SAND HILL IT SECURITY ACQUISITION CORP
Form 10KSB/A
December 16, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-KSB/A

x Annual report under Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004

o Transition report under Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the transition period from _____________to _____________

Commission File Number: 000-50813

SAND HILL IT SECURITY ACQUISITION CORP.
(Name of Small Business Issuer in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**20-0996152** (I.R.S. Employer Identification No.)
3000 Sand Hill Road **Building 1, Suite 240** **Menlo Park, California** (Address of Principal Executive Offices)	**94025** (Zip code)

(650) 926-7022
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:
None
(Title of class)

Securities registered under Section 12(g) of the Exchange Act:
Units consisting of one share of Common Stock,
par value $.01 per share, and two Warrants
Common Stock, $.01 par value per share
Warrants to purchase shares of Common Stock
(Title of class)

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

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

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

State issuer's revenues for its most recent fiscal year: None

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of March 24, 2005, was approximately $20,632,200. For purposes of this computation, all executive officers, directors and 10% stockholders were deemed affiliates. Such a determination should not be construed as an admission that such executive officers, directors or 10% stockholders are affiliates.

As of March 24, 2005, 5,110,000 shares of common stock, par value $.01 per share, were issued and outstanding.

Transitional Small Business Disclosure Format: Yes o No x

Sand Hill IT Security Acquisition Corp., a Delaware corporation (the "Company"), hereby amends, as set forth herein, the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2005 (the "Form 10-KSB"). The item numbers and responses thereto are in accordance with the requirements of Form 10-KSB. All capitalized terms used and not otherwise defined herein shall have the meaning specified in the Form 10-KSB.

PART II

ITEM 7. FINANCIAL STATEMENTS
Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Sand Hill IT Security Acquisition Corp.
Houston, Texas

We have audited the accompanying balance sheet of Sand Hill IT Security Acquisition Corp. (a corporation in the development stage) as of December 31, 2004, and the related statement of operations, stockholders' equity and cash flows for the period from April 15, 2004 (inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sand Hill IT Security Acquisition Corp. at December 31, 2004, and the results of their operations and their cash flows for the period from April 15, 2004 (inception) to December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 9 to the financial statements, the Company has restated the accompanying balance sheet to reflect the possible conversion of 821,589 shares of common stock.

/s/ HEIN & ASSOCIATES LLP
March 15, 2005
Houston, Texas

SAND HILL IT SECURITY ACQUISITION CORP.
(A Corporation in the Development Stage)
BALANCE SHEET

		December 31, 2004 (Restated)
ASSETS		
Current assets:		
Cash	$	783,133
Treasury bill held in trust		21,100,510
Prepaid expenses		132,131
Total current assets		22,015,774
Total Assets	$	22,015,774
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$	15,772
Total Liabilities		15,772
Common stock subject to possible conversion (821,589 shares at conversion value)		4,217,992
Stockholders' Equity:		
Preferred stock, $0.01 par value Authorized 5,000,000 shares; none issued		—
Common stock, $0.01 par value Authorized 50,000,000 shares Issued and outstanding, 5,110,000 shares		51,100
Additional paid-in capital		17,780,817
Deficit accumulated during the development stage		(49,907)
Total Stockholders' Equity		17,782,010
Total Liabilities and Stockholders' Equity	$	22,015,774

See accompanying notes to financial statements.

SAND HILL IT SECURITY ACQUISITION CORP.
(A Corporation in the Development Stage)
STATEMENT OF OPERATIONS

		Period from April 15, 2004 (inception) to December 31, 2004
Formation and operating costs	$	(191,946)
Operating loss	$	(191,946)
Interest income		142,039
Net loss	$	(49,907)
Weighted Average Shares Outstanding		3,468,784
Net Loss Per Share (Basic and Diluted)	$	(0.01)

See accompanying notes to financial statements.

