ST. BERNARD SOFTWARE, INC.
Form 10-Q/A
August 27, 2008

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

FORM 10-Q/A
Amendment No. 1

(Mark One)
x QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008.

o TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____________ TO ____________.

Commission File Number 000-50813

St. Bernard Software, Inc.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware (State or other Jurisdiction of incorporation)	20-0996152 (I.R.S. Employer Identification No.)

15015 Avenue of Science
San Diego, California
(Address of Principal Executive Office)

(858) 676-2277
(Issuer's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ý No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting companyx

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

As of August 12, 2008 there were 14,783,090 shares of the registrant's common stock outstanding.

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-Q is being filed to amend the Quarterly Report on Form 10-Q for the period ended June 30, 2008 of St. Bernard Software, Inc. ("St. Bernard" or the "Company"), originally filed on August 12, 2008, solely to correct a typographical error of $122,000 made by our financial printers for "Noncash interest expense" that should have been included in the "Cash Flows From Operating Activities" section of the Company's Unaudited Consolidated Statement of Cash Flows. The "Net cash used in operating activities" remains unchanged at approximately $2.1 million, but the omitted line item within the cash flow statement has been inserted to correct the omission.

Except as described above, no other changes have been made to the Original Filing. The Original Filing, as amended, continues to speak as of the date of the Original Filing. As part of the Amended Filing, Exhibits 31.1 and 31.2 containing the certifications of our Chief Executive Officer and Acting Chief Financial Officer that were filed as exhibits to the Original Filing have been re-executed and re-filed as of the date of this Amended Filing.

ST. BERNARD SOFTWARE, INC.
For the Quarter Ended June 30, 2008
Form 10-Q
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PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements
St. Bernard Software, Inc.

Consolidated Balance Sheets

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current Assets		
Cash and cash equivalents	$ 376,000	$ 1,297,000
Accounts receivable - net of allowance for doubtful accounts of $70,000 and $59,000 at June 30, 2008 and December 31, 2007, respectively	3,769,000	3,255,000
Inventories - net	345,000	158,000
Prepaid expenses and other current assets	405,000	440,000
Total current assets	4,895,000	5,150,000
Fixed Assets - Net	1,016,000	1,301,000
Other Assets	180,000	215,000
Goodwill	7,568,000	7,568,000
Total Assets	$ 13,659,000	$ 14,234,000
Liabilities and Stockholders’ Deficit		
Current Liabilities		
Short-term borrowings	$ 2,462,000	$ 1,566,000
Accounts payable	2,115,000	3,026,000
Accrued compensation expenses	885,000	1,188,000
Accrued expenses and other current liabilities	506,000	406,000
Current portion of capitalized lease obligations	161,000	153,000
Deferred revenue	9,885,000	9,589,000
Total current liabilities	16,014,000	15,928,000
Deferred Rent	157,000	232,000
Capitalized Lease Obligations, Less Current Portion	88,000	170,000
Deferred Revenue	6,146,000	5,860,000
Total liabilities	22,405,000	22,190,000
Commitments and Contingencies		

Stockholders’ Deficit				
Preferred stock, $0.01 par value; 5,000,000 shares authorized; no shares issued and outstanding		-		-
Common stock, $0.01 par value; 50,000,000 shares authorized; 14,772,367 and 14,760,052 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively		148,000		148,000
Additional paid-in capital		39,628,000		39,079,000
Accumulated deficit		(48,522,000)		(47,183,000)
Total stockholders’ deficit		(8,746,000)		(7,956,000)
Total Liabilities and Stockholders’ Deficit	$	13,659,000	$	14,234,000

The accompanying notes are an integral part of these consolidated financial statements.

St. Bernard Software, Inc.

