SAND HILL IT SECURITY ACQUISITION CORP
Form S-4/A
June 23, 2006

As filed with the Securities and Exchange Commission on June 22, 2006

Registration No. 333-130412

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 5
to
FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SAND HILL IT SECURITY ACQUISITION CORP.

(Exact name of registrant as specified in its charter)

Delaware	**6770**	**20-0996152**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3000 Sand Hill Road
Building 1, Suite 240
Menlo Park, California 94025
(650) 926-7022

(Address, including zip code, and telephone number, including

area code, of registrant s principal executive offices)

Humphrey P. Polanen
3000 Sand Hill Road
Building 1, Suite 240
Menlo Park, California 94025
(650) 926-7023

(Name, address, including zip code, and telephone number,
including area code, of Agent for service)

With Copies To:

Gregory J. Schmitt, Esq.
Jenkens & Gilchrist, P.C.
1445 Ross Avenue
Suite 3700
Dallas, Texas 75202
(214) 855-4500

Robert G. Copeland, Esq.
P. Blake Allen, Esq.
Duane Morris LLP
101 West Broadway
Suite 900
San Diego, California 92101
(619) 744-2200

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE CHART

Title of Each Class of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price(2)**	**Proposed Maximum Aggregate Offering Price(2)**	**Amount of Registration Fee(3)(4)(5)**
Common Stock, par value $0.01 per share	9,972,757	$ 5.20	$ 51,858,336.40	$ 5,548.85
Options and Warrants(3)	1,097,643	$ 5.20	$ 5,707,743.60	$ 610.73
Common Stock, par value $0.01per share(4)	1,097,643	$ 5.20	$ 5,707,743.60	$ 610.73

(1)

Represents a bona fide estimate of the maximum number of shares of Sand Hill common stock, par value $0.01 per share, that may be issued in connection with the merger described herein.

(2)

Estimated solely for the purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, as amended, calculated based on the average of the bid and ask price for the shares of Sand Hill common stock on the NASD Over-the-Counter Bulletin Board on December 12, 2005, which was $5.20.

(3)

Represents options and warrants for 1,097,643 shares of common stock to be issued as replacement options and warrants to current holders of St. Bernard options and warrants.

(4)

Represents 1,097,643 shares of common stock which may be issued to St. Bernard option and warrant holders if all presently outstanding St. Bernard options and warrants are exercised prior to closing of the merger.

(5)

$6,770.31 previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information on this joint proxy statement/prospectus is not complete and may be changed. Sand Hill IT Security Acquisition Corp. may not distribute and issue the shares of common stock being registered pursuant to this registration statement until the registration statement filed with the Securities and Exchange Commission is declared effective. This joint proxy statement/prospectus is not an offer to sell these securities and Sand Hill IT Security Acquisition Corp. is not soliciting an offer to buy these securities in any jurisdiction where such offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 22, 2006

Sand Hill IT Security Acquisition Corp.	St. Bernard Software, Inc.

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

We are pleased to report that the boards of directors of Sand Hill IT Security Acquisition Corp. and St. Bernard Software, Inc. have each unanimously approved a merger of the two companies under the terms of a merger agreement.

As a result of the proposed merger, St. Bernard will become a wholly owned subsidiary of Sand Hill. Upon completion of the merger, each outstanding share of St. Bernard common stock will be converted into the right to receive 0.421419 shares of Sand Hill common stock. The merger is intended to qualify as a reorganization for U.S. federal income tax purposes.

Based on the outstanding shares of St. Bernard common stock as of May 26, 2006, Sand Hill would be obligated to issue up to approximately 9,782,357 shares of Sand Hill common stock and reserve an additional approximately 1,097,643 shares of Sand Hill common stock for future issuance in connection with Sand Hill s assumption of St. Bernard s outstanding options and warrants. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or replacement warrants to be issued at the closing of the merger would decrease by a like amount. Stockholders of Sand Hill will continue to own their existing shares of Sand Hill common stock and their existing Sand Hill warrants and units.

Sand Hill common stock, warrants and units are listed on the OTC Bulletin Board under the symbols SHQC, SHQCW and SHQCU, respectively. On May 26, 2006, the closing price of Sand Hill common stock, warrants and units was $5.23, $0.63 and $6.40, respectively.

We encourage you to read this joint proxy statement/prospectus, including the section entitled RISK FACTORS beginning on page 34, before voting.

Sand Hill and St. Bernard have each scheduled a special stockholder meeting in connection with the respective votes required. Your vote is very important. Whether or not you plan to attend your respective company s special stockholder meeting, please take the time to vote by marking your votes on the enclosed proxy card, signing and dating the proxy card, and returning it to your respective company in the enclosed envelope. If you are a Sand Hill stockholder, you may also vote prior to the meeting by accessing the Internet website specified on your proxy card or supplied to you by your broker or by calling the toll-free number specified on your proxy card or supplied to you by your broker.

Sincerely,	Sincerely,

/s/ Humphrey P. Polanen *Chairman of the Board and* *Chief Executive Officer* Sand Hill IT Security Acquisition Corp.	/s/ John E. Jones *Chief Executive Officer* St. Bernard Software, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated ________, 2006, and is first being mailed to Sand Hill stockholders on or about __________, 2006 and St. Bernard stockholders on or about __________, 2006.

ADDITIONAL INFORMATION
IMPORTANT

Except where indicated otherwise, as used in this joint proxy statement/prospectus, Sand Hill refers to Sand Hill IT Security Acquisition Corp. and its consolidated subsidiaries and St. Bernard refers to St. Bernard Software, Inc. and its consolidated subsidiaries.

In the QUESTIONS AND ANSWERS ABOUT THE MERGER and in the SUMMARY below, we highlight selected information from this joint proxy statement/prospectus but we have not included all of the information that may be important to you. To better understand the merger agreement and the merger, and for a complete description of their legal terms, you should carefully read this entire joint proxy statement/prospectus, including the appendices, as well as the documents that we have incorporated by reference into this document. See WHERE YOU CAN FIND MORE INFORMATION.

The information contained in this joint proxy statement/prospectus speaks only as of the dates indicated on the cover of this joint proxy statement/prospectus unless the information specifically indicates that another date applies.

Sand Hill has supplied all information contained in or incorporated by reference in this proxy statement/ prospectus relating to Sand Hill, and St. Bernard has supplied all information contained in this joint proxy statement/prospectus relating to St. Bernard. Sand Hill and St. Bernard have both contributed to the information contained in this joint proxy statement/prospectus relating to the merger.

Sand Hill IT Security Acquisition Corp.
3000 Sand Hill Road
Building 1, Suite 240
Menlo Park, California 94025
(650) 926-7022

To the Stockholders of Sand Hill IT Security Acquisition Corp.:

You are cordially invited to attend a special meeting of the stockholders of Sand Hill IT Security Acquisition Corp., relating to the proposed merger of Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard Software, Inc., which will be held at 10:00 a.m. on July 26, 2006, at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025.

At this important meeting, you will be asked to consider and vote upon the following proposals:

- to adopt the Agreement and Plan of Merger, dated as of October 26, 2005, as amended, among Sand Hill, Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard, and the transactions contemplated by the merger agreement;

- to adopt the amended and restated certificate of incorporation of Sand Hill to change the name of Sand Hill to St. Bernard Software, Inc. and to remove the protective provisions related to a business combination that were put in place as a result of our being a Targeted Acquisition Corporation that, amongst other things, require stockholder approval of a business combination in all cases, provide for the conversion of up to 19.9% of Sand Hill s common stock for cash in the event of a business combination and require Sand Hill to liquidate if a business combination is not completed by July 27, 2006;

- to adopt the St. Bernard Software, Inc. 1992 Stock Option Plan, the St. Bernard Software, Inc. 2000 Stock Option Plan and the St. Bernard Software, Inc. 2005 Stock Option Plan; and

- to consider and vote upon a proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are not sufficient votes at the time of the special meeting to adopt the merger proposal, the amendment proposal or the stock option plans proposal, but in no event to a date later than July 27, 2006.

The adoption of the merger proposal is not conditioned on the adoption of the amendment proposal, the stock option plans proposal or the adjournment proposal. However, the adoption of the amendment proposal and the stock option plans proposal is conditioned upon the adoption of the merger proposal.

It is expected that holders of St. Bernard common stock will hold approximately 65.7% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of May 26, 2006. In the merger, Sand Hill will issue a combination of shares of common stock, replacement options and replacement warrants to holders of St. Bernard common stock, options and warrants. The total amount of shares of Sand Hill common stock to be issued or that will underlie replacement options and replacement warrants is 10,880,000. 1,700,000 of these shares will be issued to a stockholders representative that will hold these shares on behalf of the persons who held shares of St. Bernard common stock as of the closing of the merger. These shares will be released, pro rata, to the persons who held shares of St. Bernard common stock as of the closing of the merger, if, after the merger, the price of the combined company s common stock closes at $8.50 or more per share for 20 trading days during any 30-day trading period prior to July 25, 2009 or the consideration to be received by the combined company or its stockholders in a sale of the majority of the ownership or business of the combined company prior to July 25, 2009 equals or exceeds $8.50 per share, excluding the dilutive effects of the exercise of any of the Sand Hill warrants issued in its initial public offering. If, after the merger, neither of these thresholds are achieved prior to July 25, 2009, then the 1,700,000 shares will be returned to the combined company for no consideration and will be cancelled. Holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of this 10,880,000 figure, subject to the potential return of the 1,700,000 shares to be issued to the stockholders representative. Unless otherwise indicated, this joint proxy statem ent/prospectus assumes that one of these thresholds is achieved and the shares held by the stockholders representative will be released. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock, replacement options or replacement warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of May 26, 2006, Sand Hill will issue approximately 9,782,357 shares of common stock at the close of the merger. The holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, replacement options and replacement warrants to purchase approximately 1,097,643 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or replacement warrants to be issued at the closing of the merger would decrease by a like amount. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see Beneficial Ownership of Securities on page 145.

After completion of the merger, if no holders of shares of Sand Hill common stock have demanded that Sand Hill convert their shares into a pro rata portion of the trust account holding a substantial portion of the net proceeds of Sand Hill s initial public offering, then Sand Hill stockholders will own approximately 34.3% of the combined company s issued and outstanding shares of common stock. If one or more of Sand Hill s stockholders vote against the merger proposal and demand that Sand Hill convert their shares into a pro rata portion of the trust account, then Sand Hill s stockholders will own less than approximately 34.3% of the combined company s issued and outstanding shares of common stock after completion of the merger.

The affirmative vote of a majority of the outstanding shares of Sand Hill common stock on the record date is required to approve the merger proposal and the amendment proposal, and the affirmative vote of a majority of the shares of Sand Hill s common stock present in person or represented by proxy at the Sand Hill special meeting is required to approve each of the stock option plans proposal and the adjournment proposal. Each Sand Hill stockholder that holds shares of common stock issued in Sand Hill s initial public offering has the right to vote against the merger proposal and at the same time demand that Sand Hill convert such stockholder s shares into cash equal to a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering, plus interest thereon, are deposited. These shares will be converted into cash only if the merger is completed. However, if the holders of 20% or more of the shares of common stock issued in Sand Hill s initial public offering vote against the merger and demand conversion of their shares into a pro rata portion of the trust account, then Sand Hill will not be able to consummate the merger. Sand Hill s initial stockholders, who purchased their shares of common stock prior to its initial public offering and presently own an aggregate of approximately 19.6% of the outstanding shares of Sand Hill common stock, have agreed to vote their shares of Sand Hill common stock purchased prior to the initial public offering on the merger proposal in the same manner as how the majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal.

Sand Hill s shares of common stock, warrants and units are listed on the Over-the-Counter Bulletin Board under the symbols SHQC, SHQCW and SHQCU, respectively. St. Bernard s securities are not listed or quoted on any national securities exchange, the Nasdaq Stock Market, or the Over-the-Counter Bulletin Board. On May 26, 2006, the closing sale price of Sand Hill common stock, warrants and units, was $5.23, $0.63, and $6.40, respectively.

After careful consideration of the terms and conditions of the proposed merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal, the board of directors of Sand Hill has determined that the merger agreement, the transactions contemplated thereby, the amendment proposal, the stock option plans proposal and the adjournment proposal are fair to and in the best interests of Sand Hill and its stockholders. The board of directors of Sand Hill did not obtain a fairness opinion in connection with making these determinations. The board of directors of Sand Hill unanimously recommends that you vote or give instructions to vote **FOR** the adoption of the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

Enclosed is a notice of special meeting and proxy statement containing detailed information concerning the merger agreement, the transactions contemplated thereby and the stock option plans. Whether or not you plan to attend the Sand Hill special meeting, we urge you to read this material carefully.

I look forward to seeing you at the meeting.

Sincerely,

Humphrey P. Polanen
Chairman of the Board and
Chief Executive Officer

Your vote is important. Whether you plan to attend the Sand Hill special meeting or not, please sign, date and return the enclosed proxy card as soon as possible in the envelope provided.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger described in this joint proxy statement/prospectus or the shares of common stock described in this joint proxy statement/prospectus to be issued in connection with the merger or determined whether this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

See Risk Factors beginning on page 34 for a discussion of various factors that you should consider in connection with the merger.

This joint proxy statement/prospectus is dated _______________, 2006 and is first being mailed to Sand Hill stockholders on or about _________________, 2006.

In connection with this offering, no person is authorized to give any information or to make any representations not contained in this joint proxy statement/prospectus. If information is given or representations are made, you may not rely on that information or those representations as having been authorized by Sand Hill. This joint proxy statement/prospectus is neither an offer to sell nor a solicitation of an offer to buy securities where an offer or solicitation would be unlawful. You may not assume from the delivery of this joint proxy statement/prospectus, nor from any sale made under this joint proxy statement/prospectus, that Sand Hill s or St. Bernard s affairs are unchanged since the date of this joint proxy statement/prospectus or that the information contained in this joint proxy statement/prospectus is correct as of any time after the date of this joint proxy statement/prospectus.

This joint proxy statement/prospectus incorporates important business and financial information about Sand Hill that is not included in or delivered with the document. This information is available without charge to security holders upon written or oral request. The request should be made to:

Humphrey P. Polanen

Sand Hill IT Security Acquisition Corp.

3000 Sand Hill Road

Building 1, Suite 240

Menlo Park, California 94025

(650) 926-7023

To obtain timely delivery of requested materials, security holders must request the information no later than five days before the date they submit their proxies or attend the Sand Hill special meeting. **The latest date to request the information to be received timely is July 19, 2006.**

Sand Hill IT Security Acquisition Corp.
3000 Sand Hill Road
Building 1, Suite 240
Menlo Park, California 94025

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON JULY 26, 2006

TO THE STOCKHOLDERS OF SAND HILL IT SECURITY ACQUISITION CORP.:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders, including any adjournments or postponements thereof, of Sand Hill IT Security Acquisition Corp., a Delaware corporation, will be held at 10:00 a.m. on July 26, 2006, at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025 for the following purposes:

- To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of October 26, 2005, as amended, among Sand Hill, Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard Software, Inc., and the transactions contemplated by the merger agreement;

- To consider and vote upon a proposal to adopt the amended and restated certificate of incorporation of Sand Hill to change the name of Sand Hill to St. Bernard Software, Inc. and to remove the preamble and Sections A through E of Article Sixth of the certificate of incorporation and to redesignate Section F of Article Sixth as Article Sixth;

- To consider and vote upon a proposal to adopt the St. Bernard Software, Inc. 1992 Stock Option Plan, the St. Bernard Software, Inc. 2000 Stock Option Plan and the St. Bernard Software, Inc. 2005 Stock Option Plan; and

- To consider and vote upon a proposal to adjourn the Sand Hill special meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the Sand Hill special meeting to approve the merger proposal, the amendment proposal or the stock option plans proposal, but in no event to a date later than July 27, 2006.

The adoption of the merger proposal is conditioned on the adoption of the amendment proposal and the adoption of the amendment proposal is conditioned on the adoption of the merger proposal. The adoption of neither the merger proposal nor the amendment proposal is conditioned on the adoption of the stock option plans proposal or the adjournment proposal. The adoption of the stock option plans proposal is, however, conditioned upon the adoption of the merger proposal and the amendment proposal.

The board of directors has fixed the close of business on June 29, 2006, as the date for which Sand Hill stockholders are entitled to receive notice of, and to vote at, the Sand Hill special meeting and any adjournments thereof. Only the holders of record of Sand Hill common stock on that date are entitled to have their votes counted at the Sand Hill special meeting and any adjournments or postponements of it.

Sand Hill will not transact any other business at the Sand Hill special meeting, except for business properly brought before the Sand Hill special meeting or any adjournment or postponement of it by Sand Hill s board of directors.

Your vote is important. Please sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the Sand Hill special meeting. If you are a stockholder of record of Sand Hill common stock, you may also cast your vote in person at the Sand Hill special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares. If you do not vote, it will have the same effect as voting against the merger proposal and the amendment proposal. If you do not instruct your broker how to vote it will have the same effect as voting against the merger proposal and the amendment proposal. Shares that are not voted or that are broker non-voted or where the stockholder abstains from voting are not eligible to be converted into cash upon the completion of the merger.

The board of directors of Sand Hill unanimously recommends that you vote FOR the adoption of the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

By Order of the Board of Directors,

Humphrey P. Polanen

Chairman of the Board and

Chief Executive Officer

________________, 2006

St. Bernard Software, Inc.
15015 Avenue of Science
San Diego, CA 92128 USA
(858) 676-2277

To the Stockholders of St. Bernard Software, Inc.:

You are cordially invited to attend a special meeting of the stockholders of St. Bernard Software, Inc., relating to the proposed merger of Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill IT Security Acquisition Corp. and St. Bernard Software, Inc., which will be held at 9:00 a.m. on July 18 2006, at 15015 Avenue of Science, San Diego, California 92128.

At this important meeting, you will be asked to consider and vote upon the following proposals:

•

to adopt the Agreement and Plan of Merger, dated as of October 26, 2005, as amended, among Sand Hill, Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard, and the transactions contemplated by the merger agreement; and

•

to consider and vote upon a proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation and vote of proxies in the event there are not sufficient votes at the time of the special meeting to adopt the merger proposal.

The adoption of the merger proposal is not conditioned on the adoption of the adjournment proposal.

It is expected that holders of St. Bernard common stock will hold approximately 65.7% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of May 26, 2006. In the merger, Sand Hill will issue a combination of shares of common stock, replacement options and replacement warrants to holders of St. Bernard common stock, options and warrants. The total amount of shares of Sand Hill common stock to be issued or that will underlie replacement options and replacement warrants is 10,880,000. 1,700,000 of these shares will be issued to a stockholders representative that will hold these shares on behalf of the persons who held shares of St. Bernard common stock as of the closing of the merger. These shares will be released, pro rata, to the persons who held shares of St. Bernard common stock as of the closing of the merger, if, after the merger, the price of the combined company s common stock closes at $8.50 or more per share for 20 trading days during any 30-day trading period prior to July 25, 2009 or the consideration to be received by the combined company or its stockholders in a sale of the majority of the ownership or business of the combined company prior to July 25, 2009 equals or exceeds $8.50 per share, excluding the dilutive effects of the exercise of any of the Sand Hill warrants issued in its initial public offering. If, after the merger, neither of these thresholds are achieved prior to July 25, 2009, then the 1,700,000 shares will be returned to the combined company for no consideration and will be cancelled. Holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of this 10,880,000 figure, subject to the potential return of the 1,700,000 shares to be issued to the stockholders representative. Unless otherwise indicated, this joint proxy statem ent/prospectus assumes that one of these thresholds is achieved and the shares held by the stockholders representative will be released. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock, replacement options or replacement warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of
St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of May 26, 2006, Sand Hill will issue approximately 9,782,357 shares of common

stock at the close of the merger. The holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, replacement options and replacement warrants to purchase approximately 1,097,643 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or replacement warrants to be issued at the closing of the merger would decrease by a like amount. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see *Beneficial Ownership of Securities* on page 145.

The affirmative vote of a majority of the outstanding shares of St. Bernard common stock on the record date is required to approve the merger proposal and the affirmative vote of a majority of the shares of St. Bernard s common stock present in person or represented by proxy at the special meeting is required to approve the adjournment proposal.

After completion of the merger, if no holders of shares of Sand Hill common stock have demanded that Sand Hill convert their shares into a pro rata portion of the trust account holding a substantial portion of the net proceeds of Sand Hill s initial public offering, then Sand Hill stockholders will own approximately 34.3% of the combined company s issued and outstanding shares of common stock. If one or more of Sand Hill s stockholders vote against the merger proposal and demand that Sand Hill convert their shares into a pro rata portion of the trust account, then Sand Hill s stockholders will own less than approximately 34.3% of the combined company s issued and outstanding shares of common stock after completion of the merger.

The affirmative vote of a majority of the outstanding shares of Sand Hill common stock on the record date is required to approve the merger proposal and the amendment proposal, and the affirmative vote of a majority of the shares of Sand Hill s common stock present in person or represented by proxy at the special meeting is required to approve each of the stock option plans proposal and the adjournment proposal. Each Sand Hill stockholder that holds shares of common stock issued in Sand Hill s initial public offering has the right to vote against the merger proposal and at the same time demand that Sand Hill convert such stockholder s shares into cash equal to a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering, plus interest thereon, are deposited. These shares will be converted into cash only if the merger is completed. However, if the holders o f 20% or more of the shares of common stock issued in Sand Hill s initial public offering vote against the merger and demand connection of their shares into a pro rata portion of the trust account, then Sand Hill will not be able to consummate the merger. Sand Hill s initial stockholders, who purchased their shares of common stock prior to its initial public offering and presently own an aggregate of approximately 19.6% of the outstanding shares of Sand Hill common stock, have agreed to vote their shares of Sand Hill common stock purchased prior to the initial public offering on the merger proposal in the same manner as how the majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal.

Sand Hill s shares of common stock, warrants and units are listed on the Over-the-Counter Bulletin Board under the symbols SHQC, SHQCW and SHQCU, respectively. St. Bernard s securities are not listed or quoted on any national securities exchange, the Nasdaq Stock Market, or the Over-the-Counter Bulletin Board. On May 26, 2006, the closing sale price of Sand Hill common stock, warrants and units, was $5.23, $0.63 and $6.40, respectively.

After careful consideration of the terms and conditions of the proposed merger agreement, the board of directors of St. Bernard has determined that the merger agreement, the transactions contemplated thereby, and the adjournment proposal are fair to and in the best interests of St. Bernard and its stockholders. The board of directors of St. Bernard did not obtain a fairness opinion in connection with making these determinations. The board of directors of St. Bernard unanimously recommends that you vote or give instruction to vote **FOR** the adoption of the merger proposal and the adjournment proposal.

Enclosed is a notice of special meeting and proxy statement containing detailed information concerning the merger agreement and the transactions contemplated thereby. Whether or not you plan to attend the special meeting, we urge you to read this material carefully.

I look forward to seeing you at the meeting.

Sincerely,

John E. Jones
Chief Executive Officer

Your vote is important. Whether you plan to attend the special meeting or not, please sign, date and return the enclosed proxy card as soon as possible in the envelope provided.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger described in this joint proxy statement/prospectus or the shares of common stock described in this joint proxy statement/prospectus to be issued in connection with the merger or determined whether this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

See Risk Factors beginning on page 34 for a discussion of various factors that you should consider in connection with the merger.

This proxy statement is dated ___________, 2006 and is first being mailed to St. Bernard stockholders on or about _____________, 2006.

In connection with this offering, no person is authorized to give any information or to make any representations not contained in this joint proxy statement/prospectus. If information is given or representations are made, you may not rely on that information or those representations as having been authorized by St. Bernard. This joint proxy statement/prospectus is neither an offer to sell nor a solicitation of an offer to buy securities where an offer or solicitation would be unlawful. You may not assume from the delivery of this joint proxy statement/prospectus, nor from any sale made under this joint proxy statement/prospectus, that Sand Hill s or St. Bernard s affairs are unchanged since the date of this joint proxy statement/prospectus or that the information contained in this joint proxy statement/prospectus is correct as of any time after the date of this joint proxy statement/prospectus.

This joint proxy statement/prospectus incorporates important business and financial information about Sand Hill that is not included in or delivered with the document. This information is available without charge to St. Bernard security holders upon written or oral request. The request should be made to:

Humphrey P. Polanen

Sand Hill IT Security Acquisition Corp.

3000 Sand Hill Road

Building 1, Suite 240

Menlo Park, California 94025

(650) 926-7023

To obtain timely delivery of requested materials, security holders must request the information no later than five days before the date they submit their proxies or attend the special meeting. **The latest date to request the information to be received timely is July 11, 2006.**

St. Bernard Software, Inc.
15015 Avenue of Science
San Diego, CA 92128

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON JULY 18, 2006

TO THE STOCKHOLDERS OF ST. BERNARD SOFTWARE, INC.:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders, including any adjournments or postponements thereof, of St. Bernard Software, Inc., a Delaware corporation, will be held at 9:00 a.m. on July 18, 2006, at 15015 Avenue of Science, San Diego, California 92128, for the following purposes:

- To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of October 26, 2005, as amended, among Sand Hill, Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard Software, Inc., and the transactions contemplated by the merger agreement; and

- To consider and vote upon a proposal to adjourn the special meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger proposal or the stock option plans proposal.

The adoption of the merger proposal is not conditioned on the adoption of the adjournment proposal.

The board of directors has fixed the close of business on June 27, 2006, as the date for which St. Bernard stockholders are entitled to receive notice of, and to vote at, the special meeting and any adjournments thereof. Only the holders of record of St. Bernard common stock on that date are entitled to have their votes counted at the special meeting and any adjournments or postponements of it.

St. Bernard will not transact any other business at the special meeting, except for business properly brought before the special meeting or any adjournment or postponement of it by St. Bernard s board of directors.

Your vote is important. Please sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the special meeting. If you are a stockholder of record of St. Bernard common stock, you may also cast your vote in person at the special meeting. If you do not vote, it will have the same effect as voting against the merger proposal and you will not be able to exercise your dissent and appraisal rights.

The board of directors of St. Bernard unanimously recommends that you vote FOR the adoption of the merger proposal and the adjournment proposal.

By Order of the Board of Directors,

John E. Jones

Chief Executive Officer

________________, 2006

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ANNEXES

A Agreement and Plan of Merger, dated as of October 26, 2005, by and among Sand Hill IT Security Acquisition Corp., Sand Hill Merger Corp. and St. Bernard Software, Inc., First Amendment to Agreement and Plan of Merger, dated as of December 15, 2005, by and among Sand Hill IT Security Acquisition Corp., Sand Hill Merger Corp. and St. Bernard Software, Inc. and Second Amendment to Agreement and Plan of Merger, dated as of May 31, 2006, by and among Sand Hill IT Security Acquisition Corp., Sand Hill Merger Corp. and St. Bernard Software, Inc. All references to the merger agreement contained in this joint proxy statement/prospectus refer to the Agreement and Plan of Merger, as amended by the First Amendment and the Second Amendment.

B Form of Amended and Restated Certificate of Incorporation of Sand Hill IT Security Acquisition Corp.

C St. Bernard Software, Inc. 1992 Stock Option Plan

D St. Bernard Software, Inc. 2000 Stock Option Plan

E St. Bernard Software, Inc. 2005 Stock Option Plan

F Section 262 of the Delaware General Corporation Law

QUESTIONS AND ANSWERS ABOUT THE MERGER

The following questions and answers briefly address some commonly asked questions about the merger, the special meetings of the stockholders of Sand Hill and St. Bernard and the effect of the merger on the holders of common stock of Sand Hill and St. Bernard. These questions and answers may not include all of the information that is important to you. We urge you to read carefully this entire document, including the annexes and the other documents to which we have referred you.

Q.	A.
Who is Sand Hill IT Security?	Sand Hill is a Targeted Acquisition Corporation , or TAC, based in Menlo Park, California, organized to effect a merger, capital stock exchange or other similar business combination with an operating business in the IT security industry. Sand Hill s goal is to enhance the value of Sand Hill by helping this targeted business achieve its business objectives by providing industry expertise, expansion capital for organic growth and the ability to issue shares in a public company as consideration for making additional targeted acquisitions.

Q.	A.
Who is St. Bernard Software?	St. Bernard is a recognized independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or SCM, including messaging security, with $28.7 million in gross billings for 2005. St. Bernard s products protect businesses, government organizations and educational institutions from cyber attack, improve worker productivity, reduce legal liability and assist in meeting regulatory requirements for data/privacy protection. St. Bernard s network-attached security products are delivered as appliances that connect into the data path between the Internet gateway and a company s local area network. St. Bernard s system security products consist of software that is installed on workstations and servers. St. Bernard has approximately 8,000 customers supporting over 3.5 million device licenses, primarily comprised of small to medium sized businesses, educational institutions and gove rnmental organizations. The products offered by St. Bernard include Open File Manager, a data protection product; UpdateEXPERT, a patch and settings management product; iPrism, SCM, Internet access management product; and ePrism, SCM, messaging security e-mail filtering product. According to International Data Corporation, or IDC, in September 2005, St. Bernard s iPrism product line was the leading Internet filtering appliance, enabling customers to manage and control employee access to millions of web sites that are updated continuously as part of St. Bernard s fee-based Software as a Service , or a SaaS , business model subscription service. Other St. Bernard products also

have a subscription component that increases deferred revenue thereby increasing revenue predictability. St. Bernard s revenue model includes revenue from appliance sales, software license sales and multi-year subscription for software/database updates. St. Bernard had revenues of $21.2 million in 2004 and revenues of $24.0 million in 2005.

St. Bernard is a corporation that was founded in 1984 as Emerald Systems, Inc. In 1995, the corporation sold substantially all of its operating assets, changed its name to St. Bernard Software, Inc., and began its current operations to take advantage of its existing personnel and infrastructure. The St. Bernard operations rapidly moved into the data protection and IT security market. St. Bernard Software is a private company with headquarters in San Diego, California.

IDC is a global provider of market intelligence and advisory services for the information technology and telecommunications industries. In September of 2005, IDC released a report titled, Worldwide Secure Content Management 2005-2009 Forecast Update from which the information that references IDC in this document has been gathered. St. Bernard subscribes to IDC information technology reports. There is no other relationship between IDC, St. Bernard or Sand Hill.

Q.	A.
Why is Sand Hill proposing the merger with St. Bernard?	The Sand Hill board of directors believes that the proposed merger between Sand Hill and St. Bernard is in the best interests of St. Bernard and its stockholders for the following primary reasons:

- St. Bernard is positioned in a portion of the IT security market known as Secure Content Management, or SCM, that has experienced rapid growth and the appliance portion of SCM, according to IDC, is expected to continue to grow at 47% per year for the next five years;

- St. Bernard reached $28.7 million in gross billings in 2005 and has experienced solid growth in the past five years;

- Sand Hill believes that St. Bernard has an attractive SaaS, or Software as a Service, business model, with a subscription revenue component that increases revenue renewals, and, therefore, predictability. In 2005 subscription revenue accounted for approximately 59% of St. Bernard s business;

- St. Bernard has approximately 8,000 active customers, with very high retention rates, on the order of 80% to 95%, resulting in strong subscription renewals (i.e., repeat business) each year;

- St. Bernard, according to IDC in September 2005, had the number one market position in web-filtering appliances;

- St. Bernard targets small to medium size businesses, or the SME market, with 50 to 1000 employees. The SME market for IT security products is experiencing growth. AMI Partners projects greater than 15% of all SME s will purchase IT security products in 2006 (Sources: AMI Partners, *2005-2006 U.S. Medium Business Overview and Comprehensive Market Opportunity Assessment* (September 2005) and *2005-2006 U.S. Small Business Overview and Comprehensive Market Opportunity Assessment;* available at *ask_ami@ami-partners.com*);

- Sand Hill believes that St. Bernard has a strong management team; and

- Sand hill believes that the revision to the merger agreement to provide for 1,700,000 of the shares of Sand Hill common stock to be initially issued in the merger to be held by a stockholders representative of St. Bernard pending their release if the combined company s stock reaches certain price thresholds after the merger helps to adjust the timing of the merger consideration to take into account changes in public company comparables and St. Bernard s first quarter revenue performance.

Given the above, Sand Hill believes that a business combination with St. Bernard will provide Sand Hill stockholders with an opportunity to participate in a combined company in the IT security market with significant growth potential.

Q. **Why is St. Bernard proposing the merger with Sand Hill?**

A. The St. Bernard board of directors believes that the proposed merger between Sand Hill and St. Bernard is in the best interests of St. Bernard and its stockholders for the following primary reasons:

- As of May 26, 2006, Sand Hill had $22,109,631 in escrow, representing the net proceeds from its initial public offering. If the merger is consummated, at least 80% of the funds in the Sand Hill escrow account, less expenses of the merger, will be available for operations of the combined company. St. Bernard believes that because the combined company will have substantially greater capitalization than St. Bernard alone, the combined company will be in a better position than St. Bernard alone, to compete in the SCM marketplace.

- St. Bernard believes that the skills and expertise of the officers and directors of Sand Hill, their collective access to acquisition opportunities and ideas, their contacts, and, in particular, Mr. Polanen s and Mr. Broomfield s expertise in the IT security market, will provide the combined company with increased opportunities for future acquisitions and growth.

Q. **What is being voted on at the Sand Hill special meeting?**

A. There are four proposals that stockholders of Sand Hill are being asked to vote on at the Sand Hill special meeting. The first proposal is to adopt the merger agreement and the transactions contemplated by the merger agreement. This proposal is referred to as the merger proposal. The second proposal is to adopt the amended and restated certificate of incorporation of Sand Hill to change the name of Sand Hill to St. Bernard Software, Inc. and to remove certain provisions related to a business combination that were put in place as a result of Sand Hill being a Targeted Acquisition Corporation. This proposal is referred to as the amendment proposal. The third proposal is to adopt the St. Bernard Software, Inc. 1992 Stock Option Plan, the St. Bernard Software, Inc. 2000 Stock Option Plan and the St. Bernard Software, Inc. 2005 Stock Option Plan for non-employee directors, officers and other key employees. This proposal is referred to as the stock option plans proposal. Th e fourth proposal allows the adjournment of the Sand Hill special meeting to a later date if necessary to permit further solicitation of proxies in the event that there are not sufficient votes at the time of the Sand Hill special meeting to approve the merger proposal, the amendment proposal or the stock option plans proposal, but in no event to a date later than July 27, 2006. This proposal is referred to as the adjournment proposal.

Q.	A.
What is being voted on at the St. Bernard special meeting?	There are two proposals that stockholders of St. Bernard are being asked to vote on at the St. Bernard meeting. The first proposal is to adopt the merger agreement and the transactions contemplated by the merger agreement. We refer to this proposal as the merger proposal. The second proposal allows the adjournment of the St. Bernard special meeting to a later date if necessary to permit further solicitation of proxies in the event that there are not sufficient votes at the time of the St. Bernard special meeting to approve the merger proposal. We refer to this proposal as the adjournment proposal.

Q.	A.
Does the Sand Hill board of directors recommend voting in favor of the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal?	Yes. After careful consideration, Sand Hill s board of directors has determined unanimously that the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal are fair to, and in the best interests of, Sand Hill and its stockholders. The board of directors of Sand Hill did not obtain a fairness opinion in connection with making these determinations. Sand Hill s board recommends that Sand Hill stockholders vote or instruct your vote to be cast FOR the adoption of the merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal. Please see *The Merger Proposal Sand Hill s Reasons for the Merger* on page 55.

Q.	A.
Does the St. Bernard board of directors recommend voting in favor of the merger proposal and the adjournment proposal?	Yes. After careful consideration, St. Bernard s board of directors has determined unanimously that the merger proposal and the adjournment proposal are fair to, and in the best interests of, St. Bernard and its stockholders. St. Bernard s board recommends that St. Bernard stockholders vote or instruct your vote to be cast FOR the adoption of the merger agreement and the adjournment proposal. Please see *The Merger Proposal St. Bernard s Reasons for the Merger* on page 65.

Q.	A.
What vote is required in order to adopt the merger proposal at the Sand Hill special meeting?	The adoption of the merger agreement and the transactions contemplated by the merger agreement by the Sand Hill stockholders will require the affirmative vote of a majority of the outstanding shares of Sand Hill s common stock on the Sand Hill record date. Sand Hill s initial stockholders, who purchased their shares of common stock prior to its initial public offering and presently own an aggregate of

approximately 19.6% of the outstanding shares of Sand Hill common stock, have agreed to vote their shares of Sand Hill common stock purchased prior to the initial public offering on the merger proposal in the same manner as how the majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal. However, if the holders of 20% or more of the shares of common stock issued in Sand Hill s initial public offering vote against the merger and demand that Sand Hill convert their shares into a pro rata portion of the trust account, then, pursuant to the terms of Sand Hill s certificate of incorporation, the merger will not be consummated. No vote of the holders of any warrants issued by Sand Hill is necessary to adopt the merger proposal, and Sand Hill is not asking the warrant holders to vote on the merger proposal.

Q.

What vote is required in order to adopt the amendment proposal at the Sand Hill special meeting?

A.

The adoption of the amendment proposal by the Sand Hill stockholders will require the affirmative vote of a majority of the outstanding shares of Sand Hill s common stock on the Sand Hill record date.

Q.

What vote is required in order to adopt the stock option plans proposal at the Sand Hill special meeting?

A.

The adoption of the stock option plans proposal by the Sand Hill stockholders will require the affirmative vote of a majority of the shares of Sand Hill s common stock present in person or represented by proxy at the Sand Hill special meeting.

Q.

What vote is required in order to adopt the adjournment proposal at the Sand Hill special meeting?

A.

The adoption of the adjournment proposal by the Sand Hill stockholders will require the affirmative vote of the majority of the shares of Sand Hill s common stock present in person or represented by proxy at the Sand Hill special meeting.

Q.

Are the proposals of the Sand Hill special meeting conditioned on each other?

A.

The adoption of the merger proposal is conditioned on the adoption of the amendment proposal and the adoption of the amendment proposal is conditioned on the adoption of the merger proposal. The adoption of neither the merger proposal nor the amendment proposal is conditioned on the adoption of the stock option plans proposal or the adjournment proposal. The adoption of the stock option plans proposal, however, is conditioned upon the adoption of the merger proposal and the amendment proposal.

Q.

What vote is required in order to adopt the merger proposal at the St. Bernard special meeting?

A.

The adoption of the merger proposal by the St. Bernard stockholders will require the affirmative vote of a majority of the outstanding shares of St. Bernard s common stock on the St. Bernard record date. No vote of the holders of any warrants or options issued by St. Bernard is necessary to adopt the merger proposal, and St. Bernard is not asking the warrant holders or option holders to vote on the merger proposal.

Q.

What vote is required in order to adopt the adjournment proposal at the St. Bernard special meeting?

A.

The adoption of the adjournment proposal by the St. Bernard stockholders will require the affirmative vote of the majority of the shares of St. Bernard s common stock present in person or represented by proxy at the St. Bernard special meeting. The adoption of the adjournment proposal is not conditioned on the adoption of the merger proposal.

Q. **What will Sand Hill security holders receive in the merger?**

A. Sand Hill security holders will continue to hold the Sand Hill securities they currently own, and will not receive any of the shares of common stock, replacement options or replacement warrants issued in connection with the merger. The stockholders of St. Bernard will receive all of the shares of common stock, replacement options and replacement warrants being issued by Sand Hill in the merger.

Q. **What will St. Bernard stockholders, option holders and warrant holders receive in the merger?**

A. It is expected that holders of St. Bernard common stock will hold approximately 65.7% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of May 26, 2006. In the merger, Sand Hill will issue a combination of shares of common stock, replacement options and replacement warrants to holders of St. Bernard common stock, options and warrants.

The total amount of shares of Sand Hill common stock to be issued or that will underlie replacement options and replacement warrants is 10,880,000. 1,700,000 of these shares will be issued to a stockholders representative that will hold these shares on behalf of the persons who held shares of St. Bernard common stock as of the closing of the merger. These shares will be released, pro rata, to the persons who held shares of St. Bernard common stock as of the closing of the merger, if, after the merger, the price of the combined company s common stock closes at $8.50 or more per share for 20 trading days during any 30-day trading period prior to July 25, 2009 or the consideration to be received by the combined company or its stockholders in a sale of the majority of the ownership or business of the combined company prior to July 25, 2009 equals or exceeds $8.50 per share, excluding the dilutive effects of the exercise of any of the Sand Hill warrants issued in its initial public offering. If, after the merger, neither of these thresholds are achieved prior to July 25, 2009, then the 1,700,000 shares will be returned to the combined company for no consideration and will be cancelled. Holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of this 10,880,000 figure, subject to the potential return of the 1,700,000 shares to be issued to the stockholders representative. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock, replacement options or replacement warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of May 26, 2006, Sand Hill will issue approximately 9,782,357 shares of common stock at the close of the merger. The holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, replacement options and replacement warrants to purchase approximately 1,097,643 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or replacement warrants to be issued at the closing of the merger would decrease by a like amount. For a complete description of the post-closing fully diluted capitalization of Sand Hill. Please see *Beneficial Ownership of Securities* on page 145.

Q.	A.
What is the structure of the merger?	Under the merger agreement, St. Bernard and Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, will merge, with St. Bernard surviving as a wholly-owned subsidiary of Sand Hill (referred to as the merger). The merger will be accounted for as an equity recapitalization of St. Bernard for financial reporting purposes.

Q.	A.
How much of the combined company will existing Sand Hill stockholders own?	After completion of the merger, if no holders of Sand Hill common stock demand that Sand Hill convert their shares into a pro rata portion of the trust account holding a substantial portion of the net proceeds of Sand Hill s initial public offering, then Sand Hill s stockholders will own approximately 34.3% of the combined company s issued and outstanding shares of common stock. If one or more of Sand Hill s stockholders vote against the merger proposal and demand that Sand Hill convert their shares into a pro rata portion of the trust account, then Sand Hill s stockholders will own less than approximately 34.3% of the combined company s issued and outstanding shares of common stock after completion of the merger. In either case, the balance of the issued and outstanding shares of Sand Hill s common stock will be owned by the stockholders of St. Bernard, subject to the potential return of the 1,700,000 shares to be issued to the stoc kholders representative.
Q.	**A.**
Why is Sand Hill proposing the stock option plans?	Sand Hill is proposing the stock option plans because it has agreed to assume the outstanding options of St. Bernard at the closing of the merger and the plans need to remain outstanding under which such options were issued as those plans govern the terms of the options. The adoption of the 2005 Stock Option Plan will also enable the combined company to offer non-employee directors, officers, other key employees and consultants equity-based incentives, thereby helping to attract, retain and reward these participants and create value for the combined company s stockholders.
Q.	**A.**
What will the name of the combined company be after the merger?	Sand Hill will change its name following completion of the merger to St. Bernard Software, Inc.
Q.	**A.**
How much cash does Sand Hill hold in escrow?	As of May 26, 2006, Sand Hill had $22,109,631 in escrow, which would equate to $5.38 per share of outstanding Sand Hill common stock to participate in the funds held in escrow.
Q.	**A.**
Do stockholders of Sand Hill have conversion rights?	If you hold shares of common stock issued in Sand Hill s initial public offering, then you have the right to vote against the merger proposal and demand that Sand Hill convert these shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial

public offering are held. We sometimes refer to these rights to vote against the merger and demand conversion of the shares into a pro rata portion of the trust account as conversion rights.

Q.	A.
If stockholders of Sand Hill have conversion rights, how do they exercise them?	If you wish to exercise your conversion rights, you must vote against the merger and at the same time demand that Sand Hill convert your shares into cash. If, notwithstanding your vote, the merger is completed, then you will be entitled to receive a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering are held, including any interest earned thereon through the date of the Sand Hill special meeting. Based on the amount of cash that was held in the trust account on May 26, 2006, you will be entitled to convert each share of

Sand Hill common stock that you hold into approximately $5.38. If you exercise your conversion rights, then you will be exchanging your shares of Sand Hill common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the effective time of the merger and then tender your stock certificate to the combined company. If the merger is not completed, then your shares will not be converted to cash at this time, even if you so elected.

Q. **What happens to the funds deposited in the trust account after consummation of the merger?**

A. Upon consummation of the merger:

- the Sand Hill stockholders electing to exercise their conversion rights will receive their pro rata portion of the funds deposited in the trust account; and

- the remaining funds will be released to the combined company, which intends to use its existing cash resources, along with funds released from the Sand Hill trust, to (1) enhance its SCM product offering, (2) further develop its products, (3) increase its international presence, and (4) improve its VAR and indirect sales channels, in addition to using its cash resources for working capital and for general corporate purposes.

Q. **What are the expected United States federal income tax consequences to the merger?**

A. It is the opinion of Duane Morris LLP, counsel to St. Bernard, that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

A St. Bernard stockholder s receipt of Sand Hill common stock in the merger will be tax-free for United States federal income tax purposes. However, a St. Bernard stockholder who exercises his or her appraisal rights and who receives cash in exchange for his or her shares of St. Bernard common stock generally will recognize gain or loss measured by the difference between the amount of cash received and the tax basis of such stockholder s shares of St. Bernard common stock.

A stockholder of Sand Hill who exercises conversion rights and effects a termination of the stockholder s interest in Sand

Hill will generally be required to recognize capital gain or loss upon the exchange of that stockholder s shares of common stock of Sand Hill for cash, if such shares were held as a capital asset on the date of the merger. Such gain or loss will be measured by the difference between the amount of cash received and the tax basis of that stockholder s shares of Sand Hill common stock. No gain or loss will be recognized by non-converting stockholders of Sand Hill.

No gain or loss will be recognized by Sand Hill or St. Bernard as a result of the merger. For a description of the material federal income tax consequences of the merger, please see the information set forth in *Material Federal Income Tax Consequences of the Merger* on page 69.

Q.	A.
Who will manage the combined company?	The combined company will be managed by the current management of St. Bernard. John E. Jones, who is currently the President and Chief Executive Officer of St. Bernard, will become the President and Chief Executive Officer of the combined company. Alfred Riedler, who is currently the Chief Financial Officer of St. Bernard, will become the Chief Financial Officer of the combined company. Bart van Hedel, who is currently on the board of directors of St. Bernard, will continue as a board member of the combined company. Humphrey P. Polanen, who is currently the Chairman of the Board and Chief Executive Officer of Sand Hill, will continue as Chairman of the Board of the combined company. Scott R. Broomfield, who is currently the Executive Vice President of Corporate Development and on the board of directors of Sand Hill, will continue as a board member of the combined company.
Q.	**A.**
What happens to Sand Hill if the merger is not consummated?	If the merger is not consummated Sand Hill will be liquidated in accordance with the provisions of Delaware law. Upon such a liquidation, the net proceeds of Sand Hill s initial public offering held in the trust account, plus any interest earned thereon, will be distributed pro rata to Sand Hill s common stockholders, excluding Sand Hill s initial stockholders who purchased their shares of common stock prior to its initial public offering. Please see *Information About Sand Hill Liquidation if No Business Combination* on page 123.
Q.	**A.**
What happens to St. Bernard if the merger is not consummated?	If the merger is not consummated, St. Bernard will continue to operate as a private company.
Q.	**A.**
When do you expect the merger to be completed?	It is currently anticipated that the merger will be completed promptly following the special meetings of Sand Hill and St. Bernard.
Q.	**A.**
Do I have appraisal rights?	Sand Hill s stockholders do not have appraisal or dissenters rights in connection with the merger. Holders of St. Bernard capital stock who hold their shares of St. Bernard capital stock of record and continue to own those shares through the effective time of the merger and who

properly demand appraisal of their shares in writing on or before July 17, 2006 in accordance with the requirements of Section 262 of the General Corporation Law of the State of Delaware, or the DGCL, are entitled to appraisal rights as set forth in Section 262. A copy of Section 262 of the DGCL is attached to this proxy statement/prospectus as *Annex F*.

Under Section 262, St. Bernard stockholders who comply with the procedures set forth in Section 262 will be entitled to have their shares appraised by the Delaware Court of Chancery and to receive cash payment of the fair value of the shares, exclusive of any element of the value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, as determined by the court. St. Bernard will send notice pursuant to Section 262 of the DGCL to the St. Bernard stockholders who are entitled to appraisal rights when St. Bernard mails this prospectus to the St. Bernard stockholders. See *The Merger Proposal Appraisal or Dissenters Rights* on page 67.

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Q.	A.
If I am not going to attend the Sand Hill special meeting in person, should I return my proxy card instead?	Yes. After carefully reading and considering the information contained in this document, please fill out and sign your proxy card. Then return the enclosed proxy card in the return envelope as soon as possible, so that your shares may be represented at the Sand Hill special meeting.
Q.	**A.**
What will happen if I abstain from voting or fail to vote at the Sand Hill special meeting?	Sand Hill will count a properly executed proxy marked ABSTAIN with respect to a particular proposal as present for purposes of determining whether a quorum is present. For purposes of approval, an abstention or failure to vote will have the same effect as a vote against the merger proposal, the amendment proposal, the stock options plan proposal and the adjournment proposal. However, if you want to convert your shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering are held, you must vote against the merger and make an affirmative election to convert your shares of common stock on the proxy card. An abstention will have the same effect as a vote against the stock option plans proposal and the adjournment proposal, but a failure to vote will have no effect on the stock option plans proposal and the adjournment proposal, assuming that a quorum for the special me eting is present. Shares that are not voted or are broker non-voted or where the stockholder abstains from voting shall not be eligible to be converted into cash upon completion of the merger.
Q.	**A.**
What do I do if I want to change my vote prior to the Sand Hill special meeting?	Send a later-dated, signed proxy card to Sand Hill prior to the date of the Sand Hill special meeting or attend the special meeting in person and vote. Your attendance alone will not revoke your proxy. You also may revoke your proxy by sending a notice of revocation to Sand Hill at the address of Sand Hill s corporate headquarters, on or before July 25, 2006.
Q.	**A.**
If I am not going to attend the St. Bernard special meeting in person, should I return my proxy card instead?	Yes. After carefully reading and considering the information contained in this document, please fill out and sign your proxy card. Then return the enclosed proxy card in the return envelope as soon as possible, so that your shares may be represented at the St. Bernard special meeting.
Q.	**A.**

What will happen if I abstain from voting or fail to vote at the St. Bernard special meeting?	St. Bernard will count a properly executed proxy marked ABSTAIN with respect to the merger proposal as present for purposes of determining whether a quorum is present. For purposes of approval, an abstention or failure to vote will have the same effect as a vote against the merger proposal.
Q.	**A.**
What do I do if I want to change my vote prior to the St. Bernard special meeting?	Send a later-dated, signed proxy card to St. Bernard prior to the date of the St. Bernard special meeting or attend the St. Bernard special meeting in person and vote. Your attendance alone will not revoke your proxy. You also may revoke your proxy by sending a notice of revocation to St. Bernard at the address of St. Bernard s corporate headquarters, on or before July 17, 2006.
Q.	**A.**
If my shares of Sand Hill stock are held in street name by my broker, will my broker vote my shares for me?	No. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares, following the directions provided by your broker.

Q.	A.
Who is soliciting my proxy?	Proxies are being solicited by the Sand Hill board of directors for the Sand Hill special meeting and by the St. Bernard board of directors for the St. Bernard special meeting.
Q.	**A.**
Who can help answer my questions?	If you are a Sand Hill stockholder and have questions about the merger, you may write or call Sand Hill IT Security Acquisition Corp., 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025, (650) 926-7022, Attn: Humphrey P. Polanen. If you are a St. Bernard stockholder and have questions about the merger, you may write or call St. Bernard Software, Inc., 15015 Avenue of Science, San Diego, California 92128, (858) 676-2277, Attn: John E. Jones.

SUMMARY

This summary highlights information from this joint proxy statement/prospectus and may not contain all of the information that is important to you. You should carefully read this entire document, including the Annexes. You should read the merger agreement, which is attached as Annex A, carefully. It is the legal document that governs the merger and the other transactions contemplated by the merger agreement. It is also described in detail elsewhere in this joint proxy statement/prospectus. When we refer to the merger agreement in this joint proxy statement/ prospectus we are referring to the merger agreement as it may be amended to the date of the joint proxy statement/prospectus.

The Companies

Sand Hill

Sand Hill is a Targeted Acquisition Corporation, or TAC, focused on the IT security industry, organized under the laws of the State of Delaware on April 15, 2004. As a TAC, it was formed to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in a specified industry. On July 30, 2004, Sand Hill successfully consummated an initial public offering of its units, with each unit consisting of one share of common stock and two warrants exercisable for shares of common stock, from which it derived net proceeds of approximately $22,022,462. The prices of Sand Hill s common stock, warrants to purchase common stock and units (each unit consisting of a share of common stock and two warrants to purchase common stock) are quoted on the Over-the-Counter Bulletin Board under the symbols SHQC for the common stock, SHQCW for the warrants and SHQCU for the units. $20,961,000 of the net proceeds of the initial public offering were placed in a trust account and will be released to Sand Hill upon consummation of the merger. As of May 26, 2006, Sand Hill had $22,109,631 in escrow, which equates to $5.38 per share of outstanding Sand Hill common stock eligible to participate in the funds held in escrow. The balance of the net proceeds of $1,061,462 has been used and will be used by Sand Hill to pay the expenses incurred in its pursuit of a business combination, including the merger. Other than its initial public offering and the pursuit of a business combination, Sand Hill has not engaged in any business to date. If Sand Hill does not consummate a business combination by July 27, 2006 then, pursuant to its certificate of incorporation, Sand Hill s officers must take all actions necessary to promptly dissolve and liquidate Sand Hill. The mailing address of Sand Hill s principal executive office is 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025, and its telepho ne number is (650) 926-7022. Sand Hill s home page on the Internet is at http://www.sandhillsecurity.com, but the information on the Sand Hill website is not a part of this joint proxy statement/prospectus. See *Information about Sand Hill* on page 122.

Sand Hill Merger Corp.

Sand Hill Merger Corp. is a wholly-owned subsidiary of Sand Hill formed solely for the purpose of the merger. Sand Hill Merger Corp. s executive office is located at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025, and its telephone number is (650) 926-7022. Sand Hill Merger Corp. will be merged with and into St. Bernard and the separate corporate existence of Sand Hill Merger Corp. will cease upon completion of the merger. St. Bernard will be a wholly-owned subsidiary of Sand Hill upon completion of the merger.

