measurements and Disclosures (ASC 820)* effective January 1, 2008 for financial assets and liabilities measured at fair value on a recurring basis. There was no impact upon the adoption to the consolidated financial statements. Under this standard, fair value is defined as the price that would be received in exchange for selling an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* establishes a hierarchy for inputs used in measuring fair value that minimizes the use of unobservable inputs by requiring the use of observable market data when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on active market data. Unobservable inputs would be inputs that reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The statement requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities.

Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly, and corroborated by market data.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. The following table sets forth, by level within the fair value hierarchy, financial assets (we have no financial liabilities) that are accounted for at fair value on a recurring basis as of December 31, 2011 and 2010 (in thousands):

	Fair Value Measurements at December 31, 2011			
	Total	Level 1	Level 2	Level 3
Cash equivalents:				
US Treasury Securities	$ —	$ —	$ —	$ —
Money market account	31,636	31,636	—	—
Total cash equivalents	$ 31,636	$ 31,636	$ —	$ —

	Fair Value Measurements at December 31, 2010			
	Total	Level 1	Level 2	Level 3
Cash equivalents:				
US Treasury Securities	$ 9,000	$ 9,000	$ —	$ —
Money market account	9,587	9,587	—	—
Total cash equivalents	$ 18,587	$ 18,587	$ —	$ —

Note 17. Contingencies

Legal Matters

On May 20, 2011, MyKey Technology Inc. ("MyKey") filed a complaint against us and certain other parties for patent infringement in the United States District Court for the District of Delaware. With respect to the Company, the complaint alleges that certain of our data acquisition forensic hardware products that we acquired as a result of our acquisition of certain assets of Tableau, LLC infringe three of MyKey's patents relating to write blocking, duplication and data removal technologies, respectively. The complaint seeks a declaration of infringement, a finding of willful infringement, compensatory damages, treble damages, injunctive relief, interest, expenses, costs and attorneys' fees.

On July 22, 2011, MyKey also filed a complaint with the United States International Trade Commission (the "ITC"), alleging infringement by the Company and certain other parties of the three patents discussed in the preceding paragraph and requesting that the ITC commence an investigation pursuant to Section 337 of the Tariff Act of 1930. The complaint seeks injunctive relief barring the Company from the importation of products that allegedly infringe the three patents of MyKey. On August 24, 2011, the ITC commenced an investigation of the Company and certain other parties related to the complaint by MyKey. On August 31, 2011 the proceeding in the District Court was stayed pending the resolution of the ITC matter.

We intend to defend the MyKey matters vigorously and, at this time, are unable to estimate what, if any, liability we may have in connection with these matters. We are unable to estimate a range of reasonably possible losses due to various reasons, including, among others, that (1) the proceedings are at an early stage, (2) there is uncertainty as to the outcome of pending appeals, motions, or settlements, (3) there are significant factual issues to be resolved, (4) there are unresolved negotiations with certain indemnitors or indemnitees of the Company, related to the actions, and (5) we have meritorious defenses that we intend to assert.

From time to time, we may become involved in various other lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not currently aware of any such other legal proceedings or claims.

Indemnifications

We have agreed to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by them in any action or proceeding to which any of them is, or is threatened to be, made a party by reason of his or her services in their role as a director or officer.

We have also agreed to indemnify the pre-initial public offering stockholders for any increases in their tax liabilities for the periods during which we were an S Corporation.

Sales Tax Liabilities

The Company's sales and use tax filings are subject to customary audits by authorities in the jurisdictions where it conducts business in the United States, which may result in assessments of additional taxes. In March 2011, we determined that additional sales taxes were probable of being assessed by a certain state as a result of the preliminary findings specific to a sales and use tax audit. As a result, we estimated an incremental sales tax liability of approximately $1.3 million, including interest and penalties of approximately $300,000, where applicable. The estimated incremental sales and use tax liability was based on a similar model that was being used by the state conducting the sales and use tax audit. The estimated liability is recorded in general and administrative expenses.