Unaudited Consolidated Statements of Operations

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenues				
Subscription	$ 3,427,000	$ 3,600,000	$ 6,731,000	$ 7,372,000
Appliance	1,161,000	882,000	1,762,000	1,627,000
License	12,000	559,000	16,000	1,415,000
Total Revenues	4,600,000	5,041,000	8,509,000	10,414,000
Cost of Revenues				
Subscription	557,000	1,023,000	1,113,000	2,099,000
Appliance	811,000	779,000	1,236,000	1,337,000
License	4,000	18,000	5,000	50,000
Total Cost of Revenues	1,372,000	1,820,000	2,354,000	3,486,000
Gross Profit	3,228,000	3,221,000	6,155,000	6,928,000
Sales and marketing expenses	2,065,000	3,414,000	3,881,000	7,474,000
Research and development expenses	746,000	1,789,000	1,499,000	3,647,000
General and administrative expenses	1,377,000	2,441,000	2,575,000	4,870,000
Total Operating Expenses	4,188,000	7,644,000	7,955,000	15,991,000
Loss from Operations	(960,000)	(4,423,000)	(1,800,000)	(9,063,000)
Other (Income) Expense				
Interest expense - net	157,000	59,000	300,000	72,000
(Gain) loss on sale of assets	-	251,000	(320,000)	(3,463,000)
Other income	(180,000)	-	(444,000)	(9,000)
Total Other (Income) Expense	(23,000)	310,000	(464,000)	(3,400,000)
Loss Before Income Taxes	(937,000)	(4,733,000)	(1,336,000)	(5,663,000)
Income tax expense	3,000	-	3,000	4,000
Net Loss	$ (940,000)	$ (4,733,000)	$ (1,339,000)	$ (5,667,000)
Net Loss Per Common Share - Basic and Diluted	$ (0.06)	$ (0.32)	$ (0.09)	$ (0.38)
Weighted Average Shares Outstanding - Basic and Diluted	14,772,367	14,764,512	14,772,096	14,779,434

The accompanying notes are an integral part of these consolidated financial statements.

St. Bernard Software, Inc.

Unaudited Consolidated Statement of Stockholders' Deficit

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at December 31, 2007	14,760,052	$ 148,000	$ 39,079,000	$ (47,183,000)	$ (7,956,000)
Common stock issued under the employee stock purchase plan	12,315	-	6,000	-	6,000
Stock-based compensation expense	-	-	334,000	-	334,000
Value of warrants issued	-	-	209,000	-	209,000
Net loss	-	-	-	(1,339,000)	(1,339,000)
Balance at June 30, 2008	14,772,367	$ 148,000	$ 39,628,000	$ (48,522,000)	$ (8,746,000)

The accompanying notes are an integral part of these consolidated financial statements.

St. Bernard Software, Inc.

Unaudited Consolidated Statements of Cash Flows

	Six months ended June 30, 2008	2007
Cash Flows From Operating Activities		
Net loss	$ (1,339,000)	$ (5,667,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	321,000	740,000
Allowance for doubtful accounts	11,000	(32,000)
Gain on sale of assets	(320,000)	(3,463,000)
Stock-based compensation expense	334,000	581,000
Noncash interest expense	122,000	2,000
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(525,000)	(92,000)
Inventories	(187,000)	4,000
Prepaid expenses and other assets	38,000	(24,000)
Accounts payable	(911,000)	(564,000)
Accrued expenses and other current liabilities	(242,000)	72,000
Deferred rent	51,000	-
Deferred revenue	582,000	1,031,000
Net cash used in operating activities	(2,065,000)	(7,412,000)
Cash Flows From Investing Activities		
Additional costs related to purchase of business	-	(83,000)
Purchases of fixed assets	(4,000)	(231,000)
Proceeds from the sale of assets	320,000	1,200,000
Net cash provided by investing activities	316,000	886,000
Cash Flows From Financing Activities		
Proceeds from stock option and warrant exercises	-	30,000
Proceeds from the sales of stock under the employee stock purchase plan	6,000	-
Principal payments on capitalized lease obligations	(74,000)	(51,000)
Net increase in short-term borrowings	896,000	2,042,000
Net cash provided by financing activities	828,000	2,021,000
Net Decrease in Cash and Cash Equivalents	(921,000)	(4,505,000)
Cash and Cash Equivalents at Beginning of Period	1,297,000	4,842,000
Cash and Cash Equivalents at End of Period	$ 376,000	$ 337,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 190,000	$ 125,000
Income taxes	$ -	$ 2,000

Non Cash Investing and Financing Activities:

In January 2008, the Company amended its loan agreement with a bank. As a result, the Company issued warrants which allows the bank to purchase up to 140,350 shares of the Company's common stock at an exercise price of $0.57 a share. Debt issuance costs of $58,000 were recorded in connection with the issuance of the warrants. See Note 3.

