

ST. BERNARD SOFTWARE, INC.  
Form 10QSB  
August 18, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

---

**FORM 10-QSB**

---

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

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**

**St. Bernard Software, Inc.**

(Exact Name of Small Business Issuer as Specified in Its Charter)

**Delaware**

(State or other Jurisdiction of incorporation)

**20-0996152**

(I.R.S. Employer Identification No.)

**15015 Avenue of Science**

**San Diego, California**

(Address of Principal Executive Office)

**(858) 676-2277**

(Issuer's Telephone Number, Including Area Code)

**Sand Hill IT Security Acquisition Corp.**

**3000 Sand Hill Road**

**Building 1, Suite 240**

**Menlo Park, California**

(Former Name, former Address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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  No

As of June 30, 2006, 5,110,000 shares of common stock, par value \$.01 per share, were issued and outstanding.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Transitional Small Business Disclosure Format (check one):

Yes  No

---

	<u>Index</u>	<u>Page No.</u>
<b>Part I: Condensed Financial Information</b>		
Item 1 -Financial Statement		3
	Unaudited Condensed Balance Sheet	3
	Unaudited Condensed Statements of Operations	4
	Unaudited Condensed Statements of Cash Flows	5
	Notes to Unaudited Condensed Financial Statements	6
Item 2 - Management's Discussion and Analysis or Plan of Operation		11
Item 3 - Controls and Procedures		13
<b>Part II. Other Information</b>		
Item 2 - Unregistered Sales of Equity Securities and Use of Preceeds		13
Item 6 - Exhibits and Reports on Form 8-K		14
Signatures		15
Exhibit Index		16

---

**PART I. CONDENSED FINANCIAL INFORMATION****Item 1. Condensed Financial Statements**

**ST. BERNARD SOFTWARE, INC.**  
**(FORMERLY KNOWN AS SAND HILL IT SECURITY ACQUISITION CORP.)**  
**(A Corporation in the Development Stage)**  
**CONDENSED BALANCE SHEET**

	<b>June 30, 2006</b> <b>(Unaudited)</b>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash	\$ 423
Treasury securities held in trust, at market	22,211,003
Prepaid expenses	252
<b>Total Assets</b>	<b>\$ 22,211,678</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
<b>Current Liabilities:</b>	
Accounts payable and accrued expenses	\$ 607,315
Loans from stockholders	82,300
Warrant liability	6,411,600
<b>Total Liabilities</b>	<b>7,101,215</b>
Common stock subject to possible conversion (821,589 shares at conversion value)	4,439,979
<b>Stockholders' Equity:</b>	
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	42,884
Additional paid-in capital	12,267,992
Deficit accumulated during the development stage	(1,640,482)
<b>Total Stockholders' Equity</b>	<b>10,741,864</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 22,211,678</b>

*See accompanying notes to condensed financial statements.*

**ST. BERNARD SOFTWARE, INC.**  
**(FORMERLY KNOWN AS SAND HILL IT SECURITY ACQUISITION CORP.)**  
**(A Corporation in the Development Stage)**  
**CONDENSED STATEMENTS OF OPERATIONS**

	Three months ended June 30, 2006 (Unaudited)	Three months ended June 30, 2005 (Unaudited) Restated	Six months ended June 30, 2006 (Unaudited)	Six months ended June 30, 2006 (Unaudited)	Period from April 15, 2004 (inception) to June 30, 2006 (Unaudited)
Professional Fees	\$ (161,454)	\$ (51,439)	\$ (246,236)	\$ (113,605)	\$ (808,893)
Rents, Fees and Taxes	(23,465)	(100,259)	(45,965)	(122,759)	(277,199)
D&O Insurance	(32,085)	(33,866)	(62,627)	(64,711)	(237,399)
Travel, Lodging & Meals	(30,779)	(32,071)	(46,798)	(52,215)	(193,851)
Other	(115,523)	(26,933)	(132,416)	(63,427)	(315,494)
Operating loss	(363,307)	(244,569)	(534,042)	(416,717)	(1,832,836)
Interest income	258,243	136,156	480,460	260,054	1,260,953
Warrant liability income/(expense)	904,200	(1,397,400)	8,220	(986,400)	(1,068,600)
Net income (loss)	\$ 799,137	(1,505,813)	(45,361)	(1,143,063)	\$ (1,640,482)
Weighted Average Shares Outstanding -Basic	5,110,000	5,110,000	5,110,000	5,110,000	4,547,457
Weighted Average Shares Outstanding - Diluted	13,330,000	5,110,000	5,110,000	5,110,000	4,547,457
Net income (Loss) Per Share - Basic	\$ 0.16	\$ (0.29)	\$ (0.01)	\$ (0.22)	\$ (0.36)
Net income (Loss) Per Share - Dilute	\$ (0.01)	\$ (0.29)	\$ (0.01)	\$ (0.22)	\$ (0.36)

