

ST. BERNARD SOFTWARE, INC.  
Form DEF 14A  
April 30, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

**ST. BERNARD SOFTWARE, INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

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No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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(4) Date Filed:

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ST. BERNARD SOFTWARE, INC.

15015 Avenue of Science

San Diego, CA 92128

**NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS**

To Be Held On June 15, 2009

Dear Stockholder:

You are cordially invited to attend the 2009 Annual Meeting of Stockholders of St. Bernard Software, Inc., a Delaware corporation (the Company ). The meeting will be held on Monday, June 15, 2009 at 9:00 a.m. local time at 15015 Avenue of Science, San Diego, CA 92128 for the following purposes:

1. To elect four directors to hold office until the 2010 Annual Meeting of Stockholders.
2. To ratify the selection by the Audit Committee of the Board of Directors of Squar, Milner, Peterson, Miranda & Williamson, LLP as independent auditors of the Company for its fiscal year ending December 31, 2009.
3. To conduct any other business properly brought before the meeting.

These items are more fully described in the proxy statement accompanying this Notice.

The record date for the 2009 Annual Meeting is April 23, 2009. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors

Louis E. Ryan

Chief Executive Officer, Chief Financial Officer, and

Chairman of the Board of Directors

San Diego, California

April 30, 2009

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return the enclosed proxy, or vote over the telephone or the Internet as instructed in these materials, as promptly as possible in order to ensure your representation at the meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

**ST. BERNARD SOFTWARE, INC.**

15015 Avenue of Science

San Diego, CA 92128

**PROXY STATEMENT**

**FOR THE 2009 ANNUAL MEETING OF STOCKHOLDERS**

June 15, 2009

**QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING**

**Why am I receiving these materials?**

We have sent you this proxy statement and the enclosed proxy card because the Board of Directors of St. Bernard Software, Inc. (sometimes referred to as the Company or St. Bernard ) is soliciting your proxy to vote at the 2009 Annual Meeting of Stockholders. You are invited to attend the annual meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card, or follow the instructions below to submit your proxy over the telephone or on the Internet.

The Company intends to mail this proxy statement and accompanying proxy card on or about April 30, 2009 to all stockholders of record entitled to vote at the 2009 Annual Meeting.

**Important notice regarding the availability of Proxy materials for the Stockholder Meeting to be held on June 15, 2009. The proxy statement and annual report to security holders are available at**

**<http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber=13605>.**

**Who can vote at the annual meeting?**

Only stockholders of record at the close of business on April 23, 2009 will be entitled to vote at the annual meeting. On this record date, there were 14,838,940 shares of the Company's common stock outstanding and entitled to vote.

*Stockholder of Record: Shares Registered in Your Name*

If on April 23, 2009 your shares were registered directly in your name with St. Bernard's transfer agent, American Stock Transfer & Trust Company, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card or vote by proxy over the telephone or on the Internet as instructed below to ensure your vote is counted.

*Beneficial Owner: Shares Registered in the Name of a Broker or Bank*

If on April 23, 2009 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the 2009 Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the 2009 Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

**What am I voting on?**

There are two matters scheduled for a vote:

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Election of four directors to hold office until the 2010 Annual Meeting of Stockholders; and

Ratification of Squar, Milner, Peterson, Miranda & Williamson, LLP as independent auditors of the Company for its fiscal year ending 2009.

### **How do I vote?**

You may either vote For all the nominees to the Board of Directors or you may Withhold your vote for any nominee you specify. For each of the other matters to be voted on, you may vote For or Against or abstain from voting. The procedures for voting are fairly simple:

#### *Stockholder of Record: Shares Registered in Your Name*

If you are a stockholder of record, you may vote in person at the 2009 Annual Meeting, vote by proxy using the enclosed proxy card, vote by proxy over the telephone, or vote by proxy on the Internet. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy.

To vote in person, come to the annual meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

To vote over the telephone, dial toll-free 1-800-PROXIES (1-800-776-9437) using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 11:59 PM Eastern Time on June 14, 2009 to be counted.

To vote on the Internet, go to <http://www.voteproxy.com> to complete an electronic proxy card. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 11:59 PM Eastern Time on June 14, 2009 to be counted.

#### *Beneficial Owner: Shares Registered in the Name of Broker or Bank*

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from St. Bernard. Simply complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may vote by telephone or over the Internet as instructed by your broker or bank. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

**We provide Internet proxy voting to allow you to vote your shares on-line, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.**

### **How many votes do I have?**

On each matter to be voted upon, you have one vote for each share of common stock you own as of April 23, 2009.

### **What if I return a proxy card but do not make specific choices?**

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted For the election of all four nominees for director, and For ratification of Squar, Milner, Peterson, Miranda & Williamson, LLP as independent auditors of the Company for its fiscal year ending 2009. If any other matter is properly presented at the meeting, your proxy holder (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

**How Does the Board of Directors Recommend That I Vote on the Proposals?**

The board of directors recommends that you vote as follows:

**FOR** the election of the nominees for director; and

**FOR** ratification of the selection of independent auditors for our fiscal year ending December 31, 2009.

If any other matter is presented, the proxy card provides that your shares will be voted by the proxy holder listed on the proxy card in accordance with his or her best judgment. At the time this proxy statement was printed, we knew of no matters that needed to be acted on at the annual meeting, other than those discussed in this proxy statement.

**Who is paying for this proxy solicitation?**

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees and The Altman Group may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies, but The Altman Group will be paid its customary fee of approximately \$2,000 plus out-of-pocket expenses if it solicits proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners

**What does it mean if I receive more than one proxy card?**

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

**Can I change my vote after submitting my proxy?**

Yes. You can revoke your proxy at any time before the final vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

You may submit another properly completed proxy card with a later date.

You may send a timely written notice that you are revoking your proxy to Secretary at 15015 Avenue of Science, San Diego, CA 92128.

You may attend the 2009 Annual Meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy. If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

**When are stockholder proposals due for next year's annual meeting?**

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by December 31, 2009, to St. Bernard Software, Inc., 15015 Avenue of Science, San Diego, CA 92128. If you wish to submit a proposal that is to be included in next year's proxy materials or nominate a director, you must do so not later than the close of business on the ninetieth (90<sup>th</sup>) day nor earlier than the close of business on the one hundred twentieth (120<sup>th</sup>) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred twentieth (120<sup>th</sup>) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90<sup>th</sup>) day prior to such annual meeting or the tenth (10<sup>th</sup>) day following the day on which public announcement of the date of such meeting is first made. You are also advised to review the Company's Amended and Restated Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.





**How are votes counted?**

Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Withhold and, with respect to proposals other than the election of directors, Against votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total for each proposal, and will have the same effect as Against votes. Broker non-votes have no effect and will not be counted towards the vote total for any.

**What are broker non-votes ?**

Broker non-votes occur when a beneficial owner of shares held in street name does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed non-routine. Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be routine, but not with respect to non-routine matters. Under the rules and interpretations of the New York Stock Exchange, non-routine matters are generally those involving a contest or a matter that may substantially affect the rights or privileges of stockholders, such as mergers or stockholder proposals.

