

Valley C.T. Management, LC

Form S-4

June 01, 2007

Table of Contents

As filed with the Securities and Exchange Commission on May 31, 2007

Registration No. 333-

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

**Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

Complete Production Services, Inc.*

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

1389

*(Primary Standard Industrial
Classification Code Number)*

72-1503959

*(I.R.S. Employer
Identification Number)*

**11700 Old Katy Road, Suite 300
Houston, Texas 77079
(281) 372-2300**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Joseph C. Winkler
Chief Executive Officer and President
11700 Old Katy Road, Suite 300
Houston, Texas 77079
(281) 372-2300**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

**Vinson & Elkins L.L.P.
First City Tower, Suite 2300
Houston, Texas 77002
(713) 758-2222
Attn: Scott N. Wulfe
Attn: Nicole E. Clark**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering.

*Includes certain subsidiaries of Complete Production Services, Inc. identified on the following page.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Note (1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
8.0% Notes due 2016	\$650,000,000	100%	\$650,000,000	\$19,955
Guarantees of 8.0% Notes due 2016(3)	(4)	(4)	(4)	(5)

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to rule 457(f)(2) of the rules and regulations under the Securities Act.
- (2) Calculated by multiplying the aggregate offering amount by 0.00003070.
- (3) See inside facing page for table of registrant guarantors.
- (4) No separate consideration will be received for the guarantees.
- (5) No further fee is payable pursuant to Rule 457(n) of the rules and regulations under the Securities Act.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents**ADDITIONAL SUBSIDIARY GUARANTOR REGISTRANTS**

Exact Name of Additional Registrant as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	Primary Standard Industrial Classification Code Number	IRS Employee Identification No.
Advanced Coiled Tubing, Inc.	Texas	1389	76-0200379
A&W Water Service, Inc.	Colorado	1389	84-0736559
Bell Supply I, L.P.	Texas	1389	N/A
Big Mac Tank Trucks, LLC	Delaware	1389	20-3704436
Big Mac Trucking Company, Inc.	Delaware	1389	20-3704404
BSI Holdings, LP	Texas	1389	48-1289915
BSI Holdings Management, LLC	Delaware	1389	48-1289910
CES Holdings LLC	Delaware	1389	N/A
CES Mid-Continent Hamm, Inc.	Delaware	1389	56-2484983
CES Rockies, Inc.	Delaware	1389	90-0155974
Complete Energy Services, LLC	Delaware	1389	34-2054142
Femco SWD, Inc.	Delaware	1389	20-5724338
Fugo Services, LLC	Delaware	1389	20-8695621
Greasewood, LLC	Wyoming	1389	N/A
Guard Drilling Mud Disposal, Inc.	Delaware	1389	57-1212570
Hamm & Phillips Service Company, Inc.	Delaware	1389	73-1719295
Hamm Management Co.	Delaware	1389	32-0127471
Hyland Enterprises, Inc.	Wyoming	1389	83-0237273
I.E. Miller Services GP, L.L.C.	Delaware	1389	55-0880093
I.E. Miller Services, LLC	Delaware	1389	54-2189134
I.E. Miller Services, L.P.	Texas	1389	55-0880108
I.E. Miller Services LP, L.L.C.	Delaware	1389	20-1561769
Integrated Production Services, LLC	Delaware	1389	34-2058998
LEED Tool Corporation	Colorado	1389	84-1135139
Loyd Jones Well Service, LLC	Delaware	1389	74-3184578
MGM Well Services, Inc.	Texas	1389	74-2226790
Monument Well Service Co.	Delaware	1389	84-0732068
Oil Tool Rentals, Co.	Delaware	1389	57-1212568
Parchman Energy Group, LLC	Delaware	1389	73-1726834
Parchman Energy Management GP LLC	Delaware	1389	N/A
Parchman Energy Partnership LP LLC	Delaware	1389	N/A
Parchman Operating Co., LP	Texas	1389	74-2132307
Price Pipeline Construction, Ltd.	Texas	1389	75-2936988
Pumpco Energy Services, L.P.	Texas	1389	61-1491272
Pumpco Services GP, L.L.C.	Delaware	1389	71-0987312
Pumpco Services LP, L.L.C.	Delaware	1389	71-0987313
Pumpco Services, Inc.	Delaware	1389	71-0987310
R&W Rental, Inc.	Delaware	1389	84-0976340