*See accompanying notes to condensed financial statements.*

**ST. BERNARD SOFTWARE, INC.**  
**(FORMERLY KNOWN AS SAND HILL IT SECURITY ACQUISITION CORP.)**  
**(A Corporation in the Development Stage)**  
**CONDENSED STATEMENTS OF CASH FLOWS**

	<b>Six months ended June 30, 2006 (Unaudited)</b>	<b>Six months ended June 30, 2005 Unaudited) Restated</b>	<b>Period from April 15, 2004 (inception) to June 30, 2006 (Unaudited)</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (45,361)	\$ (1,143,063)	\$ (1,640,482)
Compensation expense related to issuance of Advisory Board options	14,682	14,682	46,493
Purchase of treasury bill in trust account	-	-	(21,025,000)
<b>Changes in assets &amp; liabilities:</b>			
Accretion of treasury bill and mark to market gain	(480,460)	(253,412)	(1,186,778)
Prepaid expenses	11,537	61,690	(250)
Accounts payable and accrued expenses	352,349	76,750	607,315
Warrant liability	(8,220)	986,400	1,068,600
<b>Net cash used in operating activities</b>	<b>(155,473)</b>	<b>(256,953)</b>	<b>(22,130,104)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from sale of common stock to initial stockholders	-	-	25,000
Gross proceeds from public offering	-	-	24,660,000
Costs of public offering	-	-	(2,636,773)
Proceeds from stockholder loan	82,300	-	122,300
Repayment of stockholder loan	-	-	(40,000)
<b>Net cash provided by financing activities</b>	<b>82,300</b>	<b>-</b>	<b>22,130,527</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(73,173)</b>	<b>(256,953)</b>	<b>423</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>73,596</b>	<b>783,134</b>	<b>-</b>
<b>CASH AT END OF PERIOD</b>	<b>423</b>	<b>526,181</b>	<b>423</b>

*See accompanying notes to condensed financial statements.*

**ST. BERNARD SOFTWARE, INC.**

**(FORMERLY KNOWN AS SAND HILL IT SECURITY ACQUISITION CORP.)**

**(A Corporation in the Development Stage)**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The financial statements included herein as of and for the three and six months ended June 30, 2006 and June 30, 2005, and the period from inception (April 15, 2004) to June 30, 2006, have been prepared by St. Bernard Software, Inc. (formerly known as Sand Hill IT Security Acquisition Corp.) (the "Company") without audit pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") and include the accounts of the Company and its subsidiary, Sand Hill Merger Corp. Accordingly, these statements reflect all adjustments (consisting only of normal recurring entries), which are, in the opinion of the Company, necessary for a fair presentation of the financial results for the interim periods. Certain information and notes normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full fiscal year. These financial statements should be read in conjunction with the financial statements that were included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005.

**2. ORGANIZATION, BUSINESS OPERATIONS**

Sand Hill IT Security Acquisition Corp. was incorporated in Delaware on April 15, 2004 as a blank check company whose objective was 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"). An amount equal to \$20,961,000 was placed in an interest bearing trust account (the "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 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. On July 27, 2006, the Company consummated a business combination (See Note 10).