Note 18. Segment Information

We have adopted *Segment Reporting (ASC 280)* requiring segmentation based on our internal organization, reporting of revenue and other performance measures. Operating segments are defined as components of an enterprise about which discrete financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. Our segments are designed to allocate resources internally and provide a framework to determine management responsibility. We have four operating segments, as summarized below:

- Products segment includes EnCase® Enterprise products and EnCase® Forensic product sales.
- Professional services segment performs consulting services and implementations. Consulting services include conducting investigations using our software products.
- Training segment provides training classes by which we train our customers to effectively and efficiently use our software products.
- Maintenance segment includes maintenance related revenue and costs.

We refer to the revenue generated by our professional services, training and maintenance segments, collectively, as services revenue. Currently, we do not separately allocate operating expenses to these segments, nor do we allocate specific assets, with the exception of goodwill, to these segments. Therefore, the segment information reported includes only revenues, cost of revenues and segment profit. The following tables present the results of operations for each operating segment:

	Year Ended December 31, 2011				
	Product	Professional Services	Training	Maintenance & Other	Total
			(in thousands)		
Revenues	$ 52,345	$ 15,037	$ 7,728	$ 29,491	$ 104,601
Cost of revenues	5,973	14,179	5,735	2,539	28,426
Segment profit	$ 46,372	$ 858	$ 1,993	$ 26,952	76,175
Total operating expenses					77,730
Operating loss					$ (1,555)

	Year Ended December 31, 2010				
	Product	Professional Services	Training	Maintenance & Other	Total
			(in thousands)		
Revenues	$ 43,930	$ 14,609	$ 7,762	$ 25,599	$ 91,900
Cost of revenues	4,937	11,903	5,474	2,497	24,811
Segment profit	$ 38,993	$ 2,706	$ 2,288	$ 23,102	67,089
Total operating expenses					71,644
Operating loss					$ (4,555)

	Year Ended December 31, 2009				
	Product	Professional Services	Training	Maintenance & Other	Total
			(in thousands)		
Revenues	$ 34,068	$ 10,270	$ 7,793	$ 22,759	$ 74,890
Cost of revenues	2,793	10,068	5,465	2,365	20,691
Segment profit	$ 31,275	$ 202	$ 2,328	$ 20,394	54,199
Total operating expenses					68,624
Operating loss					$ (14,425)

Revenue, classified by the major geographic areas in which we operate, is as follows:

	Year Ended December 31,		
	2011	2010	2009
		(in thousands)	
Revenues			
US	$ 84,769	$ 77,696	$ 59,324
Europe	12,042	8,304	10,414
Asia	3,406	2,115	1,750
Other	4,384	3,785	3,402
	$ 104,601	$ 91,900	$ 74,890

At December 31, 2011, 2010 and 2009, long-lived assets located in the United States, net of accumulated depreciation and amortization was approximately $8,838,000, $10,884,000 and $12,273,000, respectively. At December 31, 2011, 2010 and 2009, long-lived assets located in foreign countries, net of accumulated depreciation and amortization was approximately $435,000, $467,000 and $562,000, respectively. No individual country outside of the United States accounted for more than 10% of our consolidated long-lived assets. Long-lived assets exclude goodwill and intangibles assets, which are not allocated to specific geographies as it is impracticable to do so.

Note 19. Unaudited Quarterly Information

The following tables set forth below unaudited quarterly data. In the opinion of management, the following unaudited quarterly data has been prepared on the same basis as the audited financial statements and includes all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the periods presented.

	(in thousands, except share data) Quarter Ended							
	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sept. 30, 2010 (1)	June 30, 2010	Mar. 31, 2010
Total revenues	$ 29,875	$ 27,258	$ 23,891	$ 23,577	$ 25,952	$ 23,847	$ 22,706	$ 19,395
Total cost of revenues	6,820	6,812	7,211	7,583	7,445	6,437	6,000	4,929
Gross profit(2)	23,055	20,446	16,680	15,994	18,507	17,410	16,706	14,466
Total operating expenses	20,844	19,929	18,008	18,949	18,931	18,181	17,950	16,582
Operating income (loss)	2,211	517	(1,328)	(2,955)	(424)	(771)	(1,244)	(2,116)
Total other income and expense	25	20	13	6	9	12	18	35
Income (loss) before income taxes	2,236	537	(1,315)	(2,949)	(415)	(759)	(1,226)	(2,081)
Income tax (benefit) provision	(21)	25	58	96	31	4	37	49
Net income (loss)	$ 2,257	$ 512	$ (1,373)	$ (3,045)	$ (446)	$ (763)	$ (1,263)	$ (2,130)
Net income (loss) per common share:								
Basic	$ 0.10	$ 0.02	$ (0.06)	$ (0.13)	$ (0.02)	$ (0.03)	$ (0.05)	$ (0.09)
Diluted	$ 0.09	$ 0.02	$ (0.06)	$ (0.13)	$ (0.02)	$ (0.03)	$ (0.05)	$ (0.09)
Weighted average shares outstanding used in the calculation of net income (loss) per common share:								
Basic	23,361	23,355	23,248	23,041	22,949	23,036	23,094	23,016
Diluted	24,265	24,501	23,248	23,041	22,949	23,036	23,094	23,016