SAND HILL IT SECURITY ACQUISITION CORP.
(A Corporation in the Development Stage)
STATEMENT OF CASH FLOWS

		Period from April 15, 2004 (inception) to December 31, 2004
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$	(49,907)
Accretion of treasury bill		(75,510)
Increase in prepaid expenses		(132,131)
Increase in accounts payable and accrued expenses		15,772
Compensation expense related to issuance of Advisory Board options		2,447
Net cash provided by (used in) operating activities		(239,329)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of treasury bill in trust account		(21,025,000)
Net cash used in investing activities		(21,025,000)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock to initial stockholders		25,000
Gross proceeds from public offering		24,660,000
Costs of public offering		(2,637,538)
Proceeds from stockholder loan		40,000
Repayment of stockholder loan		(40,000)
Net cash provided by financing activities		22,047,462
NET INCREASE IN CASH		783,133
CASH AT BEGINNING OF PERIOD		—
CASH AT END OF PERIOD	$	783,133

See accompanying notes to financial statements.

SAND HILL IT SECURITY ACQUISITION CORP.
(A Corporation in the Development Stage)
STATEMENT OF STOCKHOLDERS' EQUITY
Period from April 15, 2004 (inception) to December 31, 2004
(Restated)

	Shares	Amount	Additional Paid-In Capital	Deficit Accumulated During Development Stage	Total
Balance, April 15, 2004 (inception)	$ —	$ —	$ —	$ —	$ —
Sale of 1,000,000 shares of common stock to initial stockholders at $0.025 per share	1,000,000	$ 10,000	$ 15,000		$ 25,000
Sale of 3,600,000 shares of common stock to public stockholders at $6.00 per share, net of offering expenses of $2,637,5538	3,600,000	$ 36,000	$ 18,926,462		$ 18,962,462
Sale pf 510,000 shares of common stock to underwriters at $6.00 per share	510,00	$ 5,100	$ 3,054,900		$ 3,060,00
Amortization of Advisory Board Compensation			$ 2,447		$ 2,447
Reduction of capital related to the common stock subject to possible conversion (821,589 shares at conversion value)	$ —	$ —	$ (4,202,898)	$ —	$ (4,202,898)
Increase in value of shares of common stock subject to possible conversion (821,589 shares at conversion value)	$ —	$ —	$ (15,094)	$ —	$ (15,094)
Net loss for the period April 15, 2004 (inception) to December 31, 2004				$ (49,907)	$ (49,907)
Balance, December 31, 2004	$ 5,100,000	$ 51,100	$ 17,780,817	$ (49,907)	$ 17,782,010

See accompanying notes to financial statements.

SAND HILL IT SECURITY ACQUISITION CORP.
(A Corporation in the Development Stage)
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION, BUSINESS OPERATIONS

Sand Hill IT Security Acquisition Corp. was incorporated in Delaware on April 15, 2004 as a blank check company whose objective is to merge with or acquire an operating business in the IT Security industry. The Company's initial stockholders' purchased 1,000,000 shares of common stock, $0.01 par value, for $25,000 on April 20, 2004.

The registration statement for the Company's initial public offering (the "Offering") was declared effective on July 26, 2004. The Company consummated the Offering on July 30, 2004 and received proceeds, net of the underwriters' discount, of $22,022,462. Subsequently, the underwriters exercised their over allotment option and the Company received an additional $2,861,100 in proceeds, net of the underwriters' discount. The Company's management has broad discretion with respect to the specific application of the net proceeds of the Offering, although substantially all of the net proceeds of the Offering are intended to be generally applied toward consummating a merger with or acquisition of an operating business in the IT security industry ("Business Combination"). There is no assurance that the Company will be able to successfully affect a Business Combination. An amount equal to $21,025,000 was deposited in an interest bearing trust account ("Trust Fund") until the earlier of (i) the consummation of its first Business Combination or (ii) liquidation of the Company. Under the agreement governing the Trust Fund, funds may only be invested in United States government securities with a maturity of 180 days or less. The trust fund balance has been invested in a United States Treasury Bill, which is accounted for as a trading security and is recorded at its market value of approximately $21,100,510 at December 31, 2004. The excess of market value over cost is included in interest income in the accompanying Statement of Operations. The remaining proceeds of the Offering may be used to pay for business, legal and accounting due diligence on prospective mergers or acquisitions and continuing general and administrative expenses.