St. Bernard

St. Bernard is a corporation that was founded in 1984 as Emerald Systems, Inc. In 1995, the corporation sold substantially all of its operating assets, changed its name to St. Bernard Software, Inc., and began its current operations to take advantage of its existing personnel and infrastructure. The St. Bernard operations rapidly moved into the data protection and IT security market. St. Bernard Software is a recognized independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or SCM, including messaging security, with $28.7 million in gross billings for 2005. With its SaaS business model, St. Bernard s products protect businesses, government organizations and educational institutions from cyber attack, improve worker productivity, reduce legal liability and assist in meeting regulatory requirements for data/privacy protection. St. Bernard s network-attached security pro ducts are delivered as appliances that connect into the data path between the Internet gateway and a company s local area network. Similar to a traditional household appliance, a security appliance is a dedicated computer with a specially configured kernal level operating system that is plugged into the server stack, in front of a company s firewall and, therefore, sees all inbound Internet traffic. St. Bernard s system security products consist of software that is installed on workstations and servers. St. Bernard has approximately

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8,000 customers supporting over 3.5 million device licenses, primarily comprised of small to medium sized businesses, educational institutions and governmental organizations. The products offered by St. Bernard include Open File Manager, a data protection product; UpdateEXPERT, a patch and settings management product; iPrism, SCM, Internet access management product; and ePrism, SCM, a messaging security, e-mail filtering product. According to IDC, in September 2005, St. Bernard s iPrism product line was the leading Internet filtering appliance, enabling customers to manage and control employee access to millions of web sites that are updated continuously as part of St. Bernard s fee-based subscription service. Other St. Bernard products also have a subscription component that increases deferred revenue thereby increasing revenue predictability. St. Bernard s principal offices are located at 15015 Avenue of Science, San D iego, California 92128 and its telephone number at that location is (858) 676-2277. St. Bernard s home page on the Internet is at http://www.stbernard.com, but the information on the St. Bernard website is not a part of this joint proxy statement/prospectus.

Sand Hill s Business Rationale for Merging with St. Bernard

Sand Hill believes the proposed merger between Sand Hill and St. Bernard is in the best interests of Sand Hill and its stockholders for the following primary reasons:

Industry and Market Focus

St. Bernard is a recognized independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or SCM, including messaging security. According to IDC, SCM worldwide revenues reached $4.5 billion in 2004, representing a 27% increase over 2003. IDC has also concluded that web-filtering, a subset of SCM, reached $433 million in revenues in 2004, growing at 22% over 2003. Finally, IDC forecasts that the rate of growth for appliance based web-filtering , the portion of the market in which St. Bernard competes in, should increase by 47% per year between 2004 and 2009. According to IDC, appliances represent the fastest growing element of SCM. In addition to this market segment, St. Bernard also includes messaging security as part of its product offerings, thereby adding to the value of its business offerings.

St. Bernard focuses on the relatively underserved and high growth Small to Medium Enterprises (or SME) segment of the market. As estimated by AMI Partners, an SME oriented research firm, there are 232,000 small to medium sized businesses in the U.S. The SME segment is defined by AMI as businesses ranging from 50 to 999 employees. According to a study by AMI conducted in 2005, the SME segment is underserved, or under penetrated, in that only 22% of all small to medium sized businesses have installed comprehensive security management solutions. Sand Hill believes that this indicates that there is real opportunity for growth in this segment. According to this same AMI report, a total of an additional 15% of the SME market, or 35,000 businesses, plan to purchase security management solutions in 2006, representing a growth rate of 73% year over year. Sand Hill also additionally believes that the focus on SME is beneficial because security appliance s tend to serve the market well because of their ease of installation and use. Brian Burk, an analyst with IDC research recently stated, security appliance sales will grow fast in the SME market because IT resources are scarce.

Size and Growth

St. Bernard reached $28.7 million in gross billings and $24.0 million in revenues for the calendar year ended 2005. St. Bernard has recently experienced attractive growth in its market. From 2000 through 2004 St. Bernard has grown 182% based on annual revenues and was awarded a San Diego Deloitte Technology Fast 50 of San Diego award in both 2004 and 2005. In 2005, St. Bernard grew annual revenues 13.2% as compared with 2004. While St. Bernard has yet to have a profitable fiscal year, Sand Hill believes St. Bernard s revenue base, industry and market focus, business model and management team continue to make it an attractive company.

Business Model

St. Bernard has a Software as a Service, or SaaS, business model that includes both web-filter and email-filter appliances and a database service subscription component. St. Bernard s revenue model includes revenue from appliance sales and multi-year subscriptions for software/database updates and ePrism (messaging security e-mail filtering). Sand Hill believes that St. Bernard s sales cycles are shorter than an enterprise level sale because of: (1) its focus on the SME segment, (2) the average selling prices for St. Bernard products are usually lower than that of enterprise level products, and (3) its having an appliance form factor that results in the product being simple to install and simple to use. Specifically, St. Bernard focuses on small businesses that are defined as having between 50

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and 499 employees and medium businesses that are defined as having 500 to 1,000 employees. Enterprises are defined as having more than 1,000 employees. The sales cycle from first customer contact to completed sale is typically 90 days for small and medium businesses. By contrast, sales cycles to enterprises are typically longer than 90 days due to a more complex approval requirement. The quicker sales cycle to small and medium businesses is primarily due to the lower dollar value of the products purchased and more willingness by these customers to purchase without on site sales calls.

The subscription element of St. Bernard s business is particularly attractive because it operates as a Software as a Service , or a SaaS model. Sand Hill believes that this represents a stable portion of St. Bernard s revenue base. As an example, customers subscribe to a Universal Resource Locator, or URL, database service for periods of anywhere from one to three years. Internet web pages are uniquely accessed and displayed through the use of URL s. St. Bernard s iPrism product employs a database of URL s divided into 60 categories to monitor and/or block access to Web pages based on predetermined policies set by the customer. This URL database is organized into more than 60 categories and encompasses more than 7.4 million websites as of March 31, 2006. This database is updated each business day using a proprietary process of automated content assessment and classification, with manual verificat ion. Subscribers to the update service receive updates each night. It is this security update subscription that Sand Hill believes helps create long term customer relationships, as well as providing for better predictability of future revenue. St. Bernard had deferred revenues of $16.1 million as of December 31, 2005. Although the cash is received up front, this deferred revenue is generally recognized as revenue ratably over the life of the contract. The result is that billings for the business are greater than the revenue booked in any quarter. For example, revenue for the year ended December 31, 2005 was $24.0 million, whereas gross billings were $28.7 million. The result is an increase to deferred revenue, as recorded on the balance sheet, and, Sand Hill believes, an enhanced predictability to the business.

Management Team

St. Bernard has a seasoned management team with specialized knowledge of its markets and, Sand Hill believes, the ability to lead the combined company in a changing environment. St. Bernard s management team has been in place for a number of years and the Sand Hill board of directors believes that John E. Jones, who will be the President and Chief Executive Officer of the combined company, has the experience and strong understanding of the software security market and potential needs of customers to effectively lead the combined company.

Terms of the Merger Agreement

The Sand Hill board of directors believes that the merger agreement contains customary provisions for transactions of this type, including provisions to protect Sand Hill in the event an alternative transaction is proposed to St. Bernard. The Sand Hill board of directors also believes that the price Sand Hill is paying for St. Bernard represents an attractive Enterprise Value/Sales, or EV/Sales, valuation. Sand Hill believes that the revision to the merger agreement to provide for 1,700,000 of the shares of Sand Hill common stock to be initially issued in the merger to be held by a stockholders representative of St. Bernard pending their release if the combined company s stock reaches certain price thresholds after the merger helps to spread the risk of St. Bernard s performance after the merger among the St. Bernard and Sand Hill stockholders. It was important to Sand Hill s board of directors it felt it was receiving app ropriate value and that the merger agreement include customary provisions as it believed that such provisions would allow for a more efficient closing process and lower transaction expenses.

In addition to the primary reasons set forth above, Sand Hill s board did also consider certain potentially negative factors in its deliberations, including St. Bernard s history of losses. Please see *The Merger Proposal Sand Hill s Reasons for the Merger* on page 55 for a more detailed description of the factors, both positive and negative, considered by the Sand Hill board of directors in determining to recommend the merger to the Sand Hill stockholders.

St. Bernard s Business Rationale for Merging with Sand Hill

The St. Bernard board of directors believes that the proposed merger between Sand Hill and St. Bernard is in the best interests of St. Bernard and its stockholders for the following primary reasons:

As of May 26, 2006, Sand Hill had $22,109,631 in escrow, representing the net proceeds from its initial public offering. If the merger is consummated, at least 80% of the funds in the Sand Hill escrow account, less expenses of the merger, will be available for operations of the combined company. St. Bernard believes that because the combined company will have substantially greater capitalization than St. Bernard alone, the combined company will be in a better position than St. Bernard alone, to compete in the SCM marketplace.

St. Bernard believes that the skills and expertise of the officers and directors of Sand Hill, their collective access to acquisition opportunities and ideas, their contacts, and, in particular, Mr. Polanen s and Mr. Broomfield s expertise in the IT security market, will provide the combined company with increased opportunities for future acquisitions and growth.

Security Market Characteristics and Industry Background

The IT security market continues to be attractive from a business perspective. In January of 2006, Goldman Sachs reported that IT security continues to be the highest spending priority amongst CIOs and CTOs in the U.S. for 2006. The industry is generally characterized by the following:

- escalating volume of Internet attacks on business, industry and governments, reaching over 140,000 attacks in 2004;
- increasing sophistication of attacks and increasing cost per attack;
- material loss in employee productivity due to unauthorized Internet usage during working hours;
- significant recent increases in government and regulatory requirements specifically targeting security, including but not limited to, Sarbanes-Oxley (SOX), HIPPA, BASEL II, Gramm-Leach-Bliley, GISRA, etc.;
- increases in customer demand for integrated, full solution product suites; and
- a strong preference in SME for easy to install and easy to use security appliances.

Many organizations use the Internet to enable critical business applications that are accessed over their corporate networks. Many employees also use their organization s computing resources for recreational web surfing, peer-to-peer file sharing, downloading of high-bandwidth content, instant messaging and other personal matters. However, unmanaged use of organizational computing and network resources, including Internet access, results in increased risk and cost to the organization, including increased security risks, loss of intellectual property, loss of a company s customer and supplier data, lost employee productivity, increased network bandwidth consumption, and potential legal liability. This segment of IT security is commonly known as Secured Content Management, or SCM.

Traditionally, organizations have attempted to mitigate the legal liability, productivity and bandwidth waste risks through written policies governing acceptable employee use of computing resources, and they have sought to protect against external security risks with a combination of firewalls, intrusion detection/prevention software and anti-virus software. With the growth in spyware, key logging applications, and phishing sites, combined with the rapid increase in employee use of instant messaging and peer-to-peer file sharing and the proliferation of blended attacks on computing networks, organizations are finding that existing security measures leave significant time and technology gaps in their protection. Written Internet access and software application use policies are easily ignored, difficult to enforce and do not proactively curtail undesirable Internet and software application usage. Firewalls can provide protection against external threats such as hacking, but do little to prevent employees from accessing unauthorized data from within an organization. Anti-virus software provides protection from e-mail borne viruses, but does not prevent the possible theft or corruption of corporate data by spyware and offers only limited protection against viruses that proliferate via peer-to-peer networks and instant messaging. Existing anti-virus and anti-spyware software also requires time to identify and reverse engineer the virus or spyware application before it can be remediated and removed from infected systems.

Given the necessity of corporate Internet access and the continuing adoption of the web as a mass communication, entertainment, information and commerce medium, Sand Hill believes there is a significant opportunity for SCM solutions, including messaging security, that effectively addresses the needs of organizations to manage employee usage of the computing environment, including Internet access and desktop application use. Additionally, although the web and e-mail are the primary drivers of Internet traffic today, the rapid emergence of Internet-enabled applications creates the need for software that applies management policies to file types, applications, and protocols, as well as web pages, at multiple points on the information technology infrastructure.

Software tools are needed to implement policy-based bandwidth management and regulation of applications such as instant messaging, peer-to-peer file exchange tools, interactive games and desktop software applications. These solutions must also be adaptable enough to manage new applications and technologies as they are developed.

The Merger

The merger agreement provides for the merger of Sand Hill Merger Corp. with and into St. Bernard. The merger agreement was executed on October 26, 2005 and amended on December 15, 2005 and May 31, 2006. Following consummation of the merger, St. Bernard will continue as the surviving company and a wholly-owned subsidiary of Sand Hill and the separate corporate existence of Sand Hill Merger Corp. shall cease. It is expected that holders of St. Bernard common stock will hold approximately 65.7% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of May 26, 2006. In the merger, Sand Hill will issue a combination of shares of common stock, replacement options and replacement warrants to holders of St. Bernard common stock, options and warrants. The total amount of shares of Sand Hill common stock to be issued or th at will underlie replacement options and replacement warrants is 10,880,000. Holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of this 10,880,000 figure, subject to the potential return of 1,700,000 shares to be issued to the stockholders representative, as described below. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock, replacement options or replacement warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of May 26, 2006, Sand Hill will issue approximately 9,782,357 shares of common stock at the close of the merger. The holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, rep lacement options and replacement warrants to purchase approximately 1,097,643 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or replacement warrants to be issued at the closing of the merger would decrease by a like amount. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see *Beneficial Ownership of Securities* on page 145.

Of the 9,782,357 shares of Sand Hill common stock to be issued in the merger, 1,700,000 of these shares will be released, pro rata, to the persons who held shares of St. Bernard common stock as of the closing of the merger, if, after the merger, the price of the combined company s common stock closes at $8.50 or more per share for 20 trading days during any 30-day trading period prior to July 25, 2009 or the consideration to be received by the combined company or its stockholders in a sale of the majority of the ownership or business of the combined company prior to July 25, 2009 equals or exceeds $8.50 per share, excluding the dilutive effects of the exercise of any of the Sand Hill warrants issued in its initial public offering. If, after the merger, neither of these thresholds are achieved prior to July 25, 2009, then the 1,700,000 shares will be returned to the combined company for no consideration and will be cancelled.

Sand Hill and St. Bernard plan to complete the merger promptly after the special meetings, provided that:

- Sand Hill s and St. Bernard s stockholders have adopted the merger agreement;

- holders of less than 20% of the shares of common stock issued in Sand Hill s initial public offering vote against the merger proposal and demand conversion of their shares of common stock into cash; and

- the other conditions specified in the merger agreement have been satisfied or waived.

If the Sand Hill stockholder approval has not been obtained at that time or any other conditions have not been satisfied or waived, the merger will be completed promptly after the Sand Hill stockholder approval is obtained or the remaining conditions are satisfied or waived. The merger will become effective when the articles of merger are filed with the Delaware Secretary of State or at such later time as is specified in the articles of merger.

The merger agreement is included as *Annex A* to this document. We encourage you to read the merger agreement in its entirety. See *The Merger Agreement* on page 74.

Amended and Restated Certificate of Incorporation

Sand Hill is proposing to amend its certificate of incorporation to change the name of Sand Hill to St. Bernard Software, Inc. and to remove certain provisions related to a business combination that were put in place as a result of Sand Hill being a Targeted Acquisition Corporation. The Amended and Restated Certificate of Incorporation is included as Annex B to this document. We encourage you to read the Amended and Restated Certificate of Incorporation in its entirety. See *The Amendment Proposal.*

St. Bernard Software, Inc. 1992 Stock Option Plan; St. Bernard Software, Inc. 2000 Stock Option Plan; St. Bernard Software, Inc. 2005 Stock Option Plan

There are options outstanding for the purchase of St. Bernard common stock which have been granted under three stock option plans: the St. Bernard Software, Inc. 1992 Stock Option Plan; the St. Bernard Software, Inc. 2000 Stock Option Plan; and the St. Bernard Software, Inc. 2005 Stock Option Plan. The stock option plans are included as *Annex C, Annex D* and *Annex E* to this document. We encourage you to read the stock option plans in their entirety. See *The Stock Option Plans Proposal.*

St. Bernard Software, Inc. 1992 Stock Option Plan

Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard s 1992 Stock Option Plan, whether vested or unvested, will be assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the 1992 Stock Option Plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0.421419. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which this opt ion was exercisable by the conversion ratio of 0.421419. There are options for 219,500 shares of St. Bernard common stock issued and outstanding under the 1992 Stock Option Plan. No additional options are available for issuance under the plan.

St. Bernard Software, Inc. 2000 Stock Option Plan

Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard s 2000 Stock Option Plan, whether vested or unvested, will be assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the 2000 Stock Option Plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0.421419. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which this opt ion was exercisable by the conversion ratio of 0.421419. There are options for 784,270 shares of St. Bernard common stock issued and outstanding under the 2000 Stock Option Plan. No additional options are available for issuance under the plan.

St. Bernard Software, Inc. 2005 Stock Option Plan

Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard s 2005 Stock Option Plan, whether vested or unvested, will be assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the 2005 Stock Option Plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0.421419. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which this opt ion was exercisable by the conversion ratio of 0.421419. There are options for 299,346 shares of St. Bernard common stock issued and outstanding under the 2005

Stock Option Plan. Options for 4,687,000 shares of St. Bernard common stock may be issued under the plan in the future.

Adjournment Proposal

In the event there are not sufficient votes at the time of the Sand Hill special meeting to approve the merger proposal, the amendment proposal or the stock option plans proposal, the board of directors of Sand Hill may submit a proposal to adjourn the Sand Hill special meeting to a later date or dates, if necessary, to permit further solicitation of proxies, but in no event to a date later than July 27, 2006.

Sand Hill s Board of Directors Recommendations

After careful consideration, Sand Hill s board of directors has determined unanimously that the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal are fair to, and in the best interests of, Sand Hill and its stockholders. The board of directors of Sand Hill did not obtain a fairness opinion in connection with making these determinations. Sand Hill s board has unanimously approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal and unanimously recommends that you vote or instruct your vote to be cast **FOR** the adoption of the merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal. Please see *The Merger Proposal Sand Hill s Reasons for the Merger* on page 55.

Special Meetings of Stockholders

The special meeting of the stockholders of Sand Hill will be held at 10:00 a.m. on July 26, 2006, at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025, to vote on the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

The special meeting of the stockholders of St. Bernard will be held at 9:00 a.m. on July 18, 2006, at 15015 Avenue of Science, San Diego, California 92128, to vote on the merger proposal and an adjournment proposal.

Voting Power; Record Date

If you are a Sand Hill stockholder, you will be entitled to vote or direct votes to be cast at the Sand Hill special meeting if you owned shares of Sand Hill common stock at the close of business on June 29, 2006, which is the record date for the Sand Hill special meeting. You will have one vote for each share of Sand Hill common stock you owned at the close of business on the record date. Sand Hill warrants do not have voting rights. At the close of business on June 29, 2006, there were 5,110,000 shares of Sand Hill common stock outstanding and entitled to vote at the Sand Hill special meeting.

If you are a St. Bernard stockholder, you will be entitled to vote or direct votes to be cast at the St. Bernard special meeting if you owned shares of St. Bernard common stock at the close of business on June 27, 2006, which is the record date for the St. Bernard special meeting. You will have one vote for each share of St. Bernard common stock you owned at the close of business on the record date. St. Bernard warrants do not have voting rights. At the close of business on June 27, 2006, there were 23,251,068 shares of St. Bernard common stock outstanding and entitled to vote at the St. Bernard special meeting.

Vote Required to Adopt the Merger Proposal

The adoption of the merger agreement and the transactions contemplated by the merger agreement by the Sand Hill stockholders will require the affirmative vote of the holders of a majority of the outstanding shares of Sand Hill common stock on the Sand Hill record date. However, Sand Hill will not be able to complete the merger if the holders of 20% or more of the shares of common stock issued in Sand Hill s initial public offering vote against the merger and demand that Sand Hill convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering are held.

The adoption of the merger agreement and the transactions contemplated by the merger agreement by the St. Bernard stockholders will require the affirmative vote of the holders of a majority of the outstanding shares of St. Bernard common stock on the St. Bernard record date.

Vote Required to Adopt the Amended and Restated Certificate of Incorporation

The adoption of the amendment proposal by the Sand Hill stockholders will require the affirmative vote of a majority of the outstanding shares of Sand Hill s common stock on the Sand Hill record date.

Vote Required to Adopt the Stock Option Plans Proposal

The adoption of the stock option plans proposal by the Sand Hill stockholders will require the affirmative vote of the holders of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the Sand Hill special meeting.

Vote Required to Adopt the Adjournment Proposal

The adoption of the adjournment proposal by the Sand Hill stockholders will require the affirmative vote of the holders of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the Sand Hill special meeting.

Conditions to Adoptions

The adoption of the merger proposal is conditioned on the adoption of the amendment proposal and the adoption of the amendment proposal is conditioned on the adoption of the merger proposal. The adoption of neither the merger proposal nor the amendment proposal is conditioned on the adoption of the stock option plans proposal or the adjournment proposal. The adoption of the stock option plans proposal, however, is conditioned upon the adoption of the merger proposal and the amendment proposal.

Conversion Rights

Pursuant to Sand Hill s certificate of incorporation, a holder of shares of Sand Hill s common stock issued in its initial public offering may, if the stockholder votes against the merger, demand that Sand Hill convert such shares into cash. **This demand must be made on the proxy card or by telephone or through the Internet as described on the proxy card at the same time that the stockholder votes against the merger proposal.** If so demanded, Sand Hill will convert each share of common stock into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering are held, plus all interest earned thereon. If you exercise your conversion rights, then you will be exchanging your shares of Sand Hill common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the e ffective time of the merger and then tender your stock certificate to the combined company. If the merger is not completed, then these shares will not be converted into cash at this time and Sand Hill will need to liquidate if a business combination is not completed by July 27, 2006. Shares that are not voted or are broker non-voted or where the stockholder abstains from voting shall not in any event be eligible to be converted into cash upon completion of the merger.

The merger will not be consummated if the holders of 20% or more of the shares of common stock issued in Sand Hill s initial public offering exercise their conversion rights.

Appraisal or Dissenters Rights

No appraisal rights or dissenters rights are available under the Delaware General Corporation Law for the stockholders of Sand Hill in connection with the merger proposal.

Holders of St. Bernard capital stock who hold their shares of St. Bernard capital stock of record and continue to own those shares through the effective time of the merger and who properly demand appraisal of their shares in writing on or before July 17, 2006 in accordance with the requirements of Section 262 of the General Corporation Law of the State of Delaware, or the DGCL, are entitled to appraisal rights as set forth in Section 262. A copy of Section 262 of the DGCL is attached to this proxy statement/prospectus as *Annex F*.

Under Section 262, St. Bernard stockholders who comply with the procedures set forth in Section 262 will be entitled to have their shares appraised by the Delaware Court of Chancery and to receive cash payment of the fair value of the shares, exclusive of any element of the value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, as determined by the court. St. Bernard will send notice pursuant to Section 262 of the DGCL to the St. Bernard stockholders who are entitled to appraisal rights when St. Bernard mails this prospectus to the St. Bernard stockholders. See *Appraisal or Dissenters Rights* on page 67.

Voting

You may vote in person at the Sand Hill special meeting or vote by proxy using the enclosed proxy card or via the Internet or telephone.

- To vote in person, come to the Sand Hill special meeting, and you will be given a ballot when you arrive.

- To vote by proxy, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card before the Sand Hill special meeting, your shares will be voted as you direct.

- If you are a registered stockholder (that is, if you hold your stock in certificate form), you may vote by telephone or electronically through the Internet by following the instructions included with your proxy card. If your shares are held in street name, please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically. The deadline for voting by telephone or electronically is 11:59 p.m., Eastern Standard Time, on July 25, 2006.

Please also see the instructions included with the enclosed proxy card. Regardless of whether you return your proxy card, you may attend the Sand Hill special meeting and vote your shares in person.

You may vote in person at the St. Bernard special meeting or vote by proxy using the enclosed proxy card.

- To vote in person, come to the St. Bernard special meeting, and you will be given a ballot when you arrive.

- To vote by proxy, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card before the St. Bernard special meeting, your shares will be voted as you direct.

Please also see the instructions included with the enclosed proxy card. Regardless of whether you return your proxy card, you may attend the St. Bernard special meeting and vote your shares in person.

Stock Ownership

On the record date, directors and executive officers of Sand Hill and their affiliates beneficially owned and were entitled to vote approximately 1,000,000 shares of Sand Hill s common stock that have a market value of approximately $5,230,000 based on Sand Hill s common stock price of $5.23 per share as of May 26, 2006. These shares were purchased for an aggregate of $25,000. The total of these shares represented approximately 19.6% of Sand Hill s issued and outstanding common stock as of the record date. In connection with its initial public offering, the holders of these shares entered into letter agreements with Sand Hill, pursuant to which each agreed to vote their shares of Sand Hill common stock purchased prior to the initial public offering on the merger proposal in the same manner as how a majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal. They are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote any shares acquired by them in or subsequent to the initial public offering in favor of the merger proposal. As of May 26, 2006, none of the officers or directors of Sand Hill had acquired any shares of common stock in or subsequent to the initial public offering. Based solely upon information contained in public filings, as of May 26, 2006, the following stockholders beneficially owned greater than five percent of Sand Hill s issued and outstanding common stock:

- Humphrey P. Polanen and his affiliates beneficially owned 559,441 shares of Sand Hill common stock, representing approximately 10.9% of the Sand Hill common stock outstanding on the Sand Hill record date;

- Sapling, LLC beneficially owned 400,000 shares of Sand Hill common stock, representing approximately 7.8% of the shares of Sand Hill common stock outstanding on the Sand Hill record date;

- Roger Feldman and Harvey Hanerfeld beneficially owned 385,000 shares of Sand Hill common stock, representing approximately 7.5% of the shares of Sand Hill common stock outstanding on the Sand Hill record date; and

- Amaranth, LLC beneficially owned 287,098 shares of Sand Hill common stock, representing approximately 5.6% of the shares of Sand Hill common stock outstanding on the Sand Hill record date.

On the record date, directors and executive officers of St. Bernard and their affiliates beneficially owned and were entitled to vote approximately 11,529,115 shares of St. Bernard common stock that have a market value of approximately $25,410,416 based on converting such shares using the merger exchange ratio of 0.421419 and multiplying that by Sand Hill s common stock price of $5.23 on May 26, 2006. The total of these shares represented approximately 49.7% of St. Bernard s issued and outstanding common stock as of the record date. These shares were acquired by St. Bernard directors and executive officers at various times for aggregate consideration of approximately $2.8 million. Based solely upon St. Bernard s records, as of March 31, 2006, the following stockholders beneficially owned greater than five percent of St. Bernard s issued and outstanding common stock:

- John E. Jones beneficially owned 3,155,565 shares of St. Bernard common stock, representing approximately 13.6% of the St. Bernard common stock outstanding on the record date;

- Bob Crowe beneficially owned 970,053 shares of St. Bernard common stock, representing approximately 4.2% of the St. Bernard common stock outstanding on the record date; and

- Bart van Hedel and affiliates beneficially owned 6,705,801 shares of St. Bernard common stock, representing approximately 28.8% of the St. Bernard common stock outstanding on the record date.

Interests of Sand Hill Directors and Officers in the Merger

When you consider the recommendation of Sand Hill s board of directors that you vote in favor of adoption of the merger proposal, you should keep in mind that a number of Sand Hill s executives and members of Sand Hill s board have interests in the merger that are different from, or in addition to, your interests as a Sand Hill or St. Bernard stockholder. These interests include, among other things:

- if the merger is not approved and Sand Hill fails to consummate an alternative transaction within the time allotted pursuant to its certificate of incorporation and Sand Hill is therefore required to liquidate, the shares of common stock purchased prior to its initial public offering and held by Sand Hill s executives and directors may be worthless because Sand Hill s executives and directors are not entitled to receive any of the net proceeds of Sand Hill s initial public offering that may be distributed upon liquidation of Sand Hill with respect to these shares. In addition, the warrants held by such persons, which as of May 26, 2006 are exercisable for 296,500 shares of common stock (108,500 of which are held by Mr. Polanen), will expire without value in the event of a liquidation;

- after the completion of the merger, Humphrey P. Polanen will remain as the chairman of the board of directors of the combined company and Scott R. Broomfield will remain as a director of the combined company;

- Humphrey P. Polanen, The Broomfield Family Trust and Sand Hill Security LLC, have loaned Sand Hill approximately $10,000, $25,000 and $20,000, respectively, for operating expenses. Each of these loans bears interest at the rate of 10% and matures on July 26, 2006. Each of these lenders have waived any claims they have against the trust fund with respect to these loans. If the merger is not completed and Sand Hill is forced to liquidate these loans will remain as unsecured claims against Sand Hill;

- The Broomfield Family Trust, an affiliate of Scott Broomfield, a director and officer of Sand Hill, and BeeBird Beheer B.V., an affiliate of Bart van Hedel a director of St. Bernard, have made available $125,000 and $375,000, respectively, to St. Bernard, as a bridge loan pursuant to secured promissory notes. Amounts borrowed under the notes are due on November 25, 2006 and bear interest at 12%. In connection with the execution of the notes, the Broomfield Family Trust and BeeBird Beheer B.V. received warrants for an aggregate of 25,000 shares of common stock of St. Bernard (which equates to 10,535 shares of the combined company s stock after the merger) exercisable at a price equal to the last reported sale price on the day prior to the maturity date of the notes on the primary market on which the shares of the combined company are traded or, if the merger does not occur, at the fair market value of the shares as determined by the board of directors of St. Bernard. These notes are secured by a lien on substantially all of the assets of St. Bernard, subject to the lien of St. Bernard s existing senior lender; and

•

if Sand Hill liquidates prior to the consummation of a business combination, Humphrey P. Polanen, chairman of the board and chief executive officer, will be personally liable to pay debts and obligations, if any, to creditors that are owed money by Sand Hill in excess of the net proceeds of Sand Hill s initial public offering not held in the trust account. As of the date of this joint proxy statement/prospectus such amounts are estimated to be approximately $400,000 at the closing of the merger.

Interests of Officers and Directors of St. Bernard in the Merger

You should understand that some of the current officers and directors of St. Bernard have interests in the merger that are different from, or in addition to, your interest as a Sand Hill or St. Bernard stockholder. These interests include, among other things:

•

After the completion of the merger, several of the present directors of St. Bernard, specifically, Messrs. John E. Jones, Bart van Hedel and a third person yet to be named will remain as directors of the combined company;

•

After the completion of the merger, the current officers of St. Bernard will remain as officers of the combined company;

•

The Broomfield Family Trust, an affiliate of Scott Broomfield, a director and officer of Sand Hill, and BeeBird Beheer B.V., an affiliate of Bart van Hedel a director of St. Bernard, have made available $125,000 and $375,000, respectively, to St. Bernard, as a bridge loan pursuant to secured promissory notes. Amounts borrowed under the notes are due on November 25, 2006 and bear interest at 12%. In connection with the execution of the notes, the Broomfield Family Trust and BeeBird Beheer B.V. received warrants for an aggregate of 25,000 shares of common stock of St. Bernard (which equates to 10,535 shares of the combined company s stock after the merger) exercisable at a price equal to the last reported sale price on the day prior to the maturity date of the notes on the primary market on which the shares of the combined company are traded or, if the merger does not occur, at the fair market value of the shares as determined by the bo ard of directors of St. Bernard. These notes are secured by a lien on substantially all of the assets of St. Bernard, subject to the lien of St. Bernard s existing senior lender; and

•

The directors and executive officers of St. Bernard hold stock options granted to them under various St. Bernard Stock Option Plans. Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard s 1992, 2000 and 2005 Stock Option Plans, whether vested or unvested, will be fully accelerated pursuant to its terms, and assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the applicable stock option plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0. 421419. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which such option was exercisable by the conversion ratio of 0.421419.

The table below sets forth, as of March 31, 2006, information with respect to options under the 1992 Stock Option Plan, 2000 Stock Option Plan and 2005 Stock Option Plan held by each of St. Bernard s current executive officers and directors.

STOCK OPTIONS ISSUED TO OFFICERS AND DIRECTORS

OF ST. BERNARD SOFTWARE(1)

Name	Number of Options Held	Number of Options Vested	Number of Unvested Options Held
Mr. John E. Jones, Chief Executive Officer, President and Director	170,000	170,000	
Mr. Bart A.M. van Hedel, Director	95,000	88,889	6,111
Mr. Robert G. Copeland, Director	95,000	88,889	6,111
Mr. Mel Lavitt, Director	34,723	28,612	6,111
Mr. Al Riedler, Chief Financial Officer	90,167	67,504	22,663

(1)

The table sets forth the aggregate total number of options granted by St. Bernard to the individuals listed. Each of the individuals listed received multiple option grants from St. Bernard, at various exercise prices depending on the date of grant. The exercise prices for the option grants range from $0.11 per share to $0.50 per share.

Conditions to the Completion of the Merger

Each of Sand Hill s and St. Bernard s obligation to effect the merger is subject to the satisfaction or waiver of specified conditions before completion of the merger, including the following:

Conditions to Sand Hill s and St. Bernard s obligation

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The receipt of the Sand Hill stockholder approval;

•

The receipt of the St. Bernard stockholder approval;

•

the effectiveness of the registration statement pursuant to which the shares of Sand Hill s common stock have been registered with the U.S. Securities and Exchange Commission, and the absence of a stop order suspending the effectiveness of the registration statement or the use of this joint proxy statement/
prospectus, or any proceedings for such purposes;

•

the absence of any order or injunction preventing consummation of the merger;

•

the absence of any suit or proceeding by any governmental entity or any other person challenging the merger or seeking to obtain from St. Bernard, Sand Hill or Sand Hill Merger Corp. any damages;

•

at the Sand Hill special meeting, holders of less than 20% of the shares of common stock issued in Sand Hill s initial public offering will have voted against the adoption of the merger proposal and demanded that Sand Hill convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering are held;

•

at the time of consummation of the merger, the board of directors of Sand Hill must determine that the fair market value of St. Bernard is at least 80% of the net assets of Sand Hill; and

•

at the time of consummation of the merger Sand Hill must have in the trust account at least $21,350,000, plus accrued interest from July 31, 2005, less any amounts required to redeem shares of Sand Hill common stock properly converted. At May 26, 2006, Sand Hill had $21,025,000 in the trust account, and accreted interest of $1,084,631.

Conditions to Sand Hill s obligation

The obligation of Sand Hill and Sand Hill Merger Corp. to effect the merger are further subject to the following conditions:

•

St. Bernard s representations and warranties in the merger agreement that are qualified as to materiality must be true and correct and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the merger, except for representations and warranties in the merger agreement that address matters as of another date, which must be true and correct as of that other date, and Sand Hill must have received a certificate from the chief executive officer and the chief financial officer of St. Bernard to that effect;

- St. Bernard must have performed in all material respects all obligations required to be performed by it under the merger agreement and Sand Hill must have received a certificate from the chief executive officer and the chief financial officer of St. Bernard to that effect;

- there must not have occurred since the date of the merger agreement any material adverse effect on St. Bernard;

- St. Bernard, the escrow agent and the other parties signatory to the Escrow Agreement shall have executed and delivered the Escrow Agreement;

- each of the affiliates of St. Bernard shall have executed and delivered a written agreement substantially in the form attached to the merger agreement;

- each of the executive officers and directors of St. Bernard shall have executed a lock-up agreement;

- counsel for St. Bernard shall have delivered a legal opinion substantially in the form attached to the merger agreement; and

- St. Bernard shall have obtained any necessary third-party consents to the merger.

Conditions to St. Bernard s obligation

The obligation of St. Bernard to effect the merger is further subject to the following conditions:

- Sand Hill s and Sand Hill Merger Corp. s representations and warranties in the merger agreement that are qualified as to materiality must be true and correct and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the merger, except for representations and warranties that address matters as of another date, which must be true and correct as of that date, and St. Bernard must have received a certificate from the chief executive officer and the chief financial officer of Sand Hill to that effect;

- Sand Hill and Sand Hill Merger Corp. must have performed in all material respects all obligations required to be performed by them under the merger agreement and St. Bernard must have received a certificate from the chief executive officer and the chief financial officer of Sand Hill to that effect;

- there must not have occurred since the date of the merger agreement any material adverse effect on Sand Hill;

- Sand Hill, the escrow agent, and the other parties to be signatory to the Escrow Agreement shall have executed and delivered the Escrow Agreement; and

- St. Bernard shall have received a written opinion from Duane Morris LLP, counsel to St. Bernard, dated on or before the closing date, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

If permitted under applicable law, either St. Bernard or Sand Hill may waive conditions for the benefit of itself and its stockholders and complete the merger even though one or more of these conditions have not been met. We cannot assure you that all of the conditions will be satisfied or waived or that the merger will occur.

No Solicitation

The merger agreement contains detailed provisions prohibiting each of St. Bernard and Sand Hill from seeking an alternative transaction. The no solicitation covenant of St. Bernard generally prohibits St. Bernard, as well as its officers, directors, employees, representatives or agents, from taking any action to solicit an acquisition proposal as described on pages 42-43 of the merger agreement. The merger agreement does not, however, prohibit St. Bernard from considering a superior proposal from a third party in the circumstances described under *The Merger Agreement No Solicitation by St. Bernard* on page 79. The no solicitation covenant of Sand Hill generally prohibits Sand Hill, as well as its stockholders, officers, directors, employees, representatives or agents, from taking any action to solicit an acquisition proposal as described on pages 46-47 of the merger agreement. The merger agreement does not, however, pr ohibit Sand Hill from engaging in discussions or issuing indications of interest to parties in the IT security industry under certain conditions, as long as Sand Hill does not enter into or negotiate the terms of a letter of intent or similar agreement related to a business combination until after certain conditions have been met as described under *The Merger Agreement No Solicitation by Sand Hill* on page 80.

Termination

The merger agreement may be terminated at any time prior to the consummation of the merger, whether before or after receipt of the Sand Hill stockholder approval, by mutual written consent of Sand Hill, Sand Hill Merger Corp. and St. Bernard. Sand Hill and St. Bernard have agreed to extend the date on which the merger agreement may be terminated from June 30, 2006 to July 28, 2006.

Termination by either St. Bernard or Sand Hill

Either St. Bernard or Sand Hill may terminate the merger agreement if:

- the merger is not consummated on or before June 30, 2006;

- any governmental entity issues an order, decree or ruling or takes any other action permanently enjoining, restraining or otherwise prohibiting the merger and such order, decree, ruling or other action will have become final and nonappealable;

- any condition to the obligation of such party to consummate the merger becomes incapable of satisfaction prior to June 30, 2006; or

- at the special meeting, the Sand Hill stockholder approval is not obtained or the holders of 20% or more of the shares of common stock issued in Sand Hill s initial public offering have voted against the merger and demanded that Sand Hill convert their shares into cash pursuant to the terms of Sand Hill s certificate of incorporation.

Termination by Sand Hill

Sand Hill may terminate the merger agreement if:

- St. Bernard breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement which breach or failure to perform would give rise to the failure of specified conditions in the merger agreement and cannot be or has not been cured within 30 days after the giving of written notice to St. Bernard of such breach or by June 30, 2006, if earlier;

- a special meeting of the St. Bernard stockholders is not held within 25 days after the effective date of the registration statement of which this joint proxy statement/prospectus is a part;

- at the special meeting of St. Bernard s stockholders, the St. Bernard stockholders do not approve the merger;

- St. Bernard s board of directors has withdrawn or adversely modified its recommendation in favor of the merger;

- St. Bernard s board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;

- St. Bernard s board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of St. Bernard s voting power or assets that account for 15% or more of St. Bernard s net revenues, net income or assets; or

- St. Bernard s board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that St. Bernard s board of directors determines in good faith is superior to the merger with Sand Hill and that it is required to submit such alternative proposal to its stockholders in the exercise of its fiduciary duties.

Termination by St. Bernard

St. Bernard may terminate the merger agreement if:

- Sand Hill breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement which breach or failure to perform would give rise to the failure of specified conditions in the merger agreement and cannot be or has not been cured within 30 days after the giving of written notice to Sand Hill of such breach or by June 30, 2006, if earlier;

- A special meeting of the Sand Hill stockholders is not held within 60 days after the effective dates of the registration statement of which this joint proxy statement/prospectus is a part;

- At the special meeting of the Sand Hill stockholders, the Sand Hill stockholders do not approve the merger;

- Sand Hill s board of directors has withdrawn or adversely modified its recommendation in favor of the merger;

- Sand Hill s board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;

- Sand Hill s board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of Sand Hill s voting power or assets that account for 15% or more of Sand Hill s net revenues, net income or assets; or

- Sand Hill s board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that Sand Hill s board of directors determines in good faith is superior to the merger with St. Bernard and that it is required to submit such alternative proposal to its stockholders in the exercise of its fiduciary duties.

Termination Fee; Expenses

St. Bernard has agreed to pay Sand Hill a termination fee of $1,750,000, net of any expenses already reimbursed by St. Bernard to Sand Hill if the merger agreement is terminated by Sand Hill for specified reasons and St. Bernard completes an alternative acquisition proposal within one year of that termination. Each of Sand Hill and St. Bernard has agreed to pay the expenses of the other incurred in connection with the merger agreement, up to $300,000, if the merger agreement is terminated in the circumstances described under the *The Merger Agreement Termination Fee and Expenses* on page 86 hereof.

Quotation or Listing

Sand Hill s outstanding common stock, warrants and units are currently quoted on the Over-the-Counter Bulletin Board. Sand Hill will use its best efforts to cause its outstanding shares of common stock and warrants and the shares of common stock to be issued in the merger to be approved for quotation on the Nasdaq Stock Market or, if they are not eligible for quotation on Nasdaq, to be listed on the American Stock Exchange, prior to the consummation of the merger.

Amendment and Restatement of Sand Hill Certificate of Incorporation

As part of the merger agreement Sand Hill agreed to amend and restate the Sand Hill certificate of incorporation to, among other things, remove the provisions related to the protective provisions related to a business combination put in place when Sand Hill completed its initial public offering as a result of Sand Hill being a Targeted Acquisition Corporation. The amended and restated Sand Hill certificate of incorporation is attached to this document as *Annex B*. The changes to the Sand Hill certificate of incorporation will not be effective unless the merger is completed.

Officers and Directors After the Merger

The combined company will be managed by the current management of St. Bernard. John E. Jones, who is currently the President and Chief Executive Officer of St. Bernard, will become the President and Chief Executive Officer of the combined company. Alfred Riedler, who is currently the Chief Financial Officer of St. Bernard, will become the Chief Financial Officer of the combined company. Bart van Hedel and Mel Lavitt, who are currently on the board of directors of St. Bernard, will continue as board members of the combined company. Humphrey P. Polanen, who is currently the Chairman of the Board and Chief Executive Officer of Sand Hill, will continue as Chairman of the Board of the combined company. Scott R. Broomfield, who is currently the Executive Vice President of Corporate Development and on the board of directors of Sand Hill, will continue as a board member of the combined company. In addition, Lou Ryan has agreed to serve on the board of directors of the combined company upon the consummation of the merger. Mr. Ryan is currently an advisor to Sand Hill.

Indemnification and Stock Escrow Agreement

At the time of the consummation of the merger, Sand Hill will deposit with American Stock Transfer & Trust Company, as escrow agent, 800,000 of the shares of common stock of Sand Hill to be issued in the merger. If, within 270 days of the date of the consummation of the merger, Sand Hill asserts a claim that St. Bernard breached any representation or warranty in the merger agreement, or covenant requiring performance prior to the consummation of the merger, then, subject to the resolution or arbitration of such claim in favor of Sand Hill, the escrow agent will return to Sand Hill a portion of the shares of Sand Hill common stock held in escrow with a value equal to the damages caused by such breach, up to a maximum of the total number of shares of Sand Hill common stock held in escrow. The number of shares to be returned will be based on a per share price of $5.10. The escrowed shares will only be available to satisfy Sand Hill claims tha t are made within 270 days after the completion of the merger. Two hundred seventy days after completion of the merger any remaining escrowed shares that have not been used to satisfy indemnification claims by Sand Hill will be released to the former stockholders of St. Bernard. The complete text of the stock escrow agreement that will govern these matters is attached as Exhibit E of *Annex A.* We encourage all stockholders to read the stock escrow agreement in its entirety.

Material United States Federal Income Tax Consequences of the Merger

It is the opinion of Duane Morris LLP, counsel to St. Bernard, that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

It is the opinion of Duane Morris LLP, counsel to St. Bernard, that St. Bernard stockholder s receipt of Sand Hill common stock in the merger will be tax-free for United States federal income tax purposes. However, a St. Bernard stockholder who exercises his or her appraisal rights and who receives cash in exchange for his or her shares of St. Bernard common stock generally will recognize gain or loss measured by the difference between the amount of cash received and the tax basis of such stockholders shares of St. Bernard common stock.

A stockholder of Sand Hill who exercises conversion rights and effects a termination of the stockholder s interest in Sand Hill will generally be required to recognize capital gain or loss upon the exchange of that stockholder s shares of common stock of Sand Hill for cash, if such shares were held as a capital asset on the date of the merger. Such gain or loss will be measured by the difference between the amount of cash received and the tax basis of that stockholder s shares of Sand Hill common stock. No gain or loss will be recognized by non-converting stockholders of Sand Hill.

No gain or loss will be recognized by Sand Hill or St. Bernard as a result of the merger. For a description of the material federal income tax consequences of the merger, please see the information set forth in *Material Federal Income Tax Consequences of the Merger* on page 69.

Accounting Treatment

The merger will be accounted for under the reverse acquisition application of the equity recapitalization method of accounting in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method of accounting, Sand Hill will be treated as the acquired company for financial reporting purposes. In accordance with guidance applicable to these circumstances, the merger will be considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger will be treated as the equivalent of St. Bernard issuing stock for the net monetary assets of Sand Hill, accompanied by a recapitalization. The net monetary assets of Sand Hill will be stated at their fair value, essentially equivalent to historical costs, with no goodwill or other intangible assets recorded. The accumulated deficit of St. Bernard will be carried forward after the merger. Operations prior to the merger will be those of St. Bernard and subsequent to the merger will be those of the combined company.

Regulatory Matters

The merger and the transactions contemplated by the merger agreement are not subject to any federal or state regulatory requirement or approval, including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or HSR Act, except for filings necessary to effectuate the transactions contemplated by the merger proposal with the Secretary of State of the State of Delaware.

SELECTED HISTORICAL AND UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

We are providing the following financial information to assist you in your analysis of the financial aspects of the merger. We derived the St. Bernard historical information from the audited consolidated financial statements of St. Bernard as of and for each of the years ended December 31, 2005, 2004 and 2003 and from the unaudited consolidated financial statements as of and for the three months ended March 31, 2006. The information as of and for the years ended December 31, 2002, 2001 and 2000 was derived from St. Bernard s unaudited consolidated financial statements which are not contained in this joint proxy statement/prospectus. We derived the Sand Hill historical information from the audited financial statements of Sand Hill for the period from April 15, 2004 (inception) to December 31, 2004, and as of and for each of the years ended December 31, 2005 and 2004 (from inception) and from the unaudited financial statements as of and for the three months ended March 31, 2006. The information is only a summary and should be read in conjunction with each company s historical consolidated financial statements and related notes contained elsewhere herein. The historical results included below and elsewhere in this document are not indicative of the future performance of St. Bernard, Sand Hill or the combined company.

Sand Hill Selected Historical Financial Data

The following table sets forth selected historical financial data of Sand Hill. The information presented below was derived from Sand Hill s audited consolidated financial statements as of December 31, 2005 and 2004 and for the period from April 15, 2004 (inception) to December 31, 2005 and 2004 and from the unaudited financial statements as of and for the three months ended March 31, 2006. This information is only a summary. You should read it together with Sand Hill s historical consolidated financial statements and accompanying notes in this joint proxy statement/prospectus.

(Dollars in thousands except share information)

Consolidated Statement of Operations Data:	**(unaudited) Three Months Ended March 31, 2006**	**(unaudited) Three Months Ended March 31, 2005**	**Period from April 15, 2004 (inception) to March 31, 2006**	**Period from April 15, 2004 (inception) to December 31, 2005**	**Period from April 15, 2004 (inception) to December 31, 2004**
Net revenue	$ 0	$ 0	$ 0	$ 0	$ 0
Operating income (loss)	$ (171)	$ (172)	$ (1,469)	$ (1,299)	$ (192)
Interest income	$ 222	$ 124	$ 1,003	$ 780	$ 142
Warrant liability expense	$ (896)	$ 411	$ (1,972)	$ (1,077)	$ 0
Net income (loss) income	$ (845)	$ 363	$ (2,439)	$ (1,595)	$ (50)
Net income (loss) income per share basic	$ (0.17)	$ 0.10	$ (0.54)	$ (0.36)	$ (0.01)
Net income (loss) per share diluted	$ (0.17)	$ 0.00	$ (0.54)	$ (0.36)	$ (0.01)
Shares used basic	5,110,000	3,468,784	4,518,884	4,433,893	3,468,786
Shares used diluted	5,110,000	11,688,784	4,518,884	4,433,893	3,468,786

Consolidated Balance Sheet Data:	**(unaudited) March 31, 2006**	**December 31, 2005**	**December 31, 2004**
Cash and cash equivalents	$ 21,953	$ 21,804	$ 21,884
Working capital	$ 14,304	$ 15,141	$ 16,657
Total assets	$ 21,964	$ 21,816	$ 22,016
Warrant liability	$ 7,316	$ 6,420	$ 5,343
Common stock subject to possible conversion	$ 4,369	$ 4,344	$ 4,218
Stockholder equity	$ 9,935	$ 10,797	$ 12,439
Common stock issued and outstanding	5,110,000	5,110,000	5,110,000
Book value per common share	$ 1.94	$ 2.11	$ 2.43

St. Bernard Selected Historical Financial Data

The following table sets forth selected historical financial data of St. Bernard. The information presented below was derived from St. Bernard s audited consolidated financial statements as of December 31, 2005, 2004 and 2003 and unaudited consolidated financial statements as of and for the three months ended March 31, 2006. The information as of and for the years ended December 31, 2002 and 2001 was derived from St. Bernard s unaudited consolidated financial statements which are not contained in this joint proxy statement/prospectus. The information is only summary. You should read it together with St. Bernard s historical consolidated financial statements and accompanying notes in this joint proxy statement/prospectus.

Dollars and shares in thousands **Consolidated Statement of Operations Data:**	**(unaudited) Three Months Ended March 31, 2006**	**(unaudited) Three Months Ended March 31, 2005**	**Year Ended December 31,** **2005**	**2004**	**2003**	**(unaudited) 2002(1)**	**(unaudited) 2001**
Net revenue	$ 5,269	$ 5,571	$ 23,985	$ 21,174	19,790	$ 14,351	$ 11,287
Operating loss	$ (1,172)	$ (1,176)	$ (2,670)	$ (7,774)	$ (530)	$ (868)	$ (1,913)
Interest expense	$ (79)	$ (77)	$ 263	$ 240	$ 285	$ 301	$ 111
Net loss	$ (1,251)	$ (1,252)	$ (2,961)	$ (7,962)	$ (309)	$ (1,277)	$ (1,772)
Net loss per share basic and diluted	$ (0.05)	$ (0.06)	$ (0.13)	$ (0.39)	$ (0.02)	$ (0.07)	$ (0.10)
Weighted average shares outstanding	22,231	20,875	22,157	20,503	19,434	18,316	18,206
Common stock issued and outstanding	23,251	23,197	23,197	20,860	19,434	19,432	18,205
Book value per common share	$ (0.42)	$ (0.37)	$ (0.37)	$ (0.33)	$ 0.03	$ 0.06	$ 0.13

Consolidated Balance Sheet Data:	**(unaudited) March 31, 2006**	**As of December 31,** **2005**	**2004**	**2003**	**(unaudited) 2002**	**(unaudited) 2001**
Cash and equivalents	$ 2	9	557	1,111	$ 5	$ 51
Working capital (deficit)	$ (11,081)	$ (9,700)	$ (9,420)	$ (2,556)	$ (1,320)	$ (784)
Total assets	$ 11,031	$ 12,192	$ 11,454	$ 11,481	$ 8,015	$ 7,663
	$ 15,620	$ 16,071	$ 13,200	$ 8,479	$ 4,370	$ 2,965

Deferred revenue												
Long term obligation less current portion	$	0	$	5	$	40	$	33	$	0	$	300
Stockholder equity (deficit)	$	(9,793)	$	(8,555)	$	(6,812)	$	650	$	1,136	$	2,274

(1)

Effective January 1, 2002, St. Bernard adopted the provisions of SFAS No. 142.

SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The merger will be accounted for as a reverse acquisition application of the equity recapitalization method of accounting. Accordingly, although the merger is structured such that St. Bernard will become a wholly-owned subsidiary of Sand Hill at closing, St. Bernard will be treated as the acquirer for accounting and financial reporting purposes. The assets and liabilities of Sand Hill will be recorded, as of completion of the merger, at their respective historical cost, which is considered to be the equivalent of fair value and added to those of St. Bernard. For a more detailed description of purchase accounting, see *The Merger Proposal Anticipated Accounting Treatment* on page72.

We have presented below selected unaudited pro forma combined financial information that reflects the equity recapitalization method of accounting and is intended to provide you with a better picture of what our business might have looked like had St. Bernard and Sand Hill actually combined. The combined financial information may have been different had the companies actually been combined. The selected unaudited pro forma combined financial information does not reflect the effect of asset dispositions, if any, or cost savings that may result from the merger. You should not rely on the selected unaudited pro forma combined financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the merger. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial statements and related notes thereto included elsewhere in this document.

The selected unaudited pro forma combined financial data is based on estimates and assumptions that are preliminary. The data is presented for informational purposes only and is not intended to represent or be indicative of the consolidated results of operations or financial condition of St. Bernard Software that would have been reported had the proposed merger been completed as of the date presented, and should not be taken as representative of future consolidated results of operations or financial condition of St. Bernard Software.

