

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

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

FORM 10-QSB/A

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

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.

(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.)

3000 Sand Hill Road

Building 1, Suite 240

Menlo Park, California

(Address of Principal Executive Office)

(650) 926-7022

(Issuer's Telephone Number, Including Area Code)

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 September 30, 2005, 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

Sand Hill IT Security Acquisition Corp., a Delaware corporation (the “Company”), hereby amends, as set forth herein, the Company’s Quarterly Report on Form 10-QSB for the period ended September 30, 2005 filed with the Securities and Exchange Commission on November 14, 2005 (the “Form 10-QSB”). The item numbers and responses thereto are in accordance with the requirements of Form 10-QSB. All capitalized terms used and not otherwise defined herein shall have the meaning specified in the Form 10-QSB.

Item 1. Condensed Financial Statements

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

	September 30, 2005 (Unaudited) (Restated)
ASSETS	
Current assets:	
Cash	\$ 331,343
Treasury securities held in trust, at market	21,530,847
Prepaid expenses	42,624
Total Assets	\$ 21,904,815
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 145,910
Total Liabilities	145,910
Common stock subject to possible conversion (821,589 shares at conversion value)	4,304,016
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	17,716,816
Deficit accumulated during the development stage	(313,027)
Total Stockholders' Equity	17,454,889
Total Liabilities and Stockholders' Equity	\$ 21,904,815

See accompanying notes to condensed financial statements.

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

	Nine months ended September 30, 2005 (Unaudited)	Three months ended September 30, 2005 (Unaudited)	Period from April 15, 2004 (inception) to September 30, 2004 (Unaudited)	Three months ended September 30, 2004 (Unaudited)	Period from April 15, 2004 (inception) to September 30, 2005 (Unaudited)
Formation and operating costs	\$ (701,284)	\$ (285,567)	\$ (63,125)	\$ (50,432)	\$ (893,230)
Operating loss	(701,284)	(285,567)	(63,125)	(50,432)	(893,230)
Interest income and mark to market gain	438,163	178,109	46,752	46,752	580,202
Net loss	\$ (263,121)	\$ (107,458)	\$ (16,373)	\$ (3,680)	\$ (313,028)
Weighted Average Shares Outstanding	5,110,000	5,110,000	2,542,454	3,732,826	4,317,367
Net loss Per Share (Basic and Diluted)	\$ (0.05)	\$ (0.02)	\$ (0.01)	\$ (0.00)	\$ (0.07)

See accompanying notes to condensed financial statements.

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

	Nine months ended September 30, 2005 (Unaudited)	Period from April 15, 2004 (inception) to September 30, 2004 (Unaudited)	Period from April 15, 2004 (inception) to September 30, 2005 (Unaudited)
CASH FLOW FROM OPERATING ACTIVITIES			
Net loss	\$ (263,121)	\$ (16,373)	\$ (313,028)
Compensation expense related to issuance of Advisory Board options	22,023	-	24,470
Changes in assets & liabilities:			
Accretion of treasury bill and mark to market gain	(430,337)	(46,464)	(569,847)
Prepaid expenses	89,508	(170,476)	(42,624)
Accounts payable and accrued expenses	130,138	13,772	145,910
Net cash used in operating activities	(451,789)	(219,541)	(691,119)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of treasury bill in trust account	-	(20,961,000)	(20,961,000)
Net cash used in investing activities	-	(20,961,000)	(20,961,000)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from sale of common stock to initial stockholders	-	25,000	25,000
Gross proceeds from public offering	-	24,660,000	24,660,000
Costs of public offering	-	(2,636,773)	(2,637,538)
Proceeds from stockholder loan	-	40,000	40,000
Repayment of stockholder loan	-	(40,000)	(40,000)
Net cash provided by financing activities	-	22,047,462	22,047,462
NET INCREASE (DECREASE) IN CASH	(451,789)	867,686	331,343
CASH AT BEGINNING OF PERIOD	783,133	-	-
CASH AT END OF PERIOD	331,343	867,686	331,343

See accompanying notes to condensed financial statements.

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 nine months ended September 30, 2005, the three months ended September 30, 2004, the period from inception (April 15, 2004) to September 30, 2004 and the period from inception to September 30, 2005, have been prepared by 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 period ended December 31, 2004.

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 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 \$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.

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 and exercise their conversion rights, 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 (the "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 (the "Public Stockholders") with respect to a Business Combination. The Business Combination will not be completed unless more than 50% of the Public Stockholders vote in favor of the transaction. After consummation of the Company's first Business Combination, these voting safeguards will 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 offered in the Offering as described in Note 3). On October 26, 2005, the Company entered into a definitive merger agreement (see Note 5).

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.

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. SUBSEQUENT EVENT

On October 26, 2005, the Company and its wholly-owned subsidiary Sand Hill Merger Corp., a Delaware corporation ("Merger Sub"), entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") with St. Bernard Software, Inc., a Delaware corporation ("St. Bernard"), pursuant to which Merger Sub will merge with and into St. Bernard in an all-stock transaction (the "Merger"). At the effective time of the Merger, St. Bernard will be the surviving corporation and become a wholly-owned subsidiary of the Company.

6. 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.

7. 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 as of July 30, 2004. The loan was repaid out of the net proceeds of the Offering.

8. COMMON STOCK

At September 30, 2005, 50,000,000 shares of \$0.01 par value common stock were authorized and 5,110,000 shares were outstanding.

9. 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.

10. RESTATEMENT

The balance sheet for September 30, 2005 has been restated to reclassify out of equity 821,519 of common stock subject to conversion in the amount of \$4,304,016 to common stock subject to possible conversion in the accompanying balance sheet.

Item 3. Controls and Procedures

An evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2005 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. 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. 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.

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: December 15, 2005
SAND HILL IT SECURITY ACQUISITION CORP.

/s/ Humphrey P. Polanen
Humphrey P. Polanen
Chief Executive Officer

/s/ Keith Walz
Keith Walz
Chief Financial Officer and Secretary