**How many votes are needed to approve each proposal?**

For Proposal No. 1, the election of directors, the four nominees receiving the most For votes (from the holders of shares present in person or represented by proxy and entitled to vote on the election of directors) will be elected. Only votes For the nominees will affect the outcome.

To be approved, Proposal No. 2, the ratification of the selection by the Audit Committee of the Board of Directors of Squar, Milner, Peterson, Miranda & Williamson, LLP as the Company's independent auditors for its fiscal year ending December 31, 2009, must receive For votes from the holders of a majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

**What is the quorum requirement?**

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares are present at the meeting in person or represented by proxy. On the record date, there were 14,838,940 shares outstanding and entitled to vote. Thus, the holders of 7,419,471 shares must be present in person or represented by proxy at the meeting or by proxy to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of shares present at the meeting in person or represented by proxy may adjourn the meeting to another date.

**How can I find out the results of the voting at the annual meeting?**

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in the Company's quarterly report on Form 10-Q for the second quarter of 2009.

**Is Voting Confidential?**

We will keep all the proxies, ballots and voting tabulations private. We only let our inspectors of election and American Stock Transfer & Trust Company, examine these documents. Management will not know how you voted on a specific proposal unless it is necessary to meet legal requirements. We will, however, forward to management any written comments you make, on the proxy card or elsewhere.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

Each director of St. Bernard's Board of Directors is elected for a one year term. Vacancies on the Board may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board to fill a vacancy, including vacancies created by an increase in the number of directors, shall serve for the remainder of the full term and until the director's successor is elected and qualified.

The Board of Directors presently has four members. All the directors' terms of office expire in 2009. Each of the nominees listed below is currently a director of the Company. All four of the nominees listed below have been previously elected by the stockholders of the Company. The Nominating and Corporate Governance Committee of the Board has recommended each of the nominees listed below for election to the Board at the annual meeting. If elected at the annual meeting, each of these nominees would serve until the 2010 Annual Meeting of Stockholders and until his or her successor is elected and has qualified, or, if sooner, until the director's death, resignation, or removal. It is the Company's policy to invite directors and nominees for director to attend the Company's annual meetings.

Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. The four nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the four nominees named below. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute nominee proposed by the Board. Each person nominated for election has agreed to serve if elected. St. Bernard's management has no reason to believe that any nominee will be unable to serve.

The following is a brief biography of each nominee, recommended by the Board of Directors of St. Bernard.

**Humphrey Polanen**

Mr. Polanen, age 59, is a member of the Board of Directors of the Company and has served as Chairman of the Board of Directors from April 2004 to July 2008 and served as Chief Executive Officer of the Company between April 2004 and July 2006 (when the Company was known as Sand Hill IT Security Acquisition Corp. ). 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. Mr. Polanen has been a member of the board of directors of Heritage Bank of Commerce since 1994 and has been chair of that 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 Harvard Law School.

**Scott Broomfield**

Mr. Broomfield, age 52, currently is the Chief Executive Officer of Veeple, Inc. Mr. Broomfield has served as a member of the Board of Directors of the Company since April 2004 and as an executive officer of the Company between April 2004 and July 2006 (when the Company was known as Sand Hill IT Security Acquisition Corp. ). From April 2004 to August 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 2004, Mr. Broomfield was the CEO of Visuale, a private business process software (BPMS) company that he sold to Onyx Software Corporation in April 2004. From 1997 until 2001, Mr. Broomfield was the CEO of Centura Software Corporation (formerly Gupta Technologies), a \$50 million software business specializing in secure, embedded and mobile databases and application development tools.

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. 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.

**Bart A. M. van Hedel**

Mr. van Hedel, age 64, currently is an Executive Officer for Vogel Investments B.V. in addition to the companies listed below. Mr. van Hedel became a member of the Board of Directors of the Company upon completion of the merger of St. Bernard Software, Inc. with the Company (when the Company was known as Sand Hill IT Security Acquisition Corp. ) in July 2006. Prior to the merger, he served as a director of St. Bernard Software, Inc. since 1996. He has been a Partner of BeeBird Corporate Finance C. V. since 1992. Mr. van Hedel was 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 Erasmus University of Rotterdam with a Masters in economics and tax.

**Louis Ryan**

Mr. Ryan, age 54, became Chief Executive Officer and Chief Financial Officer effective January 15, 2009. He has also been a member of the Board of Directors of the Company since July 2006 and became Chairman of the Board of Directors in July 2008. 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. (which was sold to Network Associates Technology, Inc. in 2003), a network security software company. From 1988 to 1995, Mr. Ryan was co-founder and executive vice president of Delrina Corporation, a publicly traded software company which was sold in 1995 to Symantec Corporation. Mr. Ryan was also an early investor and board member of Foundstone, a vulnerability management supplier acquired by McAfee, Inc. in August 2004. Mr. Ryan also serves on the board of Certicom Corporation, and is an advisor to Sand Hill Capital and DiamondHead Ventures.

**THE BOARD OF DIRECTORS RECOMMENDS**

**A VOTE FOR THE ELECTION OF THE NOMINEES FOR DIRECTOR.**

**PROPOSAL 2****RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee designated Squar, Milner, Peterson, Miranda & Williamson, LLP, or Squar, as the Company's Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2009 and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the 2009 Annual Meeting. Squar has been the Company's Independent Registered Public Accounting Firm since December 4, 2007. Squar has advised the Company that, in accordance with professional standards, they will not perform any non-audit service that would impair their independence for purposes of expressing an opinion on the Company's financial statements. Representatives of Squar are expected to be present at the 2009 Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither the Company's Amended and Restated Bylaws nor other governing documents or law require stockholder ratification of the selection of Squar as the Company's Independent Registered Public Accounting Firm. However, the Audit Committee of the Board is submitting the selection of Squar to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee of the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee of the Board in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to ratify the selection of Squar. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum but are not counted for any purpose in determining whether this matter has been approved.

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

In connection with the audit of the 2008 financial statements, the Company entered into an engagement agreement with Squar which sets forth the terms by which Squar will perform audit services for the Company. That agreement is subject to alternative dispute resolution procedures.

The 2008 fees listed in the table below were for services provided to the Company by Squar for the audit and interim reviews related to the fiscal year ended December 31, 2008. The 2007 fees listed in the table below were for services provided to the Company by Squar beginning December 4, 2007 for the audit related to the fiscal year ended December 31, 2007. In addition, the 2007 fees listed in the table below for services provided by Mayer Hoffman McCann P.C., or MHM, to the Company through November 19, 2007, include fees related to the audit for the fiscal year ended December 31, 2006 and the interim reviews for the first three quarters for 2007.

	Squar (1)		MHM (2)	
	Fiscal Year Ended (in thousands)		Fiscal Year Ended (in thousands)	
	2008	2007	2008	2007
Audit Fees	\$ 135	\$ 141		\$ 217
Audit-related Fees				20(3)
Tax Fees				
All Other Fees				
<b>Total Fees</b>	<b>\$ 135</b>	<b>\$ 141</b>		<b>\$ 237</b>

- (1) The Company engaged Squar as the Company's Independent Registered Public Accounting Firm on December 4, 2007. The audit fees listed for Squar include audit fees for the fiscal years ended December 31, 2008 and 2007 and the interim reviews for the first three quarters for 2008.
- (2) This amount includes fees for the audit for the fiscal year ended December 31, 2006 and the interim reviews for the first three quarters for 2007. MHM's resignation as the Company's auditors was effective on November 19, 2007.
- (3) Includes audit related fees prior to MHM's resignation effective on November 19, 2007 and other audit related fees related to the review of the Company's Forms 10-KSB, 8-K, and S-8 for the year ended December 31, 2007.