In January 2008, the Company entered into a loan agreement with a lender. As a result, the Company issued a warrant which allows the lender to purchase up to 460,526 shares of the Company's common stock at an exercise price of $0.57 a share. Debt discount of $151,000 was recorded in connection with the issuance of the warrants. See Note 3.

During the six months ended June 30, 2007, the Company entered into capitalized lease obligations for the purchase of $219,000 in fixed assets.

In April 2007, the shares issued in conjunction with the purchase of AgaveOne were reduced by 66,667 shares or $250,000 as a result of indemnification claims.

In May 2007, the Company issued 100,000 warrants in conjunction with a loan agreement with a bank. See Note 3.

The accompanying notes are an integral part of these consolidated financial statements.

St. Bernard Software, Inc.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

St. Bernard Software, Inc., a Delaware corporation (the “Company” or “St. Bernard”) is a software development company that designs, develops, and markets Secure Content Management, SCM, and policy compliance solutions to small, medium, and enterprise class customers. The Company sells its products through distributors, dealers, and original equipment manufacturers (“OEM”), and directly to network managers and administrators worldwide.

Basis of presentation

The consolidated balance sheet as of June 30, 2008, the consolidated statements of operations for the three and six months ended June 30, 2008 and 2007, the consolidated statement of stockholders’ deficit for the six months ended June 30, 2008, and the consolidated statements of cash flows for the six months ended June 30, 2008 and 2007, are unaudited and reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations, stockholders’ deficit, and cash flows for the interim periods presented. The consolidated balance sheet as of December 31, 2007 was derived from the Company’s audited financial statements. Operating results for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2008. These consolidated financial statements should be read in conjunction with the Company’s December 31, 2007 consolidated financial statements and notes thereto included in the Company’s Annual Report filed on Form 10-KSB with the Securities and Exchange Commission on March 20, 2008.

The consolidated financial statements include our accounts and those of our subsidiaries which include our operations in the UK and Australia; such entities were dissolved in 2007. All inter-company balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S generally accepted accounting principles (“U.S. GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates used in preparing the consolidated financial statements include those assumed in computing revenue recognition, the allowance for doubtful accounts, warranty liability, the valuation allowance on deferred tax assets, testing goodwill for impairment, and assumptions used to determine the fair value of stock options under Statement of Financial Accounting Standards, or SFAS, No. 123R (revised 2004), “Share-based Payment” (“SFAS 123R”).

Liquidity

As of June 30, 2008, the Company had approximately $0.4 million of cash and cash equivalents and a working capital deficit of $11.1 million. Approximately $9.9 million of our current liability balance at June 30, 2008 consists of deferred revenues, which represents amounts that will be amortized into revenue as they are earned in future periods. The Company also had a stockholders’ deficit of approximately $8.7 million at June 30, 2008.

The Company has a history of losses and has not been able to achieve profitability. For the three and six months ended June 30, 2008, the Company incurred net losses of $0.9 million and $1.3 million, respectively, and through June 30, 2008 has recorded a cumulative net loss of $48.5 million. During the fourth quarter of 2007 and through the second quarter of 2008, the Company made substantial changes to the cost structure of its business. These changes included the closure of its sales and marketing offices within Europe, reducing headcount to be in line with the current size of its business, renegotiating vendor contracts, and refocusing its marketing strategy around its core business. In addition to the changes described above, the Company entered into a Loan and Security Agreement (the “PFG Loan Agreement”) with Partners for Growth II, L.P. (“PFG”) in July 2008 for the amount of $1.5 million. See Note 7.

St. Bernard Software, Inc.

Notes to Consolidated Financial Statements

The Company believes that its existing cash resources, combined with projected billings for 2008, cost reductions implemented in the fourth quarter of 2007 and through the second quarter of 2008, and its borrowing availability under existing credit facilities, will provide sufficient liquidity for the Company to meet its continuing obligations for the next twelve months. However, there can be no assurances that projected revenue will be achieved or the improvement in operating results will occur. In the event cash flow from operations is not sufficient, the Company may require additional sources of financing in order to maintain its current operations. These additional sources of financing may include public or private offerings of equity or debt securities. Whereas management believes it will have access to these financing sources, no assurance can be given that additional sources of financing will be available on acceptable terms, on a timely basis, or at all.