Edgar Filing: Valley C.T. Management, LC - Form S-4

Red River Well Service, Ltd.	Texas	1389	N/A
Rigmovers, Co.	Delaware	1389	57-1212567
Roustabout Specialties, Inc.	Colorado	1389	84-1211242
Scientific Microsystems, Inc.	Texas	1389	76-0407550
Servicios Holdings I, Inc.	Delaware	1389	20-5556869
Servicios Holdings II, Inc.	Delaware	1389	20-5557850
Shale Tank Truck, LP	Texas	1389	N/A
Stride Well Service Company, Inc.	Delaware	1389	57-1212566
Sweetwater Produced Water Disposal, LLC	Wyoming	1389	N/A
T. & J. Energy, LLC	Delaware	1389	74-3184581
The Rosel Company	Texas	1389	75-1058405
Turner Energy Services, LLC	Delaware	1389	74-3184576
Turner Energy SWD, LLC	Delaware	1389	74-3184575
Valley C.T. Management, LC	Texas	1389	68-0496693

Certain subsidiary guarantor registrants above are disregarded entities for federal income tax purposes and do not have separate IRS employee identification numbers.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 31, 2007

PROSPECTUS

\$650,000,000

Complete Production Services, Inc.

**Offer to Exchange up to
\$650,000,000 of 8.0% Senior Notes due 2016
that have been registered under the Securities Act of 1933
for
\$650,000,000 of 8.0% Senior Notes due 2016
that have not been registered under the Securities Act of 1933**

**The Exchange Offer will expires at 5:00 pm, New York City time,
on , 2007, unless we extend the date**

Terms of the Exchange Offer

We are offering to exchange up to \$650.0 million aggregate principal amount of registered 8.0% Senior Notes due 2016, which we refer to as the new notes, for any and all of our \$650.0 million aggregate principal amount of unregistered 8.0% Senior Notes due 2016, which we will refer to as the old notes, that were issued on December 6, 2006. The new notes are being issued under the indenture pursuant to which we previously issued the old notes.

We will exchange all outstanding old notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer for an equal principal amount of new notes.

The terms of the new notes are substantially identical to those of the outstanding old notes, except that the transfer restrictions and registration rights relating to the old notes do not apply to the new notes.

You may withdraw tenders of old notes at any time prior to the expiration of the exchange offer.

The exchange of new notes for old notes should not be a taxable transaction for U.S. federal income tax purposes.

We will not receive any cash proceeds from the exchange offer.

The old notes are, and the new notes will be, guaranteed on a senior unsecured basis by all of our current domestic subsidiaries.

There is no established trading market for the new notes or the old notes.

We do not intend to apply for listing of the new notes on any national securities exchange or for quotation through any quotation system.

This investment involves risks. Please read Risk Factors beginning on page 8 for a discussion of the risks that you should consider prior to tendering your outstanding old notes in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for old notes where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the consummation of the exchange offer, we will make this prospectus available to any broker-dealer for use in connection with any such resale. Please read Plan of Distribution.

The date of this prospectus is _____, 2007.