### **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 units. 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 entitles 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 are 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 the exercise price of the Warrants included in the Units will be \$6.65 per share.



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 the Company to register the shares underlying the warrants and is silent as to the penalty to be incurred in the absence of the Company’s ability to deliver registered shares to the warrant holders upon warrant exercise. Under EITF No. 00-19, the Company 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 the Company to record the warrant liability at each reporting date at its then estimated fair value, with any changes being recorded through the Company’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 the Company is otherwise able to modify the registration rights agreement to remove the provisions which require this treatment. As a result, the Company could experience volatility in its net income due to changes that occur in the value of the warrant liability at each reporting date.

The Company had previously issued financial statements which accounted for the warrants as stockholders’ equity. The accompanying financial statements have been restated to correct this error. The impact of the correction of this error in previously reported financial statements is as follows (in thousands except per share amounts):

8

---

(in thousands except  
per share amounts)

	As of and for the Three Months Ended June 30, 2005		As of and for the Six Months Ended June 30, 2005		As of and for the Year Ended December 31, 2005	
	As		As		As	
	Previously Reported	As Restated	Previously Reported	As Restated	Previously Reported	As Restated
Assets	\$ 21,951	\$ 21,951	\$ 21,951	\$ 21,951	\$ 21,816	\$ 21,816
Liabilities	\$ 93	\$ 6,422	\$ 93	\$ 6,422	\$ 255	\$ 6,675
Common stock subject to conversion	\$ 4,269	\$ 4,269	\$ 4,269	\$ 4,269	\$ 4,344	\$ 4,344
Stockholders' equity	\$ 17,589	\$ 11,260	\$ 17,589	\$ 11,260	\$ 17,217	\$ 10,797
Warrant liability income (expense)	\$ -	\$ (1,397)	\$ -	\$ (986)	\$ -	\$ (1,077)
Pre-tax income (loss)	\$ (108)	\$ (1,505)	\$ (157)	\$ (247)	\$ (468)	\$ (1,545)
Provision for income taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ (108)	\$ (1,505)	\$ (157)	\$ (247)	\$ (468)	\$ (1,545)
<b>Weighted average shares:</b>						
Basic	5,110	5,110	5,110	5,110	5,110	5,110
Diluted	5,110	5,110	5,110	5,110	5,110	5,110
<b>Earnings (loss) per share</b>						
Basic	(\$0.02)	(\$0.29)	(\$0.03)	(\$0.22)	(\$0.09)	(\$0.30)
Diluted	(\$0.02)	(\$0.29)	(\$0.03)	(\$0.22)	(\$0.09)	(\$0.30)

#### *Reclassification*

The Company has previously reported the increase or decrease in its warrant liability as part of its operating income or loss. The Company has also previously reported the purchase of treasury bills in its trust account as an investing activity. These amounts have been reclassified in the presentation of prior periods to conform to the current presentation.

#### **4. TREASURY SECURITIES**

Treasury securities are classified as trading securities and are carried at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings.



## 5. COMMITMENT

The Company presently occupies office space provided by an Initial Stockholder and affiliate of the officers and directors of the Company. 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.

## 6. LOANS FROM STOCKHOLDERS

During the quarterly period ended March 31, 2006 certain affiliates of the Company advanced an aggregate of \$45,000 to the Company to cover expenses related to the merger described in Note 10 below. The Broomfield Family Trust advanced \$25,000 to the Company and Sand Hill Security, LLC advanced \$20,000 to the Company. The Company entered into unsecured promissory notes in connection with the loans. The loans accrue interest at a rate of ten percent per annum and are payable on the earlier of the consummation of the merger described in Note 10 below and July 26, 2006. The loans have been paid in full as of August 4, 2006 in connection with the consummation of the Merger.

## 7. COMMON STOCK

At June 30, 2006, 50,000,000 shares of \$0.01 par value common stock were authorized and 5,110,000 shares were outstanding.

## 8. PREFERRED STOCK

The Company is authorized to issue 5,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors.