The Company, after signing a definitive agreement for the merger with or acquisition of a target business, will submit such transaction for stockholder approval. In the event that stockholders owning 20% or more of the outstanding stock excluding, for this purpose, those persons who were stockholders immediately prior to the Offering, vote against the Business Combination, the Business Combination will not be consummated. All of the Company's stockholders prior to the Offering, including all of the officers and directors of the Company ("Initial Stockholders"), have agreed to vote their founding shares of common stock in accordance with the vote of the majority in interest of all other stockholders of the Company ("Public Stockholders") with respect to a Business Combination. After consummation of the Company's first Business Combination, these voting safeguards no longer apply.

With respect to the first Business Combination which is approved and consummated, any Public Stockholder who voted against the Business Combination may demand that the Company redeem his or her shares. The per share redemption price will equal the amount in the Trust Fund as of the record date for determination of stockholders entitled to vote on the Business Combination divided by the number of shares of common stock held by Public Stockholders at the consummation of the Offering. Accordingly, Public Stockholders holding 19.99% of the aggregate number of shares owned by all Public Stockholders may seek redemption of their shares in the event of a Business Combination. Such Public Stockholders are entitled to receive their per share interest in the Trust Fund computed without regard to the shares held by Initial Stockholders.

The Company's Certificate of Incorporation provides for the mandatory liquidation of the Company, without stockholder approval, in the event that the Company does not consummate a Business Combination within 18 months from the date of the consummation of the Offering (January 30, 2006), or 24 months from the consummation of the Offering (July 30, 2006) if certain extension criteria have been satisfied. In the event of liquidation, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Fund assets) will be less than the initial public offering price per share in the Offering (assuming no value is attributed to the Warrants contained in the Units to be offered in the Offering as described in Note 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements include the accounts of the Company. The Company commenced operations effective July 31, 2004. All activity through July 30, 2004, is related to the Company's formation and preparation of the Offering. The Company has selected December 31 as its fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual amounts could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents. The Company's policy is to limit the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy, or in short-term money market funds which are exposed to minimal interest rate and credit risk.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. At December 31, 2004, a deferred income tax asset relating to the Company's net operating loss is offset by a full valuation allowance based upon a lack of earnings history for the Company.

Earnings per Common Share

Basic earnings per share ("EPS") is computed by dividing net income applicable to common stock by the weighted average common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially dilutive securities such as stock warrants.

Recently Issued Accounting Standards

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" (Interpretation No. 45"). Interpretation No. 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of Interpretation No. 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. Interpretation No. 45 did not have an effect on the financial statements.

In January 2003, the Financial Accounting Standard Board ("FASB") issued Interpretation No. 46 (FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and addresses consolidation by business enterprises of variable interest entities (more commonly known as Special Purpose Entities or SPE's). In December 2003, FASB issued FIN No. 46R which replaced FIN 46 and clarified ARB 51. This interpretation provides guidance on how to identify a variable interest entity and determine when the assets, liabilities, non-controlling interests and results of operations of a variable interest entity should be consolidated by the primary beneficiary. The primary beneficiary is the enterprise that will absorb a majority of the variable interest entity's expected losses or receive a majority of the expected residual returns as a result of holding variable interests. This FIN requires the consolidation of results of variable interest entities in which the Company is the primary beneficiary of the variable interest entity. The Company has not owned an interest in a variable interest entity that met the consolidation requirements and as such the adoption of FIN No. 46R did not have any effect on the financial condition, results of operations, or liquidity of the Company. Interests in entities acquired or created after December 31, 2003 will be evaluated based on FIN No. 46R criteria and consolidated, if required.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", an amendment of FASB Statement No. 123 ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends Accounting Principles Board ("APB") Opinion No. 28, "Interim No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002. SFAS 148 did not have an effect on the financial statements.

Stock-Based Compensation. On December 16, 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosure related to the income tax and cash flow effects resulting from share-based payment arrangements. For public entities that file as small business filers, SFAS No. 123(R) is effective beginning as of the first interim or annual reporting period that begins after December 15, 2005. There was no impact on the Company's basic financial statements resulting from the issuance of SFAS No. 123(R).