All fees described above related to engagement of the Company's Independent Registered Public Accounting Firm were approved by the Audit Committee or the Board of Directors.

#### **PRE-APPROVAL POLICIES AND PROCEDURES**

The Audit Committee has adopted policies and procedures for the pre-approval of audit and non-audit services rendered by our independent auditor, Squar. The policy generally pre-approves specified services in the defined categories of audit services, audit-related services, and tax services up to specified amounts. Pre-approval may also be given as part of the Audit Committee's approval of the scope of the engagement of the independent auditor or on an individual explicit case-by-case basis before the independent auditor is engaged to provide each service. The pre-approval of services may be delegated to one or more of the Audit Committee's members, but the decision must be reported to the full Audit Committee at its next scheduled meeting.

On December 4, 2007, the Board of Directors approved the appointment of Squar as the Company's Independent Registered Public Accounting Firm to audit the Company's financial statements for the fiscal year ending December 31, 2007 in place of MHM. The decision to change Independent Registered Public Accounting Firms was authorized by the Company's Audit Committee.

Squar's report on the financial statements for the fiscal year ended December 31, 2008 and 2007 and MHM's report on the financial statements for the fiscal year ended December 31, 2006 contained no adverse opinion or disclaimer of opinion and were not qualified as to audit scope or accounting principles. There were no disagreements between the Company and Squar or MHM on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, that would have caused Squar or MHM to report the disagreement if it had not been resolved to the satisfaction of Squar or MHM.

MHM's letter to the Securities and Exchange Commission stating its agreement with the above statements regarding MHM was filed as an exhibit to the Company's Current Report on Form 8-K/A dated November 19, 2007.

During the Company's two most recent fiscal years and the interim period prior to engaging Squar, neither the Company nor anyone on its behalf consulted Squar regarding (i) either the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements, and no written report or oral advice was provided to the Company that Squar concluded was an important factor considered by the Company in reaching a decision as to an accounting, auditing or financial reporting issue; or (ii) any matter that was the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

#### **THE BOARD OF DIRECTORS RECOMMENDS**

#### **A VOTE IN FAVOR OF PROPOSAL 2.**

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**INFORMATION REGARDING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE**
**INDEPENDENCE OF THE BOARD OF DIRECTORS**

The Board consults with the Company's counsel to ensure that the Board's determinations are consistent with relevant securities and other laws and regulations regarding the definition of independent. Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its independent auditors, the Board has affirmatively determined Messrs. Polanen, Broomfield and van Hedel to be independent directors within the meaning of Rule 10A-3(b) of the Securities Exchange Act of 1934, as amended. In making this determination, the Board found that none of these current or former directors or nominees for director had a material or other disqualifying relationship with the Company. Mr. Ryan, the Company's Chief Executive Officer, Chief Financial Officer, and Chairman of the Board of Directors is not an independent director by virtue of his employment with the Company.

**MEETINGS OF THE BOARD OF DIRECTORS**

The Board of Directors met eight (8) times during 2008. All directors attended at least 75% of the aggregate meetings of the Board, and of the committees on which they served, held during the period for which they were directors or committee members, respectively. We encourage our Board members to attend our annual stockholder meetings. In 2008, all members of our Board of Directors attended our annual meeting.

**INFORMATION REGARDING COMMITTEES OF THE BOARD OF DIRECTORS**

The Board has three committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The following table provides membership and meeting information for fiscal 2008 for each of the Board committees:

Name	Audit	Compensation	Nominating and Corporate Governance
Scott Broomfield (1)	X	X	X
Louis Ryan (2)		X	X
Bart A. M. van Hedel (3)	X	X	X
Humphrey Polanen (4)	X	X	X
Mel. S. Lavitt (5)	X	X	X
Total meetings in fiscal 2008	4	2	1

- (1) Chairman of Audit Committee.
  - (2) Chairman of Compensation Committee as of July 25, 2008; Chairman of the Board of Directors as of July 25, 2008.
  - (3) Chairman of Nominating and Corporate Governance Committee as of July 25, 2008.
  - (4) Chairman of the Board of Directors through July 25, 2008; Chairman of Compensation Committee as of July 25, 2008.
  - (5) Chairman of Nominating and Corporate Governance Committee through June 4, 2008. Mr. Lavitt did not stand for re-election in 2008.
- Below is a description of each committee of the Board of Directors. Each of the committees has authority to engage legal counsel or other experts or consultants, as it deems appropriate to carry out its responsibilities. The Board of Directors has determined that each member of each committee meets the standards for independence within the meaning of Rule 10A-3(b) of the Securities Exchange Act of 1934, as amended, and that each member is free of any relationship that would impair his individual exercise of independent judgment with regard to the Company.

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## Audit Committee

The Audit Committee of the Board of Directors was established by the Board in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, to oversee the Company's corporate accounting and financial reporting processes and audits of its financial statements. For this purpose, the Audit Committee performs several functions. The Audit Committee is responsible for the selection and appointment, retention, compensation, termination and oversight of the work of the Company's independent auditor; reviews with management and the independent auditor any material conflicts or disagreements regarding financial reporting or accounting practices and policies of the Company; approves all audit and non-audit services to be performed by the independent auditor, as well as the scope of the services to be provided and the compensation to be paid for such services; reviews and discusses with management all disclosures required to be included in periodic reports filed by the Company; reviews all relationships between the independent auditor and the Company and evaluates the independent auditor's independence; reviews reports from the independent auditor describing the independent auditor's internal quality control procedures; reviews reports required to be submitted to the Company by the independent auditor to the Company concerning the independent auditor's internal quality control procedures and reviews; evaluates the independent auditor's qualifications and performance; confirms that the lead audit partner for the Company's independent auditor has not performed audit services for the Company for each of the five previous years; reviews the Company's financial statements for each interim period and any changes in accounting policies that have occurred during the interim periods; discusses guidelines and policies governing the procedures for risk assessment and risk management for the Company including discussion of the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures; reviews with counsel and the independent auditor and management any significant regulatory or other legal or accounting initiatives or matters that could have a material impact on the Company's financial statements; discusses the responsibilities, budget and staffing of the Company's internal audit function and reviews the scope, quality and adequacy of the Company's internal controls over financial reporting and disclosure; and establishes procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, audit matters and established procedures for the confidential submission by employees of concerns regarding questionable accounting or auditing matters. The Audit Committee is composed of three directors: Messrs. Broomfield, Polanen and van Hedel. The Audit Committee met four times during 2008. The Audit Committee has adopted a written charter that is available to stockholders on the Company's website at [http://www.stbernard.com/investor/corp\\_governance.asp](http://www.stbernard.com/investor/corp_governance.asp).