(1) The Company recorded out-of-period adjustments in the third quarter of 2010. The impacts of such adjustments are more fully discussed in Note 2 under " *Prior Period Adjustments* ."

(2) Excluding amortization and depreciation.

Note 20. Subsequent Event

On February 7, 2012, the company signed a definitive agreement to acquire CaseCentral, a privately held e-discovery leader for cloud-based review and production software for corporations and law firms, for $17.1 million, consisting of $8.3 million in cash, $8.3 million in company common stock and the assumption of $0.5 million in debt, net of cash. Depending on CaseCentral's SaaS revenue growth, Guidance

Software may pay up to an additional $33 million in cash over the next three years. The transaction is subject to customary conditions and is expected to close during the first quarter of 2012.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 16, 2012

Guidance Software, Inc.

By /s/ VICTOR T. LIMONGELLI

Victor T. Limongelli
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ VICTOR T. LIMONGELLI **Victor T. Limongelli**	President, Chief Executive Officer and Director *(Principal Executive Officer)*	February 16, 2012
/s/ BARRY J. PLAGA **Barry J. Plaga**	Chief Financial Officer *(Principal Financial Officer)*	February 16, 2012
/s/ RASMUS VAN DER COLFF **Rasmus Van Der Colff**	Chief Accounting Officer *(Principal Accounting Officer)*	February 16, 2012
/s/ SHAWN MCCREIGHT **Shawn McCreight**	Chairman and Chief Technology Officer	February 16, 2012
/s/ KATHLEEN O'NEIL **Kathleen O'Neil**	Director	February 16, 2012
/s/ MARSHALL S. GELLER **Marshall S. Geller**	Director	February 16, 2012
/s/ JEFF LAWRENCE **Jeff Lawrence**	Director	February 16, 2012
/s/ STEPHEN C. RICHARDS **Stephen C. Richards**	Director	February 16, 2012
/s/ ROBERT G. VAN SCHOONENBERG **Robert G. van Schoonenberg**	Director	February 16, 2012

GUIDANCE SOFTWARE, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions and Other Adjustments	Balance at End of Period
			(in thousands)		
Allowance for doubtful accounts:					
Year ended December 31, 2009	$ 1,641	$ (252)	$ —	$ (389)	$ 1,000
Year ended December 31, 2010	$ 1,000	$ (48)	$ —	$ (394)	$ 558
Year ended December 31, 2011	$ 558	$ —	$ —	$ (38)	$ 520
Deferred tax asset valuation allowance:					
Year ended December 31, 2009	$ 7,501	$ 4,447	—	—	$ 11,948
Year ended December 31, 2010	$ 11,948	$ 1,510	—	—	$ 13,458
Year ended December 31, 2011	$ 13,458	$ 994	—	—	$ 14,452

215 No. Marengo Ave., 2nd Floor
Pasadena. California 91101

Phone: 626.229.9191
Fax: 626.432-9557
www.guidancesoftware.com

February 13, 2009

Rasmus van der Colff, CPA
23709 Wingate Court
Valencia, Ca 91354

Dear Rasmus:

We are pleased to offer you the position of **Vice President of Finance and Chief Accounting Officer,** based out of our Pasadena office. You will be reporting to Barry Plaga, Chief Financial Officer.

