

SAND HILL IT SECURITY ACQUISITION CORP
Form 10KSB
March 17, 2006

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

FORM 10-KSB

Annual report under Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005

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

Commission File Number: 000-50813

SAND HILL IT SECURITY ACQUISITION CORP.

(Name of Small Business Issuer in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-0996152
(I.R.S. Employer
Identification No.)

3000 Sand Hill Road
Building 1, Suite 240
Menlo Park, California
(Address of Principal Executive
Offices)

94025
(Zip code)

(650) 926-7022

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

None

(Title of class)

Securities registered under Section 12(g) of the Exchange Act:

Units consisting of one share of Common Stock,
par value \$.01 per share, and two Warrants

Common Stock, \$.01 par value per share

Warrants to purchase shares of Common Stock

(Title of class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

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

Yes No

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of March 8, 2006, was approximately \$21.7 million. For purposes of this computation, all executive officers, directors and 10% stockholders were deemed affiliates. Such a determination should not be construed as an admission that such executive officers, directors or 10% stockholders are affiliates.

As of March 8, 2006, 5,110,000 shares of common stock, par value \$.01 per share, were issued and outstanding.

Transitional Small Business Disclosure Format: Yes No

SAND HILL IT SECURITY ACQUISITION CORP.

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PART I

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or anticipated results, including those set forth under "Management's Discussion and Analysis or Plan of Operation" and elsewhere in, or incorporated by reference into, this report.

Item 1. Description of Business

General

Sand Hill IT Security Acquisition Corp. (the "Company") is a blank check company formed to serve as a vehicle for the acquisition of a target business in a specified industry. Our objective is to acquire an operating business in the IT security industry. We were incorporated in Delaware on April 15, 2004. Our initial stockholders purchased 1,000,000 shares of common stock, \$.01 par value, for \$25,000. The registration statement for our initial public offering (the "Offering") was declared effective July 26, 2004. We consummated the Offering on July 30, 2004. The net proceeds, after deducting the underwriters discount and offering expenses, and including the sale of 510,000 units in the underwriters over-allotment option, was \$22,022,462. \$20,961,000 of these net proceeds has been placed in a trust fund and invested in United States government securities. The funds held in the trust account will not be released until the earlier of the date on which we consummate a business combination or liquidate our assets.

Current Trends in the Information Technology (IT) Security Industry

The IT security market continues to be attractive from a business perspective. In January of 2006, the investment banking firm of Goldman Sachs reported that IT security continues as the highest spending priority amongst CIOs and CTOs in the U.S. for 2006. The industry is generally characterized by the following:

- escalating volume of Internet attacks on business, industry and government, reaching over 140,000 attacks in 2004;
- increasing sophistication of attacks and increasing cost per attack;
- material loss in employee productivity due to unauthorized Internet usage during working hours;
- significant recent increases in government and regulatory requirements specifically targeting security, including but not limited to, Sarbanes-Oxley (SOX), HIPPA, BASEL II, Gramm-Leach-Bliley, GISRA, etc;
- increases in customer demand for integrated, full solution product suites; and
- a strong preference in Small and Medium Enterprises for easy to install and easy to use security appliances.

Many organizations use the Internet to enable critical business applications that are accessed over their corporate networks. Many employees also use their organization's computing resources for recreational "web surfing," peer-to-peer file sharing, downloading of high-bandwidth content, instant messaging and other personal matters. However, unmanaged use of organizational computing and network resources, including Internet access, results in increased risk and cost to the organization, including increased security risks, loss of intellectual property, loss of a company's customer and supplier data, lost employee productivity, increased network bandwidth consumption, and potential legal liability. This segment of IT security is commonly known as Secured Content Management, or SCM.

Traditionally, organizations have attempted to mitigate the legal liability, productivity and bandwidth waste risks through written policies governing acceptable employee use of computing resources, and they have sought to protect against external security risks with a combination of firewalls, intrusion detection/prevention software and anti-virus software. With the growth in spyware, key logging applications, and phishing sites, combined with the rapid increase in employee use of instant messaging and peer-to-peer file sharing and the proliferation of blended attacks on computing networks, organizations are finding that existing security measures leave significant time and technology gaps in their protection. Written Internet access and software application use policies are easily ignored, difficult to enforce and do not proactively curtail undesirable Internet and software application usage. Firewalls can provide protection against external threats such as hacking, but do little to prevent employees from accessing unauthorized data from within an organization. Anti-virus software provides protection from e-mail borne viruses, but does not prevent the possible theft or corruption of corporate data by spyware and offers only limited protection against viruses that proliferate via peer-to-peer networks and instant messaging. Existing anti-virus and anti-spyware software also requires time to identify and reverse engineer the virus or spyware application before it can be remediated and removed from infected systems.