Pro Forma Condensed
Consolidated Statement of Operations Data:
Dollars and shares in thousands

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
Assumes no conversions (1)		
Net revenue	$ 5,269	$ 23,985
Operating loss	$ (1,343)	$ (3,776)
Warrant Liability Expense	$ (896)	$ (1,077)
Interest expense	$ (79)	$ (263)
Net loss	$ (2,096)	$ (4,507)
Net loss per share basic	$ (0.14)	$ (0.30)
Shares used basic and diluted	14,892	14,867

Pro Forma Condensed
Consolidated Balance Sheet Data:
Dollars in thousands

		March 31, 2006
Cash and cash equivalents	$	19,431
Working capital	$	698
Total assets	$	30,470
Warrant Liability	$	7,316
Deferred Revenue	$	15,620
Long-term obligations less current portion	$	
Stockholder equity	$	1,986

	Three months ended March 31, 2006		Year ended December 31, 2005	
	Assuming No Conversions (1)	Assuming Maximum Conversions (2)	Assuming No Conversions (1)	Assuming Maximum Conversions (2)
	(In thousands)		(In thousands)	
Revenue	$ 5,269	5,269	$ 23,985	$ 23,985
Net loss	(2,096)	2,118	(4,507)	(4,594)
Net loss per share	(0.14)	(0.15)	(0.30)	(0.33)
Shares used basic and diluted	14,892	14,074	14,867	14,049

	March 31, 2006	
	Assuming No Conversions (1)	Assuming Maximum Conversions (2)
	(In thousands)	
Total assets	$ 30,470	$ 26,101
Total liabilities	28,484	24,484
Stockholders equity	1,986	(2,383)

Notes:

(1) Assumes that no Sand Hill stockholders seek conversion of their Sand Hill stock into their pro rata share of the trust fund.

(2) Assumes that 19.9% shares of Sand Hill common stock were redeemed into their pro rata share of the trust fund.

COMPARATIVE PER SHARE INFORMATION

The following table sets forth selected historical per share information of St. Bernard and Sand Hill and unaudited pro forma combined per share information after giving effect to the merger between St. Bernard and Sand Hill, under the reverse acquisition application of the equity recapitalization method of accounting, assuming a maximum level and a minimum level of approval of the merger by Sand Hill stockholders. You should read this information in conjunction with the selected historical financial information, included elsewhere in this document, and the historical financial statements of St. Bernard and Sand Hill and related notes that are included elsewhere in this document. The unaudited St. Bernard pro forma combined per share information is derived from, and should be read in conjunction with, the Unaudited Pro Forma Condensed Combined Financial Statements and related notes included elsewhere in this proxy statement. The historical per share information is derived from financial statements as of and for the three months ended March 31, 2006 and as of and for the year ended December 31, 2005, and the period from April 15, 2004 (inception to March 31, 2006 and from April 15, 2004 (inception) to December 31, 2005 with respect to Sand Hill.

The unaudited pro forma combined per share information does not purport to represent what the actual results of operations of St. Bernard and Sand Hill would have been had the companies been combined or to project St. Bernard and Sand Hill s results of operations that may be achieved after the merger.

Number of shares of common stock outstanding upon consummation of the merger:	**St. Bernard**	**Sand Hill(1)**	**Combined Company**
Assuming no conversions	9,782,357	5,110,000	14,892,357
	65.7 %	34.3 %	100 %
Assuming maximum conversions	9,782,357	4,292,110	14,074,467
	69.5 %	30.5 %	100 %
Net loss per share historical:			
Year ended December 31, 2005:	$ (0.13)	$ (0.30)(2)	
Book value per share Historical December 31, 2005	$ (0.37)	$ 2.11 (4)	
Net loss per share pro forma: (2)			
Year ended December 31, 2005:			
No conversions			$ (0.30)
Maximum conversions (3)			$ (0.33)
Three Months Ended March 31, 2006:			
No conversions			$ (0.14)
Maximum conversions (3)			$ (0.16)
Book value per share pro forma March 31, 2006			
No conversions			$ 0.13
Maximum conversions (3)			$ (0.17)

Notes:

(1)

Operations of Sand Hill for 2005 are for the period from April 15, 2004 (inception) to December 31, 2005 and April 15, 2004 (inception) to March 31, 2006.

(2)

Consolidated pro forma per share amounts for Sand Hill and St. Bernard were determined based upon the assumed number of shares to be outstanding under the two different levels of conversion rights.

(3)

This calculation includes shares of common stock subject to conversion only in the event that minimum approval of the merger is obtained.

(4)

Historical book value per share for Sand Hill was computed based on the book value of Sand Hill at December 31, 2005 $17,217,036 plus common stock, subject to possible conversion $4,343,935 divided by the 5,110,000 issued and outstanding shares of Sand Hill common stock at December 31, 2005.

PER SHARE MARKET PRICE INFORMATION

The closing price for the common stock, warrants and units of Sand Hill on Wednesday, October 26, 2005, the last trading day before announcement of the execution of the merger agreement was $5.27, $1.51 and $8.35, respectively. Sand Hill s common stock, warrants and units are each quoted on the Over-the-Counter Bulletin Board under the symbols SHQC, SHQCW and SHQCU, respectively. Sand Hill s units commenced public trading on July 27, 2004 and its common stock and warrants commenced public trading on August 24, 2004.

In connection with the merger, application will be made for the quotation of the combined company s common stock and warrants on the Nasdaq Stock Market or, if they are not eligible for quotation on Nasdaq, to be listed on the American Stock Exchange.

As of May 26, 2006, there was one holder of record of Sand Hill units, eight holders of record of Sand Hill common stock and one holder of record of Sand Hill warrants. Sand Hill believes the beneficial holders of the units, common stock and warrants to be in excess of 100 persons each. As of May 26, 2006, there were 141 holders of record of St. Bernard common stock.

The capital stock of St. Bernard is not publicly traded, and no market information related to its capital stock is available.

Neither Sand Hill nor St. Bernard have paid any cash dividends on their common stock to date and do not intend to pay dividends prior to the completion of the merger. The payment of dividends in the future will be contingent upon revenues and earnings, if any, capital requirements and general financial condition subsequent to completion of a business combination. The payment of any dividends subsequent to the merger will be within the discretion of the then board of directors. It is the present intention of the board of directors to retain all earnings, if any, for use in the business operations and, accordingly, the board does not anticipate declaring any dividends in the foreseeable future.

The table below sets forth, for the calendar quarters indicated, the high and low bid prices of the Sand Hill common stock, warrants and units as reported on the Over-the-Counter Bulletin Board. The over-the-counter market quotations reported below reflect inter-dealer prices, without markup, markdown or commissions and may not represent actual transactions.

	Common Stock		**Warrants**		**Units**	
Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**
December 31, 2004	$ 4.95	$ 4.55	$ 0.70	$ 0.43	$ 6.20	$ 5.42
March 31, 2005	$ 5.25	$ 4.80	$ 0.95	$ 0.55	$ 7.25	$ 6.00
June 30, 2005	$ 5.47	$ 4.91	$ 0.96	$ 0.56	$ 7.25	$ 6.00
September 30, 2005	$ 5.50	$ 5.10	$ 1.60	$ 0.75	$ 8.51	$ 6.45
December 31, 2005	$ 5.50	$ 5.10	$ 1.70	$ 0.77	$ 8.80	$ 6.60
March 31, 2006	$ 5.35	$ 5.19	$ 1.17	$ 0.77	$ 7.50	$ 6.95
Through May 26, 2006	$ 5.38	$ 5.19	$ 0.90	$ 0.56	$ 7.00	$ 6.40

RISK FACTORS

You should carefully consider the following risk factors, together with all of the other information included in this joint proxy statement/prospectus, before you decide whether to vote or instruct your vote to be cast to adopt the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

Risks Related to St. Bernard s Business

Because St. Bernard derives a majority of its license revenue from sales of a few product lines, any decline in demand for these products could severely harm its ability to generate revenue and its results of operations.

St. Bernard derives a majority of its revenue from a small number of software products, including its iPrism, ePrism, Update Expert and Open File Manager and related subscription and maintenance services. In particular, St. Bernard s future success depends in part on achieving substantial revenue from customer renewals for subscriptions. St. Bernard s customers have no obligation to renew their subscriptions upon expiration. If St. Bernard s products fail to meet the needs of its existing and target customers, or if they do not compare favorably in price and performance to competing products, St. Bernard s growth will be limited. Subscriptions typically have durations of 12, 24 or 36 months. As a result, a majority of the revenue it reports in each quarter is deferred revenue from subscription agreements entered into and paid for during previous quarters. Because of this financial model, the revenue it reports in any quarter or series of quarters may mask significant downturns in sales and the market acceptance of its products. In addition, its products are concentrated on the small and medium enterprise, or SME, environment. St. Bernard is particularly vulnerable to fluctuations in demand for these products, whether as a result of competition, product obsolescence, technological change, budget constraints of its potential customers or other factors. If St. Bernard s revenue derived from these software products were to decline significantly, including as a result of customers not renewing subscriptions, its business and operating results would be adversely affected.

St. Bernard has a history of losses and negative cash flow and there can be no assurances that St. Bernard will become profitable or achieve positive cash flow.

St. Bernard has a history of losses and has not been able to achieve profitability. There can be no assurances that St. Bernard will become or remain profitable or that losses and negative cash flows will not continue to occur.

If St. Bernard fails to manage its direct sales and OEM distribution channels effectively its sales could decline.

St. Bernard markets its products and related services both directly to end-users and through a variety of indirect sales channels, which include VARs, distributors, system integrators and OEMs.

Direct Sales. A significant portion of St. Bernard s revenue is derived from sales by its direct sales force to end-users. This sales channel involves a number of special risks, including:

- longer sales cycles associated with direct sales efforts;

- difficulty in hiring, training, retaining and motivating a direct sales force; and

- the requirement of a substantial amount of training for sales representatives to become productive, and training that must be updated to cover new and revised products.

OEMs. A portion of St. Bernard s revenue is derived from sales through its OEM partners that incorporate St. Bernard s products into their products. St. Bernard s reliance on this sales channel involves a number of special risks, including:

- its lack of control over the shipping dates or volume of systems shipped;
- its OEM partners are not subject to minimum sales requirements or any obligation to market its products to their customers;
- its OEM partners may terminate or renegotiate their arrangements with St. Bernard and new terms may be less favorable in recognition of its increasingly competitive relationship with certain partners;
- the development work that St. Bernard must generally undertake under its agreements with its OEM partners may require St. Bernard to invest significant resources and incur significant costs with little or no associated revenue;

- the time and expense required for the sales and marketing organizations of its OEM partners to become familiar with its products may make it more difficult to introduce those products to the market;

- St. Bernard s OEM partners may develop, market and distribute their own products and market and distribute products of St. Bernard s competitors, which could reduce its sales; and

- if St. Bernard fails to manage its distribution channels successfully, its distribution channels may conflict with one another or otherwise fail to perform as St. Bernard anticipates, which could reduce its sales and increase its expenses, as well as weaken its competitive position.

If the combined company is unable to maintain and expand, or enter into new, indirect sales channels relationships its operating results would decline.

St. Bernard s indirect sales channels accounted for approximately 28.9% and 33.4% of its revenue in 2005 and 2004. The combined company intends to continue to rely on St. Bernard s indirect sales channels for a significant portion of its revenue. St. Bernard depends on its indirect sales channels, including value-added resellers, distributors, and providers of managed Internet services, to offer its products to a larger customer base than can be reached through a direct sales effort. None of these parties is obligated to continue selling St. Bernard s products or to make any purchases from St. Bernard. If they are unsuccessful in their efforts or are unwilling or unable to market and sell St. Bernard s new product offerings, St. Bernard s operating results will suffer. St. Bernard cannot control the level of effort these parties expend or the extent to which any of them will be successful in marketing and selling its p roducts. Some of St. Bernard s indirect sales channels also market and sell products that compete with its products or may decide to do so in the future. St. Bernard may not be able to prevent these parties from devoting greater resources to support its competitors products and/or eliminating their efforts to sell its products.

St. Bernard s international sales and operations involve special risks that could increase its expenses, adversely affect its operating results and require increased time and attention of its management.

St. Bernard derives less than 10% of its revenue from customers located outside of the U.S. and has operations outside of the U.S., including sales and customer support. The combined company plans to expand St. Bernard s international operations and St. Bernard s planned growth is contingent upon the successful expansion of its international revenue. St. Bernard s international operations are subject to risks in addition to those faced by its domestic operations, including:

- potential loss of proprietary information due to piracy, misappropriation or laws that may be less protective of St. Bernard s intellectual property rights than those in the U.S.;

-

imposition of foreign laws and other governmental controls, including trade and employment restrictions;

•

fluctuations in currency exchange rates and economic instability such as higher interest rates and inflation, which could reduce its customers ability to obtain financing for software products or which could make its products more expensive in those countries;

•

limitations on future growth or inability to maintain current levels of revenue from international sales if the combined company does not invest sufficiently in its international operations;

•

difficulties in hedging foreign currency transaction exposures;

•

longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;

•

difficulties in staffing, managing and operating international operations, including difficulties related to administering stock plans in some foreign countries;

•

difficulties in coordinating the activities of its geographically dispersed and culturally diverse operations;

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seasonal reductions in business activity in the summer months in Europe and in other periods in other countries;

•

costs and delays associated with developing software in multiple languages; and

•

war or terrorism, particularly in areas in which St. Bernard has facilities.

The market for St. Bernard s products continues to emerge, and if it is not successful in promoting awareness of the need for its products and of the St. Bernard brand, its growth may be limited.

Based on St. Bernard s experience with potential customers, St. Bernard believes that many corporations do not recognize or acknowledge the existence or scope of problems caused by misuse or abuse of the Internet or of network computers, creating significant barriers to sales. In addition, there may be a time-limited opportunity to achieve and maintain a significant share of the market for web filtering and email filtering and St. Bernard s other products due in part to the emerging nature of these markets and the substantial resources available to its existing and potential competitors. If companies do not recognize or acknowledge these problems, then the market for St. Bernard s products may develop more slowly than it expects, which could adversely affect its operating results. Developing and maintaining awareness of the St. Bernard brand is critical to achieving widespread acceptance of St. Bernard s existing and future products. Furthermore, St. Bernard believes that the importance of brand recognition will increase as competition in its market develops. Successful promotion of the St. Bernard brand will depend largely on the effectiveness of the combined company s marketing efforts and on its ability to develop reliable and useful products at competitive prices. If the combined company fails to successfully promote the St. Bernard brand, or if its expenses to promote and maintain the St. Bernard brand are greater than anticipated, its results of operations and financial condition could suffer.

If the combined company is not able to develop new and enhanced products that achieve widespread market acceptance, it may be unable to recover product development costs, and its earnings and revenue may decline.

St. Bernard s future success depends on its ability to address the rapidly changing needs of its customers by developing, acquiring and introducing new products, product updates and services on a timely basis. St. Bernard must also extend the operation of its products to new platforms and keep pace with technological developments and emerging industry standards. The combined company intends to commit substantial resources to developing new software products and services, including software products and services for the secure content management small and medium enterprise market. Products being developed are new and unproven, and industry standards for these markets are evolving and changing. They also may require development of new sales channels. If these markets do not develop as anticipated, or if demand for its products and services in these markets does not materialize or occurs more slowly than St. Bernard expects, the combined com pany will have expended substantial resources and capital without realizing sufficient revenue, and its business and operating results could be adversely affected.

St. Bernard incurs considerable expenses to develop products for operating systems that are either owned by others or that are part of the Open Source Community. If it does not receive cooperation in its development efforts from others and access to operating system technologies, St. Bernard may face higher expenses or fail to expand its product lines and revenues.

Many of St. Bernard s products operate primarily on the Linux, UNIX and Windows computer operating systems. As part of St. Bernard s efforts to develop products for operating systems that are part of the Open Source Community, St. Bernard may have to license portions of its products on a royalty free basis or may have to expose its source code. Open Source describes general practices in production and development which promote access to the end product s sources. The Open Source Community emphasizes collaborative development and requires licensing that allows modifications and enhancements of registered open source code be made available to whoever would like to use it. Developers who use open source code in proprietary products risk exposing the intellectual property developed in conjunction with the open source code to the public. St. Bernard continues to develop new products for these operating systems. It may not accomplish its development efforts quickly or cost-effectively, and it is not clear what the relative growth rates of these operating systems will be. St. Bernard s development efforts require substantial capital investment, the devotion of substantial employee resources and the cooperation of the owners of the operating systems to or for which the products are being ported or developed. If the market for a particular operating system does not develop as anticipated, or demand for St. Bernard s products and services in such market does not materialize or occurs more slowly than it expects, the combined company may have expended substantial resources and capital without realizing sufficient revenue, and its business and operating results could be adversely affected.

In addition, for some operating systems, St. Bernard must obtain from the owner of the operating system a source code license to portions of the operating system software to port some of its products to or develop products for the operating system. Operating system owners have no obligation to assist in these porting or development efforts. If they do not grant St. Bernard a license or if they do not renew its license, St. Bernard may not be able to expand its product lines into other areas.

St. Bernard faces increasing competition, which places pressure on its pricing and which could prevent St. Bernard from increasing revenue or maintaining profitability. In addition, St. Bernard may face competition from better-established companies that have significantly greater resources.

The market for St. Bernard s products is intensely competitive and is likely to become even more so in the future. St. Bernard s current principal competitors frequently offer their products at a significantly lower price than St. Bernard s products, which has resulted in pricing pressures on sales of St. Bernard s products. St. Bernard also faces increasing competition from security solutions providers who may add security modules or features to their product offerings. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of St. Bernard s products to achieve or maintain more widespread market acceptance, any of which could have a material adverse effect on its business, results of operations and financial condition.

St. Bernard also faces current and potential competition from vendors of operating systems and networking hardware, many of which now, or may in the future, develop and/or bundle security, file backup, patch management or other competitive products with their products. St. Bernard competes against, and expects increased competition from, anti-virus software developers, traditional network management software developers and Web management service providers. If security or file backup functions become standard features of internet-related hardware or software, the demand for St. Bernard s products will decrease. Furthermore, even if St. Bernard s products provide greater functionality and are more effective than certain other competitive products, potential customers might accept limited functionality as part of an unbundled solution in lieu of purchasing separate products which require more administration. In addition, St. Bernard&#14 6;s own indirect sales channels may decide to develop or sell competing products instead of its products. Many of St. Bernard s potential competitors have substantial competitive advantages, such as:

- greater name recognition and larger marketing budgets and resources;
- established marketing relationships and access to larger customer bases; and
- substantially greater financial, technical and other resources.

As a result, they may be able to respond more quickly and effectively than St. Bernard can to new or changing opportunities, technologies, standards or customer requirements. For all of the foregoing reasons, the combined company may not be able to compete successfully against St. Bernard s current and future competitors, and its results of operations could be adversely affected.

St. Bernard s database categories and its process for classifying websites and software applications within those categories are subjective, and it may not be able to categorize websites and software applications in accordance with its customers expectations.

St. Bernard may not succeed in accurately categorizing Internet and application content to meet its customers expectations. St. Bernard relies upon a combination of automated filtering technology and human review to categorize websites and software applications in its proprietary databases. St. Bernard s customers may not agree with its determinations that particular websites and software applications should be included or not included in specific categories of its databases. In addition, it is possible that the filtering processes may place objectionable material in categories that are generally unrestricted by St. Bernard s users Internet and computer access policies, which could result in employees having access to such material in the workplace. Any miscategorization could result in customer dissatisfaction and harm St. Bernard s reputation. Furthermore, St. Bernard selects its categories based on content it beli eves employers want to manage. St. Bernard may not now, or in the future, succeed in properly identifying the categories of content that employers want to manage. Any failure to effectively categorize and filter websites and software applications according to its customers expectations will impair the growth of St. Bernard s business and its efforts to increase brand acceptance.

If St. Bernard s databases fail to keep pace with the rapid growth and technological change of the Internet the market acceptance of its products could be impaired.

The success of St. Bernard s products depends, in part, on the breadth and accuracy of its databases. Although its databases currently catalog more than six million websites, they contain only a portion of such material that exists. In addition, the total number of websites is growing rapidly, and St. Bernard expects this rapid growth rate to continue in the future. St. Bernard s databases and database technologies may not be able to keep pace with the growth in the number of websites and software applications, especially the growing amount of content utilizing foreign languages. Further, the ongoing evolution of the Internet and computing environments will require it to continually improve the functionality, features and reliability of its databases. Because its products primarily can only manage access to websites included in its databases, if St. Bernard s databases do not contain a meaningful portion of relevant content, the effectiveness of iPrism and ePrism will be significantly diminished. Any failure of St. Bernard s databases to keep pace with the rapid growth and technological change of the Internet will impair the market acceptance of its products, which in turn will harm its business, results of operations and financial condition.

The combined company s business strategy includes possible growth through acquisitions, which involve special risks that could increase the combined company s expenses, and divert the time and attention of management.

As part of its business strategy, St. Bernard has in the past acquired product, technology and companies and the combined company expects in the future to acquire other businesses, business units and technologies. Acquisitions involve a number of special risks and challenges, including:

•

diversion of management s attention from St. Bernard s business;

•

integration of acquired business operations and employees into its existing business, including coordination of geographically dispersed operations, which can take longer and be more complex than initially expected;

•

incorporation of acquired products and business technologies into existing product lines, including consolidating technology with duplicative functionality or designed on different technological architecture, and the ability to sell the acquired products through existing or acquired sales channels;

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loss or termination of employees, including costs associated with the termination of those employees;

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dilution of then-current stockholders percentage ownership;

•

dilution of earnings if synergies with the acquired businesses are not achieved;

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inability to generate sufficient revenue to offset acquisition or investment costs;

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assumption of liabilities of the acquired businesses, including costly litigation related to alleged liabilities of the acquired businesses;

•

presentation of a unified corporate image to customers and employees;

•

increased costs and efforts in connection with compliance with Section 404 of the Sarbanes-Oxley Act; and

•

risk of impairment charges related to potential write-down of acquired assets in future acquisitions.

Acquisitions of businesses, business units and technologies are inherently risky and create many challenges. The combined company cannot provide any assurance that any future acquisitions will achieve the desired objectives. If the combined company fails to properly evaluate and execute acquisitions or investments, its business and prospectus may be seriously harmed.

St. Bernard s growth could strain its personnel and infrastructure resources, and if it is unable to implement appropriate controls and procedures to manage its growth, St. Bernard may not be able to successfully implement its business plan.

St. Bernard continues to experience rapid growth in its operations, which has placed, and will continue to place, a significant strain on its management, administrative, operational and financial infrastructure. St. Bernard s future success will depend in part upon the ability of its senior management to manage growth effectively. This will require the combined company to hire and train additional personnel to manage its expanding operations. In addition, the combined company will be required to continue to improve its operational, financial and management controls and its reporting systems and procedures. If the combined company fails to successfully manage its growth, it will be unable to execute its business plan.

St. Bernard products may contain significant errors and failures, which may subject it to liability for damages suffered by end-users.

Software products frequently contain errors or failures, especially when first introduced or when new versions are released. St. Bernard s end-user customers use its products in applications that are critical to their businesses, including for data protection and recovery, and may have a greater sensitivity to defects in St. Bernard s products than to defects in other, less critical software products. If a customer loses critical data as a result of an error in or failure of St. Bernard s software products or as a result of the customer s misuse of St. Bernard s software products, the customer could suffer significant damages and seek to recover those damages from St. Bernard. Although St. Bernard s software licenses generally contain protective provisions limiting its liability, a court could rule that these provisions are unenforceable. If a customer is successful in proving its damages and a court does not enforce St. Bernard s protective provisions, St. Bernard could be liable for the damages suffered by its customers and other related expenses, which could adversely affect its operating results.

Product errors or failures could cause delays in new product releases or product upgrades, or St. Bernard s products might not work in combination with other hardware or software, which could adversely affect market acceptance of St. Bernard s products. If St. Bernard s customers were dissatisfied with product functionality or performance, or if St. Bernard were to experience significant delays in the release of new products or new versions of products, it could lose competitive position and revenue and its business and operating results could be adversely affected.

Failure to protect its intellectual property rights could impair St. Bernard s ability to protect its proprietary technology and establish the St Bernard brand.

Intellectual property is critical to St. Bernard s success, and it relies upon trademark, copyright and trade secret laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect its proprietary technology and the St. Bernard brand. Any of its trademarks may be challenged by others or invalidated through administrative process or litigation. St. Bernard currently has only two issued patents in the United States and one corresponding issued patent internationally, and it may be unable to obtain further patent protection in the future. In addition, any issued patents may not provide St. Bernard with any competitive advantages, or may be challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to St. Bernard in every country in which its products are available. The laws of some foreign countries may not be as protective of intellectual property rights as United States laws, and mechanisms for enforcement of intellectual property rights may be inadequate. As a result St. Bernard s means of protecting its proprietary technology and brands may not be adequate. Furthermore, despite its efforts, St. Bernard may be unable to prevent third parties from infringing upon or misappropriating its intellectual property, including the misappropriation or misuse of the content of its proprietary database of websites. Any such infringement or misappropriation could have a material adverse effect on St. Bernard s business, results of operations and financial condition.

If St. Bernard is sued by third parties for alleged infringement of their proprietary rights the cost to litigate or settle such litigation could be material and there can be no assurance that St. Bernard would be successful in any such suit.

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of patent infringement or other violations of intellectual property rights. As the number of entrants into St. Bernard s market increases, the possibility of an intellectual property claim against it grows. St. Bernard s technologies and products may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming and expensive to litigate or settle, and could divert management attention from executing its business plan. There can be no assurance that St. Bernard would be successful in any such suit.

St. Bernard s systems may be vulnerable to security risks or service disruptions that could harm its business.

Although it has taken measures to secure its systems against security risks and other causes of disruption of electronic services, St. Bernard s servers are vulnerable to physical or electronic break-ins and service disruptions, which could lead to interruptions, delays, loss of data or the inability to process customer requests. Such events could be very expensive to remedy, could damage St. Bernard s reputation and could discourage existing and potential customers from using its products.

Evolving regulation of the Internet may affect St. Bernard adversely by imposing regulations on its activities or causing a decline in Internet usage.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. Such regulation is likely in the areas of user privacy, pricing, content and quality of products and services. Taxation of Internet use or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Laws and regulations applying to the solicitation, collection or processing of personal or consumer information could affect St. Bernard s activities. Furthermore, any regulation imposing fees for Internet use could result in a decline in the use of the Internet and the viability of Internet commerce, which could have a material adverse effect on St. Bernard s business, results of operations and financial condition.

The market price of the combined company s securities is likely to be highly volatile and subject to wide fluctuations.

The market price of Sand Hill s securities prior to the merger has been and likely will continue to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond its control, including:

- announcements of technological innovations or new products or services by its competitors;
- demand for its products, including fluctuations in subscription renewals;
- fluctuations in revenue from indirect sales channels;
- changes in the pricing policies of its competitors; and
- changes in government regulations.

In addition, the market price of the combined company s securities could be subject to wide fluctuations in response to a number of factors, including:

- announcements of technological innovations or new products or services by St. Bernard;
- changes in its pricing policies;
- quarterly variations in its revenues and operating expenses; and
- its technological capabilities to accommodate the future growth in its operations or its customers.

Further, the stock market has experienced significant price and volume fluctuations that have particularly affected the market price of the stock of many Internet-related companies, and that often have been unrelated or disproportionate to the operating performance of these companies. A number of publicly traded Internet-related companies have current market prices below their initial public offering prices. Market fluctuations such as these may seriously harm the market price of the combined company s securities. In the past, securities class action suits have been filed following periods of market volatility in the price of a company s securities. If such an action were instituted, the combined company would incur substantial costs and a diversion of management attention and resources, which would seriously harm its business, results of operations and financial condition.

Risks Related to the Merger

If 20% or more of the holders of Sand Hill s public securities decide to vote against the proposed acquisition, Sand Hill may be forced to liquidate, stockholders will receive less than $6.00 per share and the warrants will expire worthless.

Under the terms of Sand Hill s certificate of incorporation, if 20% or more of the shares issued in Sand Hill s initial public offering decide to vote against the merger and opt to convert their shares to cash, Sand Hill will be unable to complete the merger and will be forced to liquidate in accordance with the provisions of Delaware law. In any liquidation, the net proceeds of Sand Hill s initial public offering held in the trust account, plus any interest earned thereon, will be distributed pro rata to the holders of Sand Hill s common stock issued in its initial public offering. If Sand Hill is forced to liquidate its assets, the per-share liquidation to such stockholders will be approximately $5.38, plus interest accrued thereon until the date of any liquidation, as of May 26, 2006. Furthermore, there will be no distribution with respect to Sand Hill s outstanding warrants and, accordingly, the warrants will expir e worthless.

The combined company s working capital could be reduced, and Sand Hill stockholders could own less than 34.3% of the combined company s outstanding common stock, if Sand Hill stockholders exercise their right to convert their shares into cash.

Pursuant to Sand Hill s certificate of incorporation, holders of shares issued in Sand Hill s initial public offering may vote against the merger and demand that Sand Hill convert their shares into cash. Sand Hill and St. Bernard will not consummate the merger if holders of 20% or more shares of common stock issued in Sand Hill s initial public offering exercise these conversion rights. To the extent the merger is consummated and holders of less than 20% of Sand Hill s common stock issued in its initial public offering have demanded to convert their shares, there will be a corresponding reduction in the amount of funds available to the combined company following the merger and a reduction in the aggregate percentage of the combined company that is owned by Sand Hill s stockholders after the merger. Additionally, if holders demand to convert their shares, there may be a corresponding reduction in the value of each share of common stock held in the combined company. As of May 26, 2006, assuming the merger proposal is adopted, the maximum amount of funds that could be disbursed to Sand Hill s stockholders upon the exercise of the conversion rights will be approximately $4,421,926, or approximately 20% of the funds currently held in trust. If the maximum amount of funds were disbursed, the percentage of the combined company s common stock that would be owned by the Sand Hill stockholders who did not exercise their conversion right would be 30.6%.

A substantial number of the combined company s shares will become eligible for future resale in the public market after the merger which could result in dilution and an adverse effect on the market price of those shares.

If the merger is consummated, warrants to purchase 8,760,000 shares of common stock issued in connection with the Sand Hill initial public offering will become exercisable on the date the merger is consummated, as described under Description of Sand Hill s Securities Following the Merger Warrants. Moreover, 1,000,000 shares of Sand Hill common stock purchased by stockholders prior to Sand Hill s initial public offering will be held in escrow until July 26, 2007, at which time they will be released from escrow and be eligible for resale in the public market subject to compliance with applicable law. Consequently, at various times after completion of the merger, a substantial number of additional shares of Sand Hill common stock will be eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of such shares and of the warrants.< /P>

If Sand Hill is unable to receive a listing of its securities on a national securities exchange or NASDAQ, then it may be more difficult for its stockholders to sell their securities.

The listing of the Sand Hill common stock, warrants and units on the Nasdaq Stock Market or on the American Stock Exchange is not a condition to the merger and the possible quotation of Sand Hill s securities on a national securities exchange or NASDAQ is uncertain. If Sand Hill is unable to receive a listing or approval of trading of its securities on a national securities exchange or NASDAQ, then it may be more difficult for its stockholders to sell their securities. Shares of Sand Hill common stock, warrants and units are currently traded in the over-the-counter market and quoted on the Over-the-Counter Bulletin Board. The merger agreement provides that Sand Hill will file an application to list the shares of Sand Hill common stock and warrants outstanding prior to completion of the merger, as well as all the shares of common stock to be issued in the merger, for listing on the Nasdaq Stock Market or on the American Stock Exchange and will use commercially reasonable efforts to cause such listing to be accomplished as soon as practicable after the date of the merger agreement. There is no assurance that this approval will occur on or prior to consummation of the merger or at all.

Sand Hill directors and executive officers have interests in the merger that are different from yours because if the merger is not approved then the shares held by them may become worthless.

In considering the recommendation of the board of directors of Sand Hill to vote for the proposal to adopt the merger agreement you should be aware that a number of Sand Hill s executives and members of Sand Hill s board have interests in the merger that are different from, or in addition to, your interests as a stockholder. These interests include, among other things:

- if the merger is not approved and Sand Hill fails to consummate an alternative transaction within the time allotted pursuant to its certificate of incorporation and Sand Hill is therefore required to liquidate, the shares of common stock purchased prior to its initial public offering and held by Sand Hill s executives and directors may be worthless because Sand Hill s executives and directors are not entitled to receive any of the net proceeds of Sand Hill s initial public offering that may be distributed upon liquidation of Sand Hill with respect to these shares. In addition, the warrants held by such persons, which as of May 26, 2006 are exercisable for 296,500 shares of common stock (108,500 of which are held by Mr. Polanen) will expire without value in the event of a liquidation;

- after the completion of the merger, Humphrey P. Polanen will remain as the chairman of the board of directors of the combined company and Scott R. Broomfield will remain as a director of the combined company;

- Humphrey P. Polanen, The Broomfield Family Trust and Sand Hill Security LLC, have loaned Sand Hill approximately $10,000, $25,000 and $20,000, respectively, for operating expenses. Each of these loans bears interest at the rate of 10% and matures on July 26, 2006. Each of these lenders have waived any claims they have against the trust fund with respect to these loans. If the merger is not completed and Sand Hill is forced to liquidate these loans will remain as unsecured claims against Sand Hill;

- The Broomfield Family Trust, an affiliate of Scott Broomfield, a director and officer of Sand Hill, and BeeBird Beheer B.V., an affiliate of Bart van Hedel a director of St. Bernard, have made available $125,000 and $375,000, respectively, to St. Bernard, as a bridge loan pursuant to secured promissory notes. Amounts borrowed under the notes are due on November 25, 2006 and bear interest at 12%. In connection with the execution of the notes, the Broomfield Family Trust and BeeBird Beheer B.V. received warrants for an aggregate of 25,000 shares of common stock of St. Bernard (which equates to 10,535 shares of the combined company s stock after the merger) exercisable at a price equal to the last reported sale price on the day prior to the maturity date of the notes on the primary market on which the shares of the combined company are traded or, if the merger does not occur, at the fair market value of the shares as determined by the bo ard of directors of St. Bernard. These notes are secured by a lien on substantially all of the assets of St. Bernard, subject to the lien of St. Bernard s existing senior lender; and

- if Sand Hill liquidates prior to the consummation of a business combination, Humphrey P. Polanen, chairman of the board and chief executive officer, will be personally liable to pay debts and obligations, if any, to creditors that are owed money by Sand Hill in excess of the net proceeds of Sand Hill s initial public offering not held in the trust account. As of the date of this joint proxy statement/prospectus such amounts are estimated to be approximately $400,000 at the close of the merger.

The amount of stock held by executive officers, directors and other affiliates of the combined company may limit your ability to influence the outcome of director elections and other matters requiring stockholder approval.

Upon consummation of the merger, executive officers, directors and affiliates of the combined company will own approximately 38.5% of the combined company s voting stock. These stockholders can have a substantial influence on all matters requiring approval by stockholders, including the election of directors and the approval of mergers or other business combination transactions. This concentration of ownership could have the effect of delaying or preventing a change in control or discouraging a potential acquiror from attempting to obtain control of the combined company, which in turn could have a material adverse effect on the market price of the common stock or prevent stockholders from realizing a premium over the market price for their shares of common stock.

The lack of diversification in the business of the combined company affects Sand Hill s ability to mitigate the risks that it may face or to offset possible losses that it may incur as a result of competing in the IT security industry.

The prospects for Sand Hill s success will be entirely dependent upon the future performance of a single business. Sand Hill will not have the resources to diversify its operations or benefit from the possible spreading of risks or offsetting of losses. By consummating a business combination with only a single entity, Sand Hill s lack of diversification may subject Sand Hill to numerous economic, competitive and regulatory developments, any or all of which may have a substantial adverse impact upon the particular industry in which Sand Hill operates subsequent to the business combination, and result in Sand Hill s dependency upon the development or market acceptance of a single or limited number of products, processes or services.

If you do not vote your shares at the Sand Hill special meeting or give instructions to your broker to vote or abstain from voting you will not be eligible to convert your shares of Sand Hill common stock into cash and receive a portion of the trust fund upon consummation of the merger.

Pursuant to Sand Hill s certificate of incorporation, a holder of shares of Sand Hill s common stock issued in its initial public offering may, if the stockholder votes against the merger, demand that Sand Hill convert such shares into cash. **This demand must be made on the proxy card or by telephone or through the Internet as described on the proxy card at the same time that the stockholder votes against the merger proposal.** If so demanded, Sand Hill will convert each share of common stock into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering are held, plus all interest earned thereon. If you exercise your conversion rights, then you will be exchanging your shares of Sand Hill common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the e ffective time of the merger and then tender your stock certificate to the combined company. If the merger is not completed, then these shares will not be converted into cash at this time and Sand Hill will need to liquidate if a business combination is not completed by July 27, 2006. Shares that are not voted or are broker non-voted or where the stockholder abstains from voting shall not in any event be eligible to be converted into cash upon completion of the merger.

We may experience volatility in earnings due to how we are required to account for our warrants.

Under EITF No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock* (EITF No. 00-19), the fair value of the warrants issued as part of the units issued in Sand Hill s initial public offering must be reported as a liability. The warrant agreement provides for Sand Hill to register the shares underlying the warrants and is silent as to the penalty to be incurred in the absence of Sand Hill s ability to deliver registered shares to the warrant holders upon warrant exercise. Under EITF No. 00-19, Sand Hill is required to assume that this situation could give rise to it ultimately having to net-cash settle the warrants, thereby necessitating the treatment of the warrants as a liability. Further, EITF No. 00-19 requires Sand Hill to record the warrant liability at each reporting date at its then estimated fair value, with any changes being recorded thro ugh Sand Hill s statement of operations as other income/expense. The warrants will continue to be reported as a liability until such time that they are exercised, expire, or Sand Hill is otherwise able to modify the registration rights agreement to remove the provisions which require this treatment. As a result, Sand Hill could experience volatility in its net income due to changes that occur in the value of the warrant liability at each reporting date.

If we do not consummate the merger with St. Bernard by July 27, 2006 and are forced to dissolve and liquidate, payments from the trust account to our public stockholders may be delayed.

If we do not consummate the business combination with St. Bernard by July 27, 2006, we will dissolve and liquidate. We anticipate that, promptly after such date, the following will occur:

- our board of directors will convene and adopt a specific plan of dissolution and liquidation, which it will then vote to recommend to our stockholders; at such time it will also cause to be prepared a preliminary proxy statement setting out such plan of dissolution and liquidation as well as the board s recommendation of such plan;

- we will promptly file our preliminary proxy statement with the Securities and Exchange Commission; we anticipate filing this preliminary proxy statement by August 31, 2006;

- if the Securities and Exchange Commission does not review the preliminary proxy statement, then, 10 days following the filing of such preliminary proxy statement, we will mail the definitive proxy statement to our stockholders, and 10-20 days following the mailing of such definitive proxy statement, we will convene a meeting of our stockholders, at which they will vote on our plan of dissolution and liquidation; and

- if the Securities and Exchange Commission does review the preliminary proxy statement, we currently estimate that we will receive their comments approximately 30 days after the filing of such proxy statement. We would then mail the definitive proxy statement to our stockholders following the conclusion of the comment and review process (the length of which we cannot predict with any certainty, and which may be substantial) and we will convene a meeting of our stockholders at which they will vote on our plan of dissolution and liquidation.

Sand Hill currently expects that the costs associated with the implementation and completion of the plan of dissolution and liquidation would not be more than approximately $50,000. Sand Hill anticipates that members of Sand Hill management will advance Sand Hill the funds necessary to complete such dissolution and liquidation.

We will not liquidate the trust account unless and until our stockholders approve our plan of dissolution and liquidation. Accordingly, the foregoing procedures may result in substantial delays in our liquidation and the distribution to our public stockholders of the funds in our trust account and any remaining net assets as part of our plan of dissolution and liquidation.

Our stockholders may be held liable for claims by third parties against us to the extent of distributions received by them.

If we are unable to complete the merger with St. Bernard, we will dissolve and liquidate pursuant to Section 275 of the Delaware General Corporation Law. Under Sections 280 through 282 of the Delaware General Corporation Law, stockholders may be held liable for claims by third parties against a corporation to the extent of distributions received by them in a dissolution. Pursuant to Section 280, if the corporation complies with certain procedures intended to ensure that it makes reasonable provision for all claims against it, including a 60-day notice period during which any third-party claims can be brought against the corporation, a 90-day period during which the corporation may reject any claims brought, and an additional 150-day waiting period before any liquidating distributions are made to stockholders, any liability of stockholders with respect to a liquidating distribution is limited to the lesser of such stockholder s pro rata sh are of the claim or the amount distributed to the stockholder, and any liability of the stockholder would be barred after the third anniversary of the dissolution. Although we will seek stockholder approval to liquidate the trust account to our public stockholders as part of our plan of dissolution and liquidation, we will seek to conclude this process as soon as possible and as a result do not intend to comply with those procedures. Accordingly, our stockholders could potentially be liable for any claims to the extent of distributions received by them in a dissolution and any liability of our stockholders may extend beyond the third anniversary of such dissolution. Humphrey P. Polanen, chairman of the board and chief executive officer of Sand Hill, will be personally liable to pay debts and obligations, if any, to creditors that are owed money by Sand Hill in excess of the net proceeds of Sand Hill s initial public offering not held in the trust account. As of the date of this joint proxy statement/prospectus such amounts are estimated to be approximately $400,000 at the closing of the merger. Based on information obtained from such individual, Sand Hill currently believes that such person is of substantial means and capable of satisfying such debts and obligations even though Sand Hill has not requested him to reserve for such an eventuality. However, there is no assurance that Mr. Polanen will be able to satisfy those obligations.

Additionally, if we are is forced to file a bankruptcy case or an involuntary bankruptcy case is filed against us which is not dismissed, any distributions received by stockholders in our dissolution could be viewed under applicable debtor/creditor and/or bankruptcy laws as either a preferential transfer or a fraudulent conveyance. As a result, a bankruptcy court could seek to recover all amounts received by our stockholders in our dissolution.

FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus contains statements referring to Sand Hill or St. Bernard that are not historical facts and are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may be made directly in this joint proxy statement/

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prospectus, including the Annexes attached to this joint proxy statement/prospectus and made part of this joint proxy statement/prospectus, and may include statements regarding the period following completion of the merger. These statements are intended to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

These forward-looking statements are based on current projections about operations, industry conditions, financial condition, and liquidity. Words such as may, will, should, plan, predict, potential, anticipate, estimate, intend, believe, may impact, on track, and words and terms of similar substance used in connection with any discussion of future operating or financial performance, the merger, or our businesses, identify forward-looking statements. You should note that the discussion of Sand Hill s reasons for the merger, as well as other portions of this joint proxy statement/prospectus, contain many forward-looking statements that describe beliefs, assumptions, and estimates as of the indicated dates and those forward-looking expectations may have chang ed as of the date of this joint proxy statement/prospectus. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Those statements are not guarantees and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results could differ materially and adversely from these forward-looking statements. These risks and uncertainties include, but are not limited to, the following:

- difficulties encountered in integrating merged businesses;
- uncertainties as to the timing of the merger;
- approval of the transactions by the stockholders of the companies;
- the number and percentage of Sand Hill stockholders voting against the merger;
- the satisfaction of closing conditions to the transaction, including the receipt of regulatory approvals, if any;
- whether certain market segments grow as anticipated; and
- the competitive environment in the software industry and competitive responses to the proposed merger.

The above list is not intended to be exhaustive and there may be other factors that would preclude Sand Hill and St. Bernard from realizing the predictions made in the forward-looking statements. St. Bernard operates in a continually changing business environment and new factors emerge from time to time. Sand Hill and St. Bernard cannot predict such factors or assess the impact, if any, of such factors on their respective financial positions or results of operations. Accordingly, Sand Hill stockholders are cautioned not to place undue reliance on such statements, which speak only as of the date of this joint proxy statement/prospectus.

ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS CONCERNING THE MERGER OR OTHER MATTERS ADDRESSED IN THIS JOINT PROXY STATEMENT/ PROSPECTUS AND ATTRIBUTABLE TO SAND HILL, ST. BERNARD, OR ANY PERSON ACTING ON THEIR BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS CONTAINED OR REFERRED TO IN THIS SECTION. EXCEPT TO THE EXTENT REQUIRED BY APPLICABLE LAW OR REGULATION, NEITHER SAND HILL NOR ST. BERNARD UNDERTAKES ANY OBLIGATION TO RELEASE PUBLICLY ANY REVISIONS OR UPDATES TO SUCH FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE OF THIS JOINT PROXY STATEMENT/PROSPECTUS OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

THE SAND HILL SPECIAL MEETING

Sand Hill Special Meeting

We are furnishing this document to you as part of the solicitation of proxies by the Sand Hill board of directors for use at the Sand Hill special meeting in connection with the proposed merger. This document provides you with the information you need to know to be able to vote or instruct your vote to be cast at the Sand Hill special meeting.

Date, Time and Place

We will hold the Sand Hill special meeting at 10:00 a.m., on July 26, 2006 at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025 to vote on the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

Purpose of the Sand Hill Special Meeting

At the special meeting, we are asking holders of Sand Hill common stock to:

- adopt the merger agreement and the transactions contemplated by the merger agreement;
- adopt the amendment and restatement of Sand Hill s certificate of incorporation;
- adopt the stock option plans proposal; and
- adopt the adjournment proposal.

Recommendation of the Sand Hill Board of Directors

The Sand Hill board of directors:

- has unanimously determined that the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal are fair to and in the best interests of Sand Hill and its stockholders;
- has unanimously approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement, the amendment proposal, the stock option plans proposal and the adjournment proposal;

- unanimously recommends that Sand Hill common stockholders vote **FOR** the proposal to adopt the merger agreement and the transactions contemplated by the merger agreement;

- unanimously recommends that Sand Hill common stockholders vote **FOR** the proposal to adopt the amendment and restatement of the Sand Hill certificate of incorporation;

- unanimously recommends that Sand Hill common stockholders vote **FOR** the proposal to adopt the stock option plans; and

- unanimously recommends that Sand Hill common stockholders vote **FOR** the adjournment proposal.

Record Date; Who is Entitled to Vote

The record date for the Sand Hill special meeting is June 29, 2006. Record holders of Sand Hill common stock at the close of business on the record date are entitled to vote or have their votes cast at the Sand Hill special meeting. On the record date, there were 5,110,000 outstanding shares of Sand Hill common stock.

Each share of Sand Hill common stock is entitled to one vote per share at the Sand Hill special meeting.

Pursuant to letter agreements with Sand Hill, any shares of Sand Hill common stock held by stockholders who purchased their shares of common stock prior to Sand Hill s initial public offering will be voted on the merger proposal in the same manner as how the majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal. The holders of such common stock are free to vote their shares acquired in Sand Hill s initial public offering or afterwards as they see fit and are free to vote all of their common stock, however obtained, on the other proposals as they see fit.

Sand Hill s issued and outstanding warrants do not have voting rights and record holders of Sand Hill warrants will not be entitled to vote at the Sand Hill special meeting.

Quorum

The presence, in person or by proxy, of a majority of all the outstanding shares of Sand Hill common stock constitutes a quorum at the special meeting. Abstentions and broker non-votes will count as present for purposes of establishing a quorum.

Voting Your Shares

Each share of Sand Hill common stock that you own in your name entitles you to one vote. Your proxy card shows the number of shares of Sand Hill common stock that you own.

There are three ways to vote your shares of Sand Hill common stock at the Sand Hill special meeting:

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You can vote by signing and returning the enclosed proxy card. If you vote by proxy card, your proxy, whose name is listed on the proxy card, will vote your shares as you instruct on the proxy card. If you sign and return the proxy card but do not give instructions on how to vote your shares, your shares will be voted as recommended by the Sand Hill board **FOR** the adoption of the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal.

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You can vote by telephone or on the Internet by following the telephone or Internet voting instructions that are included with your proxy card. If you vote by telephone or by the Internet, you should not return the proxy card. The deadline for voting by telephone or electronically is 11:59 p.m., Eastern Standard Time, on July 25, 2006.

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You can attend the Sand Hill special meeting and vote in person. We will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or another nominee, you must get a proxy from the broker, bank or other nominee. That is the only way we can be sure that the broker, bank or nominee has not already voted your shares.

IF YOU DO NOT VOTE YOUR SHARES OF SAND HILL COMMON STOCK IN ANY OF THE WAYS DESCRIBED ABOVE, IT WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE ADOPTION OF THE MERGER PROPOSAL, BUT WILL NOT HAVE THE EFFECT OF A DEMAND OF CONVERSION OF YOUR SHARES INTO CASH.

Who Can Answer Your Questions About Voting Your Shares

If you have any questions about how to vote or direct a vote in respect of your Sand Hill common stock, you may call Humphrey P. Polanen, Sand Hill s chairman and chief executive officer, at (650) 926-7022.

No Additional Matters May Be Presented at the Sand Hill Special Meeting

The Sand Hill special meeting has been called only to consider the adoption of the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal. Under Sand Hill s bylaws, other than procedural matters incident to the conduct of the meeting, no other matters may be considered at the Sand Hill special meeting if they are not included in the notice of the Sand Hill meeting.

Revoking Your Proxy

If you give a proxy, you may revoke it at any time before it is exercised by doing any one of the following:

- You may send another proxy card with a later date;
- You may notify Humphrey P. Polanen, Sand Hill s chairman and chief executive officer, in writing before the Sand Hill special meeting that you have revoked your proxy; or
- You may attend the Sand Hill special meeting, revoke your proxy, and vote in person.

Vote Required

The adoption of the merger agreement and the transactions contemplated by the merger agreement will require the affirmative vote of the majority of the outstanding shares of Sand Hill common stock on the Sand Hill record date.

The adoption of the amendment and restatement of Sand Hill s certificate of incorporation will require the affirmative vote of the majority of the outstanding shares of Sand Hill common stock on the Sand Hill record date.

The adoption of the stock option plans proposal will require the affirmative vote of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the Sand Hill special meeting.

The adoption of the adjournment proposal will require the affirmative vote of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the Sand Hill special meeting.

The adoption of the merger proposal is conditioned on the adoption of the amendment proposal and the adoption of the amendment proposal is conditioned on the adoption of the merger proposal. The adoption of neither the merger proposal nor the amendment proposal is conditioned on the adoption of the stock option plans proposal or the adjournment proposal. The adoption of the stock option plans proposal, however, is conditioned upon the adoption of the merger proposal and the amendment proposal.

Abstentions and Broker Non-Votes

If your broker holds your shares in its name and you do not give the broker voting instructions, under the rules of the NASD, your broker may not vote your shares on the proposals to adopt the merger agreement and the amendment and restatement of the Sand Hill certificate of incorporation. If you do not give your broker voting instructions and the broker does not vote your shares, this is referred to as a broker non-vote. Abstentions will have the same effect as a vote against the merger proposal, the amendment proposal, the stock option plans proposal and the adjournment proposal. Broker non-votes, while considered present for the purposes of establishing a quorum, will have the effect of a vote against the merger proposal and the amendment proposal, but will have no effect on the stock option plans proposal or the adjournment proposal. Shares that are not voted or that are broker non-voted or where the stockholder abs tains from voting are not eligible to be converted into cash upon the completion of the merger.

Conversion Rights

Any stockholder of Sand Hill holding shares of common stock issued in Sand Hill s initial public offering who votes against the merger proposal may, at the same time, demand that Sand Hill convert their shares into a pro rata portion of the trust account holding a substantial portion of the net proceeds of Sand Hill s initial public offering. If so demanded, Sand Hill will convert these shares into a pro rata portion of the funds held in a trust account, which consist of $21,025,000 of the net proceeds from the initial public offering deposited into the trust account plus interest earned thereon, if the merger is consummated. If the holders of 20%, or 822,000, or more of the shares of common stock issued in Sand Hill s initial public offering vote against the merger and demand conversion of their shares into a pro rata portion of the trust account, Sand Hill will not be able to consummate the merger and Sand Hill will need to li quidate if a business combination is not completed by July 27, 2006. If you exercise your conversion rights, then you will be exchanging your shares of Sand Hill common stock for cash and will no longer own these shares. You will only be entitled to receive cash for these shares if you continue to hold these shares through the effective time of the merger and then tender your stock certificate to the combined company. The closing price of Sand Hill s common stock on May 26, 2006 was $5.23. At May 26, 2006 the amount of cash held in the trust account was $22,109,631. If a

Sand Hill stockholder would have elected to exercise its conversion rights on such date, then it would have been entitled to receive approximately $5.38 per share, or $0.62 less than the per-unit offering price of $6.00 for which the Sand Hill stockholder purchased units of the initial public offering. Prior to exercising conversion rights, Sand Hill stockholders should verify the market price of Sand Hill s common stock as they ma y receive higher proceeds from the sale of their common stock in the public market than from exercising their conversion rights if the market price per share is higher than the conversion price.

Solicitation Costs

Sand Hill is soliciting proxies on behalf of the Sand Hill board of directors. This solicitation is being made by mail but also may be made by telephone or in person. Sand Hill and its respective directors, officers and employees may also solicit proxies in person, by telephone or by other electronic means. These persons will not be paid for doing this. Sand Hill has retained Advantage Proxy to assist in the solicitation of proxies for a customary fee, plus reimbursement of expenses.

Sand Hill will ask banks, brokers and other institutions, nominees and fiduciaries to forward its proxy materials to their principals and to obtain their authority to execute proxies and voting instructions. Sand Hill will reimburse them for their reasonable expenses.

Stock Ownership

At the close of business on the record date, Humphrey P. Polanen, Sand Hill Security, LLC, an affiliate of the officers and directors of Sand Hill, Keith Walz, Scott Broomfield, Cary Grossman, Daniel Johnson and Alberto Micalizzi beneficially owned and were entitled to vote approximately 1,000,000 shares of Sand Hill common stock, or approximately 19.6% of the then outstanding shares of Sand Hill common stock, which includes all of the shares held by the directors and executive officers of Sand Hill and their affiliates. These shares have a market value of $5,230,000 based on Sand Hill s common stock price of $5.23 per share as of May 26, 2006. These shares were purchased for an aggregate of $25,000. Those persons, who were stockholders of Sand Hill prior to its initial public offering of securities, have agreed pursuant to letter agreements with Sand Hill to vote their shares of Sand Hill common stock purchased prior to the initial publi c offering in the same manner as how a majority of the shares of common stock held by all other Sand Hill stockholders are voted on the merger proposal. They are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote any shares acquired by them in or subsequent to the initial public offering in favor of the merger proposal. As of May 26, 2006, none of the officers or directors of Sand Hill had acquired any shares of common stock in or subsequent to the initial public offering. Mr. Polanen is currently chairman of the board of directors and chief executive officer of Sand Hill. Messrs. Broomfield and Walz are directors and executive officers of Sand Hill and Messrs. Grossman, Johnson and Micalizzi are directors of Sand Hill. In addition, Sand Hill Security, LLC is an affiliate of the directors and officers of Sand Hill and Mr. Polanen is its sole manager. Based solely upon information contained in public filings, as of May 26, 2006, the following stockholders beneficially owned greater than five percent of Sand Hill s issued and outstanding common stock:

- Humphrey P. Polanen and his affiliates beneficially owned 559,441 shares of Sand Hill common stock, representing approximately 10.9% of the Sand Hill common stock outstanding on the Sand Hill record date;

- Sapling, LLC beneficially owned 400,000 shares of Sand Hill common stock, representing approximately 7.8% of the Sand Hill common stock outstanding on the Sand Hill record date;

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Roger Feldman and Harvey Hanerfeld beneficially owned 385,000 shares of Sand Hill common stock, representing approximately 7.5% of the shares of Sand Hill common stock outstanding on the Sand Hill record date; and

- Amaranth, LLC beneficially owned 287,098 shares of Sand Hill common stock, representing approximately 5.6% of the shares of Sand Hill common stock outstanding on the Sand Hill record date.