The Board of Directors reviews the SEC listing standards definition of independence for Audit Committee members on an annual basis and has determined that all members of the Company's Audit Committee are independent (as independence is currently defined in Rule 10A-3(b) of the Securities Exchange Act of 1934, as amended). The Board of Directors has also determined that Mr. Broomfield qualifies as an audit committee financial expert, as defined in applicable SEC rules. The Board made a qualitative assessment of Mr. Broomfield's level of knowledge and experience based on a number of factors, including his formal education, experience as a chief executive officer and chief financial officer, and venture capitalist background.

## Report of the Audit Committee of the Board of Directors\*

The Audit Committee of the Board of Directors, which consists entirely of directors who either meet the independence and experience requirements of Rule 10A-3(b) of the Securities Exchange Act of 1934, as amended, and the SEC, has furnished the following report:

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2008 with management of the Company. The Audit Committee has discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board, or PCAOB, in Rule 3200T. The Audit Committee has also received the written disclosures and the letter from the independent accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee.



concerning independence and has discussed with the independent accountants the independent accountants' independence. Based on the foregoing, the Audit Committee has recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report in Form 10-K for the fiscal year ended December 31, 2008.

Mr. Scott Broomfield

Mr. Bart A. M. van Hedel

Mr. Humphrey Polanen

### **Compensation Committee**

The Compensation Committee of the Board of Directors is composed of three directors: Messrs. Polanen, Ryan and van Hedel. All members of the Board's Compensation Committee meet the standards of independence within the meaning of Rule 10A-3(b) of the Securities Exchange Act of 1934, as amended. The Compensation Committee met two times during 2008. The Compensation Committee has adopted a written charter that is available to stockholders on the Company's website at [http://www.stbernard.com/investor/corp\\_governance.asp](http://www.stbernard.com/investor/corp_governance.asp).

The Compensation Committee of the Board of Directors acts on behalf of the Board to review, adopt or recommend for adoption and oversee the Company's compensation strategy, policies, plans and programs, including:

establishment of annual and long-term performance goals and objectives for the Chief Executive Officer and all other officers and senior executives who report directly to the Chief Executive Officer;

evaluation of the performance of the Chief Executive Officer and all other officers and senior executives in light of the approved performance goals and objectives of the Company;

determination of the compensation of the Chief Executive Officer and all other officers and senior executives based on the evaluation of the performance of the Chief Executive Officer, and all other officers and senior executives, respectively;

recommendation to the Board with respect to incentive compensation plans and equity-based plans;

together with the Board, they administer the granting of stock options and awards under the Company's stock option plans; and

production of an annual report on executive compensation for inclusion in the Company's annual proxy statement in accordance with applicable rules and regulations.

\* The material in this report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

### **Compensation Committee Processes and Procedures**

Typically, the Compensation Committee meets quarterly and with greater frequency, if necessary. The agenda for each meeting is usually developed by the Chair of the Compensation Committee, in consultation with the CEO and legal counsel. The Compensation Committee meets regularly in executive session. However, from time to time, various members of management, as well as outside advisors or consultants, may be invited by the Compensation Committee to make presentations, provide financial or other background information or advice or otherwise participate in Compensation Committee meetings. The Chief Executive Officer may not participate in or be present during any deliberations or determinations of the Compensation Committee regarding his compensation. The charter of the Compensation Committee grants the Compensation Committee the authority to obtain, at the expense of the Company, advice and assistance from internal and external legal, accounting or other advisors and consultants and other external resources that the Compensation Committee considers



necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the sole authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms.

Under its charter, the Compensation Committee may form, and delegate authority to, subcommittees, as appropriate. In 2006, the Compensation Committee formed a Non-Officer Stock Option Subcommittee, or Subcommittee, composed of Mr. Rossi, who held the position in 2008, to which it delegated authority to grant, without any further action required by the Compensation Committee, stock options to employees who are not officers of the Company. The purpose of this delegation of authority is to enhance the flexibility of option administration within the Company and to facilitate the timely grant of options to non-management employees, particularly new employees, within specified limits approved by the Compensation Committee. In particular, the Subcommittee may not grant options to acquire more than an aggregate of 10,000 shares per employee in any calendar year and all grants must be under standard terms and conditions. Typically, as part of its oversight function, the Compensation Committee will review on a quarterly basis the list of grants made by the Subcommittee. The Subcommittee granted 373,500 options to purchase shares to non-officer employees in 2008.

The Compensation Committee establishes and makes, directly and sometimes by recommendations made to the Board of Directors, most significant adjustments to annual compensation, variable (bonus) compensation and equity awards of or to the executive officers of the Company and other direct reports to the Chief Executive Officer. The Compensation Committee also considers compensation for new executive hires. Generally, the Compensation Committee's process comprises two related elements: the determination of compensation levels and the establishment of performance objectives. For executives other than the Chief Executive Officer, the Compensation Committee solicits and considers evaluations and recommendations submitted to the Compensation Committee by the Chief Executive Officer. In the case of the Chief Executive Officer, the evaluation of his performance is conducted by the Compensation Committee, which determines any adjustments to his compensation as well as awards to be granted. For all executives, as part of its deliberations, the Compensation Committee may review and consider, as appropriate, materials such as financial reports and projections, operational data, tax and accounting information, tally sheets that set forth the total compensation that may become payable to executives in various hypothetical scenarios, executive stock ownership information, analyses of historical executive compensation levels and executive compensation paid at similar companies, including industry, location and size, identified by St. Bernard's management.

#### **Compensation Committee Interlocks and Insider Participation**

None of the Company's executive officers currently serve, or has served during the last completed fiscal year, on the compensation committee or board of directors of any other entity that has one or more executive officers serving as a member of the Company's Board of Directors or Compensation Committee.

#### **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee of the Board of Directors is responsible for identifying individuals qualified to become members of the Board and recommending to the Board individuals to be considered as nominees for election as directors at the annual meeting of stockholders of the Company, reviewing and evaluating incumbent directors, overseeing all aspects of the Company's corporate governance functions on behalf of the Board, developing and recommending to the Board the adoption of corporate governance principles applicable to the Company which are designed to help the Board satisfy its obligations to the stockholders of the Company and is responsible for making other recommendations to the Board regarding affairs relating to directors of the Company, including director compensation. The Nominating and Corporate Governance Committee is composed of three directors: Messrs. van Hedel, Broomfield and Polanen. All members of the Nominating and Corporate Governance Committee meet the standards of independence within the meaning of Rule 10A-3(b) of the Securities Exchange Act of 1934, as amended. The Nominating and Corporate Governance Committee formally met once during 2008. The Nominating and Corporate Governance Committee written charter is available to stockholders on the Company's website at [http://www.stbernard.com/investor/corp\\_governance.asp](http://www.stbernard.com/investor/corp_governance.asp).