Given the necessity of corporate Internet access and the continuing adoption of the web as a mass communication, entertainment, information and commerce medium, we believe there is a significant opportunity for SCM solutions, including secure messaging, that effectively addresses the needs of organizations to manage employee usage of the computing environment, including Internet access and desktop application use. Additionally, although the web and e-mail are the primary drivers of Internet traffic today, the rapid emergence of Internet-enabled applications creates the need for software that applies management policies to file types, applications, and protocols, as well as web pages, at multiple points on the information technology infrastructure. Software tools are needed to implement policy-based bandwidth management and regulation of applications such as instant messaging, peer-to-peer file exchange tools, interactive games and desktop software applications. These solutions must also be adaptable enough to manage new applications and technologies as they are developed.

Recent Developments

On October 26, 2005 we entered into a definitive Agreement and Plan of Merger, as amended, with St. Bernard Software, Inc., a Delaware corporation (“St. Bernard”). Pursuant to the merger agreement, Sand Hill Merger Corp., a Delaware corporation and wholly-owned subsidiary of the Company will merge with and into St. Bernard and St. Bernard will be the surviving corporation and become a wholly-owned subsidiary of the Company. At the effective time and as a result of the merger, the holders of St. Bernard common stock will receive, subject to a working capital adjustment, approximately 9.76 million shares of our common stock and the holders of St. Bernard options and warrants will receive options and warrants for approximately 1.12 million shares of our common stock.

St. Bernard Software is a recognized independent supplier of IT security software products and services, with a special emphasis on Secure Content Management, or SCM, including secure messaging. St. Bernard’s products protect businesses, government organizations and educational institutions from cyber attack, improve worker productivity, reduce legal liability and assist in meeting regulatory requirements for data/privacy protection. St. Bernard’s network-attached security products are delivered as appliances that connect into the data path between the Internet gateway and a company’s local area network. St. Bernard’s system security products consist of software that is installed on workstations and servers. St. Bernard has approximately 8,000 customers supporting over 3.5 million device licenses, primarily comprised of small to medium sized businesses, educational institutions and governmental organizations. The products offered by St. Bernard include Open File Manager, a data protection product; UpdateEXPERT, a patch and settings management product; iPrism, Internet access management product; and ePrism, a secure messaging, e-mail filtering product. According to International Data Corporation, in September 2005, St. Bernard’s iPrism product line was the leading Internet filtering appliance, enabling customers to manage and control employee access to millions of web sites that are updated continuously as part of St. Bernard’s fee-based subscription service. Other St. Bernard’s products also have a subscription component that increases deferred revenue, thereby increasing revenue predictability.

For a more complete discussion of St. Bernard and our proposed business combination, including the risks that are applicable to us with respect to our acquisition of St. Bernard see our current report on Form 8-K filed with the Securities and Exchange Commission on October 27, 2005, as well as our registration statement on Form S-4 (No. 333-130412).

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Opportunity for stockholder approval of business combination

Prior to the completion of a business combination, we will submit the transaction to our stockholders for approval, even if the nature of the acquisition is such as would not ordinarily require stockholder approval under applicable state law. In connection with seeking stockholder approval of a business combination, we will furnish our stockholders with proxy solicitation materials prepared in accordance with the Exchange Act, which, among other matters, will include a description of the operations of the target business and audited historical financial statements of the business.

In connection with the vote required for any business combination, all of our initial stockholders, including all of our officers and directors, have agreed to vote the 1,000,000 shares of common stock they owned immediately prior to the Offering in accordance with the vote of the public stockholders owning a majority of the shares of our common stock sold in our initial public offering. This voting arrangement does not apply to shares included in units purchased in the Offering or purchased following the Offering in the open market by any of our initial stockholders, officers and directors. We will proceed with the business combination only if public stockholders who own at least a majority of the shares of common stock sold in the Offering vote in favor of the business combination and public stockholders owning less than 20% of the shares sold in the Offering exercise their conversion rights.