Loss per common share

Basic loss per common share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding. Diluted loss per common share includes the components of basic loss per common share and also gives effect to dilutive common stock equivalents. Potentially dilutive common stock equivalents include stock options and warrants. No dilutive effect was calculated for the three and six months ended June 30, 2008 and 2007, respectively, as the Company reported a net loss in each period and the effect would have been anti-dilutive.

New accounting standards

In May 2008, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principle”. SFAS 162 will provide framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411. The Company is currently evaluating the impact, if any, this statement will have on its financial position, cash flows, or results of operations.

On February 15, 2007, FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”. SFAS No. 159 permits all entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. The Company adopted SFAS 159 on January 1, 2008. The adoption of SFAS 159 did not have a material impact on its financial position, cash flows, or results of operations.

In September 2006, FASB issued SFAS No. 157, “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. This statement applies in those instances where other accounting pronouncements require or permit fair value measurements and the board of directors has previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The Company adopted SFAS 157 on January 1, 2008. The adoption of SFAS 157 did not have a material impact on its financial position, cash flows, or results of operations.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 classifications. These reclassifications have no effect on previously reported net income.

St. Bernard Software, Inc.

Notes to Consolidated Financial Statements

2. Stock-based Compensation Expense

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R using the modified prospective method. Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 are based upon the grant date fair value estimated in accordance with SFAS 123R.

The Company has non-qualified and incentive stock option plans (together, the “Plans”) providing for the issuance of options to employees and others as deemed appropriate by the Board of Directors. Terms of options issued under the Plans include an exercise price equal to the estimated fair value (as determined by the Board of Directors) at the date of grant, vesting periods generally between three to five years, and expiration dates not to exceed ten years from date of grant. The determination of fair value of the Company’s stock is derived using the value of the stock price at the grant date.

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based compensation, expected stock price volatility factor, and the pre-vesting option forfeiture rate. The weighted average fair value of options granted during the six months ended June 30, 2008 and 2007 was calculated using the Black-Scholes option pricing model using the valuation assumptions in the table below. The Company estimates the expected life of stock options granted based upon management’s consideration of the historical life of the options and the vesting and contractual period of the options granted. The Company estimates the expected volatility factor of its common stock based on the weighted average of the historical volatility of three publicly traded surrogates of the Company and the Company’s implied volatility from its common stock price. The Company applies its risk-free interest rate based on the U.S. Treasury yield in effect at the time of the grant. The Company has no history or expectation of paying any cash dividends on its common stock. Forfeitures were estimated based on historical experience.

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Average expected life (years)	6.5	6.5
Average expected volatility factor	73.3%	74.0%
Average risk-free interest rate	3.8%	4.8%
Average expected dividend yield	0	0

Total stock-based compensation expense was approximately $277,000 and $321,000 for the three months ended June 30, 2008 and 2007, respectively, and $334,000 and $581,000 for the six months ended June 30, 2008 and 2007, respectively. The stock-based compensation expenses were charged to operating expenses. The earnings per share effect as a result of the stock based compensation expense was approximately $0.02 for the three and six months ended June 30, 2008. The tax effect was immaterial.

The following is a summary of stock option activity under the Plans as of June 30, 2008 and changes during the six months ended June 30, 2008:

	Number of Shares Outstanding	Weighted Average Exercise Price
Options outstanding at December 31, 2007	2,074,861	$ 1.77
Granted	472,000	$ 0.58
Exercised	—	$ —
Forfeited	(509,857)	$ 1.64
Options outstanding at June 30, 2008	2,037,004	$ 1.60

St. Bernard Software, Inc.

Notes to Consolidated Financial Statements

Additional information regarding options outstanding as of June 30, 2008 is as follows:

Range of Exercise Prices		Number of Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.36	to $0.54	52,500	9.69	$ 0.52	—	$ —
$ 0.57	to $0.57	375,000	9.41	$ 0.57	—	$ —
$ 0.58	to $0.58	3,000	9.76	$ 0.58	—	$ —
$ 0.59	to $0.59	331,977	8.81	$ 0.59	35,977	$ 0.59
$ 0.60	to $1.80	192,728	6.77	$ 1.03	133,856	$ 1.04
$ 1.90	to $1.90	275,000	8.47	$ 1.90	136,812	$ 1.90
$ 1.95	to $1.95	552,347	8.02	$ 1.95	204,912	$ 1.95
$ 3.71	to $3.71	177,666	6.94	$ 3.71	114,852	$ 3.71
$ 4.75	to $4.75	60,000	1.54	$ 4.75	60,000	$ 4.75
$ 5.20	to $5.20	16,786	4.10	$ 5.20	16,786	$ 5.20
$ 0.36	to $5.20	2,037,004	8.08	$ 1.60	703,195	$ 2.30