THE ST. BERNARD SPECIAL MEETING

St. Bernard Special Meeting

We are furnishing this document to you as part of the solicitation of proxies by the St. Bernard board of directors for use at the St. Bernard special meeting in connection with the proposed merger. This document provides you with the information you need to know to be able to vote or instruct your vote to be cast at the St. Bernard special meeting.

Date, Time and Place

We will hold the St. Bernard special meeting at 9:00 a.m., on July 18, 2006 at 15015 Avenue of Science, San Diego, California 92128 to vote on the merger proposal and the adjournment proposal.

Purpose of the St. Bernard Special Meeting

At the special meeting, we are asking holders of St. Bernard common stock to:

- adopt the merger agreement and the transactions contemplated by the merger agreement; and

- adopt the adjournment proposal.

Recommendation of the St. Bernard Board of Directors

The St. Bernard board of directors:

- has unanimously determined that the merger proposal and the adjournment proposal are fair to and in the best interests of St. Bernard and its stockholders;

- has unanimously approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement, the amendment proposal and the adjournment proposal;

- unanimously recommends that St. Bernard common stockholders vote **FOR** the proposal to adopt the merger agreement and the transactions contemplated by the merger agreement; and

- unanimously recommends that St. Bernard common stockholders vote **FOR** the adjournment proposal.

Record Date; Who is Entitled to Vote

The record date for the St. Bernard special meeting is June 27, 2006. Record holders of St. Bernard common stock at the close of business on the record date are entitled to vote or have their votes cast at the St. Bernard special meeting. On the record date, there were 23,251,068 outstanding shares of St. Bernard common stock.

Each share of St. Bernard common stock is entitled to one vote per share at the St. Bernard special meeting.

St. Bernard s issued and outstanding warrants do not have voting rights and record holders of St. Bernard warrants will not be entitled to vote at the St. Bernard special meeting.

Quorum

The presence, in person or by proxy, of a majority of all the outstanding shares of St. Bernard common stock constitutes a quorum at the St. Bernard special meeting. Abstentions will be counted as present for purposes of establishing a quorum.

Voting Your Shares

Each share of St. Bernard common stock that you own in your name entitles you to one vote. Your proxy card shows the number of shares of St. Bernard common stock that you own.

There are two ways to vote your shares of St. Bernard common stock at the St. Bernard special meeting:

- *You can vote by signing and returning the enclosed proxy card.* If you vote by proxy card, your proxy, whose name is listed on the proxy card, will vote your shares as you instruct on the proxy card. If you sign and return the proxy card but do not give instructions on how to vote your shares, your shares will be voted as recommended by the St. Bernard board **FOR** the adoption of the merger proposal and the adjournment proposal.

- *You can attend the St. Bernard special meeting and vote in person.* We will give you a ballot when you arrive. However, if your shares are held in the name of your broker, bank or another nominee, you must get a proxy from the broker, bank or other nominee. That is the only way we can be sure that the broker, bank or nominee has not already voted your shares.

IF YOU DO NOT VOTE YOUR SHARES OF ST. BERNARD COMMON STOCK IN ANY OF THE WAYS DESCRIBED ABOVE, IT WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE ADOPTION OF THE MERGER PROPOSAL.

Who Can Answer Your Questions About Voting Your Shares

If you have any questions about how to vote or direct a vote in respect of your St. Bernard common stock, you may call John E. Jones, St. Bernard s chief executive officer, at (858) 676-2277.

No Additional Matters May Be Presented at the St. Bernard Special Meeting

The St. Bernard special meeting has been called only to consider the adoption of the merger proposal and the adjournment proposal. Under St. Bernard s bylaws, other than procedural matters incident to the conduct of the meeting, no other matters may be considered at the St. Bernard special meeting if they are not included in the notice of the St. Bernard meeting.

Revoking Your Proxy

If you give a proxy, you may revoke it at any time before it is exercised by doing any one of the following:

- You may send another proxy card with a later date;

- You may notify John E. Jones, St. Bernard s chief executive officer, in writing before the St. Bernard special meeting that you have revoked your proxy; or

- You may attend the St. Bernard special meeting, revoke your proxy, and vote in person.

Vote Required

The adoption of the merger agreement and the transactions contemplated by the merger agreement will require the affirmative vote of the majority of the outstanding shares of St. Bernard common stock on the St. Bernard record date.

The adoption of the adjournment proposal will require the affirmative vote of a majority of the shares of St. Bernard common stock present in person or represented by proxy at the St. Bernard special meeting.

Abstentions

Abstentions have the same effect as a vote against the merger proposal and the adjournment proposal.

Solicitation Costs

St. Bernard is soliciting proxies on behalf of the St. Bernard board of directors. This solicitation is being made by mail but also may be made by telephone or in person. St. Bernard and its respective directors, officers and employees may also solicit proxies in person, by telephone or by other electronic means. These persons will not be paid for doing this. St. Bernard has not hired a firm to assist in the proxy solicitation process but may do so if it deems this assistance necessary. St. Bernard will pay all fees and expenses related to the retention of any proxy solicitation firm.

Stock Ownership

On the record date, directors and executive officers of St. Bernard and their affiliates beneficially owned and were entitled to vote approximately 11,529,115 shares of St. Bernard common stock that have a market value of approximately $25,410,416 based on converting such shares using the merger exchange ratio of 0.421419 and multiplying that by Sand Hill s common stock price of $5.23 on May 26, 2006. The total of these shares represented approximately 49.7% of St. Bernard s issued and outstanding common stock as of the record date. These shares were acquired by St. Bernard directors and executive officers at various times for aggregate consideration of approximately $2.8 million. Based solely upon St. Bernard s records, as of March 31, 2006, the following stockholders beneficially owned greater than five percent of St. Bernard s issued and outstanding common stock:

- John E. Jones beneficially owned 3,155,565 shares of St. Bernard common stock, representing approximately 13.6% of the St. Bernard common stock outstanding on the record date;

- Bob Crowe beneficially owned 970,053 shares of St. Bernard common stock, representing approximately 4.2% of the St. Bernard common stock outstanding on the record date; and

- Bart van Hedel and affiliates beneficially owned 6,705,801 shares of St. Bernard common stock, representing approximately 28.8% of the St. Bernard common stock outstanding on the record date.

THE MERGER PROPOSAL

The discussion in this document of the merger and the principal terms of the merger agreement, as amended, by and among Sand Hill, Sand Hill Merger Corp., a wholly-owned subsidiary of Sand Hill, and St. Bernard is subject to, and is qualified in its entirety by reference to, the merger agreement. A copy of the merger agreement, as amended, is attached as *Annex A* to this joint proxy statement/prospectus and is incorporated herein by reference. We urge you to read this agreement in its entirety.

General Description of the Merger

Pursuant to the merger agreement, Sand Hill Merger Corp. will merge with and into St. Bernard, with St. Bernard surviving as a wholly-owned subsidiary of Sand Hill, and the separate corporate existence of Sand Hill Merger Corp. shall cease. We refer to St. Bernard and Sand Hill, after giving effect to completion of the merger, as the combined company. It is expected that holders of St. Bernard common stock will hold approximately 65.7% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of May 26, 2006. In the merger, Sand Hill will issue a combination of shares of common stock, replacement options and replacement warrants to holders of St. Bernard common stock, options and warrants. The total amount of shares of Sand Hill common stock to be issued or that will underlie replacement options and replacement warr ants is 10,880,000. Holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of this 10,880,000 figure, subject to the potential return of 1,700,000 shares to be issued to the stockholders representative, as described below. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock, replacement options or replacement warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of May 26, 2006, Sand Hill will issue approximately 9,782,357 shares of common stock at the close of the merger. The holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, replacement options and replacement warrants to purchase app roximately 1,097,643 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or replacement warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or warrants to be issued at the closing of the merger would decrease by a like amount. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see *Beneficial Ownership of Securities* on page 145.

Of the 9,782,357 shares of Sand Hill common stock to be issued in the merger, 1,700,000 of these shares will be released, pro rata, to the persons who held shares of St. Bernard common stock as of the closing of the merger, if, after the merger, the price of the combined company s common stock closes at $8.50 or more per share for 20 trading days during any 30-day trading period prior to July 25, 2009 or the consideration to be received by the combined company or its stockholders in a sale of the majority of the ownership or business of the combined company prior to July 25, 2009 equals or exceeds $8.50 per share, excluding the dilutive effects of the exercise of any of the Sand Hill warrants issued in its initial public offering. If, after the merger, neither of these thresholds are achieved prior to July 25, 2009, then the 1,700,000 shares will be returned to the combined company for no consideration and will be cancelled.

Background of the Merger

The terms of the merger agreement are the result of arm s-length negotiations between representatives of Sand Hill and St. Bernard.

Sand Hill was formed on April 15, 2004 to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in a specified industry. Sand Hill completed an initial public offering on July 30, 2004, in which it raised net proceeds of approximately $22,022,462. Approximately $20,961,000 of these net proceeds were placed in a trust account and, in accordance with Sand Hill s certificate of incorporation, will be released either upon the consummation of a business combination or upon the liquidation of Sand Hill. Sand Hill must liquidate promptly after July 27, 2006 if a business combination has not been consummated by that date. As of May 26, 2006, approximately $22,109,631 was held in the trust account. Subsequent to its initial public offering, Sand Hill s officers and directors commenced an active search for a prospective operating business.

As a Targeted Acquisition Corporation, or TAC , Sand Hill selected the IT security industry as its focus. The IT security industry, however, includes hundreds of companies. Subsequent to Sand Hill s initial public offering, Sand Hill s board of directors developed certain criteria in order to attempt to systematically narrow the universe of prospective candidates.

Trusted Strategies, a consultancy specializing in the IT security industry, was engaged by Sand Hill in September of 2004 to conduct a survey of the IT software security industry. Using criteria supplied by Sand Hill, Trusted Strategies surveyed the industry and identified approximately 40 companies, out of over 750, that met the criteria supplied by Sand Hill. The survey was delivered to Sand Hill in October, 2004. Trusted Strategies was paid $4,995 for the survey. Sand Hill began evaluating companies that had been identified to it by Trusted Strategies in the survey. Along with numerous other potential candidates, the survey identified St. Bernard as a potentially attractive candidate for a business combination with Sand Hill. Furthermore, given the volume of prospective opportunities, the depth of due diligence requirements, the complexity of valuing and structuring a transaction, the Sand Hill board of directors, in November of 2004, began to consider hiring a business and financial consultancy that had significant experience in assisting companies with acquisition strategies.

In November of 2004, Mr. Polanen telephoned Mr. van Hedel of St. Bernard, to explain the Sand Hill vehicle and discuss whether St. Bernard had any interest in beginning initial discussions regarding a possible business combination. Mr. van Hedel informed Mr. Polanen that St. Bernard was not interested in pursuing strategic discussions with Sand Hill at that time, but that the parties should remain in contact. The management of Sand Hill continued to evaluate numerous other companies for a possible business combination.

St. Bernard Software has regularly evaluated its long-term strategy and potential strategic options, including periodically conducting in-depth operations and strategic reviews of the company with senior management. During the latter part of 2004 and early 2005, St. Bernard undertook an evaluation of the appropriate long-term strategy for its business. As a result of that process, St. Bernard determined that, in conjunction with other strategic initiatives, it should also began to investigate possible business combinations and other strategic transactions that would allow it to expand its security products and service offerings into one or more other key areas of the small and medium enterprise secure content management market.

In February 2005, Mr. van Hedel sent Mr. Polanen an update on the business of St. Bernard. On March 25, 2005, Sand Hill and St. Bernard executed a mutual non-disclosure agreement and on March 30 and April 1, 2005, exchanged initial information packages.

On March 30, 2005, Sand Hill entered into an independent M&A Advisory Services Agreement with Software Equity Group, LLC (SEG). Pursuant to this agreement, SEG was engaged to assist and advise Sand Hill in identifying and qualifying privately held software companies in the IT security industry and to supplement the list of companies provided to Sand Hill by Trusted Strategies. The contract with SEG specified a retainer of $25,000, plus a percentage success fee in the event Sand Hill closes a transaction. If the merger with St. Bernard is completed, the SEG fee will be approximately $825,000, or 1.3% of the transaction value, assuming a stock price of Sand Hill at the closing of the merger of $5.75. While SEG s compensation by Sand Hill does depend upon the outcome and size of the transaction, Sand Hill s business judgment is that SEG s software industry knowledge, due diligence expertise, and other capabilities, including the specific industry knowledge of Mr. Ken Bender, SEG s Managing Director, were sufficiently valuable to warrant such compensation.

On May 3, 2005, Mr. Polanen and Mr. van Hedel met in Los Angeles to discuss the parties interest in pursuing a possible business combination and agreed to have further discussions. In early June 2005, St. Bernard sent Sand Hill updated business and financial information. On June 10 and June 13, 2005, Mr. Polanen and Mr. van Hedel had various telephone conversations regarding St. Bernard s business and aspects of a possible business combination, in preliminary and general terms. On June 13, 2005, Sand Hill sent a non-binding, preliminary letter of interest to Mr. van Hedel, which Mr. van Hedel forwarded on to St. Bernard s board of directors on June 14, 2005. Furthermore, in early June representatives of SEG met with members of the management of St. Bernard for purposes of helping Sand Hill conduct due diligence with respect to St. Bernard.

From late June 2005 until early September 2005, Mr. Polanen, Mr. van Hedel and representatives and advisors of both Sand Hill and St. Bernard, met and had various telephone conversations regarding due diligence, the business of St. Bernard, the assets of Sand Hill and the possible terms of a letter of intent for a potential business combination. In August 2005, SEG issued an initial report to Sand Hill management, which report outlined preliminary observations and findings regarding St. Bernard.

On September 6, 2005, Sand Hill and St. Bernard executed a non-binding letter of intent related to a business combination. Sand Hill s counsel began legal due diligence investigations in early September 2005. On September 7, 2005, SEG, Sand Hill s independent advisor, met with management of St. Bernard to assess additional St. Bernard business and financial due diligence items.

The parties and their counsel met in San Diego on October 7, 2005 to begin negotiating the terms of a draft merger agreement and ancillary documentation. Between this date and the date the merger agreement was executed, representatives of Sand Hill and St. Bernard and their counsel had numerous phone conversations, teleconferences and meetings to discuss the terms of the merger agreement and the ancillary documentation and exchanged numerous document drafts via email. Due diligence continued to be conducted by both parties during this time.

On October 24, 2005, the Sand Hill board of directors met by teleconference to discuss the proposed business combination. At that meeting the Sand Hill board of directors approved the business combination and the form of the merger agreement presented to them and authorized the officers of Sand Hill to proceed to complete the merger agreement.

On October 25, 2005, the St. Bernard board of directors met by teleconference to discuss the proposed business combination. At that meeting the St. Bernard board of directors approved the business combination and the form of the merger agreement presented to them and authorized the officers of St. Bernard to proceed to complete the merger agreement.

From October 24, 2005 through October 26, 2005, counsel for Sand Hill and St. Bernard negotiated the terms of the merger agreement and the ancillary documentation through a series of telephone conference calls and email exchanges.

On October 26, 2005, the parties executed the merger agreement.

On December 15, 2005, the parties executed the first amendment to the merger agreement to make certain technical corrections to the merger agreement. The board of directors of each of Sand Hill and St. Bernard approved the amendment by unanimous written consent.

Subsequent to the execution of the merger agreement and the filing of a registration statement on Form S-4, of which this joint proxy statement/prospectus forms a part, the management of Sand Hill and St. Bernard remained in contact to discuss issues related to the merger.

As a result of a decline in the average enterprise value to sales (EV/S) multiples of the public IT security companies previously reviewed by Sand Hill since the execution of the merger agreement and the fact that revenues for St. Bernard were down approximately 5.4% in the first quarter of 2006 in comparison to the first quarter of 2005 (although subscription revenues were up 26.7% in the same period), the Sand Hill board determined to seek an amendment to the merger agreement to make potential adjustments to the amount and timing of the consideration to be paid by Sand Hill in the merger. The EV/S multiples of the public IT security companies previously reviewed by Sand Hill had declined by approximately 22% since October 2005. This decline in multiples, while not directly effecting St. Bernard, did indicate to the Sand Hill board that adjustments to the merger agreement were desirable from Sand Hill s perspective in order to try and reflect a decline in multiples being paid overall for IT security companies. While St. Bernard was not obligated to agree to amend the merger agreement, in April 2006, Sand Hill and St. Bernard began a series of discussions regarding amending the merger agreement.

In mid-April, 2006, Mr. Broomfield, Sand Hill s EVP of Corporate Development and board member, along with Mr. Bender, SEG s Managing Director, met with members of St. Bernard s senior management team to assess

St. Bernard s revenue and billings performance for the first quarter of 2006. After a day long, exhaustive review with St. Bernard s CEO, CFO, VP of US Sales and VP of European Sales, Mr. Broomfield concluded that the revenue and billings performance during the first quarter of 2006 were due to internal execution issues at St. Bernard that could and were being remedied and were not as a result of overall market conditions or trends.

In early May, 2006, Mr. Polanen initiated a series of teleconferences with Mr. van Hedel to discuss St. Bernard s revenue and billings performance for the first quarter of 2006, the decline in the IT security industry multiples in general and whether an agreement, if any, as to what form and in what amount any change to the consideration to be paid by Sand Hill could be reached. After a number of meetings between Sand Hill and St. Bernard, the parties reached an understanding and agreed that the total number of shares to be issued to stockholders of St. Bernard at closing would be reduced by 1.7 million shares, or 15.6% of the total consideration, and would instead be issued to a stockholders representative that would hold these shares on behalf of the St. Bernard stockholders, subject to their being released on certain conditions related to the performance of the combined company s stock after the merger. The Sand Hi ll board noted that this change to the amount and timing of the consideration to be paid under the merger agreement was, on a percentage basis, less than the decline in the EV/S multiples of the companies previously reviewed by Sand Hill, but greater than the decline in St. Bernard s quarter over quarter revenues in the first quarter of 2006.

On May 25, 2006, the Sand Hill board of directors met by teleconference to discuss the proposed second amendment to the merger agreement. At that meeting they approved the amendment.

On May 5, 2006, the St. Bernard board of directors met by teleconference to discuss proposed changes to the merger agreement. At that meeting they approved the outlines of a potential amendment to the merger agreement and authorized the officers of St. Bernard to negotiate the details and final form of an amendment. As noted above, a number of meetings between Sand Hill and St. Bernard ensued.

On May 31, 2006, the parties executed the second amendment to the merger agreement.

Sand Hill s Reasons for the Merger

The Sand Hill board of directors has concluded that the merger with St. Bernard is in the best interests of Sand Hill and its stockholders. In seeking out a candidate for a business combination within the IT security industry the Sand Hill board of directors developed a set of general criteria in order to attempt to systematically narrow the universe of prospective candidates. The Sand Hill board felt that the following considerations should be of primary importance:

- the business combination candidate should be in an attractive segment within the IT security industry;
- that market segment should have attractive growth characteristics;
- the business combination candidate should be a company that is well positioned in the industry, with a scalable business model and at least $20 million in annual sales and near breakeven on an operating income or cash flow basis;

- the business combination candidate should be a company with a number of customers in at least two segments;
- the business combination candidate should be a company with a strong management team; and
- the business combination candidate should be a company well positioned to take advantage of market consolidation.

In the opinion of Sand Hill management, St. Bernard met, and continues to meet, the above criteria.

In following Sand Hill s strategic, business and legal review methodology, the Sand Hill board considered many additional factors in connection with its evaluation of the proposed merger with St. Bernard. These factors included an extensive evaluation of numerous positive and negatives factors, strengths and weaknesses of the business and the industry, strategic alignment, as well as evaluating the intangible, yet important factor of the ability for the Sand Hill board to work closely and effectively with the St. Bernard management team and board.

The Sand Hill board of directors made its final determination to recommend the merger based on the totality of the information collected during in due diligence, both positive and negative, the structure of the merger, the valuation analyses undertaken by Sand Hill management, and the future growth opportunity of St. Bernard and its ability to effectively deploy Sand Hill s capital.

In considering the merger, the Sand Hill board gave considerable weight to the following factors, both positive and negative:

Material Positive Factors (or Opportunities) Considered by Sand Hill

St. Bernard operates in the SCM industry and has a SME market focus, both of which are attractive.

An important criterion to Sand Hill s board of directors in identifying a candidate for a business combination was that the company be positioned in an expanding portion of the IT security industry with the potential for continued growth. Sand Hill s board of directors believes that the markets in which St. Bernard operates are strong and growing. While overall security market characteristics continue to be attractive, in particular the Sand Hill board of directors believes that the Secure Content Management, or SCM, segment is especially attractive. The worldwide secure content management market addressed by St. Bernard, according to IDC, was $4.5 billion in 2004 and is expected to grow at an average annual rate of 18% through 2009. Moreover, IDC reports that the web and email filtering portion of the SCM market was $433 million in 2004, with the appliances portion of this segment anticipated to grow at an average annual rate of 47% through 2009. Sand Hill s board of directors recognizes that the markets in which St. Bernard competes, like many software markets, is intensely competitive, despite its growth. With the recent major releases of the iPrism and ePrism product lines, however, Sand Hill s board of directors believes that St. Bernard has the ability to attract customers and to capitalize on this market opportunity.

St. Bernard focuses on the relatively underserved and high growth Small to Medium Enterprises, or SME, segment of the market. As estimated by AMI Partners, an SME oriented research firm, there are 232,000 small to medium sized businesses in the U.S. SME is defined by AMI as businesses ranging from 50 to 1,000 employees. According to a study by AMI conducted in 2005, the SME segment is underserved, or under penetrated, in that only 22% of all small to medium businesses have installed comprehensive security management solutions. Sand Hill believes that this indicates that there is a real opportunity for growth in this segment. According to this same AMI report, a total of an additional 15% of the SME market, or 35,000 businesses, plan to purchase security management solutions in 2006, representing a substantial growth rate year over year. Sand Hill additionally believes that the focus on SME is beneficial because security appliances tend to serv e the small and mid markets well. Brian Burke, an analyst with IDC research recently stated, security appliance sales will grow fast in the SME market because IT resources are scarce.

St. Bernard s size and growth.

St. Bernard reached $28.7 million in gross billings and $24.0 million in revenues for the calendar year ended 2005. St. Bernard has recently experienced attractive growth in its market. From 2000 through 2004 St. Bernard has grown 182% based on annual revenues and was awarded a San Diego Deloitte Technology Fast 50 of San Diego award in both 2004 and 2005. In 2005, St. Bernard grew annual revenues 13.2% as compared with 2004.

St. Bernard s business model and financial results.

Another important factor in identifying a candidate for a business combination was that the candidate have established business operations, that it was generating meaningful revenues and that it had the strong potential to experience rapid additional growth in the IT security markets. Sand Hill s board of directors believes that St. Bernard has in place the infrastructure for strong business operations, a large and growing customer base, and significant technological capabilities. St. Bernard has been in operation since 1984 and for the year ended December 31, 2005 generated approximately $24.0 million in revenues. St. Bernard has demonstrated the ability to introduce new products into the marketplace addressing new customer requirements and segments of the security software industry. Sand Hill s board of directors believes that St. Bernard has the ability to continue expanding and accelerate its growth rate because:

- St. Bernard has over 8,000 active customers supporting over 3.5 million device licenses;
- St. Bernard has strong customer renewal rates of between 80-95%;
- St. Bernard had gross profit margins of 72.5% in 2005;
- St. Bernard is positioned in the underserved SME market; and

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St. Bernard has attractive new business opportunities in the SCM market.

In addition, Sand Hill s board of directors believes that as St. Bernard generates increased revenues its net margins will increase as it believes that because of St. Bernard s cost structure and the scalability of those costs that St. Bernard s costs will not rise proportionately with its revenues.

The subscription element of St. Bernard s business is particularly attractive because it primarily operates as a Software as a Service , or a SaaS business model, which is a recurring revenue model. Sand Hill believes that this represents a stable portion of St. Bernard s revenue base. As an example, customers subscribe to a URL database service for periods of anywhere from one to three years. This URL database is organized into more than 60 categories and encompasses more than 7.4 million websites as of December 31, 2005. This database is updated each business day using a proprietary process of automated content assessment and classification, with manual verification. Subscribers to the update service receive updates each night. It is this security update subscription that Sand Hill believes helps create long term customer relationships, as well as providing for better predictability of future revenue. St. Ber nard had deferred revenues of $16.1 million as of December 31, 2005. Although the cash is received up front, this deferred revenue is generally recognized over the life of the contract. The result is that billings for the business are greater than the revenue booked in any quarter. For example, revenue for the year ended December 31, 2005 was $24.0 million, whereas gross billings were $28.7 million. The result is an increase to deferred revenue, as recorded on the balance sheet, and, Sand Hill believes, an enhanced predictability to the business.

The strength of the St. Bernard management team.

Another important criterion to Sand Hill s board of directors in identifying a candidate for a business combination was that the company must have a seasoned management team with specialized knowledge of the markets within which it operates and the ability to lead a company in a rapidly changing environment. St. Bernard s management has been in place and working together for a number of years. This team has demonstrated the ability to address new markets, develop new products and deliver a high level of customer satisfaction. St. Bernard s management team has shown a strong ability to adjust its business plan to changing market factors and to develop additional business opportunities. Sand Hill s board of directors believes that John E. Jones, who will be the President and Chief Executive Officer of the combined company, has the experience and strong understanding of the software security market and of potential needs of cu stomers and how to best satisfy those needs.

The terms of the merger agreement contain customary provisions for transactions of this type.

The Sand Hill board of directors believes that the merger agreement contains customary provisions for transactions of this type, including provisions to protect Sand Hill in the event an alternative transaction is proposed to St. Bernard. It was important to Sand Hill s board of directors that the merger agreement include customary provisions as it believed that such provisions would allow for a more efficient closing process and lower transaction expenses.

Material Potentially Negative Factors (or Risks) Considered by Sand Hill

Sand Hill s board of directors believes that each of the above factors supports its determination and recommendation to approve the merger. Notwithstanding the positive factors, the Sand Hill board of directors gave significant weight to certain potentially negative factors (or risks), among others, in its deliberations concerning the merger. In considering these potentially negative factors, the Sand Hill board of directors looked at the probability that these potential negative factors were likely to occur and, if so, in what degree would St. Bernard be able to mitigate these potential risks. The material negative factors considered included:

- Despite being a growing market overall, the IT Security market is intensely competitive, which has and can result in pressure on product pricing;

- There is likely to be significant industry consolidation;

- The technologies used in the industry adjust and upgrade quickly;

- St. Bernard is smaller than the industry leaders;

- St. Bernard has minimal revenues outside the U.S.;

- St. Bernard has a small indirect VAR channel;

- The 5.4% decline in St. Bernard s revenues in the first quarter of 2006 versus the first quarter of 2005;
- St. Bernard has not been profitable; and
- Not all of St. Bernard s products lines are growing at the same rate.

The Sand Hill board of directors also noted the fact that Ai-Investments N.V., an affiliate of Mr. Bart van Hedel, purchased common stock and warrants in St. Bernard in July 2005 for $1,000,000 that will, upon consummation of the merger, entitle it to receive 252,851 shares of Sand Hill common stock and warrants for the acquisition of 421,419 shares of Sand Hill common stock, at an exercise price of $2.9662 per share. In contrast a $1,000,000 investment in the initial public offering of Sand Hill would have purchased 166,666.67 shares of Sand Hill common stock and warrants for the acquisition of 333,333 shares of Sand Hill common stock, at an exercise price of $5.00 per share. While the Sand Hill board of directors noted this apparent disparity, it did not consider this disparity to represent a persuasive reason to not recommend the merger to Sand Hill s stockholders in light of the positive factors which are discussed above. The San d Hill board of directors viewed the private placement with Ai-Investments, in which a relatively small investment was made for the specific purpose of allowing St. Bernard to acquire certain technologies, as not necessarily indicative of the value of St. Bernard as a going concern.

Additionally, Sand Hill s board of directors considered the risk that some of the current public stockholders of Sand Hill would vote against the merger and demand to redeem their shares for cash upon consummation of the merger, thereby depleting the amount of cash available to the combined company following the merger. Sand Hill s board of directors deemed this risk to be no worse with regard to St. Bernard than it would be for other target companies and believes that St. Bernard will still be able to implement its business plan even if the maximum number of public stockholders exercised their conversion rights and the combined company received only 80% of the funds deposited in the trust account.

Recommendation of Sand Hill s Board of Directors

After careful consideration, based on the totality of the information reviewed, including the positive and negative factors set out above, the multiple valuation analyses done by Sand Hill management, the amending of the merger agreement to provide for 1,700,000 of the shares of Sand Hill common stock to be initially issued in the merger to be held by a stockholders representative of St. Bernard, and an exhaustive review of other industry material, the Sand Hill board believes the merger was, and continues to be, in the best interests of Sand Hill and its stockholders and, therefore, the Sand Hill board of directors has unanimously determined that the merger agreement and the merger are fair to and in the best interests of Sand Hill and its stockholders.

The foregoing discussion of the information and factors considered by the Sand Hill board of directors is not meant to be exhaustive, but includes the material information and factors considered by the Sand Hill board of directors.

Due Diligence and Valuation

Background

A majority of the members of Sand Hill s board of directors have extensive experience in performing due diligence of acquisition targets and in valuing companies. Humphrey Polanen and Scott Broomfield have held chief executive officer positions at companies that have acquired businesses and performed business valuations assessing the merits of merger and acquisition transactions. Moreover, in his capacity as a Managing Director for 12 years with Hickey and Hill, Mr. Broomfield either performed or supervised numerous due diligence efforts and valuations in the context of either buying or selling distressed businesses. Keith Walz, Sand Hill s CFO, worked for ABN AMRO Capital (USA), a division of ABN AMRO a global banking concern, as President for 1996 through April of 2006. In that capacity, Mr. Walz participated in the sourcing, evaluating and monitoring of over 35 investments, representing over $200 million in invested capi tal.

In arriving at its determination to approve the merger agreement with St. Bernard, the board of directors of Sand Hill relied on the financial, industry, customer, capital markets (equity valuations), product, business and legal information relating to St. Bernard compiled by it during the due diligence and valuation phases of the merger process. The Sand Hill board used a number of methods, which are detailed below, in reviewing whether to approve the merger agreement with St. Bernard. The board of directors of Sand Hill further relied on key industry, market analyst and investment banking reports specifically drafted to assess the dynamics in, and the valuations of companies within the IT security industry.

Sand Hill also retained the services of SEG, as an independent advisor to assist Sand Hill with respect the evaluation of potential merger candidates and a detailed business and due diligence review of St. Bernard, specifically. The activities performed by SEG consisted primarily of the following: (1) helping Sand Hill better understand the various sub-sectors within the security software industry and the public and private companies comprising those sub-sectors; (2) assisting Sand Hill in understanding the applicable market and technology trends in those sub-sectors; (3) as related to specific companies identified, helping Sand Hill assess the strengths and weaknesses of those companies (as part of this effort, SEG reviewed and spoke with many of the companies identified in the Trusted Strategies survey); (4) providing Sand Hill with information, data, metrics and analysis of merger and acquisition trends, transactions and valuations in the s oftware industry in general, and in the security software sector in particular, including providing Sand Hill with, and further expanding upon, SEG s most recent software industry quarterly research reports as well as its 2004 and (later) 2005 annual software equity reports; (5) assisting Sand Hill in its due diligence efforts and helping to assess St. Bernard s product offering, product strategy, market opportunities, direct sales and indirect distribution channel strategies, historical and projected performance and similar factors; and (6) on occasion, suggesting ways that St. Bernard might improve its operations. Further, SEG provided Sand Hill with a valuation analysis in early August 2005, although this valuation exercise was incidental to SEG s other activities. As part of SEG s efforts related to its activities in items (5) and (6) above, SEG worked with Sand Hill in reviewing companies, in addition to St. Bernard, that Sand Hill had been having discussions with regarding a possibl e business combination.

In determining that the proposed merger was fair to and in the best interests of Sand Hill and its stockholders, in addition to reviewing financial information on St. Bernard and the IT security industry in general, the board reviewed publicly available information related to software companies that the board felt were similar to St. Bernard and publicly available information related to merger transactions that the board felt were similar to the merger. None of the companies reviewed, however, were identical to St. Bernard nor were any of the merger transactions reviewed identical to the merger. In fact, many of the companies reviewed had sales that were substantially greater than St. Bernard s and were profitable, where St. Bernard has not been profitable. The Sand Hill board felt, however, that such companies and transactions were relevant in analyzing the proposed merger with St. Bernard because they involved companies and targets that operate primarily in the IT security industry. The Sand Hill board felt that this industry focus in its analysis was appropriate given its belief that different industries tend to receive different valuations and the board wanted to focus its review on valuations placed on companies in the IT security industry. Stockholders of Sand Hill should note, however, that analyses of comparable companies and comparable transactions are not purely mathematical, but involve making judgments concerning the differences between those companies and transactions and St. Bernard and the merger.

The Sand Hill board did not rely on any single advisor, analysis or upon any one particular set of industry information in evaluating the proposed merger. Rather, the Sand Hill board reviewed the totality of the information presented to it, including, among other items, the valuation analyses done by Sand Hill management and other industry material. Further, based on Sand Hill s belief that its directors had the skill and experience to properly evaluate the fairness of a proposed transaction, Sand Hill determined that its assets should not be used to pay for a fairness opinion.

Valuation Summary

Based upon a review of the historical and projected financial data and certain other qualitative data for St. Bernard, Sand Hill used several common valuation methodologies and analyses to estimate ranges of values for St. Bernard. Sand Hill used comparable public company revenue analyses, a Discounted Cash Flow (DCF) method using the

Capital Asset Pricing Model (CAPM), and comparable transaction analyses (all of which are discussed in more detail below) for the valuation analyses of St. Bernard. The Sand Hill board gave equal weight to the DCF method and the public company method and did not rely on the comparable transaction analysis, as the Sand Hill board felt that results of the comparable transaction analysis overstated the value of St. Bernard and were not, therefore, reflective of a fair transaction for Sand Hill and its stockholders. Sand Hill also did not use an income analysis, as it was felt that this approa ch would not be indicative of St. Bernard s true value, given that St. Bernard does not currently have annual net income. Finally, Sand Hill did not use a balance sheet valuation method, such as enterprise value to book value of equity, as a significant component of St. Bernard s stockholders deficit relates to the divestiture of its predecessor company, Emerald Systems, which was sold in 1995.

The results of the analyses, at the time these analyses were performed, in late summer and fall of 2005, placed the indicated equity value of St. Bernard in the range of approximately $88 million (DCF) to approximately $94 million (public company revenue comparables or Public Comps), under the assumption that St. Bernard was a public company, and in the range of approximately $66 million (DCF) to approximately $70 million (Public Comps), under the assumption that St. Bernard was a private company and would, therefore, receive a lower value from potential investors.

Because a significant period of time has elapsed since the merger agreement was initially announced and the current industry averages, as of May 2006, have declined approximately 22% since the fall of 2005, Sand Hill undertook a review of the public company revenue comparables as of May 23, 2006 using St. Bernard s most recent twelve months revenue and found that this method would value St. Bernard, as a public company at approximately $77 million (Public Comps), and as a private company at approximately $58 million (Public Comps). The average public company EV/S ratio had fallen from approximately 4.07x in October 2005 to 3.21x in May 2006.

The Sand Hill board took note that St. Bernard s original equity value ranges, as a public company of approximately $88 million (DCF) to approximately $94 million (Public Comps), and as a private company of approximately $66 million (DCF) to $70 million (Public Comps), were higher than the value of the original merger consideration to be issued to St. Bernard s stockholders of $51.4 million, which was arrived at by multiplying 9.782 million shares times the then Sand Hill stock price of $5.25 per share.

Moreover, the Sand Hill board also took note that St. Bernard s revised equity value ranges, as a public company of approximately $66 million (DCF) to $70 million (Public Comps) continue to be higher than the original $51.4 million figure and are also higher than the current merger consideration to be initially issued to St. Bernard s stockholders of $42.1 million (which excludes the 1.7 million shares to be issued to the St. Bernard stockholders representative). This calculation was arrived at by multiplying 8.082 (9.782 minus 1.70) million shares times the price of Sand Hill s stock price, as of May 23, 2006, of $5.21 per share.

Finally, the Sand Hill board took note that the consideration being initially issued in the merger, both as originally contemplated and as amended, based on the current market price for the Sand Hill s common stock and warrants, is substantially in excess of 80% of Sand Hill s assets. The Sand Hill board of directors believes because of the financial skills and background of several of its members, it was qualified to conclude that the merger with St. Bernard met this 80% requirement.

Valuation Method Public Company Comparables (as of October 2005) (Public Comps)

In reviewing publicly available information, the board focused its valuation efforts on the EV/S multiples that have been accorded public companies in the software industry, as reflected primarily in stock prices and, to a lesser extent, in prices paid in purchase transactions. Based on the board s experience in valuing companies, the board felt that this valuation metric was the most relevant metric for valuing St. Bernard and assessing the appropriateness of the exchange ratio in the merger. The board feels that this is a standard used by many equity analysts and investment banking firms to value software companies in general and IT security companies in particular. The board also considered additional subjective factors related to its due diligence review, and the due diligence review and initial valuation observations of SEG.

In reviewing publicly available information on comparable companies the board looked at EV/S for the public companies set forth below. Enterprise values were calculated using public company financial information through the second quarter of 2005 and the closing stock prices of these companies as of September 30, 2005. The enterprise values shown below are calculated by beginning with total market capitalization, as reported by Quote Media on September 30, 2005, then deducting a company s cash and adding a company s funded debt. Market capitalization is a function of many factors, including, but not limited to, industry, size, growth, profitability, cash flow, asset base, equity base, customers, competitiveness, brand, business model and future growth prospects. The revenue figures below represent a company s revenue for the 3rd and 4th quarters of 2004 and the 1st and 2nd quarters of 2005, and net income represents a company s net income for the same trailing four quarter period (t4q). *(Dollars are in millions)*

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Companies		Enterprise Value		Revenue (t4q)	EV/Sales		Net Income (t4q)
Blue Coat	$	484	$	108.4	4.46x	$	7.1
Check Point	$	4,973	$	554.6	8.97x	$	294.9
Entrust	$	259	$	98.1	2.64x	$	5.2
McAfee	$	4,482	$	946.9	4.73x	$	234.6
RSA	$	620	$	312.1	1.99x	$	36.2
Secure Computing	$	345	$	101.7	3.39x	$	17.1
Sonic Wall	$	178	$	126.3	1.41x	$	2.8
Symantec	$	12,771	$	2,726.2	4.68x	$	617.5
Trend Micro	$	3,608	$	632.0	5.71x	$	161.5
Tumbleweed	$	181	$	47.8	3.81x	$	(5.6)
VeriSign	$	4,632	$	1,527.1	3.03x	$	245.7
WatchGuard	$	72	$	77.0	0.94x	$	(10.3)
WebSense	$	929	$	130.8	7.11x	$	32.8
Average EV/S					4.07x		
Median EV/S					3.81x		

The historical multiples ranged from a low of 0.94x to a high of 8.97x, with the average being 4.07x and the median being 3.81x. At the time of this analysis, St. Bernard s most recent twelve month revenues were approximately $23 million. By multiplying St. Bernard s trailing twelve months (ttm) revenues by the industry average, the Sand Hill board arrived at a public company value for St. Bernard of approximately $94 million. By discounting this value by approximately 25%, as if St. Bernard were a private company, the Sand Hill board arrived at a valuation of St. Bernard approximately $70 million. The Sand Hill board noted that the original consideration anticipated under the merger agreement to be issued to the stockholders of St. Bernard was $51.4 million, or 2.15x EV/S, which was a 45% discount to the industry average EV/S and a 27% discount to the private company valuation of St. Bernard developed by Sand Hill.

In selecting the public companies set out above, the Sand Hill board of directors noted, and Sand Hill stockholders should be aware, that many of these companies have sales substantially greater than St. Bernard s and most are profitable, where St. Bernard has not been profitable on a regular basis. The Sand Hill board felt that focusing on these companies in its analysis was relevant in that they operate primarily in the IT security industry and most of these companies have some form of a recurring revenue model, similar to that of St. Bernard s.

Valuation Method Public Company Comparables (as of May 2006) (Public Comps)

In light of the time elapsed since the signing of the original merger agreement and in light of recent events, Sand Hill felt it important to update its public company analysis to ensure that the proposed merger was still fair to and in the best interests of Sand Hill and its stockholders.

In reviewing publicly available information on comparable companies the Sand Hill board looked at EV/S for the public companies set forth below. These were substantially the same companies reviewed by Sand Hill in the fall of 2005. Enterprise values were calculated using public company financial information through the first quarter of 2006 and the closing stock prices of these companies as of May 23, 2006. The revenue figures below represent a company s revenue for the 2nd through 4th quarters of 2005 and the 1st quarter of 2006, and net income represents a company s net income for the same trailing four quarter period (tq4). *(Dollars are in millions)*

Companies (1)	Enterprise Value	Revenue (t4q)	EV/Sales	Net Income (t4q)
Check Point	$ 3,050	$ 575.3	5.30x	$ 307.6
Entrust	$ 105	$ 94.3	1.11x	$ (3.8)
McAfee	$ 2,890	$ 1,020.0	2.83x	$ 143.8
RSA	$ 916	$ 322.0	2.84x	$ 40.5
Secure Computing	$ 394	$ 126.2	3.12x	$ 4.6
Sonic Wall	$ 330	$ 143.3	2.30x	$ (1.0)
Symantec	$ 14,430	$ 3620.0	3.99x	$ 157.7
Trend Micro	$ 4,190	$ 683.6	6.13x	$ 170.8
Tumbleweed	$ 111	$ 53.1	2.10x	$ (3.8)
VeriSign	$ 4,600	$ 1,600.0	2.88x	$ 112.4
WatchGuard	$ 85	$ 77.2	1.10x	$ (8.4)
WebSense	$ 757	$ 156.9	4.82x	$ 38.4
Average EV/S			3.21x	
Median EV/S			2.86x	

(1)

Blue Coat has been removed as a comparable, as it has had a shift in corporate strategy away from a focus on IT security. If Blue Coat had been included, the average EV/S would have been 3.08x and the median would have remained the same as above at 2.86x.

The EV/S multiples of the companies set out above ranged from a low of 1.10x to a high of 6.13x, with the average being 3.21x and the median being 2.86x. At the time of this analysis, St. Bernard s most recent twelve month revenues were approximately $24.1 million. By multiplying St. Bernard s trailing twelve months revenues by the industry average, the Sand Hill board arrived at a public company value for St. Bernard of approximately $77 million. By discounting this value by approximately 25%, as if St. Bernard were a private company, the Sand Hill board arrived at a valuation of St. Bernard of approximately $58 million. The Sand Hill board noted these values were above the original consideration to be issued to St. Bernard s stockholders of $51.4 million; the $51.4 million figure represents an EV/S of 2.13x, which is a 34% discount to the industry average EV/S and an 11% discount to the private company valuation of St. Bernard developed by Sand Hill. Further, the Sand Hill board noted that these values continue to be above the consideration currently contemplated to be initially issued to St. Bernard stockholders (which excludes the 1.7 million shares to be issued to the St. Bernard stockholders representative) of $42.1 million; the $42.1 million figure represents an EV/S of 1.75x, which is a 45% discount to the industry average EV/S and a 27% discount to the private company valuation of St. Bernard developed by Sand Hill.

The Sand Hill board did note that an investor could reasonably conclude that certain of the companies included in the table above may not be considered reasonable comparables with St. Bernard because of their profitability in comparison to St. Bernard s history of losses. The EV/S multiples of the four companies from the table above that were not profitable companies ranged from a low of 1.10x to a high of 2.30x, with the average being 1.65x. The Sand Hill board noted that the consideration currently contemplated to be initially issued to St. Bernard stockholders (which excludes the 1.7 million shares to be issued to the St. Bernard stockholders representative) of $42.1 million represents an EV/S of 1.75x.

Valuation Method Private Company Acquisition Comparables

In reviewing information on comparable mergers the Sand Hill board looked at information for the companies set forth below. The information set out below represents the Sand Hill s best estimates of the EV/S multiples paid in these transactions as of the time of their announcement. Because these transactions related to the acquisition of private companies that did not have publicly available data, the EV/S ratios set out below use estimates from SEG, WR Hambretch & Co (a well known investment banking firm) and PacificCrest (also a well known investment banking firm) where these estimates differed, Sand Hill used the lower estimate. As private companies are often acquired for values that exceed those of public companies, as the table below indicates, the Sand Hill board did not use this information to value St. Bernard but only used it as one method of attempting to determine whether the merger was fair to Sand Hill and its stockhol ders.

Target / Acquirer	Estimated Transaction Value	Estimated Revenue	Estimated EV/Sales
Bindview/Symantec	$ 175	$ 73	2.4x
Brightmail/Symantec	$ 370	$ 26	14.2x
Foundstone/McAfee	$ 86	$ 25	3.4x
iDefense/VeriSign	$ 40	$ 5	8.0x
Intermute/Trend Micro	$ 15	$ 4	3.8x
Pedestal/Altiris	$ 65	$ 18	3.7x
SourceFire/Check Point	$ 225	$ 25	9.0x
Sygate/Symantec	$ 160	$ 25	6.4x
Webwasher/Cyber Guard	$ 40	$ 8	5.2x
Average EV/S			6.2x

Valuation Method Discounted Cash Flow (DCF, using the Capital Asset Pricing Model (CAPM))

Sand Hill management performed a number of DCF analyses on St. Bernard from the late summer of 2005 into the fall of 2006. In August 2005, Sand Hill received an early DCF analysis from SEG, as an incident to their other activities. Sand Hill management reviewed this analysis but did not rely on it as a primary DCF analysis, but only considered it along with the numerous DCF analyses undertaken by Sand Hill directly. The DCF analysis presented below represents the results of Sand Hill management s DCF analysis performed in early October 2005, immediately prior to the final approval of the merger agreement by the Sand Hill board.

A DCF analysis estimates value based upon a company s projected future free cash flow discounted at a rate reflecting risks inherent in its business and capital structure. Unlevered free cash flow represents the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations. In this specific case, Sand Hill assumed no tax effect, as St. Bernard has a tax loss carryforward that will shelter significant earnings into the future.

While the discounted cash flow analysis is the most scientific of the methodologies used, it is dependent on projections and is further dependent on numerous industry-specific, macroeconomic and other exogenous factors.

Sand Hill used a detailed forecast provided by St. Bernard management for 2005 and a summary revenue forecast for 2006 and used its own estimates for 2007 through 2009. These projections are set out below. No other projections at the time had been provided to Sand Hill by St. Bernard. The projections are based, however, on the assumption that St. Bernard would continue to operate as a private business, that there would be no additional outside capital invested in the business and that St. Bernard would not make any acquisitions during the projection period. Projections for St. Bernard s DCF were divided into three scenarios, conservative, expected and optimistic and were weighted 30%, 50%

and 20%, respectively. The conservative case assumed that EBITDA through 2009 would be 25% less than the expected case and the optimistic case assumed that EBITDA through 2009 would be 10% greater than the expected case. The Sand Hill forecast used fo r the expected case is as follows:

Expected Case Forecast ($ in millions)	**2005**	**2006**	**2007**	**2008**	**2009**
Revenue	$ 25.1	$ 30.5	$ 37.8	$ 47.3	$ 59.6
Revenue Growth %		22 %	24 %	25 %	26 %
EBITDA	0.4	1.5	3.5	6.3	10.2
EBITDA % of Revenue	1.6 %	4.9 %	9.3 %	13.4 %	17.1 %

Historically, St. Bernard s revenue growth rates have been 27%, 38% and 7% for the years ended December 21, 2002, 2003 and 2004, respectively. St. Bernard s revenue growth was 13% for the year ended December 31, 2005. Revenues for St. Bernard were down approximately 5.4% in the first quarter of 2006 in comparison to the first quarter of 2005 (although subscription revenues were up 26.7% in the same period). In the above expected case forecast, St. Bernard used a growth rate consistent with its plan for 2005 and, at the time, its early outlook for 2006; nearly all of which has been based on growth in the iPrism and ePrism product lines. The Sand Hill board believed that St. Bernard s average revenue growth of 21% per year for the years 2003, 2004 and 2005 supported the growth assumptions used in the forecast. Sand Hill s growth assumptions reflected in years 2007 through 2009 were based on three primary assumptions: (1) a particular understanding of the iPrism product line, (2) IDC s industry growth estimates for web-filtering and Secure Content Management (SCM), and (3) AMI Partner s small to medium enterprise (SME) segment growth estimates for 2006. Sand Hill used growth estimates that were less than those projected by industry experts to account for potential execution risk, an expected potential lag in the development of St. Bernard s new VAR program and to attempt to ensure a realistic expectation of revenue performance.

Next, Sand Hill assumed long term perpetual EBITDA growth rates of 10%, 15% and 15% for the conservative, expected and optimistic cases, respectively.

Furthermore, as a conservative assumption, Sand Hill did not take into consideration and did not quantify the positive cash flow implications of St. Bernard s SaaS business model, in which deferred revenue grows faster than revenue due to subscriptions; the difference between revenue recognized under GAAP and the billings results in the increase to deferred revenue.

Another primary element of a DCF analysis is the discount rate applied to the projected cash flows. The discount rate accounts for the time value of money, general market risk, specific industry risk, and the risks associated with a company s ability to execute on its plan. Sand Hill calculated St. Bernard s discount rate to be 19.96% using the weighted average cost of capital, which is a function of St. Bernard s unlevered capital structure, expected volatility, or risk (Sand Hill used a beta of 2.66), and the cost of its equity (10%, or a 6% equity premium to the risk free rate of return) and debt (4%). Sand Hill assumed a 1.0x equity to capital ratio for its capital structure. For purposes of clarity, Sand Hill applied the private company discount of 25% to the public value arrived at using the DCF and did not apply the 25% discount to the discount rate.

The indicated public company equity value of St. Bernard as calculated under the DCF method was approximately $88 million, which was comprised of a conservative case valued at $42 million, an expected case valued at $106 million and an optimistic case valued at $115 million, each of which were weighted 30%, 50% and 20%, respectively. The indicated private company equity value of St. Bernard, after a 25% discount factor was applied, was approximately $66 million. The Sand Hill board of directors noted that the original consideration to be issued to St. Bernard s stockholders of $51.4 million, or 2.15x EV/S, was 42% lower than the public company valuation of St. Bernard developed by Sand Hill indicated by the DCF method and was 22% lower than the private company valuation of St. Bernard developed by Sand Hill indicated by the DCF method. The Sand Hill board noted that the current consideration being initially issued to St. Bernard stockhold ers (which excludes the 1.7 million shares to be issued to the St. Bernard stockholders representative) is $42.1 million, or 1.75x EV/S, is 52% lower than the public company valuation of St. Bernard developed by Sand Hill indicated by the DCF method and is 36% lower than the private company valuation of St. Bernard developed by Sand Hill indicated by the DCF method. Further, the Sand Hill board of directors noted that the current consideration being initially issued to St. Bernard stockholders of $42.1 million was less than in every DCF case except one, whether public or private; the conservative case DCF was approximately equal to the current consideration being initially issued of $42.1 million. The Sand Hill board notes that the difference between the actual EBITDA for 2005, of a negative $2.1 million, and the forecasted EBITDA for 2005, of positive $0.4 million would result in a decline in the present value of the expected case analysis to $104.0 million.

The above DCF forecasts were not prepared with a view to public disclosure or compliance with GAAP, the published guidelines of the SEC or the American Institute of Certified Public Accountants guidelines regarding projections and forecasts. In addition, the DCF forecasts are not intended, nor do they reflect how St. Bernard plans to perform once it mergers with Sand Hill. Neither the St. Bernard forecasts for 2005 and 2006, nor the Sand Hill forecasts thereafter were subject to audit, review or compilation by an independent registered public accountant. In addition, the forecasts were prepared using a number of assumptions, which may not in fact be realized, and they are necessarily subject to numerous contingencies and uncertainties. **Accordingly, inclusion of the forecasts should not be interpreted as an indication that the forecasts will be predictive of actual future results, and the forecasts should not be relied upon for this pu rpose.** For a discussion of some of the reasons why Sand Hill s and St. Bernard s actual results could differ from their forecasts, see Forward-looking Statements on page 44. Neither St. Bernard nor Sand Hill intends to make updates or revisions to these forecasts publicly available.

Given the above qualifications and given the uncertainties inherent in any financial forecast and in light of actual financial results of St. Bernard for the year ended December 31, 2005, and the quarter ended March 31, 2006, the stockholders of Sand Hill and St. Bernard should not place undue reliance on these forecasts. The Sand Hill

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board used these analyses as tools to both negotiate with St. Bernard and analyze whether to recommend the merger to its stockholders.

St. Bernard s Reasons for the Merger

The St. Bernard board of directors believes that the proposed merger between Sand Hill and St. Bernard is in the best interests of St. Bernard and its stockholders for the following primary reasons:

As of October 26, 2005, Sand Hill had $21,565,510 in escrow, representing the net proceeds from its initial public offering. If the merger is consummated, at least 80% of the funds in the Sand Hill escrow account, less expenses of the merger, will be available for operations of the combined company. St. Bernard believes that because the combined company will have substantially greater capitalization than St. Bernard alone, the combined company will be in a better position than St. Bernard alone, to compete in the SCM marketplace.

St. Bernard believes that the skills and expertise of the officers and directors of Sand Hill, their collective access to acquisition opportunities and ideas, their contacts, and, in particular, Mr. Polanen s expertise in the IT security market, will provide the combined company with increased opportunities for future acquisitions and growth.