The principle terms and conditions of our offer are as follows:

Start Date	March 9, 2009
Salary	You will receive a semi-monthly base salary of $11,208.34 ***($269,000.00 annualized).*** Guidance Software, Inc. pays its employees twice each month on a semi-monthly basis. Therefore, your first paycheck will be delivered to you on March 17, 2009.
Annual Bonus	You will be eligible to participate in the bonus plan at 25% of your base. Your bonus eligibility will be 75% based on company performance and 25% on individual MBO's to be determined.
Equity	As consideration for joining the company as a key member of the Finance team, you will be eligible to receive a restricted stock grant of **22,000** shares and a stock option grant of **22,000** shares, subject to the approval of the company's Board of Directors, as per the terms of the company's Amended 2004 Equity Incentive Plan. The proposed grant will be submitted for approval at the first regularly scheduled Quarterly Board of Director's Meeting following your first day of work. Since restricted stock is treated as income once it vests, please be advised that the grant (should it be approved) will have a tax liability at each vesting event. Recognizing that the stock price will fluctuate between your hire date and the four separate dates of vesting, you should also be advised that your tax liability will be directly related to the closing stock price on the date of the vesting event. You may sell vested shares to cover your tax liability during any open window allowed for your insider designation.
Benefits	You will become eligible for medical and dental health benefits on the first of the month following 30 days of employment. You will receive detailed information within two weeks of employment as to specific plans, costs and timelines for enrollment.
401(k)	As a full time employee with Guidance Software, Inc., you will become eligible to participate in the company matched 401(k) Savings Plan on the 1st of the Qtr. following the completion of three months of service with the Company. However, you are eligible to immediately rollover funds from your current eligible plan.
Vacation	You will earn 15 days of vacation benefit in each year of your employment.
Holiday	There are nine paid holidays, unless Christmas Eve falls on a weekday in which case there are ten. You will also have one floating holiday per year.
Trial Service	Your performance will be evaluated after six months.

Period

The terms and conditions of this offer are contingent upon you passing a background check, including employment references.

This offer is also contingent upon you completing an Employment Eligibility Verification Form and providing evidence of your identity and employment eligibility on the date that you are to begin work.

In addition, you will be required to sign an Employment Agreement Form. As the form will state, it is an “At-Will Employment Agreement.” Therefore, neither the form nor this letter should be construed as an employment contract. Furthermore, Guidance Software, Inc. reserves the right to revoke the offer of employment at any time, for any or no reason.

If you have any questions regarding this offer, please give me a call. We look forward to you joining the Guidance Software Team.

Sincerely,

/s/ Josh McCullough
Josh McCullough
Recruiting Supervisor

cc: Barry Plaga

If you understand and agree with the terms of our offer as set out above, please indicate acceptance with your signature below.

/s/ Rasmus van der Colff	02/17/2009
Rasmus van der Colff	**Date**

AT-WILL EMPLOYMENT AGREEMENT

This At-Will Employment Agreement ("Agreement") is entered on this **9** **th** day of **March** of **2009** between Guidance Software, Inc. ("Company") and **Rasmus van der Colff** ("Employee"). In consideration of the mutual promises and conditions contained in this Agreement, the Company and Employee agree as follows:

1. **Title and duties.** The Company shall employ Employee as and under the title of **Vice President of Finance &Chief Accounting Officer** and Employee accepts that employment. If Employee is a full-time employee, Employee shall devote substantially all of Employee's time, attention, energy, knowledge, and skill solely and exclusively to performing all duties as **Vice President of Finance & Chief Accounting Officer** as assigned or delegated to Employee by the Company.

2. **Compensation and Expenses.**

A. **Salary.** The company will pay to Employee an annual salary of **$269,000.00,** which shall be payable semi-monthly on a prorated basis and from which the Company shall withhold and deduct all taxes required by federal and state laws and any other authorized deductions. The Company will review Employee's salary at least annually. The Company may, in its sole discretion, increase Employee's salary during Employee's employment with the Company.

B. **Additional Benefits.** Employee shall also be entitled to benefits commensurate with those afforded to similarly situated employees of the company, including vacation pay, sick pay, and participation in the Company's benefits plans. These benefits are more fully described in the Company's policies and plans. The Company reserves the right to modify, suspend, or discontinue any and all of the above-mentioned plans, practices, policies and profit-sharing programs at any time as long as such action is taken generally with respect to other similarly situated employees of the Company.