Conversion rights

At the time we seek stockholder approval of any business combination, we will offer each public stockholder the right to have their shares of common stock converted to cash if the stockholder votes against the business combination and the business combination is approved and completed. The actual per-share conversion price will be equal to the amount in the trust fund, inclusive of any interest, as of the record date for determination of stockholders entitled to vote on the business combination, divided by the number of shares sold in the Offering. With taking into account the interest earned on the trust fund, the current per-share conversion price, as of December 31, 2005, would be \$5.29. An eligible stockholder may request conversion at any time after the mailing to our stockholders of the proxy statement and prior to the vote taken with respect to a proposed business combination at a meeting held for that purpose, but the request will not be granted unless the stockholder votes against the business combination and the business combination is approved and completed. Any request for conversion, once made, may be withdrawn at any time up to the date of the meeting. It is anticipated that the funds to be distributed to stockholders entitled to convert their shares who elect conversion will be distributed promptly after completion of a business combination. Public stockholders who convert their stock into their share of the trust fund still have the right to exercise the warrants that they received as part of the units. We will not complete any business combination if public stockholders, owning 20% or more of the shares sold in the Offering, exercise their conversion rights.

Liquidation if no business combination

If we have not completed a business combination by July 27, 2006, we will be dissolved and will distribute to all of our public stockholders, in proportion to their respective equity interests, an aggregate sum equal to the amount in the trust fund, inclusive of any interest, plus any remaining net assets of the Company. Our initial stockholders have waived their rights to participate in any liquidation distribution with respect to shares of common stock owned by them immediately prior to the Offering. There will be no distribution from the trust fund with respect to our warrants.

If we were to expend all of the net proceeds of the Offering, other than the proceeds deposited in the trust fund, and with taking into account the interest earned on the trust fund, the current per-share liquidation price, as of December 31, 2005, would be \$5.29. The proceeds deposited in the trust fund could, however, become subject to the claims of our creditors which could be prior to the claims of our public stockholders. There is no assurance that the actual per-share liquidation price will not be less than \$5.29, due to claims of creditors. Humphrey P. Polanen, our chairman of the board and chief executive officer, has agreed pursuant to an agreement with us and the representatives of the

underwriters in the Offering, that, if we liquidate prior to the consummation of a business combination, he will be personally liable to pay debts and obligations to vendors or other entities that are owed money by us for services rendered or products sold to us in excess of the net proceeds of the Offering not held in the trust account. There can be no assurance, however, that Mr. Polanen would be able to satisfy those obligations.

If we are unable to complete a business combination by July 27, 2006, upon notice from us, the trustee of the trust account will commence liquidating the investments constituting the trust fund and will turn over the proceeds to the transfer agent for distribution to the stockholders. We anticipate that the instruction to the trustee would be given promptly after July 27, 2006.

Our public stockholders are entitled to receive funds from the trust fund only in the event of our liquidation or if the stockholders seek to convert their respective shares into cash upon a business combination that the stockholder voted against and which is actually completed by us. In no other circumstances shall a stockholder have any right or interest of any kind to or in the trust fund. There will be no distribution from the trust fund with respect to our warrants.

Competition

If we succeed in effecting the business combination with St. Bernard, there will be intense competition from competitors of St. Bernard in the IT security industry. For a more complete discussion of the risks that will be applicable to us following the business combination with St. Bernard, see our filings referred to above under "Recent Developments." We cannot assure you that, subsequent to our business combination, we will have the resources or ability to compete effectively.

Facilities

We maintain our executive offices at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025. The cost for this space is included in the \$7,500 per-month fee Sand Hill Security, LLC charges us for general and administrative services pursuant to a letter agreement between us and Sand Hill Security, LLC. Sand Hill Security, LLC is an affiliate of certain of our directors and executive officers. We believe, based on rents and fees for similar services in the Menlo Park, California metropolitan area, that the fee charged by Sand Hill Security, LLC is at least as favorable as we could have obtained from an unaffiliated person. We consider our current office space adequate for our current operation.

Employees

We have three executive officers, each of whom are members of our board of directors. These individuals are not obligated to contribute any specific number of hours per week and intend to devote only as much time as they deem necessary to our affairs. The executive officers are also involved with business ventures other than the Company. We have no employees.

Risks Associated with Our Business

In addition to other information included in this report, you should consider all the risks relating to the proposed acquisition of St. Bernard and our operations following the business combination in our filings referred to above under "Recent Developments". In addition, the following factors should be considered in evaluating our business and future prospects.