The Nominating and Corporate Governance Committee believes that candidates for director should have certain minimum qualifications, including the ability to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Nominating and Corporate Governance Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of the Company, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of the Company's stockholders. However, the Nominating and Corporate Governance Committee retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of the Company and the long-term interests of stockholders. In conducting this assessment, the Nominating and Corporate Governance Committee considers diversity, age, skills, and such other factors as it deems appropriate given the current needs of the Board and the Company, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance Committee reviews these directors' overall service to the Company during their terms, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair the directors' independence. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee is independent, which determination is based upon applicable SEC rules and regulations, the Security and Exchange Act of 1934, as amended, and the rules and regulation promulgated thereunder, and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee then uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Corporate Governance Committee meets to discuss and consider the candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote.

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether or not the candidate was recommended by a stockholder. Stockholders who wish to recommend individuals for consideration by the Nominating and Corporate Governance Committee to become nominees for election to the Board may do so by delivering a written recommendation to the Nominating and Corporate Governance Committee at the following address: 15015 Avenue of Science, San Diego, CA 92128 at least 120 days prior to the anniversary date of the mailing of the Company's proxy statement for the last Annual Meeting of Stockholders. Submissions must include the full name of the proposed nominee, a description of the proposed nominee's business experience for at least the previous five years, complete biographical information, a description of the proposed nominee's qualifications as a director and a representation that the nominating stockholder is a beneficial or record holder of the Company's stock and has been a holder for at least one year. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director, if elected.

#### **STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

The Company's Board has adopted a formal process by which stockholders may communicate with the Board or any of its directors. This information is included in the Company's Corporate Governance Guidelines available on the Company's website at [http://www.stbernard.com/investor/corp\\_governance.asp](http://www.stbernard.com/investor/corp_governance.asp).

#### **CODE OF ETHICS**

The Company has adopted the St. Bernard Software Code of Ethics and Business Conduct that applies to all officers, directors and employees. The Code of Ethics and Business Conduct is available on our website at [http://www.stbernard.com/investor/corp\\_governance.asp](http://www.stbernard.com/investor/corp_governance.asp). If the Company makes any substantive amendments to the

Code of Ethics and Business Conduct or grants any waiver from a provision of the Code of Ethics and Business Conduct to any executive officer or director, the Company will promptly disclose the nature of the amendment or waiver on its website.

**CORPORATE GOVERNANCE GUIDELINES**

In September 2006, the Board of Directors documented the governance practices followed by the Company by adopting Corporate Governance Guidelines to assure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations as needed and to make decisions that are independent of the Company's management. The guidelines are also intended to align the interests of directors and management with those of the Company's stockholders. The Corporate Governance Guidelines set forth the practices the Board intends to follow with respect to board composition and selection, board meetings and involvement of senior management, Chief Executive Officer performance evaluation and succession planning, and board committees and compensation. The Corporate Governance Guidelines were adopted by the Board to, among other things, reflect changes to the Securities and Exchange Commission rules adopted to implement provisions of the Sarbanes-Oxley Act of 2002. The Corporate Governance Guidelines, as well as the charters for each committee of the Board, may be viewed at [http://www.stbernard.com/investor/corp\\_governance.asp](http://www.stbernard.com/investor/corp_governance.asp).

## AFFILIATE TRANSACTIONS AND RELATIONSHIPS

## EXECUTIVE OFFICERS

The following table sets forth information regarding our executive officers as of March 31, 2009:

Name	Age	Positions
Louis Ryan	54	Chief Executive Officer, Chief Financial Officer and Chairman of the Board of Directors
Steve Yin	43	Executive Vice President, Sales and Marketing

For a discussion of Mr. Ryan's biographical information, see Proposal 1 Election of Directors.

**Steve Yin**, age 43, currently serving as Executive Vice President, Sales and Marketing effective February 1, 2009. Steve Yin joined the Company in November 2004 as Vice President of Marketing. Mr. Yin has also served as Vice President, Sales and Marketing from April 2005 to June 2007 and again from March 2008. During the period July 2007 to February 2008 he served as Vice President of Sales. From August 2003 to September 2004, Mr. Yin was a principal/co-founder of Factor Diagnostics, a medical diagnostics company.

## SECURITY OWNERSHIP OF

## CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of the Company's common stock as of March 31, 2009 by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table; (iii) all executive officers and directors of the Company as a group; and (iv) all those known by the Company to be beneficial owners of more than five percent of its common stock.

Beneficial Owners (8 persons)	Beneficial Ownership (1)	
	Number of Shares	Percent of Total
William J. Del Biaggio III (2)	1,328,842	9.0%
Humphrey Polanen (3)	662,357	4.4%
Scott Broomfield (4)	423,752	2.8%
Bart van Hedel (5)	2,287,743	15.3%
Louis Ryan (6)	969,391	6.5%
Vince Rossi (7)	52,705	*
John Jones (8)	1,133,179	7.6%
Steve Yin (9)	102,305	*
All executive officers and directors as a group (6 persons) (10)	4,498,253	28.7%

\* Less than one percent.

- (1) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G filed with the Securities and Exchange Commission (the "SEC"). Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, the Company believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 14,838,940 shares outstanding on March 31, 2009, adjusted as required by rules promulgated by the SEC.
- (2) The business address for Mr. Del Biaggio is 3000 Sand Hill Road, Suite 240, Menlo Park, California 94025. Number of shares includes 1,328,842 shares of common stock.
- (3) Mr. Polanen is a member of the Board of Directors of the Company, served as Chairman of the Board of Directors of the Company from April 2004 to July 2008 and served as Chief Executive Officer of the Company between April 2004 and July 2006 (when the Company was known as Sand Hill IT Security Acquisition Corp.). Number of shares includes 459,441 shares of common stock, 158,500 shares