Interests of Sand Hill Directors and Officers in the Merger

In considering the recommendation of the board of directors of Sand Hill that you vote in favor of the adoption of the merger proposal, you should be aware that a number of Sand Hill s executives, and members of Sand Hill s board have interests in the merger that differ from, or are in addition to, those of Sand Hill stockholders generally. In particular if the merger is not approved and Sand Hill fails to consummate an alternative transaction within the time allotted pursuant to its certificate of incorporation and Sand Hill is therefore required to liquidate, the shares of common stock purchased prior to Sand Hill s initial public offering and held by Sand Hill s executives and directors may be worthless because Sand Hill s executives and directors are not entitled to receive any of the net proceeds of Sand Hill s initial public offering that may be distributed upon liquidation of Sand Hill with respect to these shares. In addition, the warrants held by such persons, which as of May 26, 2006 are exercisable for 296,500 shares of common stock (108,500 of which are held by Mr. Polanen), will expire without value in the event of a liquidation. On the record date, directors and executive officers of Sand Hill and their affiliates beneficially owned and were entitled to vote approximately 1,000,000 shares of Sand Hill s common stock that have a market value of approximately $5,230,000 based on Sand Hill s common stock price of $5.23 per share as of May 26, 2006. These shares were purchased for an aggregate of $25,000. The total of these shares represented approximately 19.6% of Sand Hill s issued and outstanding common stock. However, as Sand Hill s executive officers and directors are contractually prohibited from selling their shares prior to July 26, 2007 during which time the value of these shares may increase or decrease, it is impossible to determine what the financial impact of the merger will be on Sand Hill s officers and directors. In addition, after the completion of the merger, Humphrey P. Polanen will remain as the chairman of the board of directors of the combined company and Scott R. Broomfield will remain as a director of the combined company. Humphrey P. Polanen, The Broomfield Family Trust and Sand Hill Security LLC, have loaned Sand Hill approximately $10,000, $25,000 and $20,000, respectively, for operating expenses. Each of these loans bears interest at the rate of 10% and matures on July 26, 2006. Each of these lenders have waived any claims they have against the trust fund with respect to these loans. If the merger is not completed and Sand Hill is forced to liquidate these loans will remain as unsecured claims against Sand Hill. The Broomfield Family Trust, an affiliate of Scott Broomfield, a director and officer of Sand Hill, and BeeBird Beheer B.V., an affiliate of Bart van Hedel a director of St. Bernard, have made available $125,000 and $375,000, respectively, to St. Bernard, as a bridge loan pursuant to secured promissory notes. Amounts borrowed under the notes are due on November 25, 2006 and bear interest at 12%. In connection with the execution of the notes, the Broomfield Family Trust and BeeBird Beheer B.V. received warrants for an aggregate of 25,000 shares of common stock of St. Bernard (which equates to 10,535 shares of the combined company s stock after the merger) exercisable at a price equal to the last reported sale price on the day prior to the maturity date of the notes on the primary market on which the shares of the combined company are traded or, if the merger does not occur, at the fair market value of the shares as determined by the board of directors of St. Bernard. These notes are secured by a lien on substantially all of the assets of St. Bernard, subject to the lien of St. Bernard s existing senior lender. Finally, if Sand Hill liquidates prior to the consummation of a business combination, Humphrey P. Polanen, chai rman of the board and chief executive officer will be personally liable to pay debts and obligations to creditors that are owed money by Sand Hill in excess of the net proceeds of Sand Hill s initial public offering not held in the trust account. As of the date of this joint proxy statement/prospectus such amounts are estimated to be approximately $400,000 at the close of the merger.

The Sand Hill board of directors was aware of these interests during its deliberations on the merits of the merger and in determining to recommend to the stockholders of Sand Hill that they vote for the adoption of the merger proposal.

Interests of St. Bernard Directors and Officers in the Merger

You should understand that some of the current officers and directors of St. Bernard have interests in the merger that are different from, or in addition to, your interest as a Sand Hill or St. Bernard stockholder. These interests include, among other things:

- After the completion of the merger, several of the present directors of St. Bernard, specifically, Messrs. John E. Jones, Bart van Hedel and a third person yet to be named will remain as directors of the combined company;

- After the completion of the merger, the current officers of St. Bernard will remain as officers of the combined company;

- The Broomfield Family Trust, an affiliate of Scott Broomfield, a director and officer of Sand Hill, and BeeBird Beheer B.V., an affiliate of Bart van Hedel a director of St. Bernard, have made available $125,000 and $375,000, respectively, to St. Bernard, as a bridge loan pursuant to secured promissory notes. Amounts borrowed under the notes are due on November 25, 2006 and bear interest at 12%. In connection with the execution of the notes, the Broomfield Family Trust and BeeBird Beheer B.V. received warrants for an aggregate of 25,000 shares of common stock of St. Bernard (which equates to 10,535 shares of the combined company s stock after the merger) exercisable at a price equal to the last reported sale price on the day prior to the maturity date of the notes on the primary market on which the shares of the combined company are traded or, if the merger does not occur, at the fair market value of the shares as determined by the bo ard of directors of St. Bernard. These notes are secured by a lien on substantially all of the assets of St. Bernard, subject to the lien of St. Bernard s existing senior lender; and

- The directors and executive officers of St. Bernard hold stock options granted to them under various St. Bernard Stock Option Plans. Under the terms of the merger agreement, at the effective time of the merger, each outstanding option to purchase shares of St. Bernard common stock that has been granted under St. Bernard s 1992, 2000 and 2005 Stock Option Plans, whether vested or unvested, will be fully accelerated pursuant to its terms, and assumed by Sand Hill and become an option to acquire, on the same terms and conditions as were applicable under the applicable stock option plan immediately prior to the effective time of the merger, an option to purchase shares of Sand Hill common stock. The number of shares of Sand Hill common stock for which each option will be exercisable will be determined by multiplying the number of shares of St. Bernard common stock for which such option was exercisable by a conversion ratio of 0.42141 9. The exercise price per share of Sand Hill common stock at which each such option will be exercisable will be determined by dividing the exercise price per share of St. Bernard common stock at which such option was exercisable by the conversion ratio of 0.421419.

The table below sets forth, as of March 31, 2006, information with respect to options under the 1992 Stock Option Plan, 2000 Stock Option Plan and 2005 Stock Option Plan held by each of St. Bernard s current executive officers and directors.

STOCK OPTIONS ISSUED TO OFFICERS AND DIRECTORS OF ST. BERNARD SOFTWARE(1)

Name	Number of Options Held	Number of Options Vested	Number of Unvested Options Held
Mr. John E. Jones, Chief Executive Officer, President and Director	170,000	170,000	
Mr. Bart A.M. van Hedel, Director	95,000	88,889	6,111
Mr. Robert G. Copeland, Director	95,000	88,889	6,111
Mr. Mel Lavitt, Director	34,723	28,612	6,111
Mr. Al Riedler, Chief Financial Officer	90,167	67,504	22,663

(1)

The table sets forth the aggregate total number of options granted by St. Bernard to the individuals listed. Each of the individuals listed received multiple option grants from St. Bernard, at various exercise prices depending on the date of grant. The exercise prices for the option grants range from $0.11 per share to $0.50 per share.

Appraisal or Dissenters Rights

No appraisal or dissenters rights are available under the Delaware General Corporation Law for the stockholders of Sand Hill in connection with the merger proposal.

Under Delaware law, the holders of outstanding stock who comply with the governing statutory provisions are entitled to appraisal rights to receive a judicially determined fair value for their shares instead of the merger consideration. All St. Bernard stockholders will have statutory appraisal rights following the consummation of the merger, with the conditions set out below.

If the merger is consummated, a holder of record of St. Bernard stock on the date of making a demand for appraisal, as described below, will be entitled to have those shares appraised by the Delaware Court of Chancery under Section 262 of the DGCL and to receive payment for the fair value of those shares instead of the consideration provided for in the merger agreement. In order to be eligible to receive this payment, however, a St. Bernard stockholder must (1) continue to hold its shares through the effective time of the merger, and, as a result, a stockholder who is the record holder of shares of St. Bernard stock on the date the written demand for appraisal is made, but who thereafter transfers those shares before the effective time of the merger, will lose any right to appraisal in respect of those shares; (2) strictly comply with the procedures specified in Section 262; and (3) not vote in favor of the merger or consent t hereto in writing. As a result, a St. Bernard stockholder who submits a proxy and wishes to exercise appraisal rights must vote against the merger agreement or abstain from voting on the merger agreement because a proxy which does not contain voting instructions will, unless revoked, be voted in favor of the merger agreement.

This joint proxy statement/prospectus is being sent to all holders of record of St. Bernard stock on the record date for the St. Bernard special meeting and constitutes notice of the appraisal rights available to those holders under Section 262. The written demand for appraisal must be in addition to and separate from any proxy or vote. For St. Bernard stockholders neither voting (in person or by proxy) against, abstaining from voting or failing to vote on the proposed merger agreement will constitute a written demand for appraisal within the meaning of Section 262.

THE STATUTORY RIGHT OF APPRAISAL GRANTED BY SECTION 262 REQUIRES STRICT COMPLIANCE WITH THE PROCEDURES IN SECTION 262. FAILURE TO FOLLOW ANY OF THESE PROCEDURES MAY RESULT IN A TERMINATION OR WAIVER OF DISSENTERS RIGHTS UNDER SECTION 262. THE FOLLOWING IS A SUMMARY OF THE PRINCIPAL PROVISIONS OF SECTION 262.

The following summary is not a complete statement of Section 262 of the DGCL, and is qualified in its entirety by reference to Section 262, the full text of which appears in *Annex F* to this joint proxy statement/prospectus.

A holder of St. Bernard stock who elects to exercise appraisal rights under Section 262 must deliver a written demand for appraisal of its shares of St. Bernard prior to the vote on the merger. The written demand must reasonably inform St. Bernard of the identity of the holder and that the holder intends to demand the appraisal of the holder s shares. All demands should be delivered to St. Bernard, 15015 Avenue of Science, San Diego, California 92128, Attention: Corporate Secretary.

Only a holder of shares of St. Bernard stock on the date of making a written demand for appraisal who continuously holds those shares through the effective time of the merger is entitled to seek appraisal. For St. Bernard stockholders simply voting against the approval and adoption of the merger agreement does not constitute a demand for appraisal rights and does not constitute a waiver of appraisal rights.

Demand for appraisal must be executed by or for the holder of record, fully and correctly, as that holder s name appears on the holder s stock certificates representing shares of St. Bernard stock, should specify the holder s name and mailing address, the number of shares of St. Bernard stock owned and that the holder intends to demand appraisal of the holder s shares. If St. Bernard stock is owned of record in a fiduciary capacity by a trustee, guardian or custodian, the demand should be made in that capacity. If St. Bernard stock is owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be made by or for all owners of record. An authorized agent, including one or more joint owners, may execute the demand for appraisal for a holder of record; that agent, however, must identify the record owner or owners and expressly disclose in the demand that the agent is acting as agent fo r the record owner or owners of the shares. A record holder such as a broker who holds shares of St. Bernard stock as a nominee for beneficial owners, some of whom desire to demand appraisal, must exercise appraisal rights on behalf of those beneficial owners with respect to the shares of St. Bernard stock held for those beneficial owners. In that case, the written demand for appraisal should state the number of shares of St. Bernard stock covered by it. Unless a demand for appraisal specifies a number of shares, the demand will be presumed to cover all shares of St. Bernard stock held in the name of the record owner.

BENEFICIAL OWNERS WHO ARE NOT RECORD OWNERS AND WHO INTEND TO EXERCISE APPRAISAL RIGHTS SHOULD INSTRUCT THE RECORD OWNER TO COMPLY WITH THE STATUTORY REQUIREMENTS WITH RESPECT TO THE EXERCISE OF APPRAISAL RIGHTS BEFORE THE DATE OF THE ST. BERNARD SPECIAL MEETING.

Within 10 days after the consummation of the merger, the surviving corporation is required to send notice of the effectiveness of the merger to each stockholder who prior to the time of the merger complies with the requirements of Section 262 and has delivered notice of intent to demand appraisal.

Within 120 days after the merger, the Surviving Corporation or any stockholder who has complied with the requirement of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of St. Bernard stock held by all stockholders seeking appraisal. If no petition is filed by either the surviving corporation or any dissenting stockholder within the 120-day period, the rights of all dissenting stockholders to appraisal will cease. Stockholders seeking to exercise appraisal rights should not assume that the surviving corporation will file a petition with respect to the appraisal of the fair value of their shares or that the surviving corporation will initiate any negotiations with respect to the fair value of those shares. The surviving corporation is under no obligation to and has no present intention to take any action in this regard. Accordingly, stockholders who wish to seek appraisa l of their shares should initiate all necessary action with respect to the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262.

FAILURE TO FILE THE PETITION ON A TIMELY BASIS WILL CAUSE THE STOCKHOLDER S RIGHT TO AN APPRAISAL TO CEASE.

A stockholder timely filing a petition for appraisal with the Delaware Court of Chancery must deliver a copy to the surviving corporation, which will then be obligated within 20 days to provide the Register in Chancery with a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving corporation. After notice to those stockholders, the Delaware Court of Chancery may conduct a hearing on the petition to determine which stockholders have become entitled to appraisal rights. The Court of Chancery may require stockholders who have demanded an appraisal of their shares and who hold stock represented by certificates to submit their certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings. If any stockholder fails to comply with such requirement, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

Within 120 days after the effective time of the merger, any stockholder who has complied with subsections (a) and (d) of Section 262 is entitled, upon written request, to receive from the Surviving Corporation a statement setting forth the total number of shares of St. Bernard stock not voted in favor of the merger with respect to which demands for appraisal have been received by St. Bernard and the number of holders of those shares. The statement must be mailed within 10 days after St. Bernard has received the written request or within 10 days after the time for delivery of demands for appraisal under subsection (d) of Section 262 has expired, whichever is later.

If a petition for an appraisal is filed in a timely manner, at the hearing on the petition, the Delaware Court of Chancery will determine which stockholders are entitled to appraisal rights and will appraise the shares of St. Bernard stock owned by those stockholders. The court will determine the fair value of those shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the fair value.

Stockholders who consider seeking appraisal should consider that the fair value of their shares under Section 262 could be more than, the same as, or less than, the value of the consideration provided for in the merger agreement without the exercise of appraisal rights. The Court of Chancery may determine the cost of the appraisal proceeding and assess it against the parties as the Court deems equitable. Upon application of a dissenting stockholder, the Court may order that all or a portion of the expenses incurred by any dissenting stockholder in connection with the appraisal proceeding (including, without limitation, reasonable attorney s fees and the fees and expenses of experts) be charged pro rata against the value of all shares of St. Bernard stock entitled to appraisal. In the absence of a court determination or assessment, each party bears its own expenses. Final decisions by the Court of Chancery in appraisal proceedings are subject to appeal to the Delaware Supreme Court.

Any stockholder who has demanded appraisal in compliance with Section 262 will not, after the merger, be entitled to vote such stock for any purpose or receive payment of dividends or other distributions, if any, on the St. Bernard stock, except for dividends or distributions, if any, payable to stockholders of record at a date prior to the merger.

A stockholder may withdraw a demand for appraisal and accept the Sand Hill shares at any time within 60 days after the merger by delivering to St. Bernard a written withdrawal of the stockholder s demand for appraisal. If an appraisal proceeding is properly instituted, it may not be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and any such approval may be conditioned on the Court of Chancery s deeming the terms to be just. If, after the merger, a holder of St. Bernard stock who had demanded appraisal for its shares fails to perfect or loses its right to appraisal, those shares will be treated under the merger agreement as if they were converted into Sand Hill shares at the time of the merger.

IN VIEW OF THE COMPLEXITY OF THESE PROVISIONS OF THE DGCL, ANY ST. BERNARD STOCKHOLDER WHO IS CONSIDERING EXERCISING APPRAISAL RIGHTS SHOULD CONSULT A LEGAL ADVISOR.

Material United States Federal Income Tax Consequences of the Merger

The following describes the material U.S. federal income tax considerations of the merger that are generally applicable to the holders of St. Bernard common stock and the holders of Sand Hill common stock. This discussion is based on the Internal Revenue Code of 1986, as amended (referred to as the Code), existing, temporary, and proposed Treasury regulations thereunder, current administrative rulings and judicial decisions, all as currently in effect and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion applies only to St. Bernard stockholders that hold their St. Bernard common stock and Sand Hill stockholders that hold their Sand Hill common stock as a capital asset within the meaning of Section 1221 of the Code. Further, this discussion does not address all aspects of United States federal taxation that may be relevant to a particular holder of St. Bernard common stock or Sand Hill common stock in light of such holder s personal circumstances or to holders subject to special treatment under the United States federal income tax laws, including:

- financial institutions,
- investors in pass-through entities,
- insurance companies,
- tax-exempt organizations,

- dealers in securities or currencies,

- traders in securities that elect to use a mark to market method of accounting,

- persons that hold Sand Hill common stock or St. Bernard common stock as part of a straddle, hedge, constructive sale or conversion transaction,

- persons who are not citizens or residents of the United States, and

- stockholders who acquired their shares of Sand Hill common stock or their shares of St. Bernard common stock through the exercise of an employee stock option or otherwise as compensation.

In addition, this discussion does not address any alternative minimum or any state, local or foreign tax consequences of the merger.

Each holder of Sand Hill common stock or St. Bernard common stock should consult its tax advisor with respect to the particular tax consequences of the merger to such holder based on the holder s specific circumstances, applicable state, local, and foreign tax consequences and potential changes in applicable tax laws.

Reorganization.

It is a condition to the obligation of St. Bernard to complete the merger that it receives an opinion from its counsel, Duane Morris LLP, dated as of the closing date of the merger, that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code. A tax opinion of Duane Morris LLP is included as exhibit 8.1 to the registration statement filed with the SEC of the which this proxy statement/prospectus is a part. Duane Morris LLP has opined, among other things, that (i) the merger will constitute a reorganization under Section 368(a) of the Code and (ii) the discussion set forth in this section Material United States Federal Income Tax Consequences of the Merger constitutes its opinion concerning the material federal income tax consequences applicable to the St. Bernard stockholders as a result of the merger. In rendering this opinion, Duane Morris LLP has relied on representations and covenants made b y St. Bernard, Sand Hill, Sand Hill Merger Corp. and others. This opinion also has relied on assumptions, including assumptions regarding the absence of changes in existing facts and the completion of the merger in the manner contemplated by the merger agreement. If any of these representations, covenants or assumptions is inaccurate, the opinion may be adversely affected and the tax consequences of the merger may differ from those discussed below. Opinions of counsel are not binding on either the Internal Revenue Service or the courts and do not preclude the Internal Revenue Service from adopting a contrary position. In addition, neither St. Bernard nor Sand Hill intends to request a ruling from the Internal Revenue Service regarding the United States federal income tax consequences of the merger. Consequently, no assurance can be given that the Internal Revenue Service will not assert, or a court would not sustain, a position contrary to any of those set forth below.

Tax Consequences of the Merger to St. Bernard Stockholders.

It is the opinion of Duane Morris LLP, counsel to St. Bernard, that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. As a consequences:

•

no gain or loss will be recognized by stockholders of St. Bernard who receive solely shares of Sand Hill common stock in exchange for shares of St. Bernard common stock;

•

the aggregate tax basis of the shares of Sand Hill common stock received in the merger (including the Sand Hill common stock held in escrow and held by the stockholders representative) will be equal to the aggregate tax basis of the shares St. Bernard common stock exchanged therefore. Upon a return of any portion of the shares of Sand Hill common stock held in escrow or by the stockholders representative to Sand Hill, the tax basis of the returned shares should be added to the tax basis of the remaining shares of Sand Hill common stock received by the St. Bernard stockholder in the merger. The St. Bernard stockholders should recognize no gain or loss with respect to returned shares;

•

the holding period of the Sand Hill common stock received in the merger (including the Sand Hill common stock held in escrow and held by the stockholders representative) will include the holding period of the St. Bernard common stock exchanged therefor; and

•

any St. Bernard stockholder who exercises his or her appraisal rights and who receives cash in exchange for his or her shares of St. Bernard common stock generally will recognize gain or loss measured by the difference between the amount of cash received and the tax basis of such stockholder s shares of St. Bernard common stock exchanged therefor. This gain or loss will generally be long-term capital gain or loss if the holder s holding period with respect to the St. Bernard common stock surrendered is more than one year at the effective time of the merger. There are limitations on the extent to which stockholders may deduct capital losses from ordinary income. If a St. Bernard stockholder who receives cash in exchange for all of the stockholder s shares of St. Bernard common stock actually or constructively owns Sand Hill common stock after the merger (as the result of prior actual or constructive own ership of Sand Hill common stock or otherwise), all or a portion of the cash received by the stockholder may be taxed as a dividend, and those stockholders should consult their tax advisors to determine the amount and character of the income recognized in connection with the merger.

Tax Consequences If the Merger Does Not Qualify as a Reorganization Under Section 368(a) of the Code.

If the Internal Revenue Service determines that the merger of St. Bernard does not qualify as a reorganization within the meaning of Section 368(a) of the Code, the St. Bernard stockholders would be required to recognize gain or loss with respect to each share of St. Bernard common stock surrendered in the merger in an amount equal to the difference between (a) the sum of the fair market value of any Sand Hill common stock in the merger and (b) the tax basis of the shares of St. Bernard common stock surrendered in exchange therefor. Such gain or loss will be long-term capital gain or loss if such stockholder held the St. Bernard common stock for more than one year, and will be short-term capital gain or loss if such stockholder held the St. Bernard common stock for less than one year. The amount and character of gain or loss will be computed separately for each block of St. Bernard common stock that was purchased by the holder in the same transaction. A St. Bernard stockholder s aggregate tax basis in the Sand Hill common stock received in the merger would in this case be equal to its fair market value at the time of the closing of the merger, and the holding period for the Sand Hill common stock would begin the day after the closing of the merger.

Tax Consequences of the Merger to Sand Hill Stockholders.

No gain or loss will be recognized by the stockholders of Sand Hill pursuant to the merger who do not exchange their shares of Sand Hill common stock pursuant to the merger, continue to own such shares of Sand Hill, and do not exercise their conversion rights.

A stockholder of Sand Hill who exercises their conversion rights and effects a termination of the stockholder s interest in Sand Hill will generally be required to recognize gain or loss upon the exchange of that stockholder s shares of Sand Hill common stock for cash. Such gain or loss will be measured by the difference between the amount of cash received and the tax basis of that stockholder s shares of Sand Hill common stock. This gain or loss will generally be capital gain or capital loss and that capital gain or loss and will be a long-term capital gain or loss if the holding period for the shares of Sand Hill common stock is more than one year. There are limitations on the extent to which stockholders may deduct capital losses from ordinary income. If a Sand Hill stockholder who receives cash in exchange for all of the stockholder s shares of Sand Hill stock constructively or otherwise owns Sand Hill common stock afte r the conversion, all or a portion of the cash received by the stockholder may be taxed as a dividend, and those stockholders should consult their tax advisors to determine the amount and character of the income recognized in connection with the merger.

Tax Consequences of the Merger Generally to Sand Hill and St. Bernard.

No gain or loss will be recognized by Sand Hill or St. Bernard as a result of the merger.

Reporting and Recordkeeping

A holder of St. Bernard common stock receiving Sand Hill common stock as a result of the merger, is required to retain records relating to such holder s St. Bernard common stock and file with its United States federal income tax return a statement setting forth facts relating to the merger and with respect to the holder s nonrecognition of gain or loss upon the exchange of their shares of St. Bernard common stock for shares of Sand Hill common stock pursuant to the merger. At a minimum, the statement must include (1) the holder s tax basis in the St. Bernard common stock surrendered and (2) the amount of cash (if any) and the fair market value, as of the effective date of the merger, of the Sand Hill common stock received in exchange therefor.

Backup Withholding and Information Reporting.

Payments of cash to a holder of St. Bernard common stock as a result of an exercise of their dissenters rights and payments of cash to a holder of Sand Hill common stock as a result of an exercise of their conversion rights may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption satisfactory to Sand Hill and the exchange agent or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder s United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

To ensure compliance with requirements imposed by the IRS in Circular 230, you are hereby informed that (i) any tax advice contained in this registration statement is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Code, (ii) any such advice is written to support the matters addressed herein, and (iii) each stockholder should seek tax advice based on its particular circumstances from an independent tax advisor.

BECAUSE THE COMPLEXITY OF THE TAX LAWS, AND BECAUSE THE TAX CONSEQUENCES TO ANY PARTICULAR STOCKHOLDER MAY BE AFFECTED BY MATTERS NOT DISCUSSED ABOVE, EACH SAND HILL STOCKHOLDER IS URGED TO CONSULT A TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF THE TRANSACTIONS CONTEMPLATED BY THE MERGER AGREEMENT TO HIM, HER OR IT, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND NON-U.S. TAX LAWS, AS WELL AS FEDERAL TAX LAWS.

Anticipated Accounting Treatment

The merger will be accounted for under the reverse acquisition application of the equity recapitalization method of accounting in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Under this method of accounting, Sand Hill will be treated as the acquired company for financial reporting purposes. In accordance with guidance applicable to these circumstances, the merger will be considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger will be treated as the equivalent of St. Bernard issuing stock for the net monetary assets of Sand Hill, accompanied by a recapitalization. The net monetary assets of Sand Hill will be stated at their fair value, essentially equivalent to historical costs, with no goodwill or other intangible assets recorded. The accumulated deficit of St. Bernard will be carried forward after the m erger. Operations prior to the merger will be those of St. Bernard.

Regulatory Matters

The merger and the transactions contemplated by the merger agreement are not subject to the HSR Act or any federal or state regulatory requirement or approval except for filings necessary to effectuate the transactions contemplated by the merger proposal with the Secretary of State of the State of Delaware.

Consequences if Merger Proposal is Not Approved

If the merger proposal is not approved by the stockholders, Sand Hill Merger Corp. will not merge with St. Bernard and Sand Hill will be liquidated in accordance with the provisions of Delaware Law. Please see *Information About Sand Hill Liquidation if No Business Combination* on page 123.

If the merger is not consummated, St. Bernard will continue to operate as a private company.

Vote Required to Adopt the Merger Proposal

The adoption of the merger agreement and the transactions contemplated by the merger agreement will require the affirmative vote of the holders of a majority of the outstanding shares of Sand Hill common stock on the Sand Hill record date. However, Sand Hill will not be able to complete the merger if the holders of 20% or more of the shares of common stock issued in Sand Hill s initial public offering vote against the merger and demand that Sand Hill convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering are held.

The adoption of the merger proposal is conditioned on the adoption of the amendment proposal and the adoption of the amendment proposal is conditioned on the adoption of the merger proposal. The adoption of neither the merger proposal nor the amendment proposal is conditioned on the adoption of the stock option plans proposal or the adjournment proposal. The adoption of the stock option plans proposal, however, is conditioned upon the adoption of the merger proposal and the amendment proposal.

Recommendation of the Sand Hill Board of Directors

After careful consideration, Sand Hill s board of directors has determined unanimously that the merger is fair to and in the best interests of Sand Hill and its stockholders. Sand Hill s board of directors has approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement and unanimously recommends that you vote or give instructions to vote FOR the proposal to adopt the merger proposal.

The discussion of the information and factors considered by the Sand Hill board of directors is not meant to be exhaustive, but includes the material information and factors considered by the Sand Hill board of directors.

Recommendation of the St. Bernard Board of Directors

After careful consideration, St. Bernard s board of directors has determined unanimously that the merger is fair to and in the best interests of St. Bernard and its stockholders. St. Bernard s board of directors has approved and declared advisable the merger agreement and the transactions contemplated by the merger agreement and unanimously recommends that you vote or give instructions to vote FOR the proposal to adopt the merger proposal.

The discussion of the information and factors considered by the St. Bernard board of directors is not meant to be exhaustive, but includes the material information and factors considered by the St. Bernard board of directors.

THE MERGER AGREEMENT

The following summary of the material provisions of the merger agreement, as amended, is qualified by reference to the complete text of the merger agreement, as amended, a copy of which is attached as Annex A to this joint proxy statement/prospectus. The merger agreement was executed on October 26, 2005 and amended on December 15, 2005 and May 31, 2006. The following summary describes the merger agreement. All stockholders are encouraged to read the merger agreement in its entirety for a more complete description of the terms and conditions of the merger.

Structure of the Merger

At the effective time of the merger, Sand Hill Merger Corp. will be merged with and into St. Bernard. St. Bernard will continue as the surviving company and become a wholly-owned subsidiary of Sand Hill.

Closing and Effective Time of the Merger

The closing of the merger will take place on the second business day following the satisfaction of the conditions described below under *The Merger Agreement Conditions to the Completion of the Merger* , or, if on that day any condition to the respective obligations of either Sand Hill or St. Bernard has not been satisfied or waived, as soon as practicable after all the conditions described below under *The Merger Agreement Conditions to the Completion of the Merger* have been satisfied, unless Sand Hill and St. Bernard agree in writing to another time.

The merger will become effective at the time the articles of merger are filed with the Delaware Secretary of State, or at a later time agreed to by Sand Hill and St. Bernard in the articles of merger. The articles of merger will be filed at the time of the closing or as soon as practicable thereafter.

Amendment and Restatement of Sand Hill Certificate of Incorporation

Following consummation of the merger, Sand Hill s amended and restated certificate of incorporation will be amended and restated to remove certain provisions related to a business combination that were put in place as a result of Sand Hill being a Targeted Acquisition Corporation.

Name; Headquarters; Stock Symbol; Listing

After completion of the merger:

- Sand Hill will change its name to St. Bernard Software, Inc. and the surviving company will change its name to a name to be selected by the combined company s board of directors.

- the corporate headquarters and principal executive offices will be located at 15015 Avenue of Science, San Diego, California, which is currently St. Bernard s corporate headquarters;

-

Sand Hill will cause the symbols under which Sand Hill s units, common stock, and warrants outstanding prior to the merger and traded on the OTC Bulletin Board to be changed to symbols as determined by St. Bernard and Sand Hill that, if available, are reasonably representative of the corporate name or business of St. Bernard; and

•

Sand Hill s outstanding common stock, warrants and units are currently quoted on the Over-the-Counter Bulletin Board. Sand Hill will use its best efforts to cause its outstanding shares of common stock and warrants and the shares of common stock to be issued in the merger to be approved for quotation on the Nasdaq Stock Market or, if they are not eligible for quotation on Nasdaq, to be listed on the American Stock Exchange, prior to the consummation of the merger.

Merger Consideration

It is expected that holders of St. Bernard common stock will hold approximately 65.7% of the outstanding shares of Sand Hill common stock immediately following the closing of the merger, based on the number of shares of Sand Hill and St. Bernard common stock outstanding as of May 26, 2006. In the merger, Sand Hill will issue a combination of shares of common stock, replacement options and replacement warrants to holders of St. Bernard common stock, options and warrants. The total amount of shares of Sand Hill common stock to be issued or that will underlie replacement options and replacement warrants is 10,880,000. Holders of St. Bernard common stock, options and warrants are entitled to receive their pro rata portion of this 10,880,000 figure, subject to the potential return of 1,700,000 shares to be issued to the stockholders representative, as described below. This results in an exchange ratio of 0.421419 shares of Sand Hill common stock, replacement options or replacement warrants for each share of St. Bernard common stock or options or warrants to purchase St. Bernard common stock outstanding. Based upon the number of shares of St. Bernard common stock outstanding and the number of shares issuable for St. Bernard common stock pursuant to outstanding options and warrants as of May 26, 2006, Sand Hill will issue approximately 9,782,357 shares of common stock at the close of the merger. The holders of options and warrants to purchase shares of the common stock of St. Bernard will receive, in exchange for those options and warrants, replacement options and replacement warrants to purchase approximately 1,097,643 shares of Sand Hill common stock. To the extent that outstanding St. Bernard options or warrants are exercised prior to the closing of the merger, the number of shares of Sand Hill common stock that would be issued at the closing of the merger would increase and the number of the shares of Sand Hill common stock that would be subject to replacement options or replacement warrants to be issued at the closing of the merger would decrease by a like amount. For a complete description of the post-closing fully diluted capitalization of Sand Hill please see *Beneficial Ownership of Securities* on page 145.

Of the 9,782,357 shares of Sand Hill common stock to be issued in the merger, 1,700,000 of these shares will be released, pro rata, to the persons who held shares of St. Bernard common stock as of the closing of the merger, if, after the merger, the price of the combined company s common stock closes at $8.50 or more per share for 20 trading days during any 30-day trading period prior to July 25, 2009 or the consideration to be received by the combined company or its stockholders in a sale of the majority of the ownership or business of the combined company prior to July 25, 2009 equals or exceeds $8.50 per share, excluding the dilutive effects of the exercise of any of the Sand Hill warrants issued in its initial public offering. If, after the merger, neither of these thresholds are achieved prior to July 25, 2009, then the 1,700,000 shares will be returned to the combined company for no consideration and will be cancelled.

Sand Hill shall file, as soon as practicable after the closing date and as permitted by applicable securities regulations, a registration statement on Form S-8 under the Securities Act of 1933, as amended, and shall use its reasonable efforts to cause such registration statement to become effective as soon thereafter as practicable and to maintain such registration in effect until the exercise or expiration of the assumed outstanding options.

Exchange of Certificates

Immediately prior to the consummation of the merger, Sand Hill will deposit with American Stock Transfer & Trust Company, as exchange agent, certificates representing the shares of Sand Hill common stock issuable to the holders of St. Bernard common stock, less the amount to be escrowed, in exchange for outstanding shares of St. Bernard common stock. Immediately following the consummation of the merger, the exchange agent will deliver to each record holder of St. Bernard common stock instructions and a letter of transmittal for exchanging their St. Bernard stock certificates for Sand Hill stock certificates. In order to effectuate the exchange of St. Bernard common stock for Sand Hill common stock, the stockholders must comply with the instructions set forth in the letter of transmittal.

No fraction of a share of Sand Hill common stock will be issued in the merger. In lieu of any fractional shares, the fractional amount of Sand Hill common stock to which any holder of St. Bernard common stock is entitled to receive will be rounded up to the nearest whole number, and such holder shall receive a whole share of Sand Hill common stock in lieu of a fractional share.

Representations and Warranties

The merger agreement contains a number of generally reciprocal representations and warranties that each of St. Bernard and Sand Hill made to the other. These generally reciprocal representations and warranties relate to:

- organization, standing, and power;
- subsidiaries and equity interests;
- capital structure;
- authorization, execution, delivery, and enforceability of the merger agreement;

- absence of conflicts or violations under organizational documents, certain agreements and applicable laws or decrees, as a result of the contemplated transaction, and receipt of all required consents and approvals;
- information supplied for inclusion in this joint proxy statement/prospectus;
- absence of certain changes or events since December 31, 2004, in the case of St. Bernard, or June 30, 2005, in the case of Sand Hill;
- taxes;
- employee benefit plans;
- litigation;
- compliance with applicable laws;
- contracts, debt instruments;
- absence of brokers;
- real property;
- related party transactions;
-

permits;

- insurance;

- intellectual property; and

- completeness and truthfulness of the information and provisions in the merger agreement.

St. Bernard also makes representations to Sand Hill regarding:

- accuracy of the information contained in the financial statements, and the absence of undisclosed liabilities;

- labor relations;

- environmental liability;

- customers and suppliers; and

- product warranties.

Sand Hill also makes representations to St. Bernard regarding:

- filings with the Securities and Exchange Commission and the accuracy and completeness of the information contained in those filings, including the financial statements and the lack of undisclosed liabilities;

- amount of funds contained in the trust account, and the termination after the merger of the obligation to liquidate; and

- no status as an investment company.

Materiality and Material Adverse Effect

Many of the representations and warranties made by St. Bernard are qualified by materiality or material adverse effect. For the purposes of the merger agreement, a material adverse effect means a material adverse effect with respect to St. Bernard on the business, financial condition or results of operations of St. Bernard and every subsidiary of St. Bernard. A change or effect is excluded from having a material adverse effect with respect to St. Bernard if it arises out of or is related to:

- changes in general economic conditions relating to the market in which St. Bernard operates;

- any effect directly resulting from the public announcement or pendency of the transactions contemplated by the merger agreement; or

- terrorist attack, act of war or other event beyond St. Bernard s control.

Several of the representations and warranties made by Sand Hill are qualified by materiality. However, only Sand Hill s representations and warranties related to the absence of certain changes from June 30, 2005, and the completeness and truthfulness of the information and provisions in the merger agreement are qualified by material adverse effect. A change or effect is excluded from having a material adverse effect with respect to Sand Hill for purposes of the latter representation and warranty if it relates to:

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changes in general economic conditions relating to the market in which Sand Hill operates;

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any effect directly resulting from the public announcement or pendency of the transactions contemplated by the merger agreement; or

•

terrorist attack, act of war or other event beyond Sand Hill s control.

Interim Operations of Sand Hill and St. Bernard

Interim covenants relating to Sand Hill and St. Bernard. Under the merger agreement, each of Sand Hill and St. Bernard has agreed, and has agreed to cause their respective subsidiaries, prior to completion of the merger, to conduct its business in the usual, regular and ordinary course in substantially the same manner as previously conducted, except as expressly permitted by the merger agreement or related agreements. In addition to this agreement regarding the conduct of business generally, subject to specified exceptions, each of St. Bernard and Sand Hill has agreed that it:

•

will not declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock;

•

will not split, combine or reclassify any of its shares of capital stock or issue or authorize the issuance of any other securities in respect of, or in lieu of or in substitution for its capital stock;

•

will not purchase, redeem or otherwise acquire shares of its capital stock or any other securities thereof or any rights, warrants or options to acquire any such interests or other securities;

•

will not adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, recapitalization, or other reorganization, or alter through merger, liquidation, reorganization or restructuring or in any other fashion the corporate structure or ownership of Sand Hill or St. Bernard;

- will not pledge any shares of its capital stock;

- will not issue, deliver, sell or grant any shares of its capital stock, any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any shares of capital stock, or any phantom rights or interest-based performance units;

- will not amend its organizational documents, except, in the case of Sand Hill, as required by the merger agreement;

- will not acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any equity interest in or business of any corporation, partnership, joint venture, association or other business organization or division thereof, or any assets in excess of $50,000 in the aggregate;

- will not sell, transfer, deliver, lease, license, sublicense, mortgage, pledge, encumber or otherwise dispose of, in whole or in part, or create, incur, assume or allow any lien on, any of its assets, including any intellectual property, other than in the ordinary course of business consistent with past practice, but in no event shall such dispositions exceed $50,000 individually or $150,000 in the aggregate, or pursuant to the terms of contracts entered into as of October 26, 2005, and which were disclosed at the time the merger agreement was executed;

- will not enter into or amend any contract, transaction, indebtedness or other arrangement in which any of its directors or other affiliates, or any of their respective affiliates or family members have a direct or indirect financial interest;

- will not make any change in its accounting methods, principles or practices, except as required by a change in general accepted accounting principles;

- will not incur any indebtedness for borrowed money or guarantee any such indebtedness of another person, issue or sell any debt securities or warrants or other rights to acquire any debt securities, guarantee any debt securities of another person, enter into any keep well or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing, or make any loans, advances or capital contributions to, or investments in, any other person;

- will not make or agree to make any new capital expenditure or expenditures, except that St. Bernard may make such an expenditure so long as the expenditure does not exceed $25,000 in an individual case and $50,000 in the aggregate for all cases;

- will not make any material tax election or settle or compromise any material tax liability or refund;

- will not enter into any transaction with, or enter into any agreement, arrangement, or understanding with any of its affiliates that would be required to be disclosed pursuant to Item 404 of SEC Regulation S-B;

- will not take, authorize, commit or agree to take any of the foregoing actions; or

- will not take any action that would, or that could reasonably be expected to, result in any of its representations and warranties in the merger agreement and related agreements becoming untrue or any condition described below under *The Merger Agreement Conditions to the Completion of the Merger*, not being satisfied; and

- will promptly advise the other party orally and in writing of any change or event that has or could reasonably be expected to result in a breach of its respective representations, warranties, covenants or agreements contained in the agreements to be signed by them in connection with the merger.

Interim covenants relating to St. Bernard. The merger agreement restricts, among other things, the ability of St. Bernard to:

- pay, discharge, satisfy or settle any litigation, except any settlement that would not (i) impose any injunctive or similar order on St. Bernard or any of its subsidiaries, or restrict in any way the business of St. Bernard or any of its subsidiaries, or (ii) exceed $50,000 in cost or value to St. Bernard or any of its subsidiaries in the aggregate for all such settlements;

•

hire or terminate any employee or consultant where the annual salary or fee associated with such employment or consulting agreement is in excess of $150,000 or has a term of more than one year, or grant to any of the employees, officers or directors of St. Bernard or any of its subsidiaries any increase in compensation, fringe benefits, severance in excess of $50,000 or termination pay, except in the ordinary course of business or to the extent required under employment agreements or policies in effect as of October 26, 2005;

•

enter into any employee benefit agreement, trust, plan, fund award or other arrangement for the benefit or welfare of any director, officer or employee; or

•

enter into or modify in any respect any labor or collective bargaining agreement or any other agreement or commitment to or relating to any labor union, except as otherwise required by law.

Interim covenants relating to Sand Hill. The merger agreement restricts, among other things, the ability of Sand Hill to:

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grant to any employee, executive officer or director of Sand Hill any increase in compensation;

•

grant to any employee, executive officer or director of Sand Hill any increase in severance or termination pay;

•

enter into any employment, consulting, indemnification, severance or termination agreement with any employee, executive officer or director of Sand Hill;

•

establish adopt, enter into or amend in any respect any collective bargaining agreement, any other agreement or commitment to or relating to any labor union; or

•

make any determination under any collective bargaining agreement, any other agreement or commitment to or relating to any labor union or any employee benefit plan.

No Solicitation by St. Bernard

Except as described below, St. Bernard will not:

- solicit, initiate, encourage, induce or facilitate the making, submission or announcement of any acquisition proposal;

- furnish any information regarding St. Bernard to any person in connection with or in response to an acquisition proposal;

- engage in discussions or negotiations with any person with respect to any acquisition proposal;

- approve, endorse or recommend any acquisition proposal; or

- enter into any letter of intent or similar document or any contract contemplating or otherwise relating to any acquisition transaction.

The above restrictions also apply to St. Bernard s officers, directors, employees, representatives or agents.

However, if St. Bernard receives a bona fide written acquisition proposal which was not solicited by St. Bernard, it may, before the merger agreement is adopted by its stockholders, furnish information regarding itself to the person making the acquisition proposal and participate in discussions, with the person regarding the acquisition proposal, if:

- neither St. Bernard, nor any of its officers, directors, employees, representatives or agents has violated any of the no solicitation provisions described above;

- the board of directors of St. Bernard determines in good faith, after having taken into account the advice of its outside legal counsel, that such action is required in order for the board to comply with its fiduciary obligations to St. Bernard s stockholders under applicable law;

- at least two business days prior to furnishing any such nonpublic information to, or entering into discussions with, such person, St. Bernard gives Sand Hill written notice of the identity of such person and of St. Bernard s intention to furnish nonpublic information to, or enter into discussions with, such person, and St. Bernard receives from such person an executed confidentiality agreement on terms substantially similar to the one entered into between St. Bernard and Sand Hill, containing customary limitations on the use and disclosure of all nonpublic written and oral information furnished to such person by or on behalf of St. Bernard; and

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at least one business day prior to furnishing any such nonpublic information to such person, St. Bernard furnishes such nonpublic information to Sand Hill, to the extent that such nonpublic information has not been previously furnished by St. Bernard to Sand Hill.

St. Bernard has agreed not to withdraw or modify, or propose to withdraw or modify, in a manner adverse to Sand Hill, the approval by its board of directors of the merger agreement or the merger or the recommendation by the board of directors of St. Bernard of the transactions contemplated by the merger agreement. However, the board of directors of St. Bernard may withdraw or modify its approval or recommendation of the merger agreement and the transactions contemplated thereby in a manner adverse to Sand Hill if:

•

any offer, proposal, inquiry or indication of interest contemplating an acquisition of St. Bernard, other than by Sand Hill, is made to St. Bernard and not withdrawn;

•

St. Bernard provides Sand Hill with at least two business days prior notice of any meeting of St. Bernard s board of directors at which such board will consider and determine whether such acquisition proposal is superior to the transactions contemplated by the merger agreement;

•

St. Bernard s board of directors determines in good faith, after taking into account the advice of St. Bernard s independent financial advisors, that such acquisition proposal is superior to the transactions contemplated by the merger agreement;

•

St. Bernard s board of directors determines in good faith, after having taken into account the written advice of St. Bernard s outside legal counsel, that, in light of the superior proposal, the withdrawal or modification of the board s recommendation is required in order for the board of directors to comply with its fiduciary obligations to St. Bernard s stockholders under applicable law; and

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neither St. Bernard nor any of its representatives has violated any of the no solicitation provisions described above.

St. Bernard must promptly advise Sand Hill orally and in writing of any acquisition proposal, inquiry or indication of interest that could lead to an acquisition proposal, or any request for nonpublic information relating to St. Bernard (including the identity of the person, group or entity making or submitting such proposal, inquiry, indication of interest or request, and the terms thereof) that is made or submitted by any person group or entity. St. Bernard must keep Sand Hill fully informed on a current basis with respect to the status of any discussions or indications of interest that St. Bernard is engaged in or has issued.

St. Bernard may be required to pay Sand Hill certain fees and expenses if the board of directors of St. Bernard withdraws or modifies its approval or recommendation of the merger agreement. Please see *Termination Fee and Expenses* on page 86.

No Solicitation by Sand Hill

Except as described below, Sand Hill will not:

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solicit, initiate, encourage, induce or facilitate the making, submission or announcement of any acquisition proposal;

•

furnish any information regarding Sand Hill to any person in connection with or in response to an acquisition proposal;

•

engage in discussions or negotiations with any person with respect to any acquisition proposal;

•

approve, endorse or recommend any acquisition proposal; or

•

enter into any letter of intent or similar document or any contract contemplating or otherwise relating to any acquisition transaction.

The above restrictions also apply to Sand Hill s officers, directors, employees, representatives or agents.

However, Sand Hill may, before the merger agreement is adopted by its stockholders, engage in discussions with and issue indications of interest to parties in the IT security industry if:

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neither Sand Hill nor any of its stockholders, officers, directors, employees, representative or agents have otherwise breached the no solicitation provisions described above;

- at least two business days prior to issuing any indication of interest, Sand Hill gives St. Bernard written notice of the identity of such person and of Sand Hill s intention to issue an indication of interest to such person; and

- at least one business day prior to issuing such indication of interest, Sand Hill furnishes St. Bernard a copy of the indication of interest.

Sand Hill may not enter into or negotiate the terms of any letter of intent or similar document or any contract contemplating or relating to an acquisition transaction until after Sand Hill has received from St. Bernard notice that St. Bernard has received an acquisition proposal that St. Bernard s board of directors determines in good faith constitutes a proposal superior to the transactions contemplated by the merger agreement.

Sand Hill must promptly advise St. Bernard orally and in writing of any acquisition proposal, inquiry or indication of interest that could lead to an acquisition proposal, or any request for nonpublic information relating to Sand Hill (including the identity of the person, group or entity making or submitting such proposal, inquiry, indication of interest or request, and the terms thereof) that is made or submitted by any person group or entity. Sand Hill must keep St. Bernard fully informed on a current basis with respect to the status of any discussions or indications of interest that Sand Hill is engaged in or has issued.

Sand Hill Stockholders Meeting

Sand Hill has agreed to call and hold a meeting of its stockholders, as soon as practicable after the date of the merger agreement for the purpose of seeking the adoption of the merger proposal by its stockholders. Sand Hill has also agreed that it will, through its board of directors, recommend to its stockholders that they approve and adopt the merger proposal.

St. Bernard Stockholders Meeting

St. Bernard has agreed to call and hold a meeting of its stockholders, as soon as practicable after the date of the merger agreement for the purpose of seeking the adoption of the merger proposal by its stockholders. St. Bernard has also agreed that it will, through its board of directors, recommend to its stockholders that they approve and adopt the merger proposal.

Access to Information; Confidentiality

Sand Hill and St. Bernard will, and will cause their respective subsidiaries to, afford to the other party and its representatives prior to completion of the merger reasonable access during normal business hours to all of their respective properties, books, contracts, personnel and records and will promptly provide to the other party a copy of each document filed pursuant to the requirements of the securities laws of any state or the United States, and all other information concerning its business, properties and personnel as the other party reasonably requests. The information will be held in confidence to the extent required by the provisions of the confidentiality agreement between the two parties.

St. Bernard has agreed to provide Sand Hill:

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within 30 days after the date of the merger agreement, unaudited financial statements for the months of August and September 2005, without notes; and

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thereafter within 30 days after the end of each calendar month, unaudited financial statements, without notes, for each such calendar month.

Reasonable Efforts; Notification

Sand Hill and St. Bernard have agreed that they will use all reasonable efforts to take all actions, and to do all things necessary, proper or advisable to consummate the merger and the transactions contemplated by the merger agreement in the most expeditious manner practicable. This includes:

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obtaining all necessary actions or nonactions, waivers, consents and approvals from governmental entities and making all necessary registrations and filings, including filings with governmental entities, if any, and taking all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental entity;

•

obtaining all necessary consents, approvals or waivers from third parties;

•

defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging the merger agreement or any other agreement contemplated by the merger agreement or the consummation of the merger or other transactions contemplated by the merger agreement, including seeking to have any stay or temporary restraining order entered by any court or other governmental entity vacated or reversed; and

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executing and delivering any additional instruments necessary to consummate the merger or other transactions contemplated by the merger and to fully carry out the purposes of the merger agreement and the transaction agreements contemplated by the merger agreement.

In addition, Sand Hill and St. Bernard will take all action necessary so that no takeover statute or similar statute or regulation is or becomes applicable to the merger, any transaction contemplated by the merger agreement or any agreement contemplated by the merger agreement. If any takeover statute or similar statute or regulation becomes so applicable, Sand Hill and St. Bernard will take all action necessary so that the merger and the other transactions contemplated by the merger agreement may be consummated as promptly as practicable on the terms contemplated by the merger agreement and the agreements contemplated by the merger agreement.

St. Bernard will give prompt notice to Sand Hill, and Sand Hill or Sand Hill Merger Corp. will give prompt notice to St. Bernard, of:

- any representation or warranty made by it or contained in the merger agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any representation or warranty that is not qualified by materiality becoming untrue or inaccurate in any material respect; or

- the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under the merger agreement.

However, no notification will affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under the merger agreement or the agreements contemplated thereby.

Fees and Expenses

Except as specifically provided in the merger agreement, all fees and expenses incurred in connection with the merger and the other transactions contemplated by the merger agreement will be paid by the party incurring such expenses, whether or not the merger is consummated.

Public Announcements

Sand Hill and Sand Hill Merger Corp., on the one hand, and St. Bernard, on the other hand, have agreed:

- to consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statements with respect to the merger and the other transactions contemplated by the merger agreement; and

- not to issue any press release or make any public statement prior to this consultation, except as may be required by applicable laws or court process.

Quotation or Listing

Sand Hill s outstanding common stock, warrants and units are currently quoted on the Over-the-Counter Bulletin Board. Sand Hill will use its commercially reasonable efforts to cause its outstanding shares of common stock and warrants and the shares of common stock to be issued in the merger to be approved for quotation on the Nasdaq Stock Market or, if they are not eligible for quotation on Nasdaq, to be listed on the American Stock Exchange, prior to the consummation of the merger.

Tax Treatment

Sand Hill and St. Bernard intend the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Each of Sand Hill, Sand Hill Merger Corp., and St. Bernard and each of their respective affiliates will not take any action and will not fail to take any action or suffer to exist any condition which action or failure to act or condition would prevent, or would be reasonably likely to prevent, the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

Pre-Closing Confirmation

Promptly after the date of the merger agreement, Sand Hill gave notice of the merger to the trustee holding in trust certain of the proceeds of Sand Hill s initial public offering. Not later than 48 hours prior to the closing:

- Sand Hill is required to give the trustee advance notice of the completion of the merger; and

- Sand Hill will cause the trustee to provide a written confirmation to St. Bernard confirming the dollar amount of the account balance held by the trustee in the trust account that will be released to Sand Hill upon consummation of the merger.

Conditions to the Completion of the Merger

Each of Sand Hill s and St. Bernard s obligations to effect the merger is subject to the satisfaction or waiver of specified conditions before completion of the merger, including the following:

Conditions to Sand Hill s and St. Bernard s obligation

- The receipt of the Sand Hill stockholder approval;

- The receipt of the St. Bernard stockholder approval;

- the effectiveness of the registration statement pursuant to which the shares of Sand Hill s common stock have been registered with the U.S. Securities and Exchange Commission, and the absence of a stop order suspending the effectiveness of the registration statement or the use of this joint proxy statement/ prospectus, or any proceedings for such purposes;

- the absence of any order or injunction preventing consummation of the merger;

- the absence of any suit or proceeding by any governmental entity or any other person challenging the merger or seeking to obtain from St. Bernard, Sand Hill or Sand Hill Merger Corp. any damages;

- at the Sand Hill special meeting, holders of less than 20% of the shares of common stock issued in Sand Hill s initial public offering will have voted against the adoption of the merger proposal and demanded that Sand Hill convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of Sand Hill s initial public offering are held;

- at the time of consummation of the merger, the board of directors of Sand Hill must determine that the fair market value of St. Bernard is at least 80% of the net assets of Sand Hill; and

- At the time of consummation of the merger, Sand Hill must have in the trust account at least $21,350,000, plus accrued interest from July 31, 2005, less any amounts required to redeem shares of Sand Hill common stock property converted. At May 26, 2006, Sand Hill had $21,025,000 in the trust account, and accreted interest of $1,084,631.

Conditions to Sand Hill s obligation

The obligation of Sand Hill and Sand Hill Merger Corp. to effect the merger are further subject to the following conditions:

- St. Bernard s representations and warranties in the merger agreement that are qualified as to materiality must be true and correct and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the merger, except for representations and warranties in the merger agreement that address matters as of another date, which must be true and correct as of that other date, and Sand Hill must have received a certificate from the chief executive officer and the chief financial officer of St. Bernard to that effect;

- St. Bernard must have performed in all material respects all obligations required to be performed by it under the merger agreement and Sand Hill must have received a certificate from the chief executive officer and the chief financial officer of St. Bernard to that effect;

- there must not have occurred since the date of the merger agreement any material adverse effect on St. Bernard;

- St. Bernard, the escrow agent and the other parties signatory to the Escrow Agreement shall have executed and delivered the Escrow Agreement;

- each of the affiliates of St. Bernard shall have executed and delivered a written agreement substantially in the form attached to the merger agreement;

- each of the executive officers and directors of St. Bernard shall have executed a lock-up agreement;

- each of the executive officers and directors of St. Bernard shall have executed a lock-up agreement;

- counsel for St. Bernard shall have delivered a legal opinion substantially in the form attached to the merger agreement; and

- St. Bernard shall have obtained any necessary third-party consents to the merger.