## 9. EARNINGS PER SHARE

For the three and six months ended June 30, 2005 and 2006 and the period from April 15, 2004 (inception) to June 30, 2006, the following table sets forth the number of dilutive shares that may be issued pursuant to warrants currently outstanding, which number was used in the per share calculations.

	Six Months Ended June 30,		Three Months Ended June 30,		Period from April 15, 2004 (inception) to June 30,	
	2006	2005	2006	2005	2006	2005
Warrants	8,220,000	8,220,000	8,220,000	-	-	-
	-	-	-	-	-	-

## 10. SUBSEQUENT EVENT

On July 27, 2006, the Company consummated the merger of its wholly-owned subsidiary Sand Hill Merger Corp., a Delaware corporation (“Merger Sub”) with and into St. Bernard Software, Inc. (“St. Bernard”) in an all-stock transaction (the “Merger”), pursuant to the terms of that certain Agreement and Plan of Merger, dated October 26, 2005, by and among the Company, Merger Sub and St. Bernard. At the effective time of the Merger, St. Bernard was the surviving corporation and became a wholly-owned subsidiary of the Company. As a result of the merger, the Company changed its name to St. Bernard Software, Inc. In July 2006, the Company made a payment of \$600,000 to Software Equity

Group, LLC (“SEG”) in connection with the closing of the Merger and pursuant to the terms of that certain M&A Advisory Services Agreement, dated March 30, 2005, by and between the Company and SEG.

## **Item 2. Management's Discussion and Analysis or Plan of Operation**

The following discussion should be read in conjunction with the financial statements and footnotes thereto incorporated by reference in this report.

### **Forward Looking Statements**

Certain statements contained in this interim report that are not historical facts, including, but not limited to, statements that can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "predict," "believe," "p," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements in this interim report could differ materially from those stated in such forward-looking statements due to various factors, including but not limited to, our being a development stage company with no operating history, our dependence on key personnel some of whom may join us following a business combination, our personnel allocating their time to other businesses and potentially having conflicts of interest with our business, our potentially being unable to obtain additional financing to complete a business combination, the ownership of our securities being concentrated, risks associated with the IT security industry and those other risks and uncertainties detailed in the Company's filings with the Securities and Exchange Commission, including our Registration Statement on Form S-1 that was declared effective July 26, 2004 and the definitive Prospectus thereunder, our annual report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2006, our Registration Statement on Form S-4 (No. 333-130412) that was declared effective on June 23, 2006 and the joint proxy statement/prospectus thereunder, and the uncertainties set forth from time to time in the Company's filings and other public statements. The following discussion should be read in conjunction with our Financial Statements and related Notes thereto included elsewhere in this report.

### **Plan of Operation**

We were 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. We intend to utilize cash derived from the proceeds of the Offering, our capital stock, debt or a combination of cash, capital stock and debt, in effecting a business combination. We consummated the Offering on July 30, 2004. Our activities to date have been comprised solely of organizational activities, preparing for and consummating the Offering, and efforts associated with identifying a target for a business combination.

The net proceeds from the Offering and the capital contributed by our Initial Stockholders amounted to approximately \$22.02 million. As of June 30, 2006, we had cash of \$423, and treasury securities in our trust account (at cost) of \$22,211,003; a total of approximately \$22.6 million. The difference between the sum of our initial capital plus the net proceeds of the Offering reduced by our cash and amount we placed in trust is approximately \$140,000. Through June 30, 2006, we have used \$1,832,836 of the net proceeds that were not deposited into the trust fund to pay general and administrative expenses. The net proceeds deposited into the trust fund remain on deposit in the trust fund and have earned \$1,250,002 in interest and \$10,949 on money market accounts through June 30, 2006.

For the three months ended June 30, 2006, we recorded interest income from the accretion in value of our trust account of \$258,137. We had operating income of \$799,137 for that same period. Our expenses consist primarily of professional fees, rents, fees and taxes, insurance, travel and other certain other expenses associated with being a public company.

Over the 24-month period subsequent to the consummation of the Offering, the Company 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 our 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. We do not believe that the Company 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. Anticipating closure of the merger by July 27, 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 and registration statement on Form S-4, \$25,000 in printing costs for the joint proxy statement/prospectus and registration statement on Form S-4, 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.