- underlying warrants to purchase common stock, and 44,416 shares underlying options to purchase common stock. The business address for Mr. Polanen is 3000 Sand Hill Road, Suite 240, Menlo Park, California 94025.
- (4) Mr. Broomfield has served as a member of the Board of Directors of the Company since 2004 and as an executive officer of the Company between April 2004 and July 2006 (when the Company was known as Sand Hill IT Security Acquisition Corp. ). Number of shares includes 174,825 shares of common stock beneficially held by the Broomfield Family Trust, of which Mr. Broomfield is a Co-Trustee, 105,011 shares underlying warrants to purchase common stock beneficially held by the Broomfield Family Trust, and 143,916 shares underlying options to purchase common stock. The business address for Mr. Broomfield is 3000 Sand Hill Road, Suite 240, Menlo Park, California 94025.
  - (5) Mr. van Hedel became a member of the Board of Directors of the Company upon completion of the merger of St. Bernard Software, Inc. with the Company (when the Company was known as Sand Hill IT Security Acquisition Corp. ) in July 2006. Number of shares includes 2,205,556 shares of common stock held in trust by Stichting Trustee Ai-Investments for Ai-Investments N.V., Perennial Investments B.V., BeeBird Beeher B.V. and others and 82,187 shares underlying options to purchase common stock. Mr. van Hedel is a board member for Stichting Trustee Ai-Investments and managing director for both Ai-Investments N.V. and Perennial Investments B.V. The business address for Mr. van Hedel is Strawinskylaan 3107, 1077 ZX, Amsterdam, The Netherlands.
  - (6) Mr. Ryan became the Chief Executive Officer and Chief Financial Officer effective January 15, 2009. Mr. Ryan has served as a member of the Board of Directors of the Company since July 2006 and became Chairman of the Board of Directors in July 2008. Number of shares includes 793,330 shares of common stock, 176,061 shares underlying warrants to purchase common stock, and 67,666 shares underlying options to purchase common stock.
  - (7) Mr. Rossi entered into a Separation Agreement with the Company on December 2, 2008, with an effective termination date of January 1, 2009. Mr. Rossi was the Company's President, Chief Executive Officer, and a member of the Board of Directors of the Company from November 1, 2006 until January 1, 2009. Number of shares includes 52,705 shares of common stock.
  - (8) Mr. Jones was the Company's President and Chief Executive Officer from July 27, 2006 until November 1, 2006.
  - (9) Mr. Yin currently holds the position of Executive Vice President, Sales and Marketing. Mr. Yin joined the Company in November 2004 as Vice President of Marketing, served as Vice President, Sales and Marketing from April 2005 to June 2007, and again from March 2008. Number of shares includes 102,305 shares underlying options to purchase common stock.
  - (10) Includes shares described in the notes above.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2008, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
Vince Rossi	2008	\$ 300,000	\$ 137,000(2)					\$ 44,000(3)	\$ 481,000
Former President , Chief Executive Officer, and Acting Chief Financial Officer (1)	2007	\$ 300,000	\$ 64,000					\$ 97,000(4)	\$ 461,000
Steve Yin	2008	\$ 185,000			\$ 54,000(5)			\$ 124,000(6)	\$ 363,000
Executive Vice President, Sales and Marketing	2007	\$ 185,000						\$ 98,000(7)	\$ 283,000
Felicia Bachmann	2008	\$ 73,000	\$ 16,000		\$ 10,000(5)			\$ 134,000(6)	\$ 233,000
National Sales Manager	2007	\$ 66,000	\$ 7,000					\$ 91,000(6)	\$ 164,000
Thalia Gietzen	2008	\$ 150,000	\$ 25,000		\$ 10,000(5)				\$ 185,000
Corporate Controller (8)	2007	\$ 6,000							\$ 6,000

- (1) On December 2, 2008, the Company entered into a Separation Agreement with Mr. Rossi, with an effective employment termination date of January 1, 2009. Mr. Louis Ryan was hired as Chief Executive Officer and Chief Financial Officer effective January 15, 2009.
- (2) Mr. Rossi's 2008 bonus was paid on January 20, 2009.
- (3) Consists of \$44,000 in car and housing allowance paid.
- (4) Includes \$37,000 in car and housing allowance paid, \$51,000 related to the tax gross ups on the car and housing allowance, and \$9,000 in Company matched 401(k) funds in 2007.
- (5) Amounts shown here were calculated utilizing the provisions of Statement of Financial Accounting Standards, or SFAS, No. 123R (revised 2004), *Share-based Payment* ( SFAS 123R ). On August 21, 2008, stock option grants for 200,000 shares of the Company's common stock were made to Mr. Yin at an exercise price of \$0.40 per share. These stock options were later re-priced to \$0.25 per share on February 9, 2009. Each of the listed options vests over three years as follows: one-third (1/3) of the option vests on the first anniversary of the grant date and the remaining two-thirds (2/3) of the option vests in equal monthly installments from the 13<sup>th</sup> through the 36<sup>th</sup> month from the date of the grant. See Note 2 of our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 regarding the assumptions underlying the valuation of these option grants under SFAS 123R.
- (6) Represents commissions earned.
- (7) Consists of \$90,000 in commissions earned and \$8,000 in Company matched 401(k) funds in 2007.
- (8) Mrs. Gietzen joined the Company in December 2007.

Except as described below, the compensation for the named executive officers included in the Summary Compensation Table is determined by the Company's Board and the Compensation Committee of the Board on an annual basis. The severance and change in control payments for Messrs. Ryan, Rossi and Yin are described below.

**LOUIS E. RYAN EMPLOYMENT AGREEMENT**

The Company entered into an Employment Agreement with Louis E. Ryan, to serve as the Company's Chief Executive Officer, with an effective employment date of January 15, 2009. Pursuant to the terms of the Agreement, Mr. Ryan is entitled to receive semi-monthly payments of \$9,375 (before deductions made at Employee's request, if any, and for deductions required by federal, state and local law). Additionally, Mr. Ryan is entitled to receive a quarterly performance bonus, not to exceed \$100,000 in the aggregate for each year based on specific revenue goals (up to \$75,000) and expense goals (\$25,000) as set forth in the bonus plan established by





the Board of Directors. The Company also granted Mr. Ryan 165,000 non-qualified stock options to vest in equal installments of 1/36 per month over a three (3) year period, starting on the date of grant, and until such options are vested in full. Also, under the Employment Agreement, in the event that Mr. Ryan is terminated without Cause or if the Board of Directors appoints a permanent Chief Executive Officer to replace Mr. Ryan, the Company is required to pay Mr. Ryan his base salary for the remaining term of his Initial Term (the Severance Period) following the date of such termination (the Severance), not to exceed six (6) months of his base salary. The Company also granted Mr. Ryan the option to participate in the benefit plans offered by the Company, including without limitation, 401(k), and other savings plans, short and long term disability insurance, Section 125 (cafeteria) and similar pre-tax expense plans, holidays, sick leave, etc., which may be amended from time to time at the Company's discretion. Mr. Ryan can also participate in health insurance for himself and his dependents, and such other benefits as provided by the Company to all of its employees from time to time. Mr. Ryan is entitled to four (4) weeks vacation with pay for each twelve-month period, to be taken at times agreed with Company. Unused vacation shall accrue according to the Company's accrued vacation policy, as may be amended from time to time. Mr. Ryan's employment is on an at-will basis and not for any specific time period.

Mr. Ryan has been a Board Member since July 2006 and currently serves as the Chairman of the Board of Directors.

#### **STEVE YIN EMPLOYMENT AGREEMENT**

On September 22, 2008, the Company and Steve Yin entered into an Employment Agreement, amended on April 2, 2009. Under the terms of the Employment Agreement, as amended, Steve Yin serves as the Executive Vice President, Sales and Marketing, with an effective date of February 1, 2009.

Pursuant to the terms of the Employment Agreement, as amended, Mr. Yin is entitled to receive semi-monthly payments of \$8,750 (before deductions made at Employee's request, if any, and deductions required by federal, state and local law), which is an increase from his previous monthly base salary. Additionally, Mr. Yin is entitled to receive monthly commission on sales based on the terms and conditions of the 2009 Sales Variable (Commission) Compensation Plan established by the Board of Directors. The Company also granted Mr. Yin 25,000 non-qualified stock options to vest over a three (3) year period with one third (1/3) vesting on the first anniversary of the date of the grant and the remainder two thirds (2/3) vesting over the remaining two (2) years on a monthly basis thereafter (such shares to vest on the first day of each month thereafter until such shares are vested in full).