TABLE OF CONTENTS

	Page
<u>Forward-Looking Statements</u>	ii
<u>Where You Can Find More Information</u>	iii
<u>Incorporation of Certain Documents by Reference</u>	iii
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	8
<u>Ratio of Earnings to Fixed Charges</u>	21
<u>Use of Proceeds</u>	21
<u>Description of Other Indebtedness</u>	21
<u>the Exchange Offer</u>	23
<u>Description of the New Notes</u>	33
<u>Certain United States Federal Income Tax Considerations</u>	65
<u>Plan of Distribution</u>	65
<u>Legal Matters</u>	66
<u>Experts</u>	66
<u>Opinion of Vinson & Elkins L.L.P.</u>	
<u>Opinion of Holland & Hart L.L.P.</u>	
<u>Computation of Ratio of Earnings to Fixed Charges</u>	
<u>Consent of Grant Thornton L.L.P.</u>	
<u>Consent of KPMG LLP</u>	
<u>Form T-1 Statement of Eligibility and Qualification under the Trust Indenture Act</u>	
<u>Form of Letter of Transmittal</u>	
<u>Notice of Guaranteed Delivery</u>	

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission, referred to in this prospectus as the SEC. In making your decision to participate in the exchange offer, you should rely only on the information contained in this prospectus and in the accompanying letter of transmittal. We have not authorized anyone to provide you with any other information. If you received any unauthorized information, you must not rely on it. We are not making an offer to sell these securities in any state or jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus, or the documents incorporated by reference into this prospectus, is accurate as of any date other than the date on the front cover of this prospectus or the date of such document incorporated by reference, as the case may be.

Table of Contents

FORWARD-LOOKING STATEMENTS

The information discussed in this prospectus (other than information related to the exchange offer as discussed below), our filings with the SEC and our public releases include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, referred to as the securities Act, and Section 21E of the Exchange Act. The safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995 does not apply to statements made in connection with the exchange offer in this prospectus. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things, the risk factors discussed in this prospectus and other factors, most of which are beyond our control.

The words believe, may, will, estimate, continue, anticipate, intend, plan, expect and similar expressions to identify forward-looking statements. All statements other than statements of current or historical fact contained in this prospectus are forward-looking statements.

Although we believe that the forward-looking statements contained in this prospectus are based upon reasonable assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Important factors that may affect our expectations, estimates or projections include:

- a decline in or substantial volatility of oil and gas prices, and any related changes in expenditures by our customers;
- the effects of future acquisitions on our business;
- changes in customer requirements in markets or industries we serve;
- competition within our industry;
- general economic and market conditions;
- our access to current or future financing arrangements;
- our ability to replace or add workers at economic rates;
- environmental and other governmental regulations; and
- the effects of severe weather on our services centers or equipment.

Our forward-looking statements speak only as of the date of this prospectus. Unless otherwise required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in our other filings with the SEC that are incorporated by reference herein and in the section entitled Risk

Factors included elsewhere in this prospectus. For additional information regarding risks and uncertainties, please read our other filings with the SEC under the Exchange Act and the Securities Act, including our annual report on Form 10-K for the fiscal year ended December 31, 2006 and our quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2007. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this prospectus and in the documents incorporated by reference. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We file periodic reports, proxy statements and other information with the SEC in accordance with the requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and any amendments to such reports available free of charge through our corporate web site at www.completeproduction.com as soon as reasonably practicable after we file any such report with the SEC. Our filings with the SEC also are available to the public over the Internet at the SEC's web site at www.sec.gov. You may also read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We are incorporating by reference herein important business and financial information that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference or deemed incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will be deemed to update automatically and supersede this incorporated information.

We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus and prior to the completion of this exchange offer (excluding any information furnished to the SEC pursuant to Item 2.02 or Item 7.01 on any current report on Form 8-K). We also incorporate by reference any future filings made with the SEC under the Exchange Act subsequent to the date of the initial registration statement and prior to effectiveness of the registration statement (excluding any information furnished to the SEC pursuant to Item 2.02 of Item 7.01 on any current report on Form 8-K). Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We have filed the following documents with the SEC which are incorporated into this prospectus by reference:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, including the information incorporated by reference from our proxy statement, relating to our annual meeting of stockholders.

Our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007.

Our Current Reports on Form 8-K as filed on February 2, 2007, February 16, 2007 (except for Item 2.02 and the related exhibit), February 22, 2007, March 26, 2007, April 26, 2007 (except for Item 2.02 and the related exhibit) and May 31, 2007, and our amended Current Report on Form 8-K/A as filed on January 19, 2007.