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Conditions to St. Bernard s obligation

The obligation of St. Bernard to effect the merger is further subject to the following conditions:

- Sand Hill s and Sand Hill Merger Corp. s representations and warranties in the merger agreement that are qualified as to materiality must be true and correct and those not qualified as to materiality must be true and correct in all material respects, as of the date of completion of the merger, except for representations and warranties that address matters as of another date, which must be true and correct as of that date, and St. Bernard must have received a certificate from the chief executive officer and the chief financial officer of Sand Hill to that effect;

- Sand Hill and Sand Hill Merger Corp. must have performed in all material respects all obligations required to be performed by them under the merger agreement and St. Bernard must have received a certificate from the chief executive officer and the chief financial officer of Sand Hill to that effect;

- there must not have occurred since the date of the merger agreement any material adverse effect on Sand Hill;

- Sand Hill, the escrow agent, and the other parties to be signatory to the Escrow Agreement shall have executed and delivered the Escrow Agreement; and

- St. Bernard shall have received a written opinion from Duane Morris LLP, counsel to St. Bernard, dated on or before the closing date, to the effect that the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

If permitted under applicable law, either St. Bernard or Sand Hill may waive conditions for the benefit of itself and its stockholders and complete the merger even though one or more of these conditions have not been met. We cannot assure you that all of the conditions will be satisfied or waived or that the merger will occur.

Termination

The merger agreement may be terminated at any time prior to the consummation of the merger, whether before or after receipt of the Sand Hill stockholder approval, by mutual written consent of Sand Hill, Sand Hill Merger Corp. and St. Bernard. Sand Hill and St. Bernard have agreed to extend the date on which the merger agreement may be terminated from June 30, 2006 to July 28, 2006.

Termination by either St. Bernard or Sand Hill

Either St. Bernard or Sand Hill may terminate the merger agreement if:

- the merger is not consummated on or before June 30, 2006;

- any governmental entity issues an order, decree or ruling or takes any other action permanently enjoining, restraining or otherwise prohibiting the merger and such order, decree, ruling or other action will have become final and nonappealable;

- any condition to the obligation of such party to consummate the merger becomes incapable of satisfaction prior to June 30, 2006; or

- at the special meeting, the Sand Hill stockholder approval is not obtained or the holders of 20% or more of the shares of common stock issued in Sand Hill s initial public offering have demanded that Sand Hill convert their shares into cash pursuant to the terms of Sand Hill s certificate of incorporation.

Termination by Sand Hill

Sand Hill may terminate the merger agreement if:

- St. Bernard breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement which breach or failure to perform would give rise to the failure of specified conditions in the merger agreement and cannot be or has not been cured within 30 days after the giving of written notice to St. Bernard of such breach or by June 30, 2006, if earlier;

•

a special meeting of the St. Bernard stockholders is not held within 25 days after the effective date of the registration statement of which this joint proxy statement/prospectus is a part;

•

at the special meeting of St. Bernard s stockholders, the St. Bernard stockholders do not approve the merger;

•

St. Bernard s board of directors has withdrawn or adversely modified its recommendation in favor of the merger;

•

St. Bernard s board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;

•

St. Bernard s board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of St. Bernard s voting power or assets that account for 15% or more of St. Bernard s net revenues, net income or assets; or

•

St. Bernard s board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that St. Bernard s board of directors determines in good faith is superior to the merger that it is required to submit to its stockholders in the exercise of its fiduciary duties.

Termination by St. Bernard

St. Bernard may terminate the merger agreement if:

•

Sand Hill breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement which breach or failure to perform would give rise to the failure of specified conditions in the merger agreement and cannot be or has not been cured within 30 days after the giving of written notice to Sand Hill of such breach or by June 30, 2006, if earlier;

•

A special meeting of the Sand Hill stockholders is not held within 60 days after the effective date of the registration statement of which this joint proxy statement/prospectus is a part;

•

At the special meeting of Sand Hill s stockholders, the Sand Hill stockholders do not approve the merger;

•

Sand Hill s board of directors has withdrawn or adversely modified its recommendation in favor of the merger;

•

Sand Hill s board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;

•

Sand Hill s board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of Sand Hill s voting power or assets that account for 15% or more of Sand Hill s net revenues, net income or assets; or

•

Sand Hill s board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that Sand Hill s board of directors determines in good faith is superior to the merger that it is required to submit to its stockholders in the exercise of its fiduciary duties.

Effect of Termination

In the event of termination by either St. Bernard or Sand Hill, the merger agreement will become void and have no effect, without any liability or obligation on the part of Sand Hill, Sand Hill Merger Corp. or St. Bernard, except in connection with:

•

the confidentiality obligations set forth in a confidentiality agreement signed among the parties to the merger agreement;

•

the indemnification provisions;

•

the provisions described under Fees and Expenses to be paid upon termination; and

•

the general provisions of the agreement.

These provisions will survive termination, except to the extent that the termination results from the willful and material breach by a party of any representation, warranty or covenant set forth in the merger agreement.

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Termination Fee and Expenses

St. Bernard will pay Sand Hill a termination fee of $1.75 million if any of the following events occur:

•

Sand Hill terminates the merger agreement as a result of the merger not being consummated by June 30, 2006 or St. Bernard breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement, and prior to such termination an alternative acquisition proposal has been communicated to St. Bernard, and within one year of such termination St. Bernard enters into a definitive agreement with respect to such alternative acquisition proposal; or

•

Sand Hill terminates the merger agreement as a result of St. Bernard not holding a meeting of its stockholders within 25 days of the effectiveness of the registration statement that this joint proxy statement/prospectus is a part of, or at such St. Bernard stockholders meeting the stockholders fail to approve the merger agreement, or if a Company Triggering Event has occurred, and, within one year of such termination St. Bernard enters into a definitive agreement with respect to an alternative acquisition proposal.

St. Bernard will pay such termination fee within ten business days after the consummation of the alternative acquisition proposal. The termination fee will be net of any expenses reimbursed by St. Bernard to Sand Hill, as described in the next paragraph.

St. Bernard will reimburse Sand Hill for fees and expenses incurred by Sand Hill, up to $300,000, in relation to this transaction if Sand Hill terminates the merger agreement as a result of St. Bernard not holding a meeting of its stockholders within 25 days of the effectiveness of the registration statement that this joint proxy statement/ prospectus is a part of, or at such St. Bernard stockholders meeting the stockholders fail to approve the merger agreement.

Sand Hill will reimburse St. Bernard for fees and expenses incurred by St. Bernard, up to $300,000, in relation to this transaction if St. Bernard terminates the merger agreement as a result of Sand Hill not holding the special meeting within 60 days of the effectiveness of the registration statement that this joint proxy statement/prospectus is a part of, or at such special meeting the stockholders fail to approve the merger agreement.

A Company Triggering Event is generally any of the following:

•

St. Bernard s board of directors has withdrawn or adversely modified its recommendation in favor of the merger;

•

St. Bernard s board of directors has failed to include its recommendation in favor of the merger in its proxy statement to its stockholders;

•

St. Bernard s board of directors has approved an alternative acquisition proposal, which is a transaction where any person has or will acquire 15% or more of St. Bernard s voting power or assets that account for 15% or more of St. Bernard s net revenues, net income or assets; or

•

St. Bernard s board of directors determines that it has received a superior proposal, which is an alternative acquisition proposal that St. Bernard s board of directors determines in good faith is superior to the merger that it is required to submit to its stockholders in the exercise of its fiduciary duties.

Assignment

The merger agreement may not be assigned by any party without prior written consent.

Amendment

The merger agreement may be amended by the parties at any time before or after receipt of the approval from Sand Hill s or St. Bernard s stockholders. However, after receipt of the approval from Sand Hill s and St. Bernard s stockholders, the parties will not, without further stockholder approval, amend the merger agreement in a manner that by law requires further approval by the stockholders of Sand Hill or St. Bernard. The merger agreement may not be amended except by an instrument in writing signed on behalf of each of St. Bernard and Sand Hill.

Extension; Waiver

At any time prior to the consummation of the merger, St. Bernard and Sand Hill may extend the time for the performance of any of the obligations or other acts, waive any inaccuracies in the representations and warranties or other documents, or waive compliance with any of the conditions in the merger agreement. Any agreement on the part of either St. Bernard and Sand Hill to any such extension or waiver will be valid only if set forth in an instrument in writing signed on behalf of it. The failure of St. Bernard or Sand Hill to assert any of its rights will not constitute a waiver.

Indemnification

Upon closing of the merger agreement, each of Sand Hill and its respective directors, officers, stockholders, accountants, agents and employees, affiliates and their respective heirs, successors and assigns will be indemnified, held harmless and reimbursed from and against any and all proceedings, charges, complaints, judgments, damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities, taxes, liens, losses, expenses and fees, including court costs and reasonable attorneys fees and expenses, caused by or arising, directly or indirectly, out of:

•

any inaccuracy in or breach of any representation or warranty made by St. Bernard in the merger agreement or other agreements contemplated by the merger agreement, St. Bernard s disclosure letter to Sand Hill, or any other certificate or document delivered by St. Bernard pursuant to the merger agreement;

•

any breach by St. Bernard of any covenant or obligation in the merger agreement or other agreements contemplated by the merger agreement; and

•

any claim by any person for brokerage or finder s fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such person with St. Bernard, or any person acting on its behalf, in connection with the merger.

However, no indemnification payable shall be required until the aggregate amount of the damages incurred exceeds $500,000. In the event that the damages exceed $500,000, the indemnification obligations will include all damages from the first dollar. In no event will the aggregate liability for which the indemnified parties may seek indemnification exceed the amount escrowed pursuant to the stock escrow agreement. The payment of indemnification obligations will be made pursuant to the stock escrow agreement.

Exclusive Remedy

Except in the case of fraud or willful misrepresentation, the indemnification provisions represent the exclusive remedy of Sand Hill stockholders for losses incurred in connection with the breach by St. Bernard of any of its representations and warranties or its covenants requiring performance prior to the merger contained in the merger agreement.

Survival Period

For the purpose of the stock escrow agreement and the indemnification provisions of the merger agreement, all of the representations, warranties, covenants and obligations of St. Bernard contained in the merger agreement and other documents contemplated by the merger agreement will survive the merger agreement and remain in force for a period of 270 days following the closing of the merger agreement. Any claim must be made prior to the expiration of the appropriate period in order for the indemnification claim to be paid with respect to any losses.

Stockholders Representative

The St. Bernard stockholders have designated Mr. Bart A.M. van Hedel as stockholders representative with authority to make all decisions and determinations and to take all actions (including giving consents and waivers) required or permitted under the merger agreement on behalf of the St. Bernard stockholders with respect to indemnity claims against St. Bernard and with respect to the 1,700,000 shares of the merger consideration to be held for the benefit of St. Bernard s stockholders.

Mr. Humphrey P. Polanen and Mr. Scott R. Broomfield have been designated as the representatives of Sand Hill after the merger, with authority to make all decisions and determinations and to take all actions (including giving consents and waivers) required or permitted under the merger agreement with respect to indemnity claims by Sand Hill.

Stock Escrow Agreement

At the time of the consummation of the merger, Sand Hill will deposit with American Stock Transfer & Trust Company, as escrow agent, 800,000 of the shares of common stock of Sand Hill to be issued in the merger. If within 270 days of the consummation of the merger, Sand hill asserts a claim that St. Bernard breached any representation or warranty in the merger agreement, or covenant requiring performance prior to the consummation of the merger, then, subject to the resolution or arbitration of such claim in favor of Sand Hill, the escrow agent will return to Sand Hill a portion of the shares of Sand Hill common stock held in escrow with a value equal to the damages caused by such breach, up to a maximum of the total number of shares of Sand Hill common stock held in escrow. The number of shares to be returned will be based on a per share price of $5.10. The escrowed shares will only be available to satisfy claims that are made within 270 d ays after the completion of the merger. Two hundred seventy days after completion of the merger any remaining escrowed shares that have not been used to satisfy indemnification claims by Sand Hill will be released to the former stockholders of St. Bernard. The complete text of the stock escrow agreement that will govern these matters is attached as Exhibit E of *Annex A*. We encourage all stockholders to read the stock escrow agreement in its entirety.

THE AMENDMENT PROPOSAL

General Description of the Amendment and Restatement of the Certificate of Incorporation of Sand Hill

The amendment and restatement of the certificate of incorporation of Sand Hill involves changing the name of Sand Hill to St. Bernard Software, Inc. and to remove the preamble and sections A through E of Article Sixth from the certificate of incorporation from and after the closing of the merger. The provisions being removed related to the protective provisions related to a business combination put in place when Sand Hill completed its initial public offering as a result of Sand Hill being a Targeted Acquisition Corporation. These provisions will no longer be applicable to Sand Hill and Section F of Article Sixth will be redesignated as Article Sixth. The provisions being removed:

- require the submission of a business combination proposal for approval to Sand Hill s stockholders regardless of whether it is of a type that would require such approval under the Delaware General Corporation Law;

- provide that a business combination may not be consummated if 20% or more of the shares of common stock issued in Sand Hill s initial public offering vote against the business combination and demand that Sand Hill convert their shares into a pro rata portion of the trust account;

- prevent Sand Hill from issuing any shares of preferred stock prior to the consummation of a business combination without the consent of the managing underwriters of Sand Hill s initial public offering;

- provide for up to 19.9% of the shares of Sand Hill common stock issued in its initial public offering to be converted into a pro rata portion of the trust fund, if a business combination is approved; and

- provide for Sand Hill to be liquidated, and the holders of shares of Sand Hill common stock issued in its initial public offering to receive a pro rata portion of the trust fund, if Sand Hill does not consummate a business combination by January 27, 2006 or by July 27, 2006, if a letter of intent, agreement in principle or definitive agreement to complete a business combination has not been executed by January 27, 2006.

Sand Hill s Reasons for the Amendment and Restatement of the Certificate of Incorporation and Recommendation of Sand Hill s Board of Directors

Sand Hill s Board of Directors has concluded that the amendment and restatement of its certificate of incorporation is in the best interests of Sand Hill s stockholders. Sand Hill s Board of Directors believes that the name St. Bernard Software, Inc. more accurately reflects the business the combined company will conduct after the acquisition, and will enable industry and financial market participants to more closely associate the combined company with its operating business. Since the combined company will be an operating business, the protective provisions related to Sand Hill being a Targeted Acquisition Corporation will no longer be necessary.

Consequences if Amendment Proposal is Not Approved

If the merger proposal is not approved by the stockholders, Sand Hill will not amend and restate its certificate of incorporation and Sand Hill s name will remain Sand Hill IT Security Acquisition Corp. and the protective provisions related to Sand Hill being a Targeted Acquisition Corporation will remain in place.

Vote Required to Adopt the Amendment Proposal

The adoption of the amendment proposal will require the affirmative vote of a majority of the outstanding shares of Sand Hill s common stock on the Sand Hill record date.

The adoption of the merger proposal is conditioned on the adoption of the amendment proposal and the adoption of the amendment proposal is conditioned on the adoption of the merger proposal. The adoption of neither the merger proposal nor the amendment proposal is conditioned on the adoption of the stock option plans proposal or the adjournment proposal. The adoption of the stock option plans proposal, however, is conditioned upon the adoption of the merger proposal and the amendment proposal.

Sand Hill s Board of Directors Recommendation

After careful consideration, Sand Hill s Board of Directors has determined unanimously that the amendment proposal is in the best interests of Sand Hill and its stockholders. Sand Hill s Board of Directors has approved and declared advisable the amendment proposal and unanimously recommends that you vote or instruct your vote to be cast **FOR** the amendment proposal.

THE STOCK OPTION PLANS PROPOSAL

St. Bernard 1992 Stock Option Plan

Administration

The plan is administered by St. Bernard s board or a board committee. Subject to the provisions of the plan, the board or committee determines, among other things, the persons to whom from time to time awards may be granted, the specific type of awards to be granted, the number of shares subject to each award, share prices, any restrictions or limitations on the, and any vesting, exchange, deferral, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions related to the awards.

Stock Subject to the Plan

The plan reserves a maximum of 2,103,070 shares of St. Bernard common stock. Shares of stock subject to options that are forfeited or terminated, will be available for future option grants under the plan.

Under the plan, on a change in the number of shares of common stock as a result of a stock split, stock dividend, combination of shares or other change affecting the outstanding common stock as a class without receipt of consideration, the board or committee may determine whether the change requires equitably adjusting the terms of the award or the aggregate number of shares reserved for issuance under the plan.

Eligibility

St. Bernard may grant options under the plan to key employees, officers, directors and consultants who are deemed to have rendered, or to be able to render, significant services to us and who provide valuable services to St. Bernard.

Options

The plan provides both for incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and for options not qualifying as incentive options. Only employees of St. Bernard may receive incentive stock options. The board or committee determines the exercise price per share of common stock purchasable under an incentive or non-qualified stock option.

The exercise price of stock options may not be less than 100% of the fair market value on the day of the grant or, if greater, the par value of a share of common stock. However, the exercise price of an incentive stock option granted to a person possessing more than 10% of the total combined voting power of all classes of St. Bernard stock may not be less than 110% of the fair market value on the date of grant. The number of shares covered by incentive stock options which may be exercised by any participant during any calendar year cannot have an aggregate fair market value in excess of $100,000, measured at the date of grant.

Subject to any limitations or conditions the board or committee may impose, stock options may be exercised, in whole or in part, at any time during the term of the stock option by giving written notice of exercise to St. Bernard specifying the number of shares of common stock to be purchased. The notice must be accompanied by payment in full of the purchase price.

Generally, stock options granted under the plan may not be transferred other than by will or by the laws of descent and distribution and all stock options are exercisable during the holder s lifetime, or in the event of legal incapacity or incompetency, the holder s guardian or legal representative.

Generally, if the holder is an employee, stock options granted under the plan may be exercised by the holder while he or she is employed by us or a subsidiary of ours at the time of the exercise, and for a period of 3 months, or such other greater period as the board or committee may determine, after the holder ceases to be an employee for reasons other than death or permanent disability. In the event the holder s employment is terminated due to permanent disability, the holder may still exercise his or her vested stock options for a period of 12 months or such other greater period as the board or committee may determine, from the date of termination or until the expiration of the stated term of the stock option, whichever period is shorter. Similarly, should a holder die while employed by us or a subsidiary of ours, his or her legal representative or legatee under his or her will may exercise the decedent

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holder s vested stock options for a period of 12 months from the date of his or her death, or such other greater period as the board or committee may determine or until the expiration of the stated term of the stock option, whichever period is shorter.

Accelerated Vesting and Exercisability

In the event of (i) a merger or consolidation in which St. Bernard is not the surviving entity; (ii) the sale, transfer, or other disposition of all or substantially all of the assets of St. Bernard in liquidation or dissolution of St. Bernard; (iii) a reverse merger in which St. Bernard is the surviving entity but in which fifty percent or more of the St. Bernard outstanding voting stock is transferred to holders different from those who held the securities immediately prior to the merger; or (iv) if any person, is or becomes the owner, directly or indirectly, of St. Bernard securities representing 50% or more of the combined voting power of St. Bernard in one or more transactions, then the vesting periods with respect to options and awards granted and outstanding under the plan will be accelerated and will immediately vest, and each participant of an option and award will have the immediate right to purchase and receive all shares of our common stock subject to the option and award in accordance with the terms set forth in the plan and in the corresponding award agreements. Upon consummation of any transaction described in this paragraph, the options under the plan shall terminate, unless assumed by the successor corporation or parent thereof.

Term and Amendments

Unless terminated by the board, the plan shall continue to remain effective until no further awards may be granted and all awards granted under the plan are no longer outstanding. The board may at any time, and from time to time, amend the plan, provided that no amendment will be made that would impair the rights of a holder under any agreement entered into pursuant to the plan without the holder s consent.

Federal Income Tax Consequences for the Plans

The following discussion of the federal income tax consequences of participation in the plans is only a summary of the general rules applicable to the grant and exercise of stock options and other awards and does not give specific details or cover, among other things, state, local and foreign tax treatment of participation in the plan. The information contained in this section is based on present law and regulations, which are subject to being changed prospectively or retroactively.

Incentive Stock Options

Participants will recognize no taxable income upon the grant or exercise of an incentive stock option. The participant will realize no taxable income when the incentive stock option is exercised if the participant has been an employee of our company or our subsidiaries at all times from the date of the grant until three months before the date of exercise, one year if the participant is disabled. The excess, if any, of the fair market value of the shares on the date of exercise of an incentive stock option over the exercise price will be treated as an item of adjustment for a participant s taxable year in which the exercise occurs and may result in an alternative minimum tax liability for the participant. St. Bernard will not qualify for any deduction in connection with the grant or exercise of incentive stock options. Upon a disposition of the shares after the later of two years from the date of grant or one year after the transfer of the shares to a participant, the participant will recognize the difference, if any, between the amount realized and the exercise price as long-term capital gain or long-term capital loss, as the case may be, if the shares are capital assets.

If common stock acquired upon the exercise of an incentive stock option is disposed of prior to the expiration of the holding periods described above: the participant will recognize ordinary compensation income in the taxable year of disposition in an amount equal to the excess, if any, of the lesser of the fair market value of the shares on the date of exercise or the amount realized on the disposition of the shares, over the exercise price paid for the shares; and St. Bernard will qualify for a deduction equal to any amount recognized, subject to the limitation that the compensation be reasonable.

In the case of a disposition of shares earlier than two years from the date of the grant or in the same taxable year as the exercise, where the amount realized on the disposition is less than the fair market value of the shares on the date of exercise, there will be no adjustment since the amount treated as an item of adjustment, for alternative minimum tax purposes, is limited to the excess of the amount realized on the disposition over the exercise price, which is the same amount included in regular taxable income.

Non-Incentive Stock Options

With respect to non-incentive stock options: upon grant of the stock option, the participant will recognize no income provided that the exercise price was not less than the fair market value of St. Bernard common stock on the date of grant; upon exercise of the stock option, if the shares of common stock are not subject to a substantial risk of forfeiture, the participant will recognize ordinary compensation income in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the exercise price, and St. Bernard will qualify for a deduction in the same amount, subject to the requirement that the compensation be reasonable; and St. Bernard will be required to comply with applicable federal income tax withholding requirements with respect to the amount of ordinary compensation income recognized by the participant.

On a disposition of the shares, the participant will recognize gain or loss equal to the difference between the amount realized and the sum of the exercise price and the ordinary compensation income recognized. The gain or loss will be treated as capital gain or loss if the shares are capital assets and as short-term or long-term capital gain or loss, depending upon the length of time that the participant held the shares.

If the shares acquired upon exercise of a non-incentive stock option are subject to a substantial risk of forfeiture, the participant will recognize ordinary income at the time when the substantial risk of forfeiture is removed, unless the participant timely files under the Code, Section 83(b), to elect to be taxed on the receipt of shares, and St. Bernard will qualify for a corresponding deduction at that time. The amount of ordinary income will be equal to the excess of the fair market value of the shares at the time the income is recognized over the amount, if any, paid for the shares.

St. Bernard 2000 Stock Option Plan

Administration

The plan is administered by St. Bernard s board or a board committee. Subject to the provisions of the plan, the board or committee determines, among other things, the persons to whom from time to time awards may be granted, the specific type of awards to be granted, the number of shares subject to each award, share prices, any restrictions or limitations on the, and any vesting, exchange, deferral, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions related to the awards.

Stock Subject to the Plan

The plan reserves a maximum of 1,777,631 shares of St. Bernard common stock. Shares of stock subject to options that are forfeited or terminated, will be available for future option grants under the plan.

Under the plan, the number of shares of common stock covered by each outstanding option, and the exercise price thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares of common stock resulting from a subdivision or consolidation of shares, including, but not limited to, a stock split, reverse stock split, recapitalization, continuation or reclassification, or the payment of a stock dividend, or other change increasing or decreasing the outstanding common stock without receipt of consideration. The total number of shares of common stock issuable upon exercise of all outstanding options and under any stock bonus or similar plan may not exceed thirty percent of the total number of shares outstanding.

Eligibility

St. Bernard may grant options under the plan to key employees, officers, directors and consultants who are deemed to have rendered, or to be able to render, significant services to us and who provide valuable services to St. Bernard.

Options

The plan provides both for incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and for options not qualifying as incentive options. Only employees of St. Bernard may receive

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incentive stock options. The board or committee determines the exercise price per share of common stock purchasable under an incentive or non-qualified stock option.

The exercise price of stock options may not be less than 100% of the fair market value on the day of the grant or, if greater, the par value of a share of common stock. However, the exercise price of an incentive stock option granted to a person possessing more than 10% of the total combined voting power of all classes of St. Bernard stock may not be less than 110% of the fair market value on the date of grant. The number of shares covered by incentive stock options which may be exercised by any participant during any calendar year cannot have an aggregate fair market value in excess of $100,000, measured at the date of grant.

Subject to any limitations or conditions the board or committee may impose, stock options may be exercised, in whole or in part, at any time during the term of the stock option by giving written notice of exercise to St. Bernard specifying the number of shares of common stock to be purchased. The notice must be accompanied by payment in full of the purchase price.

Generally, stock options granted under the plan may not be transferred other than by will or by the laws of descent and distribution and all stock options are exercisable during the holder s lifetime, or in the event of legal incapacity or incompetency, the holder s guardian or legal representative.

Generally, if the holder is an employee, stock options granted under the plan may be exercised by the holder while he or she is employed by us or a subsidiary of ours at the time of the exercise, and for a period of 3 months, or such other greater period as the board or committee may determine, after the holder ceases to be an employee for reasons other than death or disability as disabled is defined in Section 22(e)(3) of the Internal Revenue Code. In the event the holder s employment is terminated due to disability, the holder may still exercise his or her vested stock options for a period of 12 months or such other greater period as the board or committee may determine, from the date of termination or until the expiration of the stated term of the stock option, whichever period is shorter. Similarly, should a holder die while employed by us or a subsidiary of ours, his or her legal representative or legatee under his or her will may exercise the decedent holder s vested stock options for a period of 12 months from the date of his or her death, or such other greater period as the board or committee may determine or until the expiration of the stated term of the stock option, whichever period is shorter.

Accelerated Vesting and Exercisability

Upon (i) a sale or exchange of all or substantially all of the assets of St. Bernard; (ii) a merger or consolidation in which St. Bernard is not the surviving corporation; (iii) a merger, reorganization or consolidation in which St. Bernard is the surviving entity and stockholders of St. Bernard exchange their stock for securities or property; (iv) a liquidation of St. Bernard, or similar transaction as determined by the board or committee, then the vesting periods with respect to options and awards granted and outstanding under the plan will be accelerated and will immediately vest, and each participant of an option and award will have the immediate right to purchase and receive all shares of our common stock subject to the option and award in accordance with the terms set forth in the plan and in the corresponding award agreements. Upon consummation of any transaction described in this paragraph, the options under the plan shall termina te, unless assumed by the successor corporation or parent thereof.

Term and Amendments

Unless terminated by the board, the plan shall continue to remain effective until no further awards may be granted and all awards granted under the plan are no longer outstanding. The board may at any time, and from time to time, amend the plan, provided that no amendment will be made that would impair the rights of a holder under any agreement entered into pursuant to the plan without the holder s consent.

St. Bernard 2005 Stock Option Plan

Administration

The plan is administered by St. Bernard s board or a board committee. Subject to the provisions of the plan, the board or committee determines, among other things, the persons to whom from time to time awards may be granted, the specific type of awards to be granted, the number of shares subject to each award, share prices, any restrictions or limitations on the, and any vesting, exchange, deferral, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions related to the awards.

Stock Subject to the Plan

The plan reserves a maximum of 5,000,000 shares of St. Bernard common stock. Shares of stock subject to options that are forfeited or terminated, will be available for future option grants under the plan.

Under the plan, the number of shares of common stock covered by each outstanding option, and the exercise price thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares of common stock resulting from a subdivision or consolidation of shares, including, but not limited to, a stock split, reverse stock split, recapitalization, continuation or reclassification, or the payment of a stock dividend, or other change increasing or decreasing the outstanding common stock without receipt of consideration. The total number of shares of common stock issuable upon exercise of all outstanding options and under any stock bonus or similar plan may not exceed thirty percent of the total number of shares outstanding.

Eligibility

St. Bernard may grant options under the plan to key employees, officers, directors and consultants who are deemed to have rendered, or to be able to render, significant services to us and who provide valuable services to St. Bernard.

Options

The plan provides both for incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and for options not qualifying as incentive options. Only employees of St. Bernard may receive incentive stock options. The board or committee determines the exercise price per share of common stock purchasable under an incentive or non-qualified stock option.

The exercise price of stock options may not be less than 100% of the fair market value on the day of the grant or, if greater, the par value of a share of common stock. However, the exercise price of an incentive stock option granted to a person possessing more than 10% of the total combined voting power of all classes of St. Bernard stock may not be less than 110% of the fair market value on the date of grant. The number of shares covered by incentive stock options which may be exercised by any participant during any calendar year cannot have an aggregate fair market value in excess of $100,000, measured at the date of grant.

Subject to any limitations or conditions the board or committee may impose, stock options may be exercised, in whole or in part, at any time during the term of the stock option by giving written notice of exercise to St. Bernard specifying the number of shares of common stock to be purchased. The notice must be accompanied by payment in full of the purchase price.

Generally, stock options granted under the plan may not be transferred other than by will or by the laws of descent and distribution and all stock options are exercisable during the holder s lifetime, or in the event of legal incapacity or incompetency, the holder s guardian or legal representative.

Generally, if the holder is an employee, stock options granted under the plan may be exercised by the holder while he or she is employed by us or a subsidiary of ours at the time of the exercise, and for a period of 3 months, or such other greater period as the board or committee may determine, after the holder ceases to be an employee for reasons other than death or disability as disabled is defined in Section 22(e)(3) of the Internal Revenue Code. In the event the holder s employment is terminated due to disability, the holder may still exercise his or her vested stock options for a period of 12 months or such other greater period as the board or committee may determine, from the date of termination or until the expiration of the stated term of the stock option, whichever period is shorter. Similarly, should a holder die while employed by us or a subsidiary of ours, his or her legal representative or legatee under his or her will may exercise the decedent holder s vested stock options for a period of 12 months from the date of his or her death, or such other greater period as the board or committee may determine or until the expiration of the stated term of the stock option, whichever period is shorter.

Accelerated Vesting and Exercisability

Upon (i) a sale or exchange of all or substantially all of the assets of St. Bernard; (ii) a merger or consolidation in which St. Bernard is not the surviving corporation; (iii) a merger, reorganization or consolidation in which St. Bernard is the surviving entity and stockholders of St. Bernard exchange their stock for securities or property; (iv) a liquidation of St. Bernard, or similar transaction as determined by the board or committee, then the vesting periods with respect to options and awards granted and outstanding under the plan will be accelerated and will immediately vest, and each participant of an option and award will have the immediate right to purchase and receive all shares of our common stock subject to the option and award in accordance with the terms set forth in the plan and in the corresponding award agreements. Upon consummation of any transaction described in this paragraph, the options under the plan shall terminate, unless assumed by the successor corporation or parent thereof.

Term and Amendments

Unless terminated by the board, the plan shall continue to remain effective until no further awards may be granted and all awards granted under the plan are no longer outstanding. The board may at any time, and from time to time, amend the plan, provided that no amendment will be made that would impair the rights of a holder under any agreement entered into pursuant to the plan without the holder s consent.

Accounting

Historically the combined company has accounted for stock-based compensation following Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations, in accounting for the stock options to be issued under the stock option plan, rather than the alternative fair value accounting allowed by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). Accounting Principles Board Opinion No. 25 provides that the compensation expense relative to the stock options be measured based on the intrinsic value of the stock option. Statement of Financial Accounting Standards No. 123 requires companies that continue to follow Accounting Principles Board Opinion No. 25 to provide a pro forma disclosure of the impact of applying the fair value method of SFAS No. 123; the combined company intends to provide such pro forma disclosure. Optio ns granted to non-employees will be reported as compensation expense as required by SFAS No. 123.

The Financial Accounting Standards Board has issued a Statement of Financial Accounting Standards No. 123(R), Share-Based Payment. This Statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25, and generally requires instead that such transactions be accounted for using a fair-value-based method. The combined company intends to implement the provisions of SFAS No. 123(R) on January 1, 2006, which will require, in general terms, the combined company to apply fair value based methods for measuring an equity awards granted after that date, as well as to any previously granted, unvested awards existing at that date. The impact of adopting the provisions of SFAS No. 123(R) for the three months ended March 31, 2006 was immaterial.

Federal Tax Treatment

Under current law, the following are U.S. federal income tax consequences generally arising with respect to awards under the stock option plan.

A participant who is granted an incentive stock option does not recognize any taxable income at the time of the grant or at the time of exercise. Similarly, the combined company is not entitled to any deduction at the time of grant or at the time of exercise. If the participant makes no disposition of the shares acquired pursuant to an incentive stock option before the later of two years from the date of grant and one year from the date of exercise, any gain or loss realized on a subsequent disposition of the shares will be treated as a long-term capital gain or loss. Under these circumstances, the combined company will not be entitled to any deduction for federal income tax purposes.

A participant who is granted a non-qualified stock option will not have taxable income at the time of grant but will have taxable income at the time of exercise equal to the difference between the exercise price of the shares and the market value of the shares on the date of exercise. The combined company is entitled to a tax deduction for the same amount.

Limitation on the Combined Company s Deduction

Under Section 162(m) of the Internal Revenue Code, the combined company may not deduct otherwise deductible compensation paid to covered employees (i.e., generally, the chief executive officer and the four highest compensated officers of the combined company) to the extent that the compensation exceeds $1 million. An exception applies, however, for performance-based compensation if the terms under which the compensation is paid are approved by the combined company s stockholders and certain other requirements are satisfied. Although the combined company intends that awards under the stock option plan (other than awards not based on Performance Criteria) will satisfy the requirements to be considered performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code, there is no assurance awards will satisfy these requirements, and, accordingly, Section 162(m) of the Internal Revenue Code may limit the amount of deductions otherwise available to the combined company with respect to awards to covered employees under the stock option plan. The inclusion of the limits on individual awards satisfy the requirements of Section 162(m) by establishing a maximum number of shares that may be represented by awards granted to any employee and by specifying the factors that may be used by the compensation committee with respect to awards made under the stock option plan ..

Effect of Approval of the Stock Option Plans Proposal

Approval by the Sand Hill stockholders of the stock option plans proposal will permit the compensation committee of the combined company the ability to make equity compensation awards in the form of stock options to non-employee directors, consultants, officers and other key employees. If the stock option plans proposal is not approved, the compensation committee will not have sufficient shares to make grants of equity compensation settled in stock to key employees for 2006.

Vote Required to Adopt the Stock Option Plans Proposal

The adoption of the stock option plans proposal will require the affirmative vote of the holders of a majority of the shares of Sand Hill common stock present in person or represented by proxy at the Sand Hill special meeting.

The adoption of neither the merger proposal nor the amendment proposal is conditioned on the adoption of the stock option plans proposal or the adjournment proposal. The adoption of the stock option plans proposal, however, is conditioned upon the adoption of the merger proposal and the amendment proposal.

Sand Hill s Board of Directors Recommendation

After careful consideration, Sand Hill s board of directors has determined unanimously that the stock option plans proposal is fair to, and in the best interests of, Sand Hill and its stockholders. Sand Hill s board has unanimously approved and declared advisable the stock option plans proposal and unanimously recommends that you vote or instruct your vote to be cast **FOR** the stock option plans proposal.

INFORMATION ABOUT ST. BERNARD

Overview

St. Bernard Software, Inc., a Delaware corporation, is a recognized independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or SCM, including messaging security, with $28.7 million in gross billings for 2005. St. Bernard s products protect businesses, government organizations and educational institutions from cyber attack, improve worker productivity, reduce legal liability and assist in meeting regulatory requirements for data/privacy protection. St. Bernard s network-attached security products are delivered as appliances that connect into the data path between the Internet gateway and a company s local area network. Similar to a traditional household appliance, a security appliance is a dedicated computer with a specially configured kernal level operating system that is plugged into the server stack, in front of a company s firewall and, therefo re, sees all inbound Internet traffic. St. Bernard s system security products consist of software that is installed on workstations and servers. St. Bernard has approximately 8,000 customers supporting over 3.5 million device licenses, primarily comprised of small to medium sized businesses, educational institutions and governmental organizations. The products offered by St. Bernard include Open File Manager, a data protection product; UpdateEXPERT, a patch and settings management product; iPrism, SCM, Internet access management product; and ePrism, SCM, a messaging security, e-mail filtering product. According to IDC, in September 2005, St. Bernard s iPrism product line was the leading Internet filtering appliance, enabling customers to manage and control employee access to millions of web sites that are updated continuously as part of St. Bernard s fee-based Software as a Service, or SaaS, business model subscription service. St. Bernard s products have a subscription component, wh ich results in adding positive cash flow, via deferred revenue, to St. Bernard s business thereby increasing revenue predictability. St. Bernard s principal offices are located at 15015 Avenue of Science, San Diego, California 92128 and its telephone number at that location is (858) 676-2277. St. Bernard s home page on the Internet is at http://www.stbernard.com. The information on the St. Bernard website is not a part of this joint proxy statement/prospectus.

All of St. Bernard s products are designed to protect companies from IT security threats. The secure content management products, iPrism and ePrism, are dedicated appliances that provide perimeter security, with iPrism targeting internet access security and ePrism targeting email security. Certain ePrism implementations also provide active firewall protection. The iPrism and ePrism products are self-contained appliances which use St. Bernard s proprietary threat databases to identify security risks. St. Bernard subscription holders receive daily, and sometimes hourly, updates to these databases to ensure response to the latest threats. UpdateEXPERT and Open File Manage operate to maintain smooth system operation by assisting with the application of the latest patches and allowing for backup of open files, ensuring business continuity and protection of mission critical data. St. Bernard products work in conjunction with other commonly used security devices, such as network firewalls, to provide protection and security that common security devices do not provide.

St. Bernard began using the name St. Bernard Software, Inc. in 1995 and in May of that year introduced Open File Manager, a data security backup product. In 2000, St. Bernard added a patch management product today known as UpdateEXPERT (UE) and acquired Internet Products, Inc. adding the iPrism, Internet access management product. Also in 2000, St. Bernard modified its strategy from being a company focused on data security to one focused on security products. In 2003, St. Bernard began providing ePrism, a messaging security e-mail filtering product. In 2005, St. Bernard began to focus on Secure Content Management (SCM). Open File Manager and UE remain as stand alone security products provided by St. Bernard.

System Security: St. Bernard products harden workstations and servers against cyberattack by keeping systems patched and configured properly. Its products defend against viruses and spyware entering the network, a growing threat to corporate systems. Access to instant messaging and peer-to-peer services is regulated to prevent malicious programs from being transferred through attachments or file transfers. E-mail attachments are checked for viruses before reaching the mail server as well as outgoing messages. Phishing sites can be blocked from access by Web browsers.

Employee Productivity: St. Bernard products control access to the Internet which allows enforcement of enterprise Internet usage policies. These policies when enforced allow an enterprise to insure that employees are not involved in non work related Internet usage.

Network Bandwidth Conservation: St. Bernard products assist companies in managing in managing the type of content that is on their networks. Items such as streaming video or audio consume significant network bandwidth which negatively impacts the performance of the network for business related activity.

Data Protection: Data recovery from backup media is central to an effective disaster recovery process. St. Bernard products work with major third party backup products to ensure a complete backup of data by managing files that are constantly changing.

St. Bernard focuses on the relatively underserved and high growth Small to Medium Enterprises (or SME) segment of the market. As estimated by AMI Partners, an SME oriented research firm, there are 232,000 small to medium sized businesses in the U.S. The SME segment is defined by AMI as businesses ranging from 50 to 999 employees. According to a study by AMI conducted in 2005, the SME segment is underserved, or under penetrated, in that only 22% of all small to medium sized businesses have installed comprehensive security management solutions. St. Bernard believes that this indicates that there is real opportunity for growth in this segment. According to this same AMI report, a total of an additional 15% of the SME market, or 35,000 businesses, plan to purchase security management solutions in 2006, representing a growth rate of 73% year over year. St. Bernard also additionally believes that the focus on SME is beneficial because security appliances tend to serv e the market well because of their ease of installation and use. Brian Burke, an analyst with IDC research recently stated, security appliance sales will grow fast in the SME market because IT resources are scarce.

St. Bernard had gross billings of $28.7 million in 2005 and revenue of $24.0 million and $21.2 million in 2005 and 2004, respectively, and as of March 31, 2006 had 158 employees in three countries. St. Bernard is a corporation that was founded in 1984 as Emerald Systems, Inc. In 1995, the corporation sold substantially all of its operating assets, changed its name to St. Bernard Software, Inc., and began its current operations to take advantage of its existing personnel and infrastructure. The St. Bernard operations rapidly moved into the data protection and IT security market. Its principal offices are located at 15015 Avenue of Science, San Diego, California 92128. Its telephone number at that location is (858) 676-2277. St. Bernard s home page on the Internet is at http://www.stbernard.com. Information on the website is not a part of this joint proxy statement/prospectus.

Upon completion of the merger, St. Bernard intends to use its existing cash resources, along with funds released from the Sand Hill trust, to (1) enhance its SCM product offering, (2) further develop its products, (3) increase its international presence, and (4) improve its VAR and indirect sales channels, in addition to using its cash resources for working capital and for general corporate purposes.

Products

St. Bernard offers a wide range of IT security products. Demand for its products is driven by continually increasing threats to IT assets, employee productivity and company proprietary data. Other factors driving demand are the scarcity of IT resources and the need to reduce IT costs. Power tools for system administrators that protect systems and data, improve employee productivity and assist in meeting regulatory requirements are increasing in demand. St. Bernard products address these important needs.

Secure Content Management (SCM)

iPrism

iPrism is a dedicated internet filtering appliance that delivers perimeter protection from emerging internet threats in HTTP websites, IM (instant messaging) and P2P (peer 2 peer) traffic including spyware, malware and phishing. In addition, iPrism allows customers to enforce their Internet usage policy to reduce potential legal liability, improve employee productivity and reduce saturation of network bandwidth. iPrism combines hardware, OS, Free BSD and applications into a single appliance.

iPrism s proprietary kernel-level filtering technology delivers superior internet traffic throughput performance. iPrism uses iGuard, St. Bernard s proprietary URL database, which is 100% human-reviewed for accuracy. iGuard uses 63 URL classifications and tracks and monitors over 7.4 million web sites, worldwide. The iGuard database is updated daily and certain critical security categories such as spyware, malware and phishing sites are updated hourly. The first version of iPrism was released in 1999 by Internet Products, Inc., which was acquired by St. Bernard in 2000.

ePrism

The ePrism appliance product group provides perimeter email security for small and medium businesses and larger enterprises. This is the messaging security component of the St. Bernard product family.

ePrism includes three appliance models that provide business organizations with a total perimeter defense solution. ePrism Enterprise is a EAL4+ certified firewall that delivers advanced features, and is available in three models. EAL4 is one of the Common Criteria Evaluation Assurance Levels for evaluating the security of IT products and systems. EAL4 provides a high level of assurance and guarantees that the certified product is methodically designed, tested and reviewed to be secure. St. Bernard s ePrism Enterprise models combine spam filtering technology with award-winning Kaspersky Labs Anti-Virus to provide superior perimeter defense against spam and email borne malicious code. The first version of ePrism was released in 2003.

Secure System Management

UpdateEXPERT

UpdateEXPERT offers system administrators simplified patch and settings management. System administrators face the daunting challenge of keeping systems up to date and ensuring that the operating systems and applications are current. This includes deploying patches and settings to systems that are vulnerable. UpdateEXPERT is patch management software that addresses the administrative challenge of deploying numerous complex patches that may interact with one another in unexpected and undesirable ways.

UpdateEXPERT discovers applicable patches for customer s installed software that are missing and applicable and deploys them. By encouraging continual updating of patches, UpdateEXPERT enforces software security policies and provides a superior way of managing hotfixes, patches and service packs.

UpdateEXPERT can function automatically by assessing security risk factors and establishing enforcement policies based its internal criteria based on input from industry experts. Customers can create and edit their own policies, as well. The first version of UpdateEXPERT was released in 2000.

Open File Manager (OFM)

OFM is enterprise-class software that enables backup applications to back up open files, ensuring business continuity and protection of mission critical data. We believe it is a reliable, easy-to-use, disk-level open file solution that is cost-effective and scalable from workstations to servers.

The rich feature set of OFM helps IT professionals automate backup of open files through system-wide synchronization, improve application availability and lower operating costs. St. Bernard has designed OFM to integrate with leading backup software, including Computer Associates BrightStor ARCserve, VERITAS Backup Exec and NetBackup, IBM Tivoli Storage Manager, Hewlett-Packard Data Protector, EMC/LEGATO NetWorker and many more. OFM has three license levels Enterprise Server, Server and Workstation. It is also available for OEM applications as an embedded feature. The first version of Open File Manager (OFM) was released in 1995.

Marketing, Sales and Distribution

St. Bernard sells and markets its products and related services both directly to end-users and through a variety of indirect sales channels, which include value-added resellers (VAR), distributors, system integrators (SI) and original equipment manufacturers (OEM). St. Bernard s customers include many leading global corporations and small and medium sized enterprises around the world operating in a wide variety of industries.

Direct Sales to End-Users, and VARs. One of St. Bernard s primary methods of distribution to end-users is through its direct sales, services and technical support organizations that market products and services throughout the world. Many of St. Bernard s products involve a consultative, solution-oriented tele-sales model that uses the collaboration of technical and sales personnel to demonstrate how our solutions fit specific customer requirements. St. Bernard s focuses its initial sales effort on system administrators and IT department personnel who are responsible for a customer s business initiatives and data center management. St. Bernard complements its direct sales efforts with indirect sales channels such as resellers, VARs, distributors and SIs. Single and multiple tier distribution channels are important in its expansion strategy and are the one of the primary channels for addressing the small to medium-size d enterprise market. St. Bernard will continue to invest in programs that train and enable its channel partners to market its technologies. St. Bernard provides its software products to its channel partners and customers under non-exclusive reseller license agreements, including shrink-wrap or click-wrap licenses for some products, without transferring title of our software products.

Other Indirect Channels. An important element of St. Bernard s sales and marketing strategy is to continue to expand St. Bernard s relationships with third parties, including St. Bernard s strategic partners, to increase market awareness, demand and acceptance of its products. St. Bernard s strategic partners generate and qualify sales leads, recommend St. Bernard solutions which interoperate with their products or are related to their value-added services and complete transactions through distribution rights granted by St. Bernard. St. Bernard may enter into distribution arrangements for its products with its strategic partners, including granting rights to integrate or bundle its products with its partners products and services. Some of its strategic partner relationships include:

System Integrators and Managed Services Providers: St. Bernard collaborates with SIs, who may refer its customers to St. Bernard, utilize St. Bernard as a subcontractor in some situations, build standard and customized solutions with its products or use products to deliver hosted services as well as outsourced services. SIs use St. Bernard s products and services in conjunction with optimizing their client s investment in transactional applications and related hardware. St. Bernard s SI relationships include Electronic Data Systems Corporation, Update Technology Corporation, Hitachi Data Systems, Attix5 and Novarra, Inc. Some SIs are authorized resellers of its products and some use St. Bernard products and services to deliver consultative services or managed services to their customers. Under these arrangements, SIs and managed services providers are not obligated to use or sell St. Bernard s products or servic es. In general, St. Bernard receives a fee for each sublicense of its products granted by its partners. In some cases, St. Bernard grants rights to distribute promotional versions of its products, which have limited functionality or limited use periods, on a non-fee basis. St. Bernard enters into both object-code only licenses and, when appropriate, source-code licenses of its products. St. Bernard does not transfer title of software products to its customers.

Original Equipment Manufacturers (OEMs). Another important element of its sales and marketing strategy involves its strategic relationships with OEM partners. These OEM partners may incorporate St. Bernard s products into their products, bundle its products with their products, endorse St. Bernard s products in the marketplace or serve as authorized resellers of its products. St. Bernard s OEM partners with whom St. Bernard generates the greatest distribution and sales of its products include Hewlett Packard, Veritas/Symantec, Legato/EMC and Altiris, Inc. In general, the OEM partners are not obligated to sell St. Bernard s products or services under these arrangements and are not obligated to continue to include its products in future versions of their products.

Software as a Service (SaaS) and Deferred Revenue

A typical sale of a St. Bernard product consists of a software license or an appliance accompanied by a subscription component. The subscription component includes traditional maintenance support (telephone support, product upgrades, bug fixes) as well as database updates, some as frequent as hourly. The subscription component percentage of the original sale varies from 25% to 100% depending on the product line. The subscriptions are generally available for one to three years. Renewal of the subscriptions are an important and growing part of St. Bernard s business. Due to high customer satisfaction and high product value, St. Bernard enjoys renewal rates greater than 80% and as high as 95% depending on product line which results in very significant recurring revenue opportunity. Even though the full payment for the subscription or the renewal, as the case may be, is received at the time of renewal, the revenue is recognized over the subscription or renewal period resulting in deferred revenue on the balance sheet. Deferred revenue was approximately $16.1 million, $13.2 million and $8.5 million at December 31, 2005, 2004 and 2003, respectively. Deferred revenue represents subscription and product maintenance orders for St. Bernard s software products that have been billed to and paid by its customers and for which revenue will generally be earned within the next few years. Deferred revenue also includes subscription and maintenance orders that have not been paid by St. Bernard s customers, are included in accounts receivable, and that do not otherwise satisfy its revenue recognition criteria.

Subscription and product maintenance revenue recognized was approximately $14.0 million, $10.2 million and $7.0 million for the twelve months ended December 31, 2005, 2004 and 2003, respectively. Subscription and maintenance are generally recognized over the subscription and maintenance period of twelve to thirty-six months.

Maintenance and Technical Support

St. Bernard believes that providing a high level of customer service and technical support is critical to customer satisfaction and its success in increasing the adoption rate of its solutions. Most of its customers have maintenance and technical support agreements with St. Bernard that provide for fixed fee, renewable annual maintenance and technical support, consisting of technical and emergency support, bug fixes and product upgrades. St. Bernard offers seven-day a week, 24-hour a day telephone support, as well as e-mail customer support. In addition St. Bernard provides its enterprise customers with support account management, emergency fly-to-site capability. Some of the value-added resellers, system integrators and original equipment manufacturers that offer St. Bernard s products also provide customer technical support for its products through a Tier1/Tier2 arrangement whereby the partner handles the initial customer contact, Tier 1, and St. Bernard provides secondary support and engineering assistance, Tier 2.

Seasonality

As is typical for many software companies, St. Bernard s business is seasonal. Product sales are generally higher in its fourth fiscal quarter and lower in its first fiscal quarter, with a decline in sales orders in the first quarter of a fiscal year when compared to sales orders in the fourth quarter of the prior fiscal year. In addition, St. Bernard generally receives a higher volume of sales orders in the last month of a quarter, with orders concentrated in the later part of that month. St. Bernard believes that this seasonality primarily reflects customer spending patterns and budget cycles, as well as the impact of compensation incentive plans for its sales personnel. Product revenue generally reflects similar seasonal patterns but to a lesser extent than sales orders because product revenue is not recognized until an order is shipped and other revenue recognition criteria are met.

Customers

St. Bernard s software solutions are used by customers in a wide variety of industries, including many leading global corporations and small and medium-sized enterprises around the world, as well as by various governmental entities. As of December 31, 2005, St. Bernard had over 8,000 customers supporting over 3.5 million device licenses. For the years ended December 31, 2005, 2004 and 2003, no end-user customer or distributor accounted for more than 10% of St. Bernard s net revenue.

Competition

The market for St. Bernard s products is intensely competitive and is likely to become even more so in the future. St. Bernard s current principal competitors frequently offer their products at a significantly lower price than St. Bernard s products, which has resulted in pricing pressures on sales of St. Bernard s products and potentially could result in the commoditization of web filtering and email filtering products. St. Bernard also faces increasing competition from security solutions providers who may add security modules or features to their product offerings. If St. Bernard is unable to maintain the current pricing on sales of its products or increase its pricing in the future, St. Bernard s profitability could be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of St. Bernard s products to achieve or maintain more widespread market acceptance, any of which could have a material adverse effect on its business, results of operations and financial condition. St. Bernard s current principal competitors include:

- companies offering web filtering products, such as Websense, SurfControl plc, Secure Computing, Symantec Corporation, CyberGuard, Websense and Trend Micro;

- companies integrating web filtering into specialized security appliances, such as SonicWALL, 8e6 Technologies, Postini, Tumbleweed, Blue Coat Systems, Watchguard and Internet Security Systems;

- companies offering web security solutions, such as Computer Associates and Symantec Corporation; and

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companies offering desktop security solutions such as Microsoft Corporation, Cisco Systems, Internet Security Systems, and Check Point Software.

The principal competitive factors in St. Bernard s industry include product functionality, product integration, platform coverage, price, ability to scale, worldwide sales and marketing infrastructure and technical support. Although some of its competitors have greater financial, technical, sales, marketing and other resources than St. Bernard does, as well as greater name recognition and a larger installed customer base, St. Bernard believes it competes favorably on the basis of each of these competitive factors relative to its competitors.

St. Bernard s future anticipated growth and success will depend on its ability to continue to develop products more rapidly than and equal to or superior to those of its competitors, educate potential customers as to the benefits of licensing its products rather than purchasing or using competing technologies and develop additional channels to market. St. Bernard s future and existing competitors could introduce products with superior features, scalability and functionality at lower prices than its products, and could also bundle existing or new products with other more established products to compete with its products. St. Bernard s competitors could also gain market share by acquiring or forming strategic alliances with its other competitors. Finally, because new distribution methods offered by the Internet and electronic commerce have removed many of the barriers to entry historically faced by start-up companies in the softwa re industry, St. Bernard may face additional competition from these companies in the future. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could adversely affect St. Bernard s business and operating results.

Material Supplier

St. Bernard s iPrism products are sold with computer hardware appliances designed by Dedicated Computing, located in Waukesha, Wisconsin. Dedicated Computing represented 58.2% and 64.8% of the appliance cost of sales in 2005 and 2004, respectively. If Dedicated Computing unexpectedly stops supplying the appliances, St. Bernard would experience an interruption in its ability to supply customers with the iPrism product.