The aggregate intrinsic value of options outstanding and exercisable at June 30, 2008 was $0. The aggregate intrinsic value of options outstanding and exercisable at June 30, 2007 was $39,000. The aggregate intrinsic value represents the total intrinsic value based upon the stock price of $0.51 at June 30, 2008.

As of June 30, 2008, there was approximately $1.5 million of total unrecognized compensation expense related to unvested share-based compensation arrangements granted under the option plans. The cost is expected to be recognized over a weighted average period of 1.93 years.

3. Debt

Credit Facility

On May 15, 2007, the Company entered into a Loan and Security Agreement with Silicon Valley Bank, a California corporation ("SVB"). The Loan and Security Agreement with SVB was later amended during the first quarter of 2008 as discussed below.

On January 25, 2008, St. Bernard entered into an Amendment to the Loan and Security Agreement (the "SVB Loan Amendment") with SVB, amending the Loan and Security Agreement entered into between St. Bernard and SVB on May 15, 2007. Pursuant to the terms of the SVB Loan Amendment, among other things, SVB (i) refinanced the existing term loan with the proceeds of an advance under the revolving line of credit (and terminated the term loan facility), (ii) reduced the revolving line of credit it will provide to St. Bernard to an amount not to exceed $2,000,000, (iii) increased the interest rate on the revolving line of credit to 3% (from 2%) over the greater of the prime rate or 7.5%, (iv) modified the tangible net worth covenant, and (v) took a security interest in St. Bernard's intellectual property. At June 30, 2008, the effective interest rate was 10.5%. At June 30, 2008 the Company was in compliance with the above stated covenants and restrictions.

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St. Bernard Software, Inc.

Notes to Consolidated Financial Statements

In connection with the execution of the SVB Loan Amendment, St. Bernard issued warrants to SVB on January 25, 2008, which allows SVB to purchase up to 140,350 shares of St. Bernard common stock at an exercise price of $0.57 per share. The warrants expire on the seventh anniversary of the issue date of the warrants. Accordingly, the Company recorded debt issue costs in the amount of $58,000, based on the estimated fair value allocated to the warrants using the following assumptions; 75.35% volatility, risk free interest rate of 3.61%, an expected life of seven years and no dividends. Amortization of the debt issuance costs for three and six months ended June 30, 2008, which is being recorded as interest expense, was approximately $11,000 and $19,000, respectively. Furthermore, St. Bernard has agreed to grant SVB certain piggyback registration rights with respect to the shares of common stock underlying the warrants. As of June 30, 2008, the balance on the line of credit with SVB was $1.9 million.

Bridge Loan

On January 25, 2008, St. Bernard Software, Inc. entered into a Loan Agreement (the "Agility Loan Agreement") with Agility Capital, LLC ("Agility"). Pursuant to the terms of the Agility Loan Agreement, Agility provided St. Bernard with a non-revolving term loan in the amount of $750,000, at a 15% fixed interest rate (the “Agility Loan”). Beginning March 1, 2008, and on the first day of each month thereafter until July 1, 2008, St. Bernard is required to pay to Agility $25,000 plus accrued but unpaid interest. Beginning July 1, 2008, and on the first day of each month thereafter, St. Bernard is required to pay Agility $50,000 plus accrued interest. The obligations under the Agility Loan Agreement are secured by substantially all of St. Bernard's assets subordinated by the SVB Loan Amendment.

The Agility Loan Agreement contains customary affirmative and negative covenants and other restrictions. At June 30, 2008, the Company was in compliance with the above stated covenants.