3. PUBLIC OFFERING

On July 30, 2004, the Company sold 3,600,000 units ("Units") in a public offering, which included granting the underwriters' an over-allotment option to purchase up to an additional 540,000 Units. Subsequently, the underwriters exercised their over-allotment option and purchased an additional 510,000 shares. Each Unit consists of one share of the Company's common stock, $0.01 par value, and two Redeemable common stock Purchase Warrants ("Warrants"). Each Warrant will entitle the holder to purchase from the Company one share of common stock at an exercise price of $5.00 commencing on the later of the completion of a Business Combination or July 25, 2005 and expiring July 25, 2009. The Warrants will be redeemable by the Company at a price of $0.01 per Warrant upon 30 days' notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least $8.50 per share for any 20 trading days within a 30 trading day period ending on the third day prior to the date on which notice of the redemption is given. In connection with the Offering, the Company issued an option for $100 to the underwriters' to purchase 270,000 Units at an exercise price of $7.50 per Unit. The Units issuable upon exercise of this option are identical to those included in the Offering except that exercise price of the Warrants included in the Units is $6.65 per share.

4. COMMITMENT

The Company presently occupies office space provided by an Initial Stockholder. Such affiliate has agreed that, until the acquisition of a target business by the Company, it will make such office space, as well as certain office and secretarial services, available to the Company, as may be required by the Company from time to time. The Company has agreed to pay such affiliate $7,500 per month for such services commencing on July 31, 2004.

5. NOTE PAYABLE

Sand Hill Security, LLC, an Initial Stockholder and affiliate of the officers and directors of the Company, entered into a revolving credit agreement with the Company in the amount of $60,000. Advances under the credit facility amounted to $40,000 during 2004. The loan was repaid out of the net proceeds of the Offering.

6. PREFERRED STOCK

The Company is authorized to issue 5,000,000 shares of preferred stock, par value $.01, with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors as of December 31, 2004, no shares of preferred stock have been issued.

7. INVESTMENTS HELD IN TRUST

Investments held in trust as of December 31, 2004 is comprised of a zero coupon United States treasury bill with a face value of $21,124,800 purchased at a discount of 99.53% due January 27, 2005. The investment is carried on the Company's financial statements at $20,100,510, which includes accreted interest of $75,510.

8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share as of December 31, 2004.

	Shares	Weighted Average Exercise Prices	Weighted Average Fair Value
Stock options outstanding at April 15, 2004	—	$ —	$ —
Options granted	60,000	4.75	.98
Options cancelled	—	—	—
Stock options outstanding at December 31, 2004	60,000	$ 4.75	$ .98
Common shares authorized under the 2004 Stock Plan	100,000		
Outstanding options	(60,000)		
Outstanding grants	—		
Options available for grant at December 31, 2004	40,000		
Shares exercisable at December 31, 2004	60,000	$ 4.75	

The weighted average remaining contractual life of options is 5 years.

9. RESTATEMENT

The balance sheet for December 31, 2004 has been restated to reclassify out of equity 821,519 shares of common stock subject to conversion in the amount of $4,217,992 to common stock subject to possible conversion in the accompanying balance sheet.

ITEM 8A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004 (the "Evaluation Date"), and, based on their evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures were effective as of the Evaluation Date. However, in connection with the preparation of the Registration Statement on Form S-4 related to the Agreement and Plan of Merger, dated as of October 26, 2005, by and among our company, St. Bernard Software, Inc. and Sand Hill Merger Corp., we were advised by our independent registered accounting firm, Hein & Associates LLP (“Hein”) on December 13, 2005, that we may need to reclassify certain amounts in our financial statements from our stockholders’ equity to common stock subject to possible conversion. Hein based its conclusions upon a review of recently filed registration statements and periodic filings for other targeted acquisition companies similar to ourselves and their review of applicable accounting literature, and recommended that we make such reclassifications to reflect current practice in this area. We addressed this concern by determining to restate our financial statements to reflect this reclassification. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report on Form 10-KSB/A to be signed on its behalf by the undersigned thereto duly authorized.

Sand Hill IT Security Acquisition Corp.
(Registrant)

Date: December 15, 2005 By: /s/ Humphrey P. Polanen
Humphrey P. Polanen
Chief Executive Officer