We are obligated, commencing July 26, 2004, to pay to Sand Hill Security, LLC, an affiliate of our directors and executive officers, a monthly fee of \$7,500 for general and administrative services. During the quarterly period ended March 31, 2006 certain affiliates of the Company advanced an aggregate of \$45,000 to the Company to cover expenses related to the merger described below. The Broomfield Family Trust advanced \$25,000 to the Company and Sand Hill Security, LLC advanced \$20,000 to the Company. The Company entered into unsecured promissory notes in connection with the loans. The loans accrue interest at a rate of ten percent per annum and are payable on the earlier of the consummation of the merger.

The Company's Registration Statement on Form S-4 and the underlying joint proxy statement/prospectus regarding the merger of the Company's wholly-owned subsidiary Sand Hill Merger Corp., a Delaware corporation ("Merger Sub") with and into St. Bernard Software, Inc. ("St. Bernard") in an all-stock transaction (the "Merger") was declared effective on June 23, 2006. On July 27, 2006, the Merger was approved by a majority of the stockholders of the Company at a special meeting. On July 27, 2006, the Company consummated the Merger. At the effective time of the Merger, St. Bernard was the surviving corporation and became a wholly-owned subsidiary of the Company. As a result of the Merger, the Company changed its name to St. Bernard Software, Inc.

### **Item 3. Controls and Procedures**

An evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2006 was made under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer. Based on that evaluation, they concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. During the most recently completed fiscal quarter, there has been no significant change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(a) Unregistered Sales of Equity Securities by Small Business Issuer.

None.

(b) Use of Proceeds.

On July 30, 2004, we closed the Offering of 3,600,000 Units, with each Unit consisting of one share of our common stock and two warrants, each to purchase one share of our common stock at an exercise price of \$5.00 per share. The Units were sold at an offering price of \$6.00 per Unit, generating gross proceeds of \$21,600,000. Additionally, the underwriters' purchased 510,000 units, pursuant to the exercise of the over-allotment option granted in connection with the Offering, generating gross proceeds of \$3,060,000. The representatives of the underwriters in the Offering were I-Bankers Securities Incorporated and Newbridge Securities Corporation. The securities sold in the Offering were registered under the Securities Act pursuant to a registration statement on Form S-1 (No. 333-114861). The Securities and Exchange Commission declared the registration statement effective on July 26, 2004.



We paid a total of \$2,250,900 in underwriting discounts and commissions, including \$648,000 for the underwriters' non-accountable expense allowance, and approximately \$386,000 for other costs and expenses related to the Offering.

After deducting the underwriting discounts and commissions and the Offering expenses, the total net proceeds to us from the Offering were approximately \$22,022,462, of which \$20,961,000 was deposited into a trust fund and the remaining proceeds are available to be used to provide for business, legal and accounting due diligence on prospective business combinations and continuing general and administrative expenses.

## PART II. OTHER INFORMATION

### Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits:

31.1	Section 302 Certification by CEO
31.2	Section 302 Certification by CFO
32.1	Section 906 Certification by CEO
32.2	Section 906 Certification by CFO

(b) Reports on Form 8-K:

<u>Date</u>	<u>Items</u>	<u>Financial Statements</u>
June 6, 2006	1.01	None
June 12, 2006	8.01 and 9.01	None
June 21, 2006	4.02	None
June 27, 2006	1.01 and 9.01	None
June 28, 2006	4.02, 8.01 and 9.01	None

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 17, 2006

ST. BERNARD SOFTWARE, INC.

/s/ John E. Jones

---

John E. Jones  
Chief Executive Officer

/s/ Alfred Riedler

---

Alfred Riedler  
Chief Financial Officer

**EXHIBIT INDEX**

<u>Number</u>	<u>Description</u>
31.1	Section 302 Certification by CEO
31.2	Section 302 Certification by CFO
32.1	Section 906 Certification by CEO
32.2	Section 906 Certification by CFO