In connection with the execution of the Agility Loan Agreement, St. Bernard issued warrants to Agility (the "Agility Warrants"), which allows Agility to purchase up to 460,526 shares of St. Bernard common stock at an exercise price equal to $0.57 per share. The Agility Warrants expire on the seventh anniversary of their issue date. The Company estimated the fair value of the warrants to be $189,000 using the following assumptions; 75.35% volatility, risk free interest rate of 3.61%, an expected life of seven years and no dividends. In accordance with Accounting Principles Board Opinion No. 14, the relative fair value of the warrants, estimated to be approximately $151,000, was recorded as debt discount.   Amortization of the debt discount for three and six months ended June 30, 2008, which is being recorded as interest expense, was approximately $38,000 and $63,000, respectively. The Agility Warrants contains anti-dilution protection in the event of a debt or equity financing, with respect to the exercise price and number of shares. Furthermore, St. Bernard granted Agility piggyback registration rights with respect to the shares of common stock underlying the Agility Warrants. As of June 30, 2008, the balance on the Agility loan was approximately $650,000.

In July 2008, the entire outstanding balance on the Agility Loan was paid using the proceeds from a new loan (See Note 7).

4. Stockholders’ Deficit

Warrants

As of June 30, 2008 and December 31, 2007, a total of 9,350,980 and 8,750,104 shares of common stock, respectively, were reserved for issuance for the exercise of warrants at exercise prices of $0.57, $1.60, $1.85, $2.98, and $5.00 per share. During the six months ended June 30, 2008, warrants to purchase an aggregate of 600,876 shares of common stock at an exercise price of $0.57 per share were granted resulting in $209,000 in compensation costs. There were no warrants that were exercised or expired during this period.

St. Bernard Software, Inc.

Notes to Consolidated Financial Statements

5. Related Party Transactions

During 2007, a stockholder and former member of the Board of Directors provided legal services to the Company in the ordinary course of business. Billings for such services totaled approximately $14,000 for the three months ended June 30, 2007 and $636,000 for the six months ended June 30, 2007. Amounts due at December 31, 2007 were approximately $400,000. The Company settled the amounts due with this related party for approximately $179,000 resulting in a gain of $246,000 during the three months ended March 31, 2008. No such services were rendered in 2008.

The Company previously occupied office space provided by an affiliate of certain officers and directors of the Company. The Company paid this affiliate $7,500 per month to lease 2,000 square feet of office space in Amsterdam. The lease was terminated on February 15, 2008.

6. Concentrations

Sales and revenue

The Company considers itself to operate within one business segment, Secure Content Management (“SCM”). For the six months ended June 30, 2008 and 2007, approximately 97% and 92%, respectively, of the Company’s revenue was in North America, the remaining 3% and 8%, respectively, were disbursed over the rest of the world.

7. Subsequent Events

On July 21, 2008, the Company entered into a Loan Agreement with Partners for Growth II, LP (“PFG”), which became effective on July 23, 2008. Pursuant to the terms of the PFG Loan Agreement, PFG provided St. Bernard with a revolving line of credit in the amount not to exceed the lesser of (a) $1,500,000 at any one time outstanding or (b) up to 30% of the amount of St. Bernard’s aggregate Eligible Billings (as defined in the PFG Loan Agreement) over a rolling three month period calculated monthly.

The annual interest rate on the PFG Loan is set at the Prime Rate, quoted by Silicon Valley Bank as its Prime Rate from time to time, plus 3% (the “Applicable Rate”). St. Bernard is required to maintain a minimum borrowing amount of at least $750,000 (the “Minimum Borrowing Amount”) or pay PFG a minimum interest amount (the “Minimum Interest Amount”) equal to $750,000, multiplied by the Applicable Rate, and further multiplied by the number of days (based on a 360-day year) from the date of such failure to maintain the Minimum Borrowing Amount to the Maturity Date (as defined in the PFG Loan Agreement). Pursuant to the terms of the PFG Loan Agreement, St. Bernard paid PFG a one-time commitment fee of $30,000 and agreed to reimburse PFG for PFG’s reasonable attorneys’ fees in connection with the negotiation of the PFG Loan Agreement.

Subject to the requirement to maintain the Minimum Borrowing Amount or pay the Minimum Interest Amount, St. Bernard may borrow, repay and reborrow from time to time until the Maturity Date. Proceeds of the initial loan amount were used to pay all indebtedness owing to Agility, with the remaining amount to be used for working capital.