3. **At-Will Employment.** Employee's employment with the Company is for no specified term and is at the mutual consent of both Employee and the Company. Specifically, Employee's employment will be on an "at will" basis, meaning that either Employee or the Company may terminate the employment relationship with or without cause at any time, with or without notice. There are no express or implied agreements contrary to the foregoing and no one other than the President of the Company has any authority to enter into an employment agreement for a specified period of time or to make any agreement that is contrary to the foregoing. Any such agreement by the President must be in writing and fully executed by both Employee and the President. As used herein, the term "the Relationship" refers to the employment relationship between Employee and the Company; the Relationship terminates upon termination of employment for any reason.

4. **Confidential Information.**

A. Non-Disclosure. Employee agrees at all times during the term of Employee's employment relationship with the Company and thereafter, to hold in strictest confidence, and not to use, except for the benefit of the Company, or to disclose to any person, firm, corporation or other entity without written authorization of the Board of Directors of the Company, any Confidential Information of the Company which Employee obtains or creates. Employee further agrees not to make copies of such Confidential Information except as authorized by the Company. Employee understands that " Confidential Information " means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, product plans, products, services, suppliers, customer lists and customers (including, but not limited to, customers of the Company on whom Employee calls or with whom Employee becomes acquainted during the employment relationship), prices and costs, markets, software, developments, inventions, laboratory notebooks, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, licenses, finances, budgets or other business information disclosed to Employee by the Company either directly or indirectly in writing, orally or by drawings or observation of parts or equipment or created by Employee during the period of the employment relationship, whether or not during working hours. Employee understands that " Confidential Information " includes, but is not limited to, information pertaining to any aspects of the Company's business which is either information not known by actual or potential competitors of the Company or is proprietary information of the Company or its customers or suppliers, whether of a technical nature or otherwise. Employee further understands that Confidential Information does not include any of the foregoing items which has become publicly and widely known and made generally available through no wrongful act of Employee or of others who were under confidentiality obligations as to the item or items involved.

B. Third Party Information. Employee recognizes that the Company has received and in the future will receive confidential or proprietary information from third parties subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out Employee's work for the Company consistent with the Company's agreement with such third party.

5. Inventions

A. Inventions Retained and Licensed. Employee has attached hereto, as Exhibit A, a list describing with particularity all inventions, original works of authorship, developments, improvements, and trade secrets which were made by Employee prior to the commencement of the employment relationship (collectively referred to as " Prior Inventions "), which belong solely to Employee or belong to Employee jointly with another, which relate in any way to any of the Company's proposed businesses, products or research and development, and which are not assigned to the Company hereunder; or, if no such list is attached, Employee represents that there are no such Prior Inventions. For the avoidance of doubt, Employee represents that he/she will not introduce into a Guidance facility or computer network, or otherwise use, the property of previous employers or other third parties, including but not limited to, confidential documents, trade secrets, customer lists, forms, software, templates or manuals. If, in the course of Employee's Relationship with the Company, Employee incorporates into a Company product, process or machine a Prior Invention owned by Employee or in which Employee has an interest, the Company is hereby granted and shall have a non-exclusive, royalty-free, irrevocable, perpetual, worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell and otherwise distribute such Prior Invention as part of or in connection with such product, process or machine.

B. Assignment of Inventions. Employee agrees that Employee will promptly make full written disclosure to the Company, will hold in trust for the sole right and benefit of the Company, and hereby assign to the Company, or its designee, all Employee's rights, title and interest throughout the world in and to any and all inventions, original works of authorship, developments, concepts, know-how, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, which Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time in which Employee is employed by the Company (collectively referred to as " Inventions "), except as provided in Section 5(e) below. Employee further acknowledges that all inventions, original works of authorship, developments, concepts, know-how, improvements or trade secrets which are made by Employee (solely or jointly with others) within the scope of and during the period of Employee's employment relationship with the Company are " works made for hire " (to the greatest extent permitted by applicable law) and are compensated by Employee's salary, unless regulated otherwise by the mandatory law of the state of California.