If we are unable to complete the business combination with St. Bernard, we will not have enough time to negotiate and consummate another business combination and will be required to liquidate.

We must complete our business combination by July 27, 2006. Accordingly, if we are unable to complete the business combination with St. Bernard, we will not have enough time to negotiate and consummate another business combination. We will therefore be forced to liquidate our assets. If we are unable to complete a business combination and are forced to liquidate our assets, the per-share liquidation distribution could be less than the purchase price per share that purchasers paid for our securities because of the expenses of the Offering, our general and administrative

expenses. Furthermore, there will be no distribution with respect to our outstanding warrants and, accordingly, the warrants will expire worthless if we liquidate before the completion of a business combination.

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If third parties bring claims against us, the proceeds held in trust could be reduced and the per share liquidation price received by stockholders could be less than their purchase price per share.

Our placing of funds in trust may not protect those funds from third party claims against us. The proceeds held in trust could be subject to claims which could take priority over the claims of our public stockholders. There can be no assurance that the per-share liquidation price will not be less than the purchase price per share that purchasers paid for our securities, plus interest, due to claims of creditors. If we liquidate before the completion of a business combination, Humphrey P. Polanen, our chairman of the board and chief executive officer, will be personally liable under certain circumstances to ensure that the proceeds in the trust fund are not reduced by the claims of various vendors or other entities that are owed money by us for services rendered or products sold to us. However, we cannot assure you that Mr. Polanen will be able to satisfy those obligations.

Upon consummation of our business combination with St. Bernard, there will be a substantial number of shares of our common stock available for resale in the future that may increase the volume of common stock available for sale in the open market and may cause a decline in the market price of our common stock.

The consideration to be issued in the merger with St. Bernard will include approximately 9.76 million shares of our common stock and options and warrants for approximately 1.12 million shares of our common stock. Except for a portion of the shares that will be held by certain affiliates of St. Bernard and are subject to a lock-up period, the shares will be freely saleable immediately after the consummation of the merger. The presence of this additional number of shares of common stock eligible for trading in the public market may have an adverse effect on the market price of our common stock.

Our initial stockholders, including our officers and directors, control a substantial interest in us and thus may influence certain actions requiring stockholder vote.

All of our officers and directors own stock in our company, but have waived their right to receive distributions upon our liquidation with respect to their shares purchased prior to our initial public offering. Additionally, some of our officers and directors own warrants to purchase additional shares of our common stock. The shares and warrants owned by our directors and officers will be worthless if we do not consummate the business combination with St. Bernard. The personal and financial interests of our directors and officers may influence their motivation in accepting any changes or waiving any terms with respect to our business combination with St. Bernard. Consequently, our directors' and officers' discretion in agreeing to such changes or waivers may result in a conflict of interest when determining whether such changes or waivers are appropriate and in our stockholders' best interest.

Our outstanding warrants and options may have an adverse effect on the market price of our common stock and make it more difficult to effect a business combination.

We currently have 8,820,000 shares of common stock reserved for issuance upon exercise of issued and outstanding warrants, the option to purchase 270,000 units that we granted to the representatives of the underwriters in the Offering (including the warrants underlying the option), and the options to purchase an aggregate of 60,000 shares of common stock granted to Advisory Board members. To the extent we issue shares of common stock to effect a business combination, the potential for the issuance of substantial numbers of additional shares upon exercise of these warrants and options could make us a less attractive acquisition vehicle in the eyes of a target business as such securities, when exercised, will increase the number of issued and outstanding shares of our common stock, reduce the ownership the stockholders would have had excluding the shares issued from the exercise of warrants and options, and may reduce the value of the shares issued to complete the business combination. Accordingly, our warrants and options may make it more difficult to effectuate a business combination or increase the cost of the target business. Additionally, the sale, or even the possibility of sale, of the shares underlying the warrants and options could have an adverse effect on the market price for our securities or on our ability to obtain future public financing. If and to the extent these warrants and options are exercised, stockholders may experience dilution to their holdings.

If our initial stockholders exercise their registration rights, it may have an adverse effect on the market price of our common stock and the existence of these rights may make it more difficult to effect a business combination.