Research and Development

St. Bernard s research and development efforts have been directed toward continual improvement of its secure content management appliances and system protection products. St. Bernard s products are designed to be simple and powerful security tools tailored specifically to the needs of small and medium size businesses.

St. Bernard s recent major research and development initiatives include, but are not limited to:

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Data protection over an expanding list of operating platforms. St. Bernard has successfully ported the enterprise data protection products to Linux, NetWare and Windows and is seeing good acceptance of the new platform offerings in the marketplace.

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New SCM products. St. Bernard has successfully launched two major products and two major product version upgrades in 2005. The product releases include e-mail filtering and Web filtering products and product improvements.

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Local language support. St. Bernard continues to focus on providing local language support for system security products and secure content management products to increase the acceptance of these products in international markets.

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Scalability improvements for system protection products. A major architectural upgrade to St. Bernard s patch management product has been completed. The upgrade provides patch and security settings management for large and small segmented networks gaining clear differentiation over competitive products.

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Subscription database expansion. The majority of St. Bernard s products are driven by data. St. Bernard engineers keep these databases up to date. Presently, the database keeps track of over 7.4 million web sites, worldwide. Customers pay an annual subscription fee for access to the latest data. The quality and quantity of this data is a key differentiator for St. Bernard s products.

St. Bernard had research and development expenses of $6.7 million in 2005, $8.1 million in 2004 and $4.5 million in 2003. This equates to 27.9%, 38.2% and 22.5% of net revenues over those same periods. St. Bernard believes that technical leadership is essential to its success and expects to continue to commit substantial resources

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to research and development. St. Bernard s future success will depend in large part on its ability to enhance existing products, respond to changing customer requirements and develop and introduce new products in a timely manner that keep pace with technological developments and emerging industry standards. St. Bernard continues to make substantial investments in new products. All research and development expenses are included in technical operations.

Intellectual Property Rights

Protective Measures

St. Bernard regards some of the features of its internal operations, software and documentation as proprietary and relies on copyright, patent, trademark and trade secret laws, confidentiality procedures, contractual and other measures to protect its proprietary information. St. Bernard s intellectual property is an important and valuable asset that helps enable us to gain recognition for its products, services and technology and enhance its competitive position. St. Bernard s intellectual property is further protected by using encryption security and product activation keys.

As part of St. Bernard s confidentiality procedures, it generally enters into non-disclosure agreements with its employees, distributors and corporate partners and license agreements with respect to software, documentation and other proprietary information. These license agreements are generally non-transferable without St. Bernard s consent and have a perpetual term. St. Bernard also employs measures to protect its facilities, equipment and networks.

Trademarks, Patents and Copyrights

St. Bernard and the St. Bernard logo are trademarks or registered trademarks in the United States and other countries. In addition to St. Bernard and the St. Bernard logo, it has used, registered and/or applied to register other specific trademarks and service marks to help distinguish its products, technologies and services from those of its competitors in the U.S. and foreign countries and jurisdictions. St. Bernard enforces its trademark, service mark and trade name rights in the U.S. and abroad. The duration of St. Bernard s trademark registrations varies from country to country and in the U.S. St. Bernard generally is able to maintain its trademark rights and renew any trademark registrations for as long as the trademarks are in use.

St. Bernard has one U.S. issued patent and pending patent applications which relate to various aspects of its products and technology. The duration of its patent for the U.S. is typically 17 years from the date of issuance of the patent or 20 years from the date of filing of the patent application resulting in the patent, which St. Bernard believes is adequate relative to the expected lives of its products.

A summary of the patents and patent applications is as follows.

Patent or Application Number	Dated Filed	Date of Patent	Description of Patent/Application	Product
5557747	June 22, 1993	September 17, 1996	Network policy implementation system for performing network control operations on response to changes in network state.	Technology not in use by current products.

11/266528	November 3, 2005	Application	Malware and Spyware attack recovery system and method.	Technology being internally evaluated and is not in use.
11/006410	December 6, 2004	Application	Method for logically consistent backup of open computer files.	Technology is used with Open File Manager to perform consistent backups under Windows VSS.

St. Bernard s products are protected under U.S. and international copyright laws and laws related to the protection of intellectual property and proprietary information. St. Bernard generally takes measures to label such products with the appropriate proprietary rights notices and actively is enforcing such rights in the U.S. and abroad. However, these measures may not provide sufficient protection, and St. Bernard s intellectual property rights may not be of commercial benefit to St. Bernard or the validity of these rights may be challenged. While St. Bernard believes that its ability to maintain and protect its intellectual property rights is important to its success, it also believes that its business as a whole is not materially dependent on any particular patent, trademark, license or other intellectual property right.

St. Bernard has the right to use certain intellectual property licensed from BorderWare Technologies under an agreement that provides for payments only for products sold using such intellectual property. St. Bernard uses such intellectual property in its ePrism product. St. Bernard believes that if it were unable to use the intellectual property licensed from BorderWare it could find a substitute on terms reasonable to St. Bernard.

Employees

As of March 31, 2006, St. Bernard had 158 employees, including 70 employees in technical operations, 71 in sales, marketing, consulting, customer support and strategic initiatives and 17 in general and administrative services. St. Bernard has not entered into any collective bargaining agreements with its employees and believes that relations with its employees are good. St. Bernard believes that its future success will depend in part upon the continued service of its key employees and on its continued ability to hire and retain qualified personnel.

Other Information

St. Bernard s website is located at http://www.stbernard.com. The information on the St. Bernard website is not a part of this joint proxy statement/prospectus.

Properties

St. Bernard s properties consist of leased office facilities for sales, research and development, and administrative personnel. St. Bernard s corporate headquarters consist of approximately 56,000 square feet located in San Diego, California. St. Bernard s facilities are occupied under leases that expire at various times through 2008. In Europe it leases approximately 2,000 square feet of space in Camberly, UK. St. Bernard has an office suite in France.

St. Bernard believes its existing and facilities will be suitable for its needs. See St. Bernard s historical consolidated financial statements and accompanying notes included in this joint proxy statement/prospectus for information regarding St. Bernard s operating lease obligations.

Legal Proceedings

Other than as set forth below, St. Bernard has no litigation other than that incurred in the normal course of business, none of which is material. St. Bernard uses a third party collection agency to pursue unpaid accounts receivable. The collection agency is authorized to use legal proceedings as part of its collection effort. On April 13, 2006, eSoft, Inc. filed a Civil Action No. 00697-EWN-MJW in the U.S. District Court in Denver, Colorado, alleging that unspecified products of St. Bernard infringe U.S. Patent No. 6,961,773 (the 773 Patent). eSoft is seeking injunctive relief and unspecified money damages. If eSoft were successful in its litigation, eSoft might be able to prevent sales of infringing products which could have a material adverse effect on St. Bernard. St. Bernard is investigating the facts alleged and the merits of the infringement allegation. St. Bernard does not believe that the eSoft claim will be ma terial to its business, financial condition or results of operations.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ST. BERNARD

The following discussion should be read in conjunction with St. Bernard s financial statements and accompanying notes, which appear elsewhere in this joint proxy statement/prospectus.

Overview

The following Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, is intended to help the reader understand St. Bernard s historical results and anticipated future outlook prior to the close of the proposed merger with Sand Hill IT Security. MD&A is provided as a supplement to and should be read in conjunction with St. Bernard s consolidated financial statements and accompanying notes.

St. Bernard s Business

St. Bernard Software is an independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or SCM, including messaging security, with $28.7 million in gross billings for 2005. St. Bernard s products protect businesses, government organizations and educational institutions from cyber attack, improve worker productivity, reduce legal liability and assist in meeting regulatory requirements for data/privacy protection. St. Bernard s network-attached security products are delivered as appliances that connect into the data path between the Internet gateway and a company s local area network. St. Bernard s system security products consist of software that is installed on workstations and servers. St. Bernard has approximately 8,000 customers supporting over 3.5 million device licenses, primarily comprised of small to medium sized businesses, educational institutions and gov ernmental organizations. The products offered by St. Bernard include Open File Manager, a data protection product; UpdateEXPERT, a patch and settings management product; iPrism, Internet access management product; and ePrism, a messaging security, e-mail filtering product. According to IDC, in September 2005, St. Bernard s iPrism product line was the leading Internet filtering appliance based on annual revenue, enabling customers to manage and control employee access to millions of web sites that are updated continuously as part of St. Bernard s fee-based subscription service. All St. Bernard products have a subscription component, which results in adding positive cash flow, via deferred revenue, to St. Bernard s business thereby increasing revenue predictability.

St. Bernard generates revenues, income and cash flows by licensing products and subscription and maintenance services to its customers, which include many leading global corporations and small and medium -sized enterprises around the world operating in a wide variety of industries. Although St. Bernard s marketing and sales focus is small and medium businesses, sales are made to large global corporations usually at a departmental or branch level. St. Bernard markets its products and related services both directly to end-users and through a variety of indirect sales channels, which include value added resellers, or VARs, distributors, system integrators, or SIs, and original equipment manufacturers, or OEMs.

St. Bernard invests significantly in research and development activities and for the three months ended March 31, 2006 and 2005 it spent $1.7 million and $1.7 million, respectively, on research and development. St. Bernard s research and development efforts have been directed toward developing new products for Linux, NetWare, UNIX and Windows, developing new features and functionality for existing products, integrating products across its existing product lines, porting new and existing products to different operating systems and expanding its product portfolio into new secure content management markets such as messaging security and consolidation of products under a common console. Research and development costs are included in technical operations expenses.

St. Bernard s Strategy

During 2005, St. Bernard undertook an evaluation of the appropriate long-term strategy for its business. As a result of that process, St. Bernard determined that it should continue to build on the company s existing small and medium enterprise security business by increasing its penetration of the secure content management security business, and also seek to expand into broader security segments; such as messaging security. St. Bernard also believed that the software industry was undergoing a trend towards consolidation, and that the areas of security, and content management were beginning to converge. Commencing in the first half of calendar year 2005 and continuing through the first quarter of 2006, St. Bernard began to investigate business combinations and other strategic transactions that would allow it to expand the security products and service offerings into one or more other

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key areas of the small and medium enterprise secure content management market. St. Bernard s acquisitions including anti-phishing, instant messaging management, anti-spyware and e-mail filtering technologies were the company s initial steps in pursuing the expansion of the security business with the adjacent secure content management software products.

St. Bernard has historically grown the company organically and through acquisitions.

St. Bernard s Financial Results

Net revenue and net income per share are key measurements of St. Bernard s financial results. For the quarter ended March 31, 2006, net revenue was $5.3 million, a decrease of 5.4% over the first quarter of 2005. The net loss for the quarter ended March 31, 2006 was $1.3 million, the same as the first quarter of 2005. Basic and diluted net loss per share was $0.05 for the quarter ended March 31, 2006 and was $0.01 greater than the basic and diluted net loss per share for the quarter ended March 31, 2005.

For the year ended December 31, 2005, net revenue was $24.0 million, an increase of 13.2% over 2004. The net loss for the year ended December 31, 2005 was $3.0 million, a decrease from 2004 of 62.8%. Basic and diluted net loss per share was $0.13 for the year ended December 31, 2005, down from a net loss per share of $0.39 for the year ended December 31, 2004, primarily as a result of increased revenue and reduced operating expenses due to reduced staffing and decrease in the use of offshore development resources. The offshore development resources were contract engineers employed by VisualSoft Technologies Limited located in Hyderabad, India.

For fiscal 2004, net revenue was $21.2 million, an increase of 6% from 2003. The net loss for the year ended December 31, 2004 was $8.0 million compared to a net loss of $0.3 million for the year ended December 31, 2003. The increased loss in 2004 was a result of increased investment in research and development for new products and functionality improvements to existing products. Basic and diluted net loss per share was $0.39 in 2004 and $0.02 in 2003.

Cash provided by operations for the quarter ended March 31, 2006 was $.02 million compared to cash used during the first quarter of 2005 of $0.4 million. The source of cash was due primarily to a decrease in accounts receivable. St. Bernard utilizes cash in ways that management believes provides an optimal return on investment. Principal uses of its cash for investing and financing activities include new product development, marketing, acquisition of technologies and purchases of property and equipment.

In the first quarter of 2006, St Bernard continued to invest in product development. Two product extension efforts were underway during the quarter to enhance the features of iPrism version 4.0 and UpdateEXPERT v7.0.

Cash used in operations for the twelve months ended December 31, 2005 was $1.0 million compared to cash used during 2004 of $0.6 million. The use of cash was due primarily to an increase in accounts receivable. St. Bernard utilizes cash in ways that management believes provides an optimal return on investment. Principal uses of its cash for investing and financing activities include new product development, marketing, acquisition of technologies and purchases of property and equipment.

In 2005, St Bernard continued to invest in product development. Two significant product releases occurred during the year. iPrism version 4.0 was released in September and UpdateEXPERT v7.0 was released in November. St. Bernard used its development staff and contract development engineers to complete the development efforts. The contract development engineering effort was largely discontinued in the second half of 2005. The development effort in 2005 contributed significantly to the reported loss for the year because there was no significant revenue attributable to the developed products during the period.

In 2004, St Bernard continued to invest in product development. Three significant product development efforts were initiated during the year. The development efforts were for settings management, a new functionality for UpdateEXPERT, a re-architecture of UpdateEXPERT, and a re-architecture of iPrism. St. Bernard added development engineers to its staff and also used contract development engineers for two of the three development efforts. The development programs were not scheduled to be completed until late 2004 or in 2005 and therefore did not contribute to revenue during the year. The development effort in 2004 contributed significantly to the reported loss for the year.

Critical Accounting Policies and Estimates

There are several accounting policies that are critical to understanding St. Bernard s historical and future performance, because these policies affect the reported amounts of revenue and other significant areas in St. Bernard s reported financial statements and involve management s judgments and estimates. These critical accounting policies and estimates include:

- revenue recognition;
- allowance for doubtful accounts;
- impairment of goodwill and long-lived assets;
- accounting for income taxes; and
- accounting for stock options.

These policies and estimates and St. Bernard s procedures related to these policies and estimates are described in detail below and under specific areas within the discussion and analysis of its financial condition and results of operations. Please refer to Note 1, Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of St. Bernard for the year ended December 31, 2005 included herein for further discussion of St. Bernard s accounting policies and estimates. There have been no material changes to these accounting policies during 2006 other than the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS no. 123R), as discussed under New Accounting Standards below.

Revenue Recognition

St. Bernard makes significant judgments related to revenue recognition. For each arrangement, St. Bernard makes significant judgments regarding the fair value of multiple elements contained in its arrangements, judgments regarding whether its fees are fixed or determinable and judgments regarding whether collection is probable. St. Bernard also makes significant judgments when accounting for potential product returns. These judgments, and their effect on revenue recognition, are discussed below.

Multiple Element Arrangements

St. Bernard typically enters into arrangements with customers that include perpetual software licenses, database subscriptions, hardware appliances, maintenance and technical support. Software licenses are on a per copy basis. Per copy licenses give customers the right to use a single copy of licensed software. St. Bernard makes judgments regarding the fair value of each element in the arrangement and generally accounts for each element separately.

Assuming all other revenue recognition criteria are met, license and appliance and product revenue is recognized upon delivery in accordance with Statement of Position, or SOP, 97-2 *Software Revenue Recognition*. Under 97-2 St. Bernard has established vendor specific objective evidence, or VSOE, on each element of multiple element arrangements using the price charged when the same element is sold separately. Undelivered elements typically include subscription, maintenance and technical support and are recognized ratably over the term.

If St. Bernard cannot establish fair value for any undelivered element, St. Bernard would be required to recognize revenue for the whole arrangement at the time revenue recognition criteria for the undelivered element is met using SOP 98-9, *Modification of SOP 97-2 Software Revenue Recognition, with respect to Certain Transactions*.

The Fee is Fixed or Determinable

Management makes judgments, at the outset of an arrangement, regarding whether the fees are fixed or determinable. St. Bernard s customary payment terms are generally within 30 days after the invoice date. Arrangements with payment terms extending beyond 120 days after the effective date of the license agreement are not considered to be fixed or determinable, in which case revenue is recognized as the fees become due and payable.

Collection is Probable

Management also makes judgments at the outset of an arrangement regarding whether collection is probable. Probability of collection is assessed on a customer-by-customer basis. St. Bernard typically sells to customers with whom it has a history of successful collections. New customers can be subjected to a credit review process to evaluate the customer s financial position and ability to pay. If it is determined at the outset of an arrangement that collection is not probable, then revenue is recognized upon receipt of payment.

Indirect Channel Sales

St. Bernard generally recognizes revenue from licensing of software products through its indirect sales channel upon sell-through or when evidence of an end-user exists. For certain types of customers, such as distributors, St. Bernard recognizes revenue upon receipt of a point of sales report, which is its evidence that the products have been sold through to an end-user. For resellers, St. Bernard recognizes revenue when it obtains evidence that an end-user exists, which is usually when the software is delivered. For licensing of St. Bernard s software to original equipment manufacturers, or OEMs, royalty revenue is recognized when the OEM reports the sale of software to an end-user customer, in some instances, on a quarterly basis.

Delivery of Software Products

St. Bernard s software may be physically delivered to its customers with title transferred upon shipment to the customer. St. Bernard primarily delivers its software electronically, by making it available for download by its customers or by installation at the customer site. Delivery is considered complete when the software products have been shipped and the customer has access to license keys. If an arrangement includes an acceptance provision, St. Bernard generally defers the revenue and recognizes it upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

Product Returns and Exchanges

St. Bernard s license arrangements do not typically provide customers a contractual right of return. Some of its sales programs allow customers limited product exchange rights. Management estimates potential future product returns and exchanges and reduces current period product revenue in accordance with Statement of Financial Accounting Standards, or SFAS, No. 48, Revenue Recognition When Right of Return Exists. The estimate is based on an analysis of historical returns and exchanges. Actual returns may vary from estimates if St. Bernard experiences a change in actual sales, returns or exchange patterns due to unanticipated changes in products, competitive or economic conditions.

Allowance for Doubtful Accounts

Management estimates potential future un-collectible accounts and recognize expense as appropriate. The estimate is based on an analysis of historical un-collectible accounts and on a review of all significant outstanding invoices. Actual bad debts may vary from estimates if St. Bernard experiences a change in actual sales, returns or exchange patterns due to unanticipated changes in products, competitive or economic conditions.

Impairment of Goodwill and Long-Lived Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, management tests St. Bernard s goodwill for impairment annually and whenever events or changes in circumstances suggest that the carrying amount may not be recoverable.

St. Bernard compares the implied fair value of its reporting unit s goodwill to its carrying amount. If the carrying amount of its reporting unit s goodwill exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess.

St. Bernard completed this test during the fourth quarter of 2005 and was not required to record an impairment loss on goodwill.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, management reviews St. Bernard s long-lived asset groups, including property and equipment and other intangibles, for impairment and whenever events indicate that their carrying amount may not be recoverable. When management determines that one or more impairment indicators are present for an asset group, it compares the carrying amount of the asset group to net future undiscounted cash flows that the asset group is expected to generate. If the carrying amount of the asset group is greater than the net future undiscounted cash flows that the asset group is expected to generate, it would compare the fair value to the book value of the asset group. If the fair value is less than the book value, it would recognize an impairment loss. The impairment loss would be the excess of the carrying amount of the asset group over its fair value.

Some of the events that St. Bernard considers as impairment indicators for its long-lived assets, including goodwill, are:

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significant under performance of St. Bernard relative to expected operating results;

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significant adverse change in legal factors or in the business climate;

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an adverse action or assessment by a regulator;

•

unanticipated competition;

•

a loss of key personnel;

•

significant decrease in the market value of a long-lived asset; and

•

significant adverse change in the extent or manner in which a long-lived asset is being used or its physical condition.

Significant assumptions and estimates are made when determining if St. Bernard s goodwill or other long-lived assets have been impaired or if there are indicators of impairment. Management bases its estimates on assumptions that it believes to be reasonable, but actual future results may differ from those estimates as its assumptions are inherently unpredictable and uncertain. Management s estimates include estimates of future market growth and trends, forecasted revenue and costs, expected periods of asset utilization, appropriate discount rates and other variables.

Accounting for Income Taxes

St. Bernard is required to estimate its income taxes in each federal, state and international jurisdiction in which it operates. This process requires that management estimate the current tax exposure as well as assess temporary differences between the accounting and tax treatment of assets and liabilities, including items such as accruals and allowances not currently deductible for tax purposes. The income tax effects of the differences identified are classified as current or long-term deferred tax assets and liabilities in St. Bernard s consolidated balance sheets. Management s judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, its interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax laws or management s interpretation of tax laws, including the provisions of the American Jobs Creation Act of 2004, and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in St. Bernard s balance sheet and results of operations. St. Bernard must also assess the likelihood that deferred tax assets will be realized from future taxable income and, based on this assessment, establish a valuation allowance if required. As of December 31, 2005, management determined the valuation allowance to be approximately $9.1 million based upon uncertainties related to St. Bernard s ability to recover certain deferred tax assets. These deferred tax assets are net operating losses and may be subject to significant annual limitation under certain provisions of the Internal Revenue Code. Management s determination of valuation allowance is based upon a number of assumptions, judgments and estimates, including forecasted earnings, future taxable income and the relative proportions of revenue and income before taxes in the variou s domestic and international jurisdictions in which St. Bernard operates. Future results may vary from these estimates, and at this time, it can not be determined if St. Bernard will need to establish an additional valuation allowance and if so, whether it would have a material impact on its financial statements.

New Accounting Standards

Effective January 1, 2006, the company adopted SFAS No. 123R and related interpretations and began expensing the grant-date fair value of employee stock options. Prior to January 1, 2006, the company applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense was recognized in net income for employee stock options, as options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The pro forma impact of expensing employee stock options in 2005 would have not impacted earnings per share for the year based on the disclosures required by SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123).

The company adopted SFAS No. 123R using the modified prospective transition method and therefore has not restated prior periods. Under this transition method, compensation cost associated with employee stock options recognized in 2006 includes amortization related to the remaining unvested portion of stock option awards granted prior to January 1, 2006, and amortization related to new awards granted on or after January 1, 2006.

The company has accounted for its stock options as equity instruments in accordance with Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 123(R)-4 issued by the FASB on 3 February 2006.

The expense associated with share-based compensation arrangements is a non-cash charge. In the Consolidated Statements of Cash Flows, share-based compensation expense is an adjustment to reconcile net income to cash provided by operating activities.

Prior to the adoption of SFAS No. 123R, the company presented tax benefits resulting from share-based compensation as operating cash flows in the Consolidated Statements of Cash Flows. SFAS No. 123R requires that cash flows resulting from tax deductions in excess of compensation cost recognized be classified as financing cash flows. For the three months ended March 31, 2006, there was no significant excess tax benefit (i.e., the excess tax benefit over that which would have been recognized had SFAS No. 123R been applied).

SFAS No. 123R modified the disclosure requirements related to share-based compensation. Accordingly, the disclosures prescribed by SFAS No. 123R are included in Note 1.

In November 2005, the FASB issued FSP No. FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP provides an elective alternative transition method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R. Companies may take up to one year from the effective date of the FSP to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The company is currently in the process of evaluating the alternative methods.

Miscellaneous Contingency

In January of 2006, an enterprise wide review of job descriptions and employee classifications was conducted by the company. Based upon current responsibilities, certain exempt/non exempt classifications were updated. Any changes in classifications will be implemented going forward.

As a result of the update in employee classifications, there could be potential assertions from current and former employees that they were entitled to certain benefits under a non exempt classification pursuant to the Fair Labor Standards Act and state law.

In accordance with SFAS No. 5, Accounting for Contingencies, the Company has not recorded a provision since there are no pending claims and it is not probable that a claim will be asserted. The amount of any potential loss cannot be reasonably estimated.

Results of Operations of St. Bernard

Costs for maintenance and technical support have been reclassified to cost of sales in the following financial tables for all periods presented.

Comparison of the Three Months Ended March 31, 2006 and 2005

Net Revenues

	For the Months Ended March 31, 2006	For the Months Ended March 31, 2005	% Change
	(In millions, except percentages)		
Total net revenue	$ 5.3	$ 5.6	(5.4)%

Net revenues decreased $0.3 million during the three months ended March 31, 2006 as compared to the comparable period in the prior year. The revenue decrease was primarily due to a $0.3 million net decrease of new appliance sales and licenses to existing customers. During the first quarter of 2005 a hardware upgrade program was underway to replace outdated equipment installed with existing customers and add software licenses. This program was essentially completed by year-end 2005.

Net License Revenues

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005	% Change
	(In millions, except percentages)		
Net license revenue	$ 0.9	$ 1.7	(47.1)%
As a percent of net revenue	17.0 %	30.4 %	

For the three months ended March 31, 2006, St. Bernard s net license revenue decreased by $0.8 million over the comparable period in 2005. The entire $0.8 million year over year drop in revenue resulted from a shift from product sales with a large license component of revenue to product sales with a greater subscription component of revenue.

Net Hardware Revenues

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005	% Change
	(In millions, except percentages)		
Net hardware revenue	$ 0.6	$ 0.9	(33.3)%
As a percent of net revenue	11.3 %	16.1 %	

For the three months ended March 31, 2006, hardware sales decreased by $0.3 million. The quarter over quarter decrease in hardware sales was due to fewer hardware units shipping in the first quarter of 2006. During the first quarter of 2005, hardware units were shipped as part of an equipment upgrade program offered to the installed customer base. Approximately 150 fewer hardware units were shipped in the first quarter of 2006 than in the first quarter of 2005.

Net Subscription Revenues

	For the Three Months Ended March 31,		
	2006	**2005**	**% Change**
	(In millions, except percentages)		
Net subscription revenue	$ 3.8	$ 3.0	26.7 %
As a percent of net revenue	71.7 %	53.6 %	

For the three months ended March 31, 2006, St. Bernard s subscription revenue increased by $0.8 million over the same period for 2005. $0.7 million of the year over year net subscription revenue increase was from an increase in subscription renewals and $0.1 million of the year over year net subscription revenue increase was from new customer acquisition of subscription products during the first quarter. Renewal rates for St. Bernard s products ranged from 80% to 95%.

Cost of Revenue

	For the Three Months Ended March 31,		
	2006	2005	% Change
	(In millions, except percentages)		
Total cost of revenue	$ 1.4	1.7	(17.6)%
Margin as a percentage of total net revenue	73.6 %	69.6 %	

Cost of revenue consists primarily of the cost of contract manufactured hardware, royalties paid to third parties under technology licensing agreements, packaging costs, fee-based technical support costs and freight. Cost of revenue decreased $0.3 million for the three months ended March 31, 2006 compared to the same period in 2005. Cost of revenue decreased 4.0% as a percentage of total net revenue primarily due to a decrease in the hardware component of sales. The quarter over quarter decrease in hardware cost was due to an equipment upgrade program targeted to the installed customer base during 2005. Approximately 150 fewer hardware units were shipped in the first quarter of 2006 than in the first quarter of 2005. The margin as a percentage of total revenue improved 4.0% because the average selling price of the hardware was higher because of the lower number of upgrade units sold.

Cost of Hardware Revenue

	For the Three Months Ended March 31,		
	2006	2005	% Change
	(In millions, except percentages)		
Cost of hardware revenue	$ 0.5	$ 0.8	(37.5)%
Gross margin percent	16.7 %	11.1 %	

The cost of hardware revenue includes contract manufactured equipment, packaging and freight. The cost of hardware for the three months ended March 31, 2006 decreased $0.3 million from the same period in 2005. During the first quarter of 2005, hardware units were shipped as part of an equipment upgrade program offered to the installed customer base. Approximately 150 fewer hardware units were shipped in the first quarter of 2006 than in the first quarter of 2005.

Cost of Subscription Revenue

	The Three Months Ended March 31,		
	2006	2005	% Change
	(In millions, except percentages)		
Cost of subscription revenue	$ 0.9	$ 0.9	0.0 %
Gross margin percent	76.3 %	70.0 %	

The cost of subscription revenue includes the technical operation group that maintains the various databases and the technical support group. The cost of subscription revenue remained the same for the three months ended March 31, 2006 and 2005. As a result, the gross margin improved 6.3% in the first quarter of 2006 compared to the first quarter of 2005.

Selling and Marketing

	The Three Months Ended March 31,		
	2006	2005	% Change
	(In millions, except percentages)		
Selling and marketing	$ 2.6	$ 2.5	4.0 %
As a percentage of net revenue	49.1 %	44.6 %	

Selling and marketing expenses consist primarily of salaries, related benefits, commissions, consultant fees, advertising, lead generation and other costs associated with St. Bernard s sales and marketing efforts. For the three months ended March 31, 2006, the selling and marketing expense increased 4.0% or $0.1 million over the same period in 2005. The increase is a result of $0.2 million greater spending on marketing programs, off set by $0.1 million less marketing salary expense due to 3 less staff. Selling and marketing expenses are incurred to generate billing, a portion of which is included in deferred revenue. The net deferred revenue balance at March 31, 2006 grew 28.9% over the net balance at March 31, 2005.

Technical Operations

	The Three Months Ended March 31,		
	2006	**2005**	**% Change**
	(In millions, except percentages)		
Technical Operations	$ 1.7	$ 2.0	(15.0)%
As a percentage of net revenue	32.1 %	35.7 %	

Technical operations includes research and development expenses and consist primarily of salaries, related benefits, third-party consultant fees and other engineering related costs. The decrease of $.3 million for the three months ended March 31, 2006 over the same period in 2005 was primarily the result of a $0.2 million decrease in compensation costs, realized through the reduction of approximately 12 development engineers and a decrease in the offshore development expense of $0.1 million. Management believes that a significant level of research and development investment is required to remain competitive and it expects to continue to invest in research and development activities.

General and Administrative

	The Three Months Ended March 31,		
	2006	**2005**	**% Change**
	(In millions, except percentages)		
General and administrative	$ 0.8	$ 0.5	60.0 %
As a percentage of net revenue	15.1 %	8.9 %	

General and administrative expenses consist primarily of salaries, related benefits and fees for professional services, such as legal and accounting services. General and administrative expenses increased $0.3 million for the three months ended March 31, 2006 compared to the same period in 2005. $0.2 million of the increased expense is due to an increase in audit expense and $0.1 million of the expense is due to an increase in the internal network support staff. Management expects general and administrative expenses to increase as a percentage of net revenue as a result of the merger activity.

Interest and Other Income, Net

	The Three Months Ended March 31,		
	2006	**2005**	**% Change**
	(In millions, except percentages)		
Interest and other income, net	$ (.1)	$ (.1)	0.0 %

As a percentage of net revenue	1.9 %	1.8 %

Interest and other income, net, includes interest expenses and interest income. The interest and other income, net, was the same for the first quarter of 2006 and 2005.

Comparison of Fiscal Years Ended December 31, 2005 and 2004

Net Revenues

	For the Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Total net revenue	$ 24.0	$ 21.2	13.2 %

Net revenues increased $2.8 million during the twelve months ended December 31, 2005 as compared to the comparable period in the prior year. The revenue increase was primarily due to a $0.8 million net increase in new customer acquisitions and an increase in customer renewal revenue of $2.0 million. St. Bernard focuses on the SME market and its products are developed to address the needs of that market. The increase in customers in 2005 over 2004 is a result of the attention given to the SME product requirements and the acceptance of that functionality by the SME market. The increase in customer subscription renewals in 2005 over 2004 is a result of customer satisfaction with products previously purchased. Renewal rates for St. Bernard s products range from 80% to 95%.

Net License Revenues

	For the Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Net license revenue	$ 6.4	$ 7.5	(14.7)%
As a percent of net revenue	26.7 %	35.4 %	

For the twelve months ended December 31, 2005, St. Bernard s net license revenue decreased by $1.1 million over 2004. $1.0 million of the year over year drop in revenue resulted from a shift from product sales with a large license component of revenue to products with a greater subscription component of revenue. During 2005, there was a shift from direct license sales to end users to license sales through original equipment manufacturers (OEM) resulting in significantly larger sales discounts that reduced license revenue by approximately $0.1 million.

Net Hardware Revenues

	For the Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Net hardware revenue	$ 3.6	$ 3.5	2.9 %
As a percent of net revenue	15.0 %	16.5 %	

For the twelve months ended December 31, 2005, hardware sales increased by $0.1 million. The year over year increase in hardware sales was due to an equipment upgrade to the customer base and new customer acquisition. Approximately 180 more hardware units were shipped in 2005 than in 2004.

Net Subscription Revenues

	For the Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Net subscription revenue	$ 14.0	$ 10.2	37.3 %
As a percent of net revenue	58.3 %	48.1 %	

For the twelve months ended December 31, 2005, St. Bernard s subscription revenue increased by $3.8 million over 2004. $2.0 million of the year over year net subscription revenue increase was from an increase in subscription renewals and $1.8 million of the year over year net subscription revenue increase was from new customer acquisition of subscription products. Renewal rates for St. Bernard s products ranged from 80% to 95%. The Company believes these are very good renewal rates and an indication of customer satisfaction regarding the products.

Cost of Revenue

	Year Ended December 31, 2005	Year Ended December 31, 2004	% Change
	(In millions, except percentages)		
Total cost of revenue	$ 6.6	$ 5.8	13.8 %
Margin as a percentage of total net revenue	72.5 %	72.6 %	

Cost of revenue consists primarily of the cost of contract manufactured hardware, royalties paid to third parties under technology licensing agreements, packaging costs, fee-based technical support costs and freight. Cost of revenue increased $0.8 million for the twelve months ended December 31, 2005 compared to 2004. Cost of revenue decreased 0.1% as a percentage of total net revenue primarily due to an increase in hardware related sales. The total cost of revenue increased during 2005 compared to 2004 because customers purchased more expensive hardware and the total number of units shipped increased by 180. The margin as a percent of total revenue decreased by 0.1% due to an increase of sales through the reseller channel.

Cost of License Revenue

	Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Cost of license revenue	$ 0.0	$ 0.1	(100.0)%
Gross margin percent	100.0 %	98.8 %	

Cost of license revenue includes license royalties, consumable media, packaging materials and freight. There was no significant cost of license revenue for the twelve months ended December 31, 2005. The decrease in the cost of license revenue is a result of delivering licensed products electronically.

Cost of Hardware Revenue

	Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Cost of hardware revenue	$ 3.2	$ 2.6	23.1 %
Gross margin percent	11.1 %	25.7 %	

The cost of hardware revenue includes contract manufactured equipment, packaging and freight. The cost of hardware for the twelve months ended December 31, 2005 increased $0.6 million from 2004. The increase was due to a $0.2 million increase in hardware costs due to selling 2,270 units, an increase of approximately 180 units more than 2004. The average cost of a hardware unit increased approximately $110 resulting in a cost of revenue increase of approximately $0.3 million. The average increase in the cost of hardware is due to a customer shift to more expensive units. Gross margin percent decreased 14.6% in 2005 compared to 2004 because of an increase in hardware related sales through the reseller channel.

Cost of Subscription Revenue

	Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Cost of subscription revenue	$ 3.4	$ 3.1	9.7 %
Gross margin percent	75.7 %	69.6 %	

The cost of subscription revenue includes the technical operation group that maintains the various databases and the technical support group. The cost of subscription revenue increased $0.3 million for the twelve months ended December 31, 2005 compared to 2004. The increased cost is due to three additional staff added to the database group and five additional staff added to the technical support group.

Selling and Marketing

	Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Selling and marketing	$ 10.4	$ 12.2	(14.8)%
As a percentage of net revenue	43.3 %	57.5 %	

Selling and marketing expenses consist primarily of salaries, related benefits, commissions, consultant fees, advertising, lead generation and other costs associated with St. Bernard s sales and marketing efforts. For the twelve months ended December 31, 2005, the selling and marketing expense decreased 14.8% or $1.8 million over 2004. The decrease is a result of $0.3 million less spent on marketing programs, $0.7 million less sales salary expense due to 23 less staff primarily in large account sales, account managers and channel sales and $0.8 million less commission expense than 2004. Selling and marketing expenses are incurred to generate billing, a portion of which is included in deferred revenue. The deferred revenue balance at December 31, 2005 grew 22.0% over the balance at December 31, 2004.

The staff and marketing expense reductions made in sales and marketing during 2005 were temporary cost reductions and these costs are expected to increase. During 2005 St. Bernard made a major revision to its channel program that was implemented late in the year. St. Bernard plans to add sales staff to the reseller channel sales group and increase the amount of marketing expense in support of the reseller channel program. In addition, St. Bernard plans to add sales staff to its direct sales group and increase its direct marketing expense. St. Bernard does not have plans to replace the large account sales staff and will manage larger account sales opportunities with the existing sales staff and the reseller channel.

Technical Operations

	Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Technical Operations	$ 7.0	$ 8.4	(16.7)%
As a percentage of net revenue	29.2 %	39.6 %	

Technical operations includes research and development expenses and consist primarily of salaries, related benefits, third-party consultant fees and other engineering related costs. The decrease of $1.4 million for the year ended December 31, 2005 over 2004 was primarily the result of $0.5 million decreases in compensation costs, realized through the reduction of approximately eighteen development engineers and a decrease in the offshore development expense of $0.9 million. Management believes that a significant level of research and development investment is required to remain competitive and it expects to continue to invest in research and development activities.

The cost reductions made during 2005 were primarily a result of the completion of new development projects. St. Bernard believes that the present level of technical operations cost will be sufficient in the future to keep the existing products competitive but additional development staff and other development resources will be required if a new product development effort is undertaken.

General and Administrative

	Year Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
General and administrative	$ 2.7	$ 2.5	8.0 %
As a percentage of net revenue	11.3 %	11.8 %	

General and administrative expenses consist primarily of salaries, related benefits and fees for professional services, such as legal and accounting services. General and administrative expenses increased $0.2 million for the year ended

December 31, 2005 compared to 2004, due to an increase in facility expense and the impairment of an asset. Management expects general and administrative expenses to increase as a percentage of net revenue as a result of the merger activity.

Interest and Other Income, Net

	For the Years Ended December 31,		
	2005	**2004**	**% Change**
	(In millions, except percentages)		
Interest and other income, net	$ (.3)	$ (.2)	50.0 %
As a percentage of net revenue	1.3 %	.9 %	

Interest and other income, net, includes interest expenses and interest income. The increase in interest and other income of $0.1 million for the year ended December 31, 2005 over 2004 was due to an increased utilization of the line of credit.

Comparison of Fiscal Years Ended December 31, 2004 and 2003

Net Revenues

	Years Ended December 31,		
	2004	**2003**	**% Change**
	(In millions, except percentages)		
Total net revenue	$ 21.2	$ 20.0	6.0 %

For the year ended December 31, 2004, St. Bernard s total net revenue increased by $1.2 million or 6.0% over the same period a year ago. Revenue for the period ending December 31, 2004 is $1.2 million higher than the same period for 2003 primarily due to the planned replacement of a discontinued appliance. There were no price increases during the period. During 2004 and 2003, as part of its strategy to increase net revenue, St. Bernard continued expanding its product portfolio and offerings, expanded its capabilities across the multiple platforms its software supports and began to invest in sales and service capacity internationally.

Net License Revenues

	For the Year Ended December 31,		
	2004	**2003**	**% Change**
	(In millions, except percentages)		
Net license revenue	$ 7.5	$ 10.8	(30.6)%
As a percent of net revenue	35.4 %	54.0 %	

For the twelve months ended December 31, 2004, St. Bernard s net license revenue decreased by $3.3 million over 2003. $2.5 million of the year over year drop in revenue resulted from a shift from product sales with a large license component of revenue to products with a greater subscription component of revenue. During 2004, there was a shift from direct license sales to end users to license sales through original equipment manufacturers (OEM) resulting in significantly larger sales discounts that reduced license revenue by approximately $0.8 million.

Net Hardware Revenues

	For the Year Ended December 31,		
	2004	**2003**	**% Change**
	(In millions, except percentages)		
Net hardware revenue	$ 3.5	$ 2.2	59.1 %
As a percent of net revenue	16.5 %	11.0 %	

For the twelve months ended December 31, 2004, hardware sales increased by $1.3 million. The year over year increase in hardware sales was due to an equipment upgrade to the customer base and new customer acquisition.

Approximately 1,200 more hardware units were shipped in 2004 than in 2003.

Net Subscription Revenues

	For the Year Ended December 31,		
	2004	**2003**	**% Change**
	(In millions, except percentages)		
Net subscription revenue	$ 10.2	$ 7.0	45.7 %
As a percent of net revenue	48.1 %	35.0 %	

For the twelve months ended December 31, 2004, St. Bernard s subscription revenue increased by $3.2 million over 2004. $1.6 million of the year over year net subscription revenue increase was from an increase in subscription renewals and $1.6 million of the year over year net subscription revenue increase was from new customer acquisition of subscription products. Renewal rates for St. Bernard s products ranged from 80% to 95%. The company believes these are very good renewal rates and an indication of customer satisfaction regarding the products.

Cost of Revenue

	Year Ended December 31, 2004	Year Ended December 31, 2003	% Change
	(In millions, except percentages)		
Cost of revenue	$ 5.8	$ 3.7	56.8 %
Margin as a percentage of net revenue	72.6 %	81.5 %	

Cost of revenue consists primarily of the cost of contract manufactured hardware, royalties paid to third parties under technology licensing agreements, packaging costs, fee-based technical support costs and freight. Cost of revenue increased $2.1 million for the twelve months ended December 31, 2004 compared to 2003. Cost of revenue increased 8.9% as a percentage of total net revenue primarily due to increased sales related to hardware products.

Cost of License Revenue

	Year Ended December 31, 2004	Year Ended December 31, 2003	% Change
	(In millions, except percentages)		
Cost of license revenue	$ .1	$ .2	(50.0)%
Gross Margin percent	98.8 %	98.3 %	

Cost of license revenue includes license royalties, consumable media, packaging materials and freight. The cost of license revenue for the twelve months ended December 31, 2004 was $0.1 million, a decrease of $0.1 million over 2003. The decrease is a result of an increase in electronic delivery of license products.

Cost of Hardware Revenue

	Year Ended December 31, 2004	Year Ended December 31, 2003	% Change
	(In millions, except percentages)		
Cost of hardware revenue	$ 2.6	$ 1.3	100.0 %
Gross margin percent	25.7 %	40.9 %	

The cost of hardware revenue includes contract manufactured equipment, packaging and freight. The cost of hardware for the twelve months ended December 31, 2004 increased $1.3 million from 2003. The increase was due to a $1.3 million increase in hardware costs due to selling approximately 2,090 units, an increase of approximately 1,200 units more than 2003. Approximately 300 of the increased unit sales resulted from an equipment upgrade program. Gross margin percent decreased 15.2% in 2004 compared to 2003 because of the incentive discounts to encourage customers to upgrade their hardware.

Cost of Subscription Revenue

	Year Ended December 31, 2004	Year Ended December 31, 2003	% Change
	(In millions, except percentages)		
Cost of subscription revenue	$ 3.1	$ 2.2	40.9 %
Gross margin percent	69.6 %	63.3 %	

The cost of subscription revenue includes the technical operation group that maintains the various databases and the technical support group. The cost of subscription revenue increased $.9 million for the twelve months ended December 31, 2004 compared to 2003. The increased cost was a result of adding four additional people to the database staff and five additional people to the technical support staff.

Selling and Marketing

	Years Ended December 31,		
	2004	2003	% Change
	(In millions, except percentages)		
Selling and marketing	$ 12.2	$ 9.4	29.8 %
As a percentage of net revenue	57.6 %	47.0 %	

Selling and marketing expenses consist primarily of salaries, related benefits, commissions, consultant fees and other costs associated with St. Bernard s sales and marketing efforts. The increase for the year ended December 31, 2004 over 2003 of $2.8 million was primarily the result of an increase in sales compensation of $1.9 million due to an increase of approximately eighteen sales staff and related expense and an increase of $0.9 in discretionary marketing expenditures. Selling and marketing expenses increased 10.6% when measured as a percentage of net revenue, however, the increase in selling and marketing expense more directly relates to billing than revenue. At December 31 2004, the deferred revenue balance grew 55.3% over the balance at December 31, 2003.

Technical Operations

	Years Ended December 31,		
	2004	2003	% Change
	(In millions, except percentages)		
Technical Operations	$ 8.4	$ 4.2	100.0 %
As a percentage of net revenue	39.6 %	21.0 %	

Technical operations includes research and development expenses and consist primarily of salaries, related benefits, third-party consultant fees and other engineering related costs. The increase of $4.2 million for the year ended December 31, 2004 over 2003 was primarily the result of an increase of $1.5 million in third party consulting fees and $2.7 million in increased compensation for technical operations staffing costs. As of December 31, 2004, the technical operations staff increased by fifteen compared to staffing at December 31, 2003 but the staffing during 2004 had been as many as thirty greater during the year.

General and Administrative

	Years Ended December 31,		
	2004	2003	% Change
	(In millions, except percentages)		
General and administrative	$ 2.5	$ 3.2	(21.9)%
As a percentage of net revenue	11.8 %	16.0 %	

General and administrative expenses consist primarily of salaries, related benefits and fees for professional services, such as legal and accounting services. The Company consolidated its facilities costs in 2004 resulting in a savings of $.7 million.

Interest and Other Income, Net

	Years Ended December 31,		
	2004	**2003**	**% Change**
	(In millions, except percentages)		
Interest and other income, net	$ (.2)	$ (.3)	(33.3)%
As a percentage of net revenue	0.9 %	1.5 %	

Interest and other income, net, includes interest expense and interest income. The decrease in interest and other income and expense, net of $0.1 million for the year ended December 31, 2004 over 2003 was primarily due to a decreased utilization of the line of credit.

Recent Accounting Pronouncements

On February 16, 2006 the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Instruments* (SFAS No. 155), which amends SFAS No. 133, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140). SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not expect its adoption of this new standard in 2007 to have a material impact on its financial position, results of operations or cash flows.

On June 7, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections* , a replacement of APB Opinion No. 20, *Accounting Changes*, and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements* . FAS No. 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. Previously, most voluntary changes in accounting principles were required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. FAS No. 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

Liquidity and Capital Resources

Cash Flows

St. Bernard s largest source of operating cash flows is cash collections from its customers for purchases of products and subscription, maintenance and technical support. St. Bernard s standard payment terms for both license and support invoices are net 30 days from the date of invoice. The recurring revenue subscription portion of the business is a mainstay of the cash flow the company generates. Its primary uses of cash for operating activities include personnel and facilities related expenditures, income tax payments and technology costs as well as costs associated with outside support and services.

Cash provided by operations for the quarter ended March 31, 2006 was $0.02 million compared to cash used during the first quarter of 2005 of $0.4 million. The source of cash was due primarily to a decrease in accounts receivable. Cash flows used in operating activities increased $0.4 million for the year ended December 31, 2005 over 2004 primarily due to the reduced operating loss. Cash flows provided by operating activities decreased $3.6 million for 2004 compared to 2003, due to losses and an increase in inventory and other prepaid marketing expenses.

Cash flows used for investing activities consist primarily of purchases of property and equipment, purchases of technology and investments in partnerships. Cash flows used in investing activities for the three months ended March 31, 2006 for the purchases of property and equipment decreased $0.1 million from the same period in 2005 and were less than $0.1 million. Cash flows used in investing activities for the year ended December 31, 2005 for purchases of property, equipment and other assets decreased by $0.9 million from the same period in 2004 to $0.1 million.

Cash flows used in investing activities in 2004 decreased by $0.3 million. In 2003 investing consisted primarily of office furniture and equipment related to the change in facilities. Investing activity in 2004 related primarily to purchases of software. Cash flows used in financing activities for the three months ended March 31, 2006 were less than $0.001 million and were $0.1 million less than for the same period in 2005. Cash flows provided by financing activities for the year ended December 31, 2005 consist primarily of an advance of $0.1 million of St. Bernard s revolving line of credit and $0.7 in merger costs offset by proceeds related to the issuance of common stock under a private placement agreement of $1.0 million and the exercise of stock option and stock warrants of $0.2 million. Cash flows from financing activities consisted of proceeds related to the issuance of common stock due to exercise of employee options under St. Bernar d s employee stock option plans of $0.5 million in 2004 compared to minimal activity in 2003 and an increase in the revolving line of credit of $0.6 million in 2004 compared to repayment of the revolving line of credit of $0.5 million in 2003.

Credit Facility

During 2001, St. Bernard entered into a short-term credit facility with Camel Financial, Inc. in the amount of $0.5 million. During 2003, the short-term credit facility was renewed and increased to $1.3 million. There was $0.9

million and $0.8 million outstanding at December 31, 2005 and December 31, 2004, respectively. The revolving credit facility is secured by accounts receivable and other assets of St. Bernard.

St. Bernard s credit facility availability is $1.3 million and is with an asset based lending finance company. The credit facility automatically renews every six months. The line of credit provides for advances of up to 80% of eligible accounts receivable. Eligible accounts receivable are determined solely by the finance company. Interest is payable monthly at 1.5% per month (18% per annum). The agreement provides a provision for a 1% annual renewal fee and a 1% per annum charge for the daily average unused portion of the line. The agreement may be terminated without penalty but requires thirty days notice. The line of credit is secured by all of the assets of St. Bernard s and all of the assets acquired during the term of the agreement. St. Bernard is required to apply all accounts receivable proceeds against the outstanding line of credit balance upon receipt.

Bridge Loan

The Broomfield Family Trust, an affiliate of Scott Broomfield, a director and officer of Sand Hill, and BeeBird Beheer B.V., an affiliate of Bart van Hedel a director of St. Bernard, have made available $125,000 and $375,000, respectively, to St. Bernard, as a bridge loan pursuant to secured promissory notes. Amounts borrowed under the notes are due on November 25, 2006 and bear interest at 12%. In connection with the execution of the notes, the Broomfield Family Trust and BeeBird Beheer B.V. received warrants for an aggregate of 25,000 shares of common stock of St. Bernard (which equates to 10,535 shares of the combined company s stock after the merger) exercisable at a price equal to the last reported sale price on the day prior to the maturity date of the notes on the primary market on which the shares of the combined company are traded or, if the merger does not occur, at the fair market value of the shares as determined by the board of directors of St. Bernard. These notes are secured by a lien on substantially all of the assets of St. Bernard, subject to the lien of St. Bernard s existing senior lender.

Contractual Commitments

The following table is a summary of the contractual lease commitments for operating facilities and certain equipment under non-cancelable operating leases with various expiration dates through December 2008. Future minimum payments as of December 31, 2005 are as follows.

Year Ending December 31, (In thousands)	
2006	1,153,841
2007	1,177,234
2008	1,156,689
2009	1,195,887
2010	1,236,364
Total	$ 5,920,015

Losses from Operations Liquidity

At March 31, 2006, St. Bernard s current liabilities exceeded its current assets by approximately $11,100,000 and St. Bernard had a stockholders deficit of approximately $9,800,000. St. Bernard expects sufficient cash flows from operations during 2006, along with its available line of credit financing to cover its anticipated 2006 operating expenses. St. Bernard s expenses consist primarily of variable costs such as payroll and related expenses that can be modified to meet the operating needs of St. Bernard. In addition, approximately $10,400,000 of the current liability balance at March 31, 2006, consists of deferred revenues, which represents amounts that will be amortized into revenue over time, as they are earned. While there are costs that will be incurred as these revenues are earned, these costs are far less than the approximately $10,400,000 recorded as a current liability or the approximately $15,600,000 recorded as a liability in total. In addition to focusing on cost containment, St. Bernard has entered into an agreement through which it will be acquired by a blank check company. However, while the likelihood of a liquidity crisis is considered remote, should one occur there are no guarantees that the Company would obtain sufficient cash from outside sources on a timely basis. Management does not believe the situation represents a significant risk to the Company.

Off-Balance Sheet Arrangements

Except for the commitments arising from our operating leases arrangements disclosed in the preceding section, we have no other off-balance sheet arrangements that are reasonably likely to have a material effect on our financial statements.

INFORMATION ABOUT SAND HILL

Business of Sand Hill

General

Sand Hill was incorporated in Delaware on April 15, 2004, to serve as a vehicle to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in a specified industry. As a Targeted Acquisition Corporation or TAC, Sand Hill s objective is to acquire an operating business in the IT security industry. To date, Sand Hill s efforts have been limited to organizational activities, completion of its initial public offering and the evaluation of possible business combinations. Sand Hill intends to utilize cash derived from the proceeds of its initial public offering, its capital stock, debt or a combination of cash, capital stock and debt, in effecting a business combination.

Offering Proceeds Held in Trust

The net proceeds of Sand Hill s initial public offering consummated on July 30, 2004, after payment of underwriting discounts and expenses were $22,022,462. $20,961,000, or approximately 85% of such amount was placed in the trust account and invested in government securities. The remaining proceeds have been used by Sand Hill in its pursuit of a business combination. The trust account will not be released until the earlier of the consummation of a business combination or the liquidation of Sand Hill. The trust account contained $22,109,631 as of May 26, 2006. If the merger with St. Bernard is consummated, the trust account will be released to Sand Hill, less amounts paid to stockholders of Sand Hill who do not approve the merger and elect to convert their shares of common stock into their pro-rata share of the trust account.

Fair Market Value of Target Business

Pursuant to Sand Hill s certificate of incorporation, the initial target business that Sand Hill acquires must have a fair market value equal to at least 80% of Sand Hill s net assets at the time of such acquisition. The fair market value will be determined by Sand Hill s board of directors based upon standards generally accepted by the financial community, such as actual and potential sales, earnings and cash flow and book value. Sand Hill will not be required to obtain an opinion from an investment banking firm as to the fair market value if Sand Hill s board of directors independently determines that the target business does have sufficient fair market value. Sand Hill has not obtained any opinion from an investment banking firm in connection with the merger.

Stockholder Approval of Business Combination

Sand Hill will proceed with a business combination only if a majority of all of the outstanding shares of Sand Hill are voted in favor of the business combination. In addition, the stockholders existing prior to the initial public offering have agreed to vote their common stock in accordance with the vote of the majority in interest of the stockholders participating in the initial public offering with respect to any business combination. If the holders of 20% or more of Sand Hill s common stock issued in its initial public offering vote against the merger proposal and demand that Sand Hill convert their shares into, their pro rata share of the trust account, then Sand Hill will not consummate the merger. In this case, Sand Hill would be able to present another potential business combination to its stockholders, subject to the time limitations set forth below.

Conversion Rights

Each stockholder who holds shares of Sand Hill common stock issued in the initial public offering has the right to have his, her or its shares of common stock converted to cash if he votes against the merger and the merger is approved and completed.