C. Maintenance of Records. Employee agrees to keep and maintain adequate and current written records of all Inventions made by Employee (solely or jointly with others) during the term of Employee's employment relationship with the Company. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, laboratory notebooks, and any other format. The records will be available to and remain the sole property of the Company at all times. Employee agrees not to remove such records from the Company's place of business except as expressly permitted by Company policy which may, from time to time, be revised at the sole election of the Company for the purpose of furthering the Company's business.

D. Patent and Copyright Rights. Employee agrees to assist the Company, at the Company's expense, in every proper way to secure the Company's rights in the Inventions and any copyrights, patents, trademarks, mask work rights, moral rights, or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments which the Company shall deem necessary in order to apply for, obtain, maintain and transfer such rights and in order to assign and convey to the Company, its successors, assigns and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Employee further agrees that Employee's obligation to execute or cause to be executed, when it is in Employee's power to do so, any such instrument or papers shall continue after the termination of this Agreement until the expiration of the last such intellectual property right to expire in any country of the world. If the Company is unable because of Employee's mental or physical incapacity or unavailability or for any other reason to secure Employee's signature to apply for or to pursue any application for any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to the Company as above, then Employee hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney in fact, to act for and in Employee's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance or transfer of letters patent or copyright registrations thereon with the same legal force and effect as if originally executed by Employee. Employee hereby waives and irrevocably quitclaims to the Company any and all claims, of any nature whatsoever, which Employee now or hereafter have for infringement of any and all proprietary rights assigned to the Company.

E. Exception to Assignments. Employee understands that the provisions of this Agreement requiring assignment of Inventions to the Company do not apply to any invention which qualifies fully under the provisions of California Labor Code Section 2870 (attached hereto as Exhibit B). Employee will advise the Company promptly in writing of any inventions that Employee believes meet such provisions and are not otherwise disclosed on Exhibit A .

F. Previous Obligations. Employee represents and warrants to the Company that Employee has no obligations to any previous employer that would interfere with or be infringed by the Company's exclusive ownership rights in and to the Inventions as described above.

6. Returning Company Documents. Employee agrees that, at the time of termination of Employee's employment relationship with the Company, Employee will deliver to the Company (and will not keep in Employee's possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, laboratory notebooks, materials, flow charts, equipment, other documents or property, or reproductions of any aforementioned items developed by Employee pursuant to the employment relationship or otherwise belonging to the Company, its successors or assigns. Employee further agrees that to any property situated on the Company's premises and owned by the Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice. In the event of the termination of the employment relationship, Employee agrees to sign and deliver the " Termination Certification " attached hereto as Exhibit B.

7. Covenant Not to Compete During Employment. Employee agrees that, during the continuance of this Agreement Employee will not, on the behalf of Employee or any other person or business entity, directly or indirectly, engage in any business or activity competitive with the business activities of Company as they are now undertaken by Company.

8. Solicitation of Employees, Consultants and Other Parties. Employee agrees that during the term of his or her Relationship with the Company, and for a period of twenty-four (24) months immediately following the termination of his or her Relationship with the Company for any reason, whether with or without cause, he or she shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees or consultants to terminate their relationship with the Company, or attempt to solicit, induce, recruit, encourage or take away employees or consultants of the Company, either for himself or herself or for any other person or entity. Further, for a period of twenty-four (24) months following termination of Employee's Relationship with the Company for any reason, with or without cause, Employee agrees that he or she shall not solicit any licensor to or customer of the Company or licensee of Rev. 07/2008 the Company's products, in each case, that are known to Employee, with respect to any business, products or services that are competitive to the products or services offered by the Company or under development as of the date of termination of Employee's Relationship with the Company.