Our initial stockholders are entitled to demand that we register the resale of their shares of common stock at any time after the date on which their shares are released from escrow. If our initial stockholders exercise their registration rights with respect to all of their shares of common stock, then there will be an additional 1,000,000 shares of common stock eligible for trading in the public market. The presence of this additional number of shares of common stock eligible for trading in the public market may have an adverse effect on the market price of our securities. In addition, the existence of these rights may make it more difficult to effectuate a business combination, or may increase the cost of the target business, as the stockholders of the target business may be discouraged from entering into a business combination with us or will request a higher price for their securities as a result of these registration rights and the potential future effect their exercise may have on the trading market for our securities.

If we are deemed to be an investment company, we may be required to institute burdensome compliance requirements and our activities may be restricted.

If we are deemed to be an investment company under the Investment Company Act of 1940, we may have imposed upon us burdensome requirements, including:

- registration as an investment company;
- adoption of a specific form of corporate structure; and
- reporting, record keeping, voting, proxy and disclosure requirements and other rules and regulations.

We do not believe that our anticipated principal activities will subject us to the Investment Company Act of 1940. To this end, the proceeds held in trust have only been invested by the trust agent in “government securities” with specific maturity dates. By restricting the investment of the proceeds to these instruments, we intend to meet the requirements for the exemption provided in Rule 3a-1 promulgated under the Investment Company Act of 1940. If we were deemed to be subject to the act, compliance with these additional regulatory burdens would require additional expense that we have not allotted for.

Item 2. Description of Property

We maintain our executive offices at 3000 Sand Hill Road, Building 1, Suite 240, Menlo Park, California 94025. The cost for this space is included in the \$7,500 per-month fee Sand Hill Security, LLC charges us for general and administrative services pursuant to a letter agreement between us and Sand Hill Security, LLC. We believe, based on rents and fees for similar services in the Menlo Park, California metropolitan area, that the fee charged by Sand Hill Security, LLC is at least as favorable as we could have obtained from an unaffiliated person. We consider our current office space adequate for our current operation.

Item 3. Legal Proceedings

We are not presently a party to any pending legal proceeding.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters for submission to a vote of security holders during the fourth quarter ended December 31, 2005.

PART II**Item 5. Market for Common Equity and Related Stockholder Matters**

The units, common stock and warrants are listed on the OTC Bulletin Board under the symbols SHQCU, SHQC and SHQCW, respectively. The following table indicates the quarterly high and low bid price for the units, common stock and warrants on the OTC Bulletin Board for the periods indicated since such units began trading on July 27, 2004 and common stock and warrants began trading on August 24, 2004. Such inter-dealer quotations do not necessarily represent actual transactions, and do not reflect retail mark-ups, mark-downs or commissions.

OTC

BULLETIN BOARD

BID CLOSING PRICE

Quarter Ended	Common Stock		Warrants		Units	
	High	Low	High	Low	High	Low
March 31, 2005	\$ 5.25	\$ 4.80	\$ 0.95	\$ 0.55	\$ 7.25	\$ 6.00
June 30, 2005	\$ 5.47	\$ 4.91	\$ 0.96	\$ 0.56	\$ 7.25	\$ 6.00
September 30, 2005	\$ 5.50	\$ 5.10	\$ 1.60	\$ 0.75	\$ 8.51	\$ 6.45
December 31, 2005	\$ 5.50	\$ 5.10	\$ 1.70	\$ 0.77	\$ 8.80	\$ 6.60

As of December 31, 2005, we had 1 holder of record of our units, 8 holders of record of our common stock, and 1 holder of record of our warrants. (5) Includes options to purchase 536,600 shares; 45,554 shares owned by Mr. Dotson's wife, with respect to which he has disclaimed all beneficial ownership; and 26,625 shares owned by The Dotson Family Charitable Foundation, for which Mr. Dotson is Co-trustee, and for which he shares voting and investment power.

(6) Includes options to purchase 54,855 shares; 5,000 shares of restricted stock; 229 shares fully vested under the Company's 401(k) Plan; and 800 shares owned by a charitable foundation, for which Mr. Fears is Co-trustee, and for which he shares voting and investment power.

(7) Includes options to purchase 42,768 shares; 15,000 shares of restricted stock; and 4,655 shares fully vested under the Company's 401(k) Plan.

(8) Includes options to purchase 27,962 shares; 15,000 shares of restricted stock; and 8,207 shares fully vested under the Company's 401(k) Plan.

(9) Includes options to purchase 31,250 shares; 5,000 shares of restricted stock; and 1,809 shares fully vested under the Company's 401(k) Plan.