The actual per-share conversion price will be equal to the amount in the trust account, inclusive of any interest, as of the record date for determination of stockholders entitled to vote on the business combination, divided by the number of shares sold in Sand Hill s initial public offering. The initial per-share conversion price would be $5.25 as of October 26, 2005, for each share that is eligible to participate in the funds held in the trust account. An eligible stockholder may request conversion at the time the vote is taken with respect to the merger at the special meeting, but the request will not be granted unless the stockholder votes against the merger and the merger is approved and completed. Any request for conversion, if made by proxy prior to the date of the special meeting, may be withdrawn at any time up to the date of the meeting. It is anticipated that the funds to be distributed to stockholders who elect conversion will be distributed promptly after completion of the merger. Any public stockholder who converts their stock into their share of the trust account still has the right to exercise the warrants that they received as part of the units in the initial public offering. Sand Hill will not complete the merger if the eligible stockholders, owning 20% or more of the shares sold in the initial public offering, exercise their conversion rights.

Liquidation if No Business Combination

If Sand Hill does not complete a business combination by July 27, 2006, Sand Hill will be dissolved pursuant to Section 275 of the Delaware General Corporation Law, or DGCL. In connection with such dissolution, Sand Hill will distribute to all of our public stockholders, in proportion to their respective equity interests, an aggregate sum equal to the amount in the trust fund, inclusive of any interest, plus any remaining net assets. Sand Hill s stockholders who obtained their Sand Hill stock prior to our initial public offering have waived their rights to participate in any liquidation distribution with respect to shares of common stock owned by them immediately prior to our initial public offering. There will be no distribution from the trust fund with respect to Sand Hill s warrants.

Liquidation. Sand Hill anticipates that, if we are unable to complete the merger with St. Bernard, the following will occur:

- the board of directors will convene and adopt a specific plan of dissolution and liquidation, which it will then vote to recommend to the Sand Hill stockholders; at such time it will also cause to be prepared a preliminary proxy statement setting out such plan of dissolution and liquidation as well as the board s recommendation of such plan;

- Sand Hill will promptly file a preliminary proxy statement with the Securities and Exchange Commission; Sand Hill anticipates filing this preliminary proxy statement by August 31, 2006;

- if the Securities and Exchange Commission does not review the preliminary proxy statement, then, 10 days following the filing of such preliminary proxy statement, Sand Hill will mail the definitive proxy statement to our stockholders, and 10-20 days following the mailing of such definitive proxy statement, convene a meeting of our stockholders, at which Sand Hill s stockholders will vote on the plan of dissolution and liquidation; and

- if the Securities and Exchange Commission does review the preliminary proxy statement, Sand Hill currently estimates that it will receive their comments approximately 30 days after the filing of such proxy statement. Sand Hill would then mail the definitive proxy statement to our stockholders following the conclusion of the comment and review process (the length of which we cannot predict with any certainty, and which may be substantial) and will convene a meeting of our stockholders at which Sand Hill s stockholders will vote on the plan of dissolution and liquidation.

Sand Hill currently expects that the costs associated with the implementation and completion of the plan of dissolution and liquidation would not be more than approximately $50,000. Sand Hill anticipates that members of Sand Hill management will advance Sand Hill the funds necessary to complete such dissolution and liquidation.

Sand Hill will not liquidate the trust account unless and until our stockholders approve the plan of dissolution and liquidation. Accordingly, the foregoing procedures may result in substantial delays in our liquidation and the distribution to our public stockholders of the funds in the trust account and any remaining net assets as part of the plan of dissolution and liquidation.

If Sand Hill were to expend all of the net proceeds of its initial public offering, other than the proceeds deposited in the trust account, the per-share liquidation price as of May 26, 2006 would be approximately $5.38, or $0.62 less than the per-unit offering price of $6.00 in Sand Hill s initial public offering. The proceeds deposited in the trust account could, however, become subject to the claims of Sand Hill s creditors and there is no assurance that the actual per-share liquidation price will not be less than $5.38, due to those claims. However, because Sand Hill is a blank check company, rather than an operating company, and our operations have been limited to searching for prospective target businesses to acquire, the only likely claims to arise would be from our vendors or service providers, a majority of whom we have received agreements from waiving their rights, if any, to any funds held in the trust account.

As of May 24, 2006, Sand Hill had liabilities of approximately $317,000. Creditors with claims in the amount of approximately $237,000 have executed agreements with Sand Hill waiving their rights, if any, to any funds held in the trust account. Sand Hill has not received a waiver letter from American Stock Transfer & Trust Company, its escrow agent and transfer agent, the State of Delaware, Hein & Associates LLP, its independent auditor and certain miscellaneous service providers, with aggregate claims in the amount of approximately $79,000. As a result of obtaining the waiver letters, Sand Hill believes the claims that could be made against the trust account are limited. To the extent that creditors, even those who have executed a waiver of claims against the trust account, or St. Bernard bring a claim and attempt to have it satisfied out of the trust account, the proceeds available to Sand Hill stockholders from the trust account cou ld be reduced. Humphrey P. Polanen, chairman of the board and chief executive officer of Sand Hill, will be personally liable to pay debts and obligations, if any, to creditors that are owed money by Sand Hill in excess of the net proceeds of Sand Hill s initial public offering not held in the trust account. As of the date of this joint proxy statement/prospectus such amounts are estimated to be approximately $400,000 at the closing of the merger. Based on information obtained from such individual, Sand Hill currently believes that such person is of substantial means and capable of satisfying such debts and obligations even though Sand Hill has not requested him to reserve for such an eventuality. However, there is no assurance that Mr. Polanen will be able to satisfy those obligations. Accordingly, there is no assurance that the actual per share liquidation price will not be less than $5.38 per share due to claims of creditors.

Additionally, if Sand Hill is forced to file a bankruptcy case or an involuntary bankruptcy case is filed against Sand Hill which is not dismissed, the proceeds held in the trust account could be subject to applicable bankruptcy law, and may be included in Sand Hill s bankruptcy estate and subject to the claims of third parties with priority over the claims of Sand Hill s stockholders. To the extent any bankruptcy claims deplete the trust account, we cannot assure you we will be able to return to Sand Hill s public stockholders at least $5.38 per share.

The stockholders holding shares of Sand Hill common stock issued in its initial public offering will be entitled to receive funds from the trust account only in the event of Sand Hill s liquidation or if the stockholders seek to convert their respective shares into cash and the merger is actually completed. In no other circumstances shall a stockholder have any right or interest of any kind to or in the trust account.

Under Sections 280 through 282 of the DGCL, stockholders may be held liable for claims by third parties against a corporation to the extent of distributions received by them in a dissolution. Pursuant to Section 280, if the corporation complies with certain procedures intended to ensure that it makes reasonable provision for all claims against it, including a 60-day notice period during which any third-party claims can be brought against the corporation, a 90-day period during which the corporation may reject any claims brought, and an additional 150-day waiting period before any liquidating distributions are made to stockholders, any liability of stockholders with respect to a liquidating distribution is limited to the lesser of such stockholder s pro rata share of the claim or the amount distributed to the stockholder, and any liability of the stockholder would be barred after the third anniversary of the dissolution. Although we will s eek stockholder approval to liquidate the trust account to our public stockholders as part of the plan of dissolution and liquidation, we will seek to conclude this process as soon as possible and as a result do not intend to comply with those procedures. Because Sand Hill does not anticipate complying with the foregoing provisions, Section 281(b) of the DGCL requires Sand Hill to adopt a plan that will provide for our payment, based on facts known to us at such time, of (i) all existing claims, (ii) all pending claims and (iii) all claims that may be potentially brought against Sand Hill within the subsequent 10 years. However, because Sand Hill is a blank check company, rather than an operating company, and our operations have been limited to searching for prospective target businesses to acquire, the only likely claims to arise would be from our vendors or service providers a majority of whom we have received agreements from waiving their rights, if any, to any funds held in the trust account. As a result , the claims that could be made against Sand Hill should be limited. Nevertheless, such agreements may or may not be enforceable and those parties that have not entered into such agreements may have claims that they will attempt to assert. As such, our stockholders could potentially be liable for any claims to the extent of distributions received by them in a dissolution and any liability of our stockholders may extend beyond the third anniversary of such dissolution.

Bankruptcy. The board of directors may determine it is in the best interest of Sand Hill to file a petition for bankruptcy or Sand Hill may be forced into bankruptcy by its creditors. A voluntary or involuntary bankruptcy proceeding would most likely be filed under Chapter 7 of the United States Bankruptcy Code, which governs liquidations of corporations. At the time of the filing, Sand Hill would cease operations and a bankruptcy trustee would be appointed to liquidate the assets of Sand Hill and distribute its assets in the following order of priority: (i) to secured creditors, (ii) for the cost of the administration of the Sand Hill bankruptcy, (iii) to unsecured creditors, and (iii) to Sand Hill stockholders.

If Sand Hill is forced to file a bankruptcy case or an involuntary bankruptcy case is filed against Sand Hill which is not dismissed, any distributions received by stockholders in our dissolution could be viewed under applicable debtor/creditor and/or bankruptcy laws as either a preferential transfer or a fraudulent conveyance. As a result, a bankruptcy court could seek to recover all amounts received by Sand Hill s stockholders in our dissolution.

Competition

If the merger is completed, Sand Hill will become subject to competition from competitors of St. Bernard. See Business of St. Bernard Competition.

Facilities

Sand Hill maintains executive offices at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025. The cost for this space is included in a $7,500 per-month fee that Sand Hill Security LLC, an affiliate of Humphrey P. Polanen, charges Sand Hill for general and administrative services pursuant to a letter agreement between Sand Hill and Sand Hill Security LLC. Sand Hill believes, based on rents and fees for similar services in the Menlo Park, California area, that the fee charged by Sand Hill Security LLC is at least as favorable as Sand Hill could have obtained from an unaffiliated person. Sand Hill considers its current office space adequate for current operations.

Employees

Sand Hill has six directors and three officers who are also directors. These individuals are not obligated to contribute any specific number of hours per week and intend to devote only as much time as they deem necessary to Sand Hill s affairs. Sand Hill has no employees.

Periodic Reporting and Audited Financial Statements

Sand Hill has registered its securities under the Securities Exchange Act of 1934 and has reporting obligations, including the requirement to file annual and quarterly reports with the Securities and Exchange Commission. In accordance with the requirements of the Securities Exchange Act of 1934, Sand Hill s annual reports will contain financial statements audited and reported on by Sand Hill s independent accountants. Sand Hill has filed a form 10-KSB and 10-KSB/A with the Securities and Exchange Commission covering the fiscal year ended December 31, 2004, a form 10-QSB and 10-QSB/A covering the three-month period ended March 31, 2005, a form 10-QSB and 10-QSB/A covering the three-month period ended June 30, 2005, a form 10-QSB and 10-QSB/A covering the three-month period ended September 30, 2005, a form 10-KSB and 10-KSB/A for the fiscal year ended December 31, 2005 and a form 10-QSB, 10-QSB/A and 10-QSB/A no.2 covering the three-month period ended March 31, 2006.

Under EITF No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock* (EITF No. 00-19), the fair value of the warrants issued as part of the Units have been reported as a liability. The warrant agreement provides for Sand Hill to register the shares underlying the warrants and is silent as to the penalty to be incurred in the absence of Sand Hill s ability to deliver registered shares to the warrant holders upon warrant exercise. Under EITF No. 00-19, Sand Hill is required to assume that the warrants could give rise to it ultimately having to net-cash settle the warrants, thereby necessitating the treatment of the warrants as a liability. Further, EITF No. 00-19 requires Sand Hill to record the warrant liability at each reporting date at its then estimated fair value, with any changes being recorded through San Hill s statement of operat ions as other income/expense. The warrants will continue to be reported as a liability until such time that they are registered, exercised, expire, or Sand Hill is otherwise able to modify the registration rights agreement to remove the provisions which require this treatment. As a result, Sand Hill could experience volatility in its net income due to changes that occur in the value of the warrant liability at each reporting date.

Legal Proceedings

There are no legal proceedings pending against Sand Hill.

Plan of Operations

The following discussion should be read in conjunction with Sand Hill s financial statements and related notes thereto included elsewhere in this joint proxy statement/prospectus.

Sand Hill was formed on April 15, 2004, to serve as a vehicle to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business in the IT security industry. Sand Hill intends to utilize cash derived from the proceeds of its initial public offering, its capital stock, debt or a combination of cash, capital stock and debt, in effecting a business combination.

Sand Hill consummated its initial public offering on July 30, 2004. Operations commenced July 31, 2004. The net loss of $49,907 reported for the period from April 15, 2004 (inception) through December 31, 2004 consists primarily of $51,408 for director and officer liability and other insurance, $37,500 for facilities, $32,500 for professional fees, $34,360 for travel and travel related costs, and $36,178 for other operating expenses. Total interest income was $142,039.

The cumulative net loss of $1,595,121 reported for the period from April 15, 2004 (inception) through December 31, 2005 consists primarily of $174,772 for director and officer liability and other insurance, $127,500 for facilities, $562,657 for professional fees, $147,052 for travel and travel related costs, $103,733 for taxes, $183,079 for other operating expenses and $1,076,820 for warrant liability expense. The net proceeds deposited into the trust fund remain on deposit in the trust fund and have earned $780,492 in interest through December 31, 2005.

The cumulative net loss of $2,439,620 reported for the period from April 15, 2004 (inception) through March 31, 2006 consists primarily of $205,314 for director and officer liability and other insurance, $150,300 for facilities, $647,439 for professional fees, $163,072 for travel and travel related costs, $103,433 for taxes, $199,971 for other operating expenses and $1,972,800 for warrant liability expense. The net proceeds deposited into the trust fund remain on deposit in the trust fund and have earned $1,002,709 in interest through March 31, 2006.

As of March 31, 2006, Sand Hill had cash of $658, and treasury securities in its trust account (including interest) of $21,952,760. From inception through March 31, 2006, Sand Hill had negative cash flow from operations of $1,067,569 from the net proceeds that were not deposited into the trust fund.

For the twelve months ended December 31, 2005, Sand Hill earned interest income of $638,453. Sand Hill incurred operating expenses of approximately $1,106,847 for that same period. These expenses consist primarily of $123,364 for director and officer liability and other insurance, $90,000 for facilities, $530,157 for professional fees, $112,692 for travel and travel related costs, $103,733 for taxes, $146,901 for other operating expenses and costs associated with being a public company and $1,076,820 for warrant liability expense.

For the three months ended March 31, 2006, Sand Hill earned interest income of $222,217. Sand Hill incurred operating expenses of approximately $170,735 for that same period. These expenses consist primarily of $30,542 for director and officer liability and other insurance, $22,500 for facilities, $84,782 for professional fees, $16,019 for travel and travel related costs, $16,892 for other operating expenses and costs associated with being a public company and $895,980 for warrant liability expense.

Over the 24-month period subsequent to the consummation of Sand Hill s initial public offering, Sand Hill had anticipated approximately $250,000 of expenses for legal, accounting and other expenses related to the due diligence investigations, and structuring and negotiating of a business combination, $180,000 for the administrative fee payable to Sand Hill Security, LLC ($7,500 per month for two years), $100,000 of expenses for the due diligence and investigation of a target business, $75,000 of expenses in legal and accounting fees relating to its SEC reporting obligations and $475,000 for general working capital to be used for miscellaneous expenses and reserves, including approximately $180,000 for director and officer liability insurance premiums, inclusive of the amounts set out in the preceding paragraph. Sand Hill does not believe that it has sufficient available cash resources outside of the trust fund to operate until the merger is consummated, without accruing for certain professional expenses, such as legal and accounting costs and, therefore, it may need to raise additional funds through a private offering of debt or equity securities if such funds are required to consummate the business combination with St. Bernard. As of March 31, 2006, Sand Hill had accounts payable of $299,521. Anticipating closure of the merger by the end of the second quarter of 2006, Sand Hill estimates total costs to consummation of approximately $15,000 for the administrative fee payable to Sand Hill Security LLC, $10,000 for accounting fees relating to quarterly SEC reporting obligations, $40,000 for legal costs related to the joint proxy statement/prospectus, $25,000 in printing costs for the joint proxy statement/prospectus, plus an additional $30,000 in travel costs, investor relations costs and general corporate working capital requirements. This is a total estimate of $120,000 to operate until the consummation of a business combination. To the extent that these costs exceed amounts available outside the trust fund, trust fund assets will be used to fund the excess costs of the merger if the merger is completed and the trust fund assets are released to the Company. It is estimated that these costs will approximate $400,000 upon completion of the merger, exclusive of any fees payable to SEC upon successful completion of the merger.

Sand Hill is obligated, commencing July 26, 2004, to pay to Sand Hill Security LLC, an affiliate of Humphrey P. Polanen, its chairman of the board, chief executive officer and president, a monthly fee of $7,500 for general and administrative services. In addition, in April 2004, Sand Hill security, LLC advanced $40,000 to Sand Hill, on a non-interest bearing basis, for payment on Sand Hill s behalf of offering expenses. This loan was repaid in July 2004 out of proceeds of the initial public offering.

Humphrey P. Polanen, The Broomfield Family Trust and Sand Hill Security LLC, have loaned Sand Hill approximately $10,000, $25,000 and $20,000, respectively, for operating expenses. Each of these loans bears interest at the rate of 10% and matures on July 26, 2006. Each of these lenders have waived any claims they have against the trust fund with respect to these loans. If the merger is not completed and Sand Hill is forced to liquidate these loans will remain as unsecured claims against Sand Hill.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the period from April 15, 2004 (inception) through March 31, 2006, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to Sand Hill.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated balance sheet combines the consolidated historical balance sheet of St. Bernard and the historical balance sheet of Sand Hill as of March 31, 2006 giving effect to the merger of St. Bernard and Sand Hill pursuant to the merger agreement, as if the merger had been consummated on March 31, 2006. The following unaudited pro forma condensed consolidated statements of operations combine the historical statements of operations of St. Bernard and Sand Hill for the period ended March 31, 2006 and the year ended December 31, 2005, giving effect to the merger, as if it had occurred on January 1, 2005.

We are providing the following information to aid you in your analysis of the financial aspects of the merger. We derived this information for the year ended December 31, 2005 from the audited financial statements of St. Bernard and Sand Hill for that year. We derived the information regarding 2006 from the unaudited financial statements of St. Bernard and Sand Hill for that period. Neither St. Bernard nor Sand Hill assumes any responsibility for the accuracy or completeness of the information provided by the other party. This information should be read together with the St. Bernard audited and unaudited financial statements and related notes included in this document under St. Bernard Consolidated Financial Statements and the Sand Hill audited financial statements included in this document under Sand Hill Consolidated Financial Statements.

The historical financial information has been adjusted to give effect to pro forma events that are directly attributable to the merger, factually supportable, and expected to have a continuing impact on the combined results.

The unaudited pro forma consolidated information is for illustrative purposes only. The financial results may have been different had the companies always been combined. Because the plans for these activities have not been finalized, we are not able to reasonably quantify the cost of such activities. You should not rely on the pro forma consolidated financial information as being indicative of the historical results that would have been achieved had the companies always been consolidated or the future results that the combined company will experience.

The following information should be read in conjunction with the pro forma condensed consolidated statements:

- Accompanying notes to the unaudited pro forma condensed consolidated financial statements.

- Separate historical consolidated financial statements of St. Bernard for the period ended March 31, 2006 and the year ended December 31, 2005 included elsewhere in this document.

- Separate historical financial statements of Sand Hill for the ended March 31, 2006 and the year ended December 31, 2005 included elsewhere in this document.

The unaudited pro forma condensed consolidated balance sheet as of March 31, 2006 and the consolidated statement of operations for the ended March 31, 2006 and the year ended December 31, 2005 have been prepared using two different levels of approval of the merger by the Sand Hill stockholders as follows:

- Assuming No Conversions: This presentation assumes that no stockholders of Sand Hill seek to convert their shares into a pro rata share of the trust account; and

- Assuming Maximum Conversions: This presentation assumes the Sand Hill stockholders owning 19.9% of the stock seek conversion. See Note 4 to the Unaudited Pro Forma Condensed Consolidated Financial Statements.

The unaudited pro forma condensed consolidated financial statements were prepared using the reverse acquisition application of the equity recapitalization method of accounting with St. Bernard treated as the acquirer in accordance with U.S. generally accepted accounting principles for accounting and financial reporting purposes. Accordingly, the assets and liabilities of Sand Hill have been presented at their historical cost with no goodwill or other intangible assets recorded and no increment in stockholders equity.

**UNAUDITED PRO FORMA CONDENSED
COMBINED STATEMENT OF OPERATIONS
OF
ST. BERNARD SOFTWARE AND SAND HILL IT SECURITY
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(IN THOUSANDS)**

	Historical St. Bernard Software	Historical Sand Hill IT Security	Pro-forma Adjustment	Combined
Net revenues	$ 5,269	$	$	$ 5,269
Cost of sales	1,352			1,352
Gross profit	3,917			3,917
Operating expenses:				
Sales and marketing	2,564			2,564
Technical operations	1,681			1,681
General and administrative	844	171		1,015
Total operating expenses	5,089	171		5,260
Loss from operations	(1,172)	(171)		(1,343)
Interest and other income, net		222		222
Interest expense	(79)			(79)
Warrant liability expense		(896)		(896)
Income tax expense				
Net (loss)/income	$ (1,251)	$ (845)	$	$ (2,096)
Pro forma net loss per share				
Basic and Diluted				$ (0.14)
Pro forma shares used to compute net				
Loss per share				
Basic and Diluted				14,892

This Combined Statement of Operations assumes no conversions by Sand Hill IT Security common stock holders. See Note 4 to the Unaudited Pro forma Condensed Combined Financial Statements.

UNAUDITED PRO FORMA CONDENSED
COMBINED BALANCE SHEET
OF
ST. BERNARD SOFTWARE AND SAND HILL IT SECURITY
MARCH 31, 2006
(IN THOUSANDS)

	Historical St. Bernard Software	Historical Sand Hill IT Security	Pro Forma Adjustments		Pro Forma Combined
Current Assets					
Cash and cash equivalents	$ 2	$ 1	$ 21,953	a.	$ 19,431
			(1,200)	b.	
			(1,325)	c.	
Treasury bill held in trust		21,953	(21,953)	a.	
Accounts receivable net of allowance for doubtful accounts	3,335				3,335
Inventories	544				544
Prepaid expenses and other current assets	148	10			158
Deferred income taxes	473				473
Total current assets	4,502	21,964	(2,525)		23,941
Fixed Assets Net	1,364				1,364
Other Assets	1,294				1,294
Goodwill	3,285				3,285
Deferred Income Taxes	586				586
	$ 11,031	$ 21,964	$ (2,525)		$ 30,470
Current Liabilities					
Line of credit	$ 1,119	$	$		$ 1,119
Note payable	178	44			222
Current portion of capitalized lease obligations	33				33
Accounts payable	2,513	300			2,813
Accrued Compensation	1,226				1,226
Accrued expenses and other current liabilities	135				135
Deferred revenue	10,379				10,379
Warrant liability		7,316			7,316
Total current liabilities	15,583	7,660			23,243

Capitalized Lease Obligations, Less Current Portion					
Deferred Revenue	5,241				5,241
Total liabilities	20,824	7,660			28,484
Common stock subject to possible conversion (821,589 shares of conversion value)		4,369	(4,369)	h.	
Stockholders (Deficit) Equity					
Preferred stock					
Common stock	2,325	43	(2,224)	d.	144
Additional paid-in capital	18,146	12,332			33,431
			2,224	d.	
			(1,200)	b.	
			(2,440)	e.	
			4,369	h.	
Accumulated deficit	(30,264)	(2,440)	2,440	e.	(31,589)
			(1,325)	c.	
Total stockholders (deficit) equity	(9,793)	9,935	1,844		1,986
	$ 11,031	$ 21,964	$ (2,525)		$ 30,470

This Combined Balance Sheet assumes no conversions by Sand Hill IT Security common stock holders. See Note 4 to the Unaudited Pro forma Condensed Combined Financial Statements.

UNAUDITED PRO FORMA CONDENSED
COMBINED STATEMENT OF OPERATIONS
OF
ST. BERNARD SOFTWARE AND SAND HILL IT SECURITY
FOR THE YEAR ENDED DECEMBER 31, 2005
(IN THOUSANDS)

	Historical St. Bernard Software	Historical Sand Hill IT Security	Pro-forma Adjustment	Combined
Net revenues	$ 23,985	$	$	$ 23,985
Cost of sales	6,590			6,590
Gross profit	17,395			17,395
Operating expenses:				
Sales and marketing	10,399			10,399
Technical operations	6,987			6,987
General and administrative	2,678	1,107		3,785
Total operating expenses	20,064	1,107		21,171
Loss from operations	(2,669)	(1,107)		(3,776)
Interest and other income, net		638		638
Interest expense	(263)			(263)
Warrant liability expense		(1,077)		(1,077)
Income tax expense	(29)			(29)
Net loss	$ (2,961)	$ (1,546)	$	$ (4,507)
Pro forma net loss per share				
Basic and Diluted				$ (0.30)
Pro forma shares used to compute net				
Loss per share				
Basic and Diluted				14,867

This Combined Statement of Operations assumes no conversions by Sand Hill IT Security common stock holders. See Note 4 to the Unaudited Pro forma Condensed Combined Financial Statements.

UNAUDITED PRO FORMA CONDENSED
COMBINED STATEMENT OF OPERATIONS
OF
ST. BERNARD SOFTWARE AND SAND HILL IT SECURITY
THE THREE MONTHS ENDED MARCH 31, 2006
(IN THOUSANDS)

	Historical St. Bernard Software	Historical Sand Hill IT Security	Pro-forma Adjustments		Combined
Net revenues	$ 5,269	$	$		$ 5,269
Cost of sales	1,352				1,352
Gross profit	3,917				3,917
Operating expenses:					
Sales and marketing	2,564				2,564
Technical operations	1,681				1,681
General and administrative	844	171			1,015
Total operating expenses	5,089	171			5,260
Loss from operations	(1,172)	(171)			(1,343)
Interest and other income, net		222	(22)	g.	200
Interest expense	(79)				(79)
Warrant liability expense		(896)			(896)
Income tax expense					
Net loss	$ (1,251)	$ (845)	$ (22)		$ (2,118)
Pro forma net loss per share					
Basic and Diluted					$ (0.15)
Pro forma shares used to compute net loss per share					
Basic and Diluted					14,074

This Combined Statement of Operations assumes 19.9% conversion by Sand Hill IT Security common stock holders. See Note 4 to the Unaudited Pro forma Condensed Combined Financial Statements.

UNAUDITED PRO FORMA CONDENSED
COMBINED BALANCE SHEET
OF
ST. BERNARD SOFTWARE AND SAND HILL IT SECURITY
MARCH 31, 2006
(IN THOUSANDS)

	Historical St. Bernard Software	Historical Sand Hill IT Security	Pro Forma Adjustments		Pro Forma Combined
Current Assets					
Cash and cash equivalents	$ 2	$ 1	$ 21,953	a.	$ 15,062
			(1,200)	b.	
			(4,369)	f.	
			(1,325)	c.	
Treasury bill held in trust		21,953	(21,953)	a.	
Accounts receivable net of allowance for doubtful accounts	3,335				3,335
Inventories	544				544
Prepaid expenses and other current assets	148	10			158
Deferred income taxes	473				473
Total current assets	4,502	21,964	(6,894)		19,572
Fixed Assets Net	1,364				1,364
Other Assets	1,294				1,294
Goodwill	3,285				3,285
Deferred Income Taxes	586				586
	$ 11,031	$ 21,964	$ (6,894)		$ 26,101
Current Liabilities					
Line of credit	$ 1,119	$	$		$ 1,119
Note payable	178	44			222
Current portion of capitalized lease obligations	33				33
Accounts payable	2,513	300			2,813
Accrued Compensation	1,226				1,226
Accrued expenses and other current liabilities	135				135
Warrant liability		7,316			7,316

Deferred revenue		10,379						10,379
Total current liabilities		15,583		7,660				23,243
Capitalized Lease Obligations, Less Current Portion								
Deferred Revenue		5,241						5,241
Total liabilities		20,824		7,660				28,484
Common stock subject to possible conversion (821,589 shares of conversion value)				4,369		(4,369)	f.	
Stockholders (Deficit) Equity								
Preferred stock								
Common stock		2,325		43		(2,235)	d.	133
Additional paid-in capital		18,146		12,332				29,073
						2,235	d.	
						(1,200)	b.	
						(2,440)	e.	
Accumulated deficit		(30,264)		(2,440)		2,440	e.	(31,589)
						(1,325)	c.	
Total stockholders (deficit) equity		(9,793)		9,935		(2,525)		(2,383)
	$	11,031	$	21,964	$	(6,894)	$	26,101

This Combined Balance Sheet assumes 19.9% conversion by Sand Hill IT Security common stock holders. See Note 4 to the Unaudited Pro forma Condensed Combined Financial Statements.

UNAUDITED PRO FORMA CONDENSED
COMBINED STATEMENT OF OPERATIONS
OF
ST. BERNARD SOFTWARE AND SAND HILL IT SECURITY
YEAR ENDED DECEMBER 31, 2005
(IN THOUSANDS)

	Historical St. Bernard Software	Historical Sand Hill IT Security	Pro-forma Adjustment	Combined
Net revenues	$ 23,985	$	$	$ 23,985
Cost of sales	6,590			6,590
Gross profit	17,395			17,395
Operating expenses:				
Sales and marketing	10,399			10,399
Technical operations	6,987			6,987
General and administrative	2,678	1,107		3,785
Total operating expenses	20,064	1,107		21,171
Loss from operations	(2,669)	(1,107)		(3,776)
Interest and other income, net		638	(87)	551
Interest expense	(263)			(263)
Warrant liability expense		(1,077)		(1,077)
Income tax expense	(29)			(29)
Net loss	$ (2,961)	$ (1,546)	$ (87)	$ (4,594)
Pro forma net loss per share				
Basic and Diluted				$ (0.33)
Pro forma shares used to compute net				
Loss per share				
Basic and Diluted				14,049

This Combined Statement of Operations assumes 19.9% conversion by Sand Hill IT Security common stock holders. See Note 4 to the Unaudited Pro forma Condensed Combined Financial Statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Basis of Presentation

On October 27, 2005, Sand Hill and St. Bernard entered into a definitive agreement under which Sand Hill Merger Corp. will be merged into St. Bernard in a transaction to be accounted for as a reverse acquisition of Sand Hill. As a result, the historical financial statements of St. Bernard constitute the historical financial statements of the merged companies. The transaction is considered to be a capital transaction and as such is the equivalent to the issuance of common stock by St. Bernard for the net monetary assets of Sand Hill, accompanied by a re-capitalization. For accounting purposes, St. Bernard is treated as the continuing reporting entity. The costs of the transaction incurred by St. Bernard will be charged directly to equity, those incurred by Sand Hill will be expensed.

The unaudited pro forma condensed combined financial statements assume the issuance of approximately 9.179 million shares of Sand Hill common stock based on an exchange ratio of 0.421419 shares of Sand Hill common stock for each outstanding share of St. Bernard common stock as of March 31, 2006. The actual number of shares of Sand Hill common stock to be issued will be determined based on the actual number of shares of St. Bernard common stock outstanding at the completion of the merger.

The following information should be read in conjunction with the pro forma condensed combined financial statements:

- Accompanying notes to the unaudited pro forma combined condensed financial statements.

- Separate historical financial statements of St. Bernard for the period ended March 31, 2006 included elsewhere in this document.

- Separate historical financial statements of Sand Hill for the year ended March 31, 2006 included elsewhere in this document.

The unaudited pro forma condensed combined balance sheet has been prepared using two different levels of approval of the merger by Sand Hill stockholders, as follows:

- Assuming Maximum Approval: This presentation assumes that 100% of Sand Hill stockholders approve the merger; and

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Assuming Minimum Approval: This presentation assumes that only 80.1% of Sand Hill stockholders approve the merger.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the merger been completed at the dates indicated. In addition, the unaudited pro forma condensed combined financial statements do not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma condensed combined financial statements were prepared using the reverse acquisition application of the equity recapitalization method of accounting with St. Bernard treated as the acquirer in accordance with US generally accepted accounting principles for accounting and financial reporting purposes. Accordingly, the assets and liabilities of Sand Hill have been presented at their historical cost (which is considered to be the equivalent of estimated fair value), with no goodwill or other intangible assets recorded and no increment in combined stockholders equity.

2. Pro Forma Adjustments

There were no inter-company balances and transactions between Sand Hill and St. Bernard as of the dates and for the periods of these pro forma condensed combined financial statements.

The pro forma combined provision for income taxes does not necessarily reflect the amounts that would have resulted had Sand Hill and St. Bernard filed consolidated income tax returns during the periods presented The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

a) Release of funds held in trust by Sand Hill IT Security to operating cash account.

b) Estimated transaction costs in the amount of $1,200,000 for St. Bernard Software.

c) Estimated transaction costs in the amount of $1,325,000 were included in the pro-forma adjustments for Sand Hill IT Security. It is assumed the transaction expenses for Sand Hill IT Security will be paid in conjunction with the closing of the merger.

d) Common stock adjustment to reflect the decrease in par value from $0.10 per share to $0.01 per share.

e) The elimination of the Sand Hill IT Security accumulated deficit.

f) To reflect the payment of cash to the maximum amount of dissenting Sand Hill IT Security stockholders as consideration for their shares of common stock.

g) Record an estimate of reduced interest income assuming minimum approval by the Sand Hill IT Security stockholders.

h) To reclassify common stocks subject to possible conversion to stockholders equity.

3. Pro Forma Net Loss Per Share

The pro forma basic and diluted net loss per share are based on the number of shares of St. Bernard common stock, options and warrants adjusted for the re-capitalization and conversion ratio and the issuance of the common stock to Sand Hill.

4. Pro Forma Conversion Assumptions

The adoption of the merger agreement will require the affirmative vote of over 80% of the outstanding shares of Sand Hill s common stock on the record date. The unaudited pro forma condensed combined financial statements assume that 100.0% of the outstanding shares of Sand Hill s common stock on the record date vote affirmatively, and there are no conversions. A second presentation of the unaudited pro forma condensed combined financial statements assume that 80.1% of the outstanding shares of Sand Hill s common stock on the record date vote affirmatively, and there are 19.9% conversions.

DIRECTORS AND MANAGEMENT OF THE COMBINED COMPANY FOLLOWING THE MERGER

At the effective time of the merger, the board of directors and executive officers of the combined company will be as follows:

Name	Age	Position
Humphrey P. Polanen	55	Chairman of the Board
John E. Jones	60	President and Chief Executive Officer
Gary Stowell, Ph.D.	57	Vice President, Business Development/Product Management
Bob Crowe	42	Vice President, Engineering
Steve Yin	39	Vice President, Sales and Marketing
Alfred Riedler	56	Chief Financial Officer
Jeannie Moravits	39	Vice President, Human Resources
Scott R. Broomfield	49	Director
Bart A.M. van Hedel	61	Director
Mel S. Lavitt	68	Director
Louis E. Ryan	41	Director

HUMPHREY P. POLANEN has been the chairman of the board and chief executive officer of Sand Hill IT Security Acquisition Corp. since April 2004. From January 2004 until March 2004 Mr. Polanen worked on preparations for Sand Hill s initial public offering. From January 2000 until December 2003, Mr. Polanen served as Managing Director of Internet Venture Partners, a strategic consulting and venture capital management firm for technology companies. From February 1998 through February 1999, he was President and CEO of Trustworks Systems, a network security software company. Between 1995 and 1998 he was General Manager of two divisions of Sun Microsystems where he led the Internet Commerce Group and the Network Security Division. From 1981 to 1995, he was with Tandem Computers (acquired by Compaq/Hewlett-Packard), where he held several executive positions and was director of worldwide business development and a director of several subsidiaries. Mr. Polanen has been a member of the board of directors of Heritage Bank of Commerce since 1994 and has been chair of the board s audit committee for ten years. Mr. Polanen is also a director of Shanghai Century Acquisition Corp. Mr. Polanen is a graduate of Hamilton College and the Harvard Law School.

JOHN E. JONES has been the Chief Executive Officer and President of St. Bernard Software, Inc. since 1995. Mr. Jones is responsible for the strategic and operational performance of the company. His career spans more than 25 years in engineering, product management, business management and as an executive officer with a number of high technology organizations. His previous positions include CEO/President of Emerald Systems from August 1992 to April 1995, President of Irwin Magnetics from August 1991 to March 1992, President of ComputerX (a Motorola Subsidiary) from September 1990 to August 1991, Executive Vice President of Gould Inc. from August 1985 to July 1990 and multiple management assignments within IBM from January 1969 to August 1985. Mr. Jones holds a Bachelor of Science degree in Mechanical Engineering from Indiana Institute of Technology.

GARY STOWELL, Ph.D., has been the Vice President, Business Development/Product Management of St. Bernard Software, Inc. since 2000. Dr. Stowell is responsible for St. Bernard Software s business development programs and product management. Prior to joining St. Bernard Software, he was a Business Unit Director at Accel Technology from 1996 to 2000. He received his academic degrees from Purdue University, where he was subsequently appointed to the engineering faculty.

BOB CROWE has been the Vice President, Internet Appliance Technology of St. Bernard Software, Inc. since 2000 Mr. Crowe is responsible for the development and engineering of Internet Appliance Technology, and leads the related research, product development and customer support teams. Mr. Crowe is an expert in operating system development, protocol design and numerous programming languages, and has led software development teams in database, simulation, imaging, speech recognition, and advanced TCP/IP network design. His expertise in object oriented and structured design methodologies have resulted in many award-winning products. Prior to joining St. Bernard, he was VP Engineering at Internet Products from 1992 to 2000.

STEVE YIN joined St. Bernard in November of 2004 as Vice President of Marketing and has served in his current position since April of 2005. From August 2003 to September 2004 Mr. Yin was a principal/co-founder of Factor Diagnostics, a medical disagnostics company. From June 1997 to June 2003, he held several management positions at Mitchell International, including Director of Marketing and Product Management from June 1997 to June 1998, Sr. Director of Marketing and Product Management from June 1998 to December 1999, Vice President of e-

Business from December 1999 to March 2001, and Sr. Vice President of Marketing and Product Management from March 2001 to June 2003. Mr. Yin graduated cum laude from the University of Arizona s Eller School of Business and later received a fellowship to the University of Southern California where he received a Master of Business Administration.

ALFRED RIEDLER has been the Chief Financial Officer of St. Bernard Software, Inc. since 2000. A certified public accountant, Mr. Riedler has more than 20 years of management experience in the areas of public accounting, finance and operations within technical companies. He is responsible for finance and administrative operations for St. Bernard Software. Most recently, Mr. Riedler was the chief financial officer of Bluebird Systems, a software development company from 1993 to 2000. He was Industrial Group Controller for Ramada Inns from 1977 to 1980 and Vice President of Finance of STARNET Corporation (a subsidiary of Ford Motor Company) from 1980 to 1986. He holds a Bachelor of Science in Business Administration from the University of Nebraska.

JEANNIE MORAVITS joined St. Bernard Software in February 2006 as Vice President, Human Resources. Prior to joining St. Bernard Software, Ms. Moravits was the Director of Human Resources for eHelp Corporation from September 1997 until December 2003. In December 2003 eHelp Corporation was acquired by Macromedia and Ms. Moravits remained as a Director of Human Resources until January 2005. From January of 2005 until February of 2006, Ms. Moravits was a Human Resource Consultant and functioned as a Vice President of Human Resources for MadCap Software and SeaSpace Corporation. She holds a Bachelor s Degree from San Diego State University and a Master s of Science Degree in Human Resources from Chapman University.

SCOTT R. BROOMFIELD has been a member of the board of directors of Sand Hill IT Security Acquisition Corp. and EVP of Corporate Development since April 2004 and has been working full time on Sand Hill since August 2005. Previously, from April of 2004 to August of 2005, Mr. Broomfield was the CEO of Xtegra Corporation, a private enterprise information integration (EII) company that he sold to SAP, AG in August 2005. From September 2001 to April of 2004, Mr. Broomfield was the CEO of Visuale, a private business process software (BPMS) company that he sold to Onyx Software Corporation in April of 2004. Prior to joining Visuale and from 1997 until 2001, Mr. Broomfield was the CEO of Centura Software Corporation (formerly Gupta Technologies, a NASDAQ traded company), a $50 million software business specializing in secure, embedded and mobile databases and application development tools. During his tenure as CEO of Centura, Mr. Broomfield co mpleted the acquisition of Raima Corporation and in three years built its market capitalization from $6 million to $700 million by early 2000. Prior to Centura, he was with Hickey & Hill, Inc., a turnaround consultancy from 1989 to 1997, and was a managing director there from 1994 to 1997. At Hickey & Hill he was in charge of the high technology restructuring practice. Mr. Broomfield structured the acquisition of Polyscan and the equity recapitalization for ETEC Corporation. He was also instrumental in the following company divestitures: Dazix, Domain Technologies, Priam, Everex and Zitel, where he acquired two businesses to reposition Zitel in the market. Prior to Hickey & Hill, Mr. Broomfield was the CFO of Trilogy Technology Corporation from 1986 to 1988, which was sold to Digital Equipment Corporation in 1988. Mr. Broomfield holds an MBA from Santa Clara University and is a member of Business Executives for National Security (BENS), where he was the co-chair of BENS cyber security task force and Y2K initiatives.

BART A.M. VAN HEDEL has been a Director of St. Bernard since 1996. He has been a Partner of BeeBird corporate finance c. v. since 1992. Mr. van Hedel has been a non-executive member of the board of Ai-Investments N.V. from 1997 until December 2005, when he was named an executive board member. He was an executive board member of venture capital firm Paribas Participations N.V., from 1990 to 1992 and was an executive board member for Kempen & Co., Investment Bank in Amsterdam from 1981 to 1990. Mr. van Hedel graduated in 1973 from Eramus University of Rotterdam with a Master in economics and tax.

MEL S. LAVITT will become a member of the board of directors of the combined company upon consummation of the merger. Since 1992, Mr. Lavitt has served as the managing director of C.E. Unterberg, Towbin and is currently the vice chairman of C.E. Unterberg, Towbin. Unterberg, Towbin provides investment banking, research and investment management services to emerging growth companies and investors. Mr. Lavitt serves on the boards of C.E. Unterberg, Towbin, Jabil Circuit, Inc., Migo Software and St. Bernard Software, Inc. as well as the Governor s Office of Economic Development in the state of Utah. Mr. Lavitt is a graduate of Brown University.

LOUIS E. RYAN will become a member of the board of directors upon consummation of the merger. Mr. Ryan is an active venture investor primarily focused on early stage companies. Since 2003, Mr. Ryan has been a venture partner with Sand Hill Capital and has served as the executive chairman of HydroPoint Data Systems, Inc. and

SprayCool, a provider of high performance electronic system cooling and packaging solutions for military and commercial applications. From 2003 to May 2006, he served as the executive chairman of Network Chemistry. From January 1997 to June 2003, Mr. Ryan was president and chief executive officer and a director of Entercept Security Technologies Inc. (formerly Clicknet Software, Entercept was sold to Network Associates Technology, Inc. in 2003), a network management software company. From July 1996 to January 1997, Mr. Ryan was the President of CKS New Media Inc. Mr. Ryan was also an early investor and board member of Foundstone, a vulnerability management supplier acquired by McAfee in August 2004. Mr. Ryan also serves on the board of Certicom Corporation, and is an advisor to Sand Hill Capital, Sand Hill IT Security Acquisition Corp., and DiamondHead Ventures.

Independence of Directors

In anticipation of being listed on Nasdaq, Sand Hill will attempt to adhere to the rules of Nasdaq in determining whether a director is independent. The board of directors of Sand Hill also will consult with the company s counsel to ensure that the board s determinations are consistent with those rules and all relevant securities and other laws and regulations regarding the independence of directors. The Nasdaq listing standards define an independent director generally as a person, other than an officer of the company, who does not have a relationship with the company that would interfere with the director s exercise of independent judgment. In order to be listed on Nasdaq, the board of directors of the combined company will have to affirmatively determine that a majority of its directors are independent.

Sand Hill currently does not have an independent board of directors and is not required to have one.

Board of Directors Committees

Audit Committee and Audit Committee Financial Expert

Sand Hill s board of directors presently does not have an audit committee. Upon adoption and consummation of the merger proposal, the board of directors of Sand Hill will create an audit committee and adopt a charter that will govern its responsibilities and actions. In addition, Sand Hill will designate an audit committee financial expert to serve on its audit committee. As its plan of operations involves identifying a target business and completing a business combination with such business, Sand Hill presently does not have material operations and does not experience complex accounting issues. Accordingly, Sand Hill s board of directors has determined that it is not necessary for it to have an audit committee or an audit committee financial expert at this time. Upon adoption and consummation of the merger proposal, the board of directors will appoint an audit committee financial expert.

Compensation Committee Information

Upon consummation of the merger, the board of directors of Sand Hill will establish a compensation committee. The purpose of the compensation committee will be to review and approve compensation paid to our officers and to administer the company s equity compensation plans, including authority to make and modify awards under such plans. Initially, the only plans will be the St. Bernard 1992 Stock Option Plan, the St. Bernard 2000 Stock Option Plan and the St. Bernard 2005 Stock Option Plan.

Nominating Committee Information

Upon consummation of the merger, Sand Hill will form a nominating committee in connection with the consummation of the merger. The members will each be independent directors under Nasdaq listing standards. The nominating committee will be responsible for overseeing the selection of persons to be nominated to serve on Sand Hill s board of directors. The nominating committee will consider persons identified by its members, management, stockholders, investment bankers and others.

Code of Ethics

In August 2004, Sand Hill s board of directors adopted a code of ethics that applies to its directors, officers and employees. A copy of our Code of Ethics was filed as exhibit 14 to Sand Hill s Quarterly Report on Form 10-QSB for the period ended June 30, 2004.

Director and Officer Compensation

Sand Hill s directors and officers currently do not receive any cash or non-cash compensation for their service as members of the board of directors and officers. Commencing July 26, 2004, and ending upon the acquisition of a target business, Sand Hill has and will continue to pay Sand Hill Security, LLC, an affiliate of the directors and executive officers of Sand Hill, a fee of $7,500 per month for providing Sand Hill with office space and certain office and secretarial services. Other than this $7,500 per month fee, no compensation of any kind, including finders and consulting fees, have been or will be paid to any of Sand Hill s officers. However, Sand Hill executive officers are reimbursed for any out-of-pocket expenses incurred in connection with activities on Sand Hill s behalf such as identifying potential target businesses and performing due diligence on suitable business combination candidates. There are no employment agreements with any officer of Sand Hill or St. Bernard, nor are there any current arrangements regarding changes in compensation for any officers of Sand Hill or St. Bernard. Subsequent to the merger the board of directors of the combined company will determine the compensation of the executive officers.

Subsequent to the consummation of the merger, it is anticipated that the directors of the combined company will receive an annual fee of $20,000, to be paid quarterly, and an initial stock option grant of 50,000 shares. It is anticipated that such options will vest ratably over two years, beginning the second year after grant and will have a term of ten years from the date of grant. Subsequent grants of options will be determined by the board of directors of the combined company. The chairman of the audit committee will receive an additional $7,500 annual fee and all other committee chairmen will receive an additional $5,000 annual fee.

St. Bernard Executive Officers

Executive Compensation

The following table sets forth summary information concerning the compensation paid by St. Bernard for the last three fiscal years for persons who served in the capacity of chief executive officer, were the four highest compensated executive officers as of the end of the last fiscal year or would have been included in the table if they had been serving as an executive officer during 2005.

Name	**Title**	**Year**	**Salary**	**Bonus**	**Other Annual Compensation (1)**	**SARS/ Options Granted**	**All Other Compensation**
John E. Jones	President and Chief Executive Officer	2005	$ 245,500	$ 30,000	$ 61,200	0	$ 0
		2004	$ 236,500	$ 150,000	$ 61,200	0	$ 0

		2003	$	232,653	$	30,000	$	61,200	150,000	$	0
Alfred F. Riedler	Chief Financial Officer	2005	$	174,962	$	27,855	$	0	30,000	$	0
		2004	$	151,566	$	19,926	$	0	35,000	$	0
		2003	$	143,789	$	24,186	$	0	25,000	$	0
Gary Stowell, Ph.D.	VP Business Development/ Product Management	2005	$	164,037	$	21,761	$	0	30,000	$	0
		2004	$	157,752	$	20,738	$	0	20,000	$	0
		2003	$	149,494	$	25,636	$	0	25,000	$	0

Name	Title	Year	Salary	Bonus	Other Annual Compensation (1)	SARS/ Options Granted	All Other Compensation
Bob Crowe	VP Internet Appliance Technology	2005	$ 161,580	$ 23,423	$ 0	0	$ 0
		2004	$ 151,879	$ 19,970	$ 0	0	$ 0
		2003	$ 143,314	$ 24,620	$ 0	0	$ 0
Gary Pritchett (2)	VP Technical Operations	2005	$ 226,288	$ 31,811	$ 0	0	$ 0
		2004	$ 233,438	$ 28,063	$ 0	20,000	$ 0
		2003	$ 199,375	$ 34,183	$ 0	0	$ 0
Steve Yin	VP Sales and Marketing	2005	$ 175,069		$ 0	100,000	$
		2004	$ 30,846		$ 0	0	$ 0

(1)

Consists of automobile allowance of $750 per month, housing and utilities allowance of $3,200 per month and travel reimbursement to Chicago of $1,150 per month.

(2)

As of November 4, 2005 Mr. Pritchett is no longer an executive officer of St. Bernard. Mr. Pritchett is within the definition of a named executive officer in Item 402(a)(3)(iii) of Regulation S-K.

The following table provides information concerning unexercised options held as of March 31, 2006, by each of our executive officers:

	Number of Securities Underlying Unexercised Options at March 31, 2006		Value of Unexercised In-the-Money Options at March 31, 2006 (1)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable

John E. Jones	170,000	0	$	340,467	$	0
Alfred F. Riedler	67,504	22,663	$	132,541	$	49,815
Gary Stowell, Ph.D.	54,495	18,283	$	105,967	$	41,172
Bob Crowe	211,346	0	$	366,373	$	0
Steve Yin	58,334	41,666	$	110,456	$	91,467
Gary Pritchett	28,333	5,556	$	56,302	$	12,232

(1)

Based upon the calculated stock price of $2.23 derived using the value of Sand Hill stock at March 31, 2006, and applying the conversion factor of .421419, minus the exercise price, multiplied by the number of shares issued upon the exercise of, or subject to the option, without taking into account any taxes that may be payable in connection with the transaction.

Option Grants During Year 2005

The following options to purchase shares of St. Bernard common stock were granted to executive officers during the year ended December 31, 2005:

Named Executive Officer	Number of Shares Subject to Options	% of Total Options Granted During Period	Date of Grant	Exercise Price	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation For Option Term	
						5% (1)	10% (1)
John E. Jones	0	0 %				$ 0	$ 0
Alfred F. Riedler	30,000	9.6 %	03/02	$ 0.3400	2/28/15	$ 6,414.73	$ 16,256.17
Gary Stowell, Ph.D.	30,000	9.6 %	03/02	$ 0.3400	2/28/15	$ 6,414.73	$ 16,256.17
Bob Crowe	0	0 %				$ 0.00	$ 0.00
Steve Yin	100,000	31.9 %	01/01	$ 0.3400	2/28/15	$ 21,382.42	$ 54,187.24
Gary Pritchett	0	0 %				$ 0	$ 0

(1)

In accordance with SEC rules, these columns show gains that could accrue for the respective options, assuming that the market price of St. Bernard common stock appreciates from the date of grant over the maximum life of the option at an annualized compounded rate of 5% and 10%, respectively. If the stock price does not increase above the exercise price at the time of exercise, realized value to the named executives from these options will be zero. Rules of the Securities and Exchange Commission permit St. Bernard to use 5% and 10% in this table. There can be no assurance that the price of St. Bernard stock will increase and this table does not constitute any prediction of the future value of its stock by St. Bernard.

The directors of St. Bernard are periodically issued options for their service on the board, and they are reimbursed for their expenses incurred in connection with attending St. Bernard meetings. The directors receive no other compensation for serving on the St. Bernard board.

Sand Hill Executive Officers

No executive officer of Sand Hill has received any cash or non-cash compensation for services rendered to Sand Hill.

Commencing July 31, 2004 and ending upon the acquisition of a target business, Sand Hill has paid and will continue to pay Sand Hill Security LLC, an affiliate of the directors and officers of Sand Hill, a fee of $7,500 per month for providing it with office space and certain office and secretarial services. Other than this $7,500 per-month fee, no compensation of any kind, including finders and consulting fees, has been or will be paid to any of the Sand Hill stockholders existing prior to its initial public offering, or any of their respective affiliates, for services rendered prior to or in connection with a business combination. However, Sand Hill stockholders existing prior to its initial public offering have been and will continue to be reimbursed for any out-of-pocket expenses incurred in connection with activities on our behalf such as identifying potential target businesses and performing due diligence on suitable business combinations. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of the expenses by anyone other than the Sand Hill board of directors, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged.

In January 2005, Sand Hill granted options to purchase an aggregate of 60,000 shares of common stock at an exercise price of $4.75 per share to Roberto Medrano, John Garvey, Lou Ryan, and Raj Dhingra who have acted as advisors to Sand Hill. These options vest 50% one year from the date of grant and 50% two years from the date of grant and are exercisable for a period of five years from the date on which the options were granted. Other than these options and except for an option granted in connection with Sand Hill s initial public offering to I-Bankers Securities Incorporated and Newbridge Securities Corporation or their affiliates to purchase 270,000 units (consisting of one share of common stock and two warrants), Sand Hill has not granted any pension plans, warrants, stock options, stock appreciation rights or any awards under long-term incentive plans. In addition, Sand Hill has agreed to issue options to purchase 50,000 shares of common stock to Liolios Group, Inc., upon the successful completion of the merger. The options will have an exercise price equal to $5.24 per share, will be vested upon issuance and are exercisable for a period of three years from the date on which the options were granted. Liolios Group, Inc. is providing Sand Hill with investor relations services through the pendency of the merger.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Sand Hill

Prior to the date of this document and Sand Hill s initial public offering, Sand Hill issued a total of 1,000,000 shares of common stock, which will be held in escrow until July 2007, to the individuals set forth below at a purchase price of $0.025 per share as follows:

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Approximate Percentage of Outstanding Common Stock
Humphrey Polanen	459,441	