9. Arbitration.

a. All claims, disputes, controversies, or disagreements of any kind whatsoever (“Claims”), including any claim arising out of or in connection with Employee’s employment or the termination of Employee’s employment, that may arise between Employee and the Company, including any Claims that may arise between Employee and the Company’s officers, directors, employees, or agents in their capacity as such, shall be submitted to a confidential final and binding arbitration before the American Arbitration Association in Los Angeles, California in accordance with the National Rules for the Resolution of Employment Disputes of The American Arbitration Association then existing.

b. Claims covered by this arbitration provision include, but are not limited to any dispute or controversy arising out of Employee’s employment, the events leading up to Employee being offered employment, the cessation of Employee’s employment, the compensation, terms, and other conditions of Employee’s employment, or statements made or actions taken at any time regarding Employee’s employment at Company which could have been brought in a court of competent jurisdiction, including, but not limited to, claims under the Age Discrimination in Employment Act; Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act of 1990; Sections 1981 through 1988 of Title 42 of the United States Code; the National Labor Relations Act, as amended; the Fair Labor Standards Act, as amended; the federal Family and Medical Leave Act; the California Family Rights Act; the California Fair Employment and Housing Act, as amended; the California Minimum Wage Laws; The Equal Pay Law for California, as amended; the California Labor Code, as amended, including California Labor Code §§ 201 *et seq.,* 970 *et seq.* and 1050 *et seq.;* the California Wage Orders, and any other federal, state, or local civil or human rights law, or any other local, state or federal law, regulation, or ordinance, as well as any claim based on any public policy, contract, tort, or common law or any claim for costs, fees, or other expenses, including attorneys’ fees (collectively, “Claims”). This arbitration provision does not require arbitration of claims for workers’ compensation or unemployment insurance. This Arbitration Agreement is intended to be construed as broadly as possible under applicable law so that all claims and defenses that could be raised before a court must instead be raised in arbitration. In addition, notwithstanding this arbitration provision, either party may file a request with a court of competent jurisdiction for equitable relief, including but not limited to injunctive relief, pending resolution of any dispute through the arbitration procedure set forth herein. Nothing in this arbitration provision shall be construed as precluding Employee from filing a charge or complaint with the California Department of Fair Employment and Housing, the Equal Employment Opportunity Commission, the National Labor Relations Board, or any other similar state or federal agency seeking administrative resolution of a dispute or claim. However, any claim that cannot be resolved administratively through such agency shall be subject to this Arbitration Agreement.

c. Company will pay the AAA case management and administrative fees, the court reporter fees for the arbitration hearing and the arbitrator’s fees and expenses. Employee will not be required to pay any fees which would exceed the amount of fees she would be required to pay if he had pursued his action in court. The arbitrator shall allow the parties to conduct adequate discovery to pursue any claims. The parties have the right to be represented by an attorney of their choice. Upon the filing of the arbitration, the parties shall stipulate that all proceedings, orders, evidence and substantive actions of the proceedings shall be protected as confidential under a protective order. The decision or award of the arbitrator shall be in writing and will include a statement of the reasons for the award and the findings and conclusions on which the award is based. The arbitrator’s power in respect to the issuance of an award under this provision shall be limited to the issuance of such an award consistent with and according to applicable California law.

10. Severability. The provisions of this Agreement are divisible; if any of the provisions shall be deemed invalid or unenforceable, that provision shall be deemed limited to the extent necessary to render it valid and enforceable and the remaining provisions of this Agreement shall continue in full force and effect without being impaired or invalidated in any way.

11. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of California.

12. **Entire Agreement.** This Agreement supersedes all prior agreements, understandings, and communications between Employee and the Company, whether written or oral, express or implied, relating to the subject matter of this Agreement and is intended as a complete and final expression of the terms of the agreement between Employee and the Company and shall not be changed or subject to change orally. The parties further agree and acknowledge that neither they nor anyone acting on their behalf made any inducements, agreements, promises, nor representations other than those set forth in this Agreement.

13. **Amendment.** This Agreement may not be altered or amended except in a writing signed by both parties to this Agreement.

14. **Survival.** The provisions of this Agreement shall survive the termination of the Relationship and the assignment of this Agreement by the Company to any successor in interest or other assignee.