The PFG Loan Agreement will terminate on July 20, 2010, on which date all principal, interest and other outstanding monetary obligations must be repaid to PFG. The obligations under the PFG Loan Agreement are secured by a security interest in collateral comprised of substantially all of St. Bernard’s assets, subordinated by the SVB Loan

Agreement.

The PFG Loan Agreement contains affirmative, negative and financial covenants customary for credit facilities of this type, including, among other things, limitations on indebtedness, liens, sales of assets, mergers, investments, and dividends. The PFG Loan Agreement also requires that St. Bernard maintain a Modified Net Income (as defined in the PFG Loan Agreement) greater than zero. The PFG Loan Agreement contains events of default customary for credit facilities of this type (with customary grace or cure periods, as applicable) and provides that upon the occurrence and during the continuance of an event of default, among other things, the interest rate on all borrowings will be increased, the payment of all borrowings may be accelerated, PFG's commitments may be terminated and PFG shall be entitled to exercise all of its rights and remedies, including remedies against the collateral.

In connection with the execution of the PFG Loan Agreement, St. Bernard issued a warrant to PFG on July 21, 2008 (the "Warrant"), which allows PFG to purchase up to 450,000 shares of St. Bernard common stock at an exercise price equal to $0.46 per share. The Warrant expires on July 20, 2013.

PART II – OTHER INFORMATION

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of St. Bernard Software, Inc. (formerly known as Sand Hill IT Security Acquisition Corp.) (incorporated herein by reference to Exhibit 3.1.1 to the Company's Registration Statement on Form S-4 initially filed with the Securities and Exchange Commission on December 16, 2005).
3.2	Amended and Restated Bylaws of St. Bernard Software, Inc. (formerly known as Sand Hill IT Security Acquisition Corp.) (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K initially filed with the Securities and Exchange Commission on April 5, 2007)
4.1	Specimen Unit Certificate of St. Bernard Software, Inc. (formerly known as Sand Hill IT Security Acquisition Corp.) (incorporated herein by reference to Exhibit 4.1 to the Company's Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-114861) filed with the Securities and Exchange Commission on June 23, 2004).
4.2	Specimen Common Stock Certificate of St. Bernard Software, Inc. (formerly known as Sand Hill IT Security Acquisition Corp.) (incorporated herein by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 20, 2008).
4.3	Specimen Warrant Certificate of St. Bernard Software, Inc. (formerly known as Sand Hill IT Security Acquisition Corp.) (incorporated herein by reference to Exhibit 4.3 to the Company's Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-114861) filed with the Securities and Exchange Commission on June 23, 2004).
4.4	Unit Purchase Option No. UPO-2 dated July 30, 2004, granted to Newbridge Securities Corporation (incorporated herein by reference to Exhibit 4.4.1 to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2005).
4.5	Unit Purchase Option No. UPO-3 dated July 30, 2004, granted to James E. Hosch (incorporated herein by reference to Exhibit 4.4.2 to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2005).
4.6	Unit Purchase Option No. UPO-4 dated July 30, 2004, granted to Maxim Group, LLC (incorporated herein by reference to Exhibit 4.4.3 to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2005).
4.7	

	Unit Purchase Option No. UPO-5 dated July 30, 2004, granted to Broadband Capital Management, LLC (incorporated herein by reference to Exhibit 4.4.4 to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2005).
4.8	Unit Purchase Option No. UPO-6 dated July 30, 2004, granted to I-Bankers Securities Incorporated (incorporated herein by reference to Exhibit 4.4.5 to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2005).
4.9	Warrant issued by St. Bernard Software, Inc. on May 16, 2007 to Silicon Valley Bank (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2007).
4.10	Warrant issued by St. Bernard Software, Inc. on January 25, 2008 to Agility Capital, LLC (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 31, 2008).
4.11	Warrant issued by St. Bernard Software, Inc. on January 25, 2008 to Silicon Valley Bank (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 31, 2008).

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10.1*	St. Bernard Software, Inc. 2008 Variable (Bonus) Compensation Plan (incorporated herein by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2008).
31.1	Certification of Chief Executive Officer and Acting Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Acting Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned thereunto duly authorized.

ST. BERNARD SOFTWARE, INC.

Date: August 26, 2008

By: /s/ Vincent Rossi
Vincent Rossi
Chief Executive Officer
Acting Chief Financial Officer