(10) Includes options to purchase 8,986 shares.

(11) Includes options to purchase 8,986 shares and 2,000 shares held in a revocable trust known as the Glenn A. Cox Trust, UTA, with respect to which voting and investment power are shared with Mr. Cox's wife.

(12) Includes options to purchase 8,986 shares.

(13) Includes options to purchase 8,986 shares.

(14) Includes options to purchase 5,307 shares.

(15) Includes options to purchase 1,460,986 shares and 25,796 shares fully vested under the Company's 401(k) Plan.

OTHER MATTERS

Stockholder Proposals for the 2007 Annual Meeting

Any stockholder wishing to submit a proposal for inclusion in the proxy statement and accompanying proxy relating to the Company's 2007 annual meeting must be received by the Company on or before September 28, 2006. Any other proposal that a stockholder wishes to bring before the 2007 annual meeting without inclusion of such proposal in the Company's proxy materials must be received by the Company during the period beginning November 1, 2006, and ending December 1, 2006. Proposals that are not received during such time period will be considered untimely and the persons serving as proxies will have discretion on whether to vote on such matters at the annual meeting. In addition, proposals must comply with the Company's Amended and Restated By-laws and the rules and regulations of the SEC. All proposals must be delivered in writing to the Company at its headquarters in Tulsa, Oklahoma, Attention: Corporate Secretary.

Other Business

As of this date, the Company knows of no business which will come before the Special Meeting other than that set forth in the attached Notice of Special Meeting. If any other matter properly comes before the Special Meeting, the persons named as proxies will vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

STEVEN R. MACKEY
Secretary

Dated: May 15, 2006

**Notice of Special Meeting
of Stockholders
to be held
June 23, 2006
and
Proxy Statement**

**1437 SOUTH BOULDER AVENUE
TULSA, OKLAHOMA 74119**

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HELMERICH & PAYNE, INC.
1437 SOUTH BOULDER AVE.
TULSA, OK 74119

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Helmerich & Payne, Inc., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

Your Internet or telephone vote authorizes the named proxies to vote the undersigned's shares in the same manner as if the undersigned marked, signed and returned the undersigned's proxy card.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

HLMPN1

KEEP THIS PORTION FOR YOUR RECORDS
 DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

HELMERICH & PAYNE, INC.

Vote on Proposal

- | | For | Against | Abstain |
|---|------------|----------------|----------------|
| 1. Approval of an amendment to the Restated Certificate of Incorporation of Helmerich & Payne, Inc. increasing the number of authorized shares of Common Stock.
DIRECTORS RECOMMEND A VOTE FOR ITEM 1. | o | o | o |

For address changes and/or comments, please check this box and write them on the back where indicated.
 (Sign here exactly as name appears herein. When shares are held by joint tenants, both must sign. When signing as attorney, executor, administrator, guardian, or trustee, please give your full title as such. If a corporation, please sign in full corporate name by duly authorized officer and give title of officer. If a partnership, please sign in partnership name by authorized person.)

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners)Date

Proxy for Special Meeting

HELMERICH & PAYNE, INC.

THIS PROXY IS SOLICITED BY AND ON BEHALF OF THE BOARD OF DIRECTORS.

The undersigned hereby appoints as his/her proxies, with powers of substitution and revocation, W. H. Helmerich, III, Hans Helmerich, and Steven R. Mackey, or each of them (the Proxies), to vote all shares of Helmerich & Payne, Inc., which the undersigned would be entitled to vote at the Special Meeting of Stockholders of Helmerich & Payne, Inc., to be held at Boulder Towers, Granite Room, First Floor, 1437 South Boulder Avenue, Tulsa, Oklahoma, on June 23, 2006, at 11:00 a.m., Tulsa time, and all adjournments thereof.

THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE WISHES OF THE STOCKHOLDER AS SPECIFIED IN THE SQUARES; HOWEVER, IF NO SPECIFICATION IS MADE IN THE SQUARES, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR ITEM 1. IF ANY OTHER MATTER SHOULD PROPERLY BE BROUGHT BEFORE THE MEETING, THE PERSONS NAMED AS PROXIES WILL VOTE ON SUCH MATTERS IN ACCORDANCE WITH THEIR BEST JUDGMENT.

Address Changes/Comments: _____

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)
PLEASE COMPLETE, SIGN, DATE, AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.