15. **ADVICE OF COUNSEL. EMPLOYEE ACKNOWLEDGES THAT, IN, EXECUTING THIS AGREEMENT, EMPLOYEE HAS HAD THE OPPORTUNITY TO SEEK THE ADVICE OF INDEPENDENT LEGAL COUNSEL, AND EMPLOYEE HAS READ AND UNDERSTOOD ALL OF THE TERMS AND PROVISIONS OF THIS AGREEMENT. THIS AGREEMENT SHALL NOT BE CONSTRUED AGAINST ANY PARTY BY REASON OF THE DRAFTING OR PREPARATION HEREOF.**

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

EMPLOYEE		**COMPANY: Guidance Software, Inc.**	
Signature:	/s/ Rasmus van der Colff	Signature:	/s/ LaToya Manns
Print Name :	Rasmus van der Colff	Print Name:	LaToya Manns
		Title:	Human Resources Manager

<u>EXHIBIT A</u>

LIST OF PRIOR INVENTIONS
AND ORIGINAL WORKS OF AUTHORSHIP
EXCLUDED FROM SECTION 4

Title	**Date**	**Identifying Number or Brief Description**

☒ No inventions or improvements

☐ Additional Sheets Attached

/s/ Rasmus van der Colff
Employee Signature

Rasmus van der Colff
Print Employee Name

03/02/2009
Date

EXHIBIT B

Section 2870 of the California Labor Code is as follows:

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either.

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

EXHIBIT C

TERMINATION CERTIFICATION

This is to certify that I do not have in my possession, nor have I failed to return, any devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, laboratory notebooks, flow charts, materials, equipment, other documents or property, or copies or reproductions of any aforementioned items belonging to Guidance Software, Inc., its subsidiaries, affiliates, successors or assigns (together the " Company ").

I further certify that I have complied with all the terms of the Company's At-Will Employment Agreement signed by me, including the reporting of any inventions and original works of authorship (as defined therein), conceived or made by me (solely or jointly with others) covered by that agreement.

I further agree that, in compliance with the At-Will Employment Agreement, I will preserve as confidential all trade secrets, confidential knowledge, data or other proprietary information relating to products, processes, know-how, designs, formulas, developmental or experimental work, computer programs, data bases, other original works of authorship, customer lists, business plans, financial information or other subject matter pertaining to any business of the Company or any of its employees, clients, consultants or licensees.

I further agree that for twenty-four (24) months from the date of this Certificate, I shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees or consultants to terminate their relationship with the Company, or take away such employees or consultants, or attempt to solicit, induce, recruit, encourage or take away employees or consultants of the Company, either for myself or for any other person or entity. Further, for a period of twenty-four (24) months from the date of this Certificate, I shall not solicit any licensor to or customer of the Company or licensee of the Company's products, in each case, that are known to me, with respect to any business, products or services that are competitive to the products or services offered by the Company or under development as of the date of termination of my Relationship with the Company.

SIGN AT TIME OF HIRE TO ACKNOWLESDGE RECEIPT:

I hereby acknowledge that I have read and understand the Termination Certification *(Exhibit C)* described above, and that I am in receipt of a copy of this document.

Date: 03/02/09

/s/ Rasmus van der Colff
Employee Signature

Rasmus van der Colff
Print Employee Name

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-140007 on Form S-8 of our report dated February 16, 2012, relating to the consolidated financial statements and financial statement schedule of Guidance Software, Inc. and subsidiaries (which report expresses an unqualified opinion), and the effectiveness of Guidance Software, Inc. and subsidiaries' internal control over financial reporting, appearing in the Annual Report on Form 10-K of Guidance Software, Inc. and subsidiaries for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Los Angeles, California
February 16, 2012

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Victor T. Limongelli, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guidance Software, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2012

/s/ VICTOR T. LIMONGELLI
Victor T. Limongelli
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Barry J. Plaga, certify that:

1. I have reviewed this Annual Report on Form 10-K of Guidance Software, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2012

/s/ BARRY J. PLAGA

Barry J. Plaga
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Guidance Software, Inc. (the “Company”) hereby certifies that:

(i) the accompanying Annual Report on Form 10-K of the Company for the period ended December 31, 2011 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 16, 2012

/s/ VICTOR T. LIMONGELLI
Victor T. Limongelli
President and Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 (“Section 906”), or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Guidance Software, Inc. and will be retained by Guidance Software, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Guidance Software, Inc. (the "Company") hereby certifies that:

(i) the accompanying Annual Report on Form 10-K of the Company for the period ended December 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 16, 2012

/s/ BARRY J. PLAGA
Barry J. Plaga
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Guidance Software, Inc. and will be retained by Guidance Software, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.