#### **VINCENT ROSSI SEPARATION AGREEMENT**

On December 2, 2008, the Company entered into a Separation Agreement with Vincent Rossi, the Company's former Chief Executive Officer and Acting Chief Financial Officer, effective January 1, 2009. Under the terms of the Separation Agreement, Mr. Rossi received a severance of \$225,000, payable over a six month period, which was equivalent to his base salary and bonus for such period, made in the form of salary continuation in accordance with the Company's standard payroll schedule. Additionally, the Company paid Mr. Rossi's deferred bonus compensation through November 30, 2008 in the amount of \$137,500 in January 2009. The Company is also paying for Mr. Rossi's health insurance premiums over the same six-month period.

Pursuant to the Separation Agreement and in accordance with their terms, all outstanding unvested stock options then held by Mr. Rossi expired as of January 1, 2009, and all outstanding vested but unexercised stock options then held by him subsequently expired 90 days after his termination date. Mr. Rossi provided a release of all claims against the Company and agreed to refrain from certain conduct. If at anytime during the six month period described above, Mr. Rossi obtains employment, the health insurance benefits granted by the Severance Agreement shall terminate.

## OUTSTANDING EQUITY AWARDS VALUE AT FISCAL YEAR-END TABLE

Name and Principal Position	Option Awards			Stock Awards		
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable (1)	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
Vince Rossi	133,000	67,000(2)	\$ 1.95(2)	04/01/2009(3)		
Former President, Chief Executive Officer, and Acting Chief Financial Officer	320,000	160,000	\$ 1.90	04/01/2009(3)		
Steve Yin	41,962		\$ 0.81(4)	03/02/2015		
Executive Vice President, Sales and Marketing	49,875	25,125	\$ 1.90(4)	12/18/2016		
		200,000	\$ 0.40(4)	08/21/2018		

- (1) Each of the listed options vests over three years as follows: one-third (1/3) of the option vests on the first anniversary of the grant date and the remaining two-thirds (2/3) of the option vests in equal monthly installments from the 13<sup>th</sup> through the 36<sup>th</sup> month from the date of the grant.
- (2) On January 3, 2007, the Board of Directors of the Company approved an amendment to these stock option grants reducing the exercise price of the amended option grants to from \$5.40 to \$1.95, which was the closing fair market price of the Company's common stock on January 11, 2007. The intention of the Board of Directors in approving the amendment was to reestablish the incentive and retentive value of the amended stock options, as the options had been left significantly out-of-the-money due to declines in the price of the Company's common stock.
- (3) Mr. Rossi's stock options expired 90 days following his termination date of January 1, 2009.
- (4) On February 9, 2009, the Board of Directors of the Company approved an amendment to these stock option grants reducing the exercise price of the amended option grants to \$0.25, which was the closing fair market price of the Company's common stock on February 10, 2009. The intention of the Board of Directors in approving the amendment was to reestablish the incentive and retentive value of the amended stock options.

## DIRECTOR COMPENSATION TABLE (1)

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	All Other Compensation (3)	Total
Louis E. Ryan	\$ 39,000		\$ 27,000(2)	\$ 66,000	\$ 132,000
Humphrey P. Polanen	\$ 45,000				\$ 45,000
Scott R. Broomfield	\$ 47,000			\$ 15,000	\$ 62,000
Bart A.M. van Hedel	\$ 37,000				\$ 37,000
Mel S. Lavitt (4)	\$ 17,000				\$ 17,000

(1)

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At December 31, 2008, each director had the following aggregate number of stock option awards outstanding: Mr. Ryan 365,000, Mr. Polanen 50,000 shares, Mr. Broomfield 250,000 shares, and Mr. van Hedel 87,771 shares.

- (2) Amounts shown here were calculated utilizing the provisions of Statement of Financial Accounting Standards, or SFAS, Amounts shown here were calculated utilizing the provisions of Statement of Financial Accounting Standards, or SFAS, No. 123R (revised 2004), *Share-based Payment* ( SFAS 123R ). On August 21, 2008, stock option grants for 100,000 shares of the Company's common stock were made to Mr. Ryan at an exercise price of \$0.40 per share. These stock options were later re-priced to \$0.25 per share

on February 9, 2009. Each of the listed options vests over three years as follows: one-third (1/3) of the option vests on the first anniversary of the grant date and the remaining two-thirds (2/3) of the option vests in equal monthly installments from the 13<sup>th</sup> through the 36<sup>th</sup> month from the date of the grant. See Note 2 of our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 regarding the assumptions underlying the valuation of these option grants under SFAS 123R.

(3) The amounts shown here consisted of consulting fees.

(4) Mr. Lavitt did not stand for re-election in 2008.

Each of the Company's non-employee directors receives cash compensation in the form of an annual retainer of \$25,000, payable quarterly, a fee of \$1,000 for each non-telephonic meeting of the Board of Directors that he attends in person, and a fee of \$500 for attendance at each non-telephonic meeting of the Board of Directors in which he participates and each telephonic meeting of the Board of Directors in which he participates. In addition, the Chairman of the Board and the Chairman of the Audit Committee receive an additional annual retainer of \$15,000 each. The Chairman of the Compensation Committee and the Chairman of the Nominating and Corporate Governance Committee receive an additional annual retainer of \$10,000 each. St. Bernard reimburses its non-employee directors for their reasonable expenses incurred in attending meetings of the Board of Directors and committees of the Board of Directors. Effective January 15, 2009, Mr. Ryan is not entitled to any Board of Directors fees.

Mr. Ryan received a stock option grant under the Company's 2005 Stock Option Plan to purchase 100,000 shares of the Company's common stock on August 19, 2008. These stock options vest over three years as follows: one third (1/3) of the options vest on the first anniversary of the date of grant and the remaining two thirds (2/3) of the options vest in equal monthly installments from the 13<sup>th</sup> through the 36<sup>th</sup> month from the date of the option grant. In the event of a change in control of the Company which results in removal of the director as a member of the Board, the vesting of that director's options is accelerated such that the options become immediately exercisable in full.

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**TRANSACTIONS WITH RELATED PERSONS**

**RELATED-PERSON TRANSACTIONS POLICY AND PROCEDURES**

In November 2006, the Company adopted a written Related-Person Transactions Policy that sets forth the Company's policies and procedures regarding the identification, review, consideration and approval or ratification of related-persons transactions. For purposes of the Company's policy only, a related-person transaction is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which the Company and any related person are participants. Transactions involving compensation for services provided to the Company as an employee, director, consultant or similar capacity by a related person are not covered by this policy. A related person is any executive officer, director, or more than 5% stockholder of the Company, including any of their immediate family members, and any entity owned or controlled by such persons.

Under the policy, where a transaction has been identified as a related-person transaction, management must present information regarding the proposed related-person transaction to the Audit Committee (or, where Audit Committee approval would be inappropriate, to another independent body of the Board) for consideration and approval or ratification. The presentation must include a description of, among other things, the material facts, the interests, direct and indirect, of the related persons, the benefits to the Company of the transaction and whether any alternative transactions were available. To identify related-person transactions in advance, the Company relies on information supplied by its executive officers and directors. In considering related-person transactions, the Audit Committee takes into account the relevant available facts and circumstances including, but not limited to (a) the risks, costs and benefits to the Company, (b) the impact on a director's independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated, (c) the terms of the transaction, (d) the availability of other sources for comparable services or products and (e) the terms available to or from, as the case may be, unrelated third parties or to or from employees generally. In the event a director has an interest in the proposed transaction, the director must recuse himself or herself from the deliberations and approval. The policy requires that, in determining whether to approve, ratify or reject a related-person transaction, the Audit Committee look at, in light of known circumstances, whether the transaction is in, or is not inconsistent with, the best interests of the Company and its stockholders, as the Audit Committee determines in the good faith exercise of its discretion.

**CERTAIN RELATED-PERSON TRANSACTIONS**

During July 2005, Ai-Investments N.V., a Netherlands corporation, which is partially owned by Mr. Bart van Hedel, a director of the Company, purchased 200,000 units for \$5.00 each, or an aggregate of \$1,000,000. Each unit purchased was originally for securities of St. Bernard Software, Inc., but following the acquisition of St. Bernard Software, Inc. by the Company when it was known as Sand Hill IT Security Acquisition Corp., such units are comprised of what are now equivalent to 252,851 shares of Company common stock and one warrant which may be exercised for what is now equivalent to 419,613 shares of Company common stock for an exercise price of \$2.9662 per share. The warrants expired, unexercised, on December 31, 2008. There were no liquidated damages provisions related to the warrants. The previously issued warrants were made in private placement under Section 4(2) of the Securities Act of 1933, as amended.

Pursuant to an agreement with BeeBird Beheer B. V., an affiliate of Bart van Hedel, a director of the Company, the Company paid BeeBird Beheer 1,500 Euros per month, plus applicable taxes and miscellaneous service charges, to lease 2,000 square feet of office space in Amsterdam during 2007. The lease was terminated on February 15, 2008.

**HOUSEHOLDING OF PROXY MATERIALS**

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are St. Bernard Software, Inc. stockholders will be householding our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker. Direct your written request to St. Bernard Software, Inc., Louis E. Ryan, Chief Executive Officer, 15015 Avenue of Science, San Diego, CA 92128 or contact Louis E. Ryan at 858-524-2038. Stockholders who currently receive multiple copies of the proxy statement at their addresses and would like to request householding of their communications should contact their brokers.

**OTHER MATTERS**

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

Louis E. Ryan

Chief Executive Officer, Chief Financial Officer, and

Chairman of the Board of Directors

April 30, 2009

**A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2008 is available without charge upon written request to: Chief Executive Officer, St. Bernard Software, Inc., 15015 Avenue of Science, San Diego, CA 92128.**



**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF**

**ST. BERNARD SOFTWARE, INC.**

**Proxy 2009 Annual Meeting of Stockholders**

**June 15, 2009**

The undersigned, a stockholder of St. Bernard Software, Inc., a Delaware corporation (the Company), does hereby appoint Thalia Gietzen (with full power to act alone), the true and lawful attorney and proxy with full power of substitution, for and in the name, place and stead of the undersigned, to vote all of the shares of Common Stock of the Company that the undersigned would be entitled to vote if personally present at the 2009 Annual Meeting of Stockholders of the Company to be held at 15015 Avenue of Science, San Diego, CA 92128 on June 15, 2009, at 9:00 A.M., Pacific Time, or at any adjournment or postponements thereof.

The undersigned hereby revokes any proxy or proxies heretofore given and acknowledges receipt of a copy of the Notice of Annual Meeting and Proxy Statement, both dated April 30, 2009, and a copy of the Company's Annual Report for the year ended December 31, 2008.

**THIS PROXY WILL BE VOTED IN ACCORDANCE WITH ANY DIRECTIONS HEREIN GIVEN. UNLESS OTHERWISE SPECIFIED, THIS PROXY WILL BE VOTED TO ELECT THE DIRECTORS AND TO RATIFY THE APPOINTMENT OF SQUAR, MILNER, MIRANDA & WILLIAMSON, LLP AS THE COMPANY'S INDEPENDENT PUBLIC ACCOUNTANTS.**

**(CONTINUED TO BE COMPLETED, SIGNED AND DATED ON THE REVERSE SIDE)**



**2009 ANNUAL MEETING OF STOCKHOLDERS OF**

**ST. BERNARD SOFTWARE, INC.**

**June 15, 2009**

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:**

The Notice of Meeting, proxy statement and proxy card  
are available at <http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber=13605>

Please sign, date and mail  
your proxy card in the  
envelope provided as soon  
as possible.

i Please detach along perforated line and mail in the envelope provided. i

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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF DIRECTORS AND FOR PROPOSAL 2.  
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK  
INK AS SHOWN HERE x**

1. Election of Directors to hold office until the 2010 Annual Meeting of Stockholders:	2. Ratification of Squar, Milner, Miranda & Williamson, LLP as independent auditors of the Company for its fiscal year ending December 31, 2009.	FOR	AGAINST	ABSTAIN
..	..	..	..	..

**NOMINEES:**

.. **FOR ALL NOMINEES**       Humphrey  
     Polanen

**WITHHOLD AUTHORITY**       Scott Broomfield

..

**FOR ALL NOMINEES**       Bart A. M. van Hedel

Louis Ryan

**FOR ALL EXCEPT**  
..  
(See instructions below)

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: 1

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To change the address on your account, please check the box at right and indicate your new address in the address space above. ..  
Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder

Date:

Signature of Stockholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**2009 ANNUAL MEETING OF STOCKHOLDERS OF**

**ST. BERNARD SOFTWARE, INC.**

**June 15, 2009**

**PROXY VOTING INSTRUCTIONS**

**INTERNET** - Access [www.voteproxy.com](http://www.voteproxy.com) and follow the on-screen instructions. Have your proxy card available when you access the web page, and use the Company Number and Account Number shown on your proxy card.

**TELEPHONE** - Call toll-free **1-800-PROXIES** (1-800-776-9437) in the United States or **1-718-921-8500** from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call and use the Company Number and Account Number shown on your proxy card.

Vote online/phone until 11:59 PM EST the day before the meeting.

**MAIL** - Sign, date and mail your proxy card in the envelope provided as soon as possible.

**IN PERSON** - You may vote your shares in person by attending the Annual Meeting.

**COMPANY NUMBER**  
**ACCOUNT NUMBER**

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:**

The Notice of Meeting, proxy statement and proxy card

are available at <http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber=13605>

Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet.

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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF DIRECTORS AND FOR PROPOSAL 2.**

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PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

- |  |  |   |
|--|--|---|
| 1. Election of Directors to hold office until the 2010 Annual Meeting of Stockholders: | 2. Ratification of Squar, Milner, Miranda & Williamson, LLP as independent auditors of the Company for its fiscal year ending December 31, 2009. | FOR    AGAINST    ABSTAIN<br>..       ..       .. |
|--|--|---|

- .. **FOR ALL NOMINEES**
- NOMINEES:**  
O Humphrey  
Polanen
- .. **WITHHOLD AUTHORITY**
- O Scott Broomfield
- .. **FOR ALL NOMINEES**
- O Bart A. M. van Hedel
- O Louis Ryan

.. **FOR ALL EXCEPT**

.. (See instructions below)

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: 1

To change the address on your account, please check the box at right and indicate your new address in the address space above. ..  
Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder	Date:	Signature of Stockholder	Date:
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**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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