We will provide, without charge, upon written or oral request, a copy of any or all of the documents that are incorporated by reference into this prospectus. Requests should be directed to: Complete Production Services, Inc., 11700 Old Katy Road, Suite 300, Houston, Texas 77079, Attention: Chief Financial Officer, telephone number: (281) 372-2300.

To obtain a timely delivery of any of the documents incorporated by reference in this prospectus, you should request the information no later than _____, 2007.

Table of Contents

PROSPECTUS SUMMARY

This following summary highlights selected information from the prospectus and may not contain all of the information that is important to you. This prospectus includes specific terms of the new notes, as well as information regarding our business and financial data. Before making an investment decision, you should read this entire prospectus carefully, including the section entitled Risk Factors and the documents that have been incorporated into this prospectus, for a more detailed description of our business. In this prospectus, Complete, company, we, us and our refer to Complete Production Services, Inc. and its subsidiaries, except as otherwise indicated or where the context otherwise requires. Unless otherwise indicated, all references to dollars and \$ in this prospectus are to, and amounts are presented in, U.S. dollars.

Our Company

Complete Production Services, Inc., formerly named Integrated Production Services, Inc., is a Delaware corporation formed on May 22, 2001. We provide specialized services and products focused on helping oil and gas companies develop hydrocarbon reserves, reduce costs and enhance production. We focus on basins within North America that we believe have attractive long-term potential for growth, and we deliver targeted, value-added services and products required by our customers within each specific basin. We believe our range of services and products positions us to meet many needs of our customers at the wellsite, from drilling and completion through production and eventual abandonment. We seek to differentiate ourselves from our competitors through our local leadership, our basin-level expertise and the innovative application of proprietary and other technologies. We deliver solutions to our customers that we believe lower their costs and increase their production in a safe and environmentally friendly manner. Virtually all our operations are located in basins within North America, where we manage our operations from regional field service facilities located throughout the U.S. Rocky Mountain region, Texas, Oklahoma, Louisiana, Arkansas, Kansas, western Canada and Mexico. We also have operations in Southeast Asia.

Our Business Strategy

Our goal is to build the leading oilfield services company focused on the completion and production phases in the life of an oil and gas well. We intend to capitalize on the emerging trends in the North American marketplace through the execution of a growth strategy that consists of the following components:

Expand and capitalize on local leadership and basin-level expertise. A key component of our strategy is to build upon our base of strong local leadership and basin-level expertise. We have a significant presence in most of the key onshore continental U.S. and Canadian gas plays we believe have the potential for long-term growth. We intend to leverage our existing market presence, strong local leadership, expertise and customer relationships to expand our business within these gas plays. We also intend to replicate this approach in new regions by building and acquiring new businesses that have strong regional management with extensive local knowledge.

Develop and deploy technical and operational solutions. We are focused on developing and deploying technical services, equipment and expertise that lower our customers' costs.

Capitalize on organic and acquisition-related growth opportunities. We believe there are numerous opportunities to sell new services and products to customers in our current geographic areas and to sell our current services and products to customers in new geographic areas. We have a proven track record of organic growth and successful acquisitions, and we intend to continue using capital investments and acquisitions to strategically expand our business.

Focus on execution and performance. We have established and intend to develop further a culture of performance and accountability. Senior management spends a significant portion of its time ensuring that our customers receive the highest quality of service.

Table of Contents

How You Can Contact Us

Our principal executive offices are located at 11700 Old Katy Road, Suite 300, Houston, Texas 77079 and our telephone number at that location is (281) 372-2300. Our corporate website address is www.completeproduction.com. Unless specifically incorporated by reference in this prospectus, the information contained in or accessible from our corporate website is not part of this prospectus.

The Exchange Offer

On December 6, 2006, we completed a private offering of \$650 million in aggregate principal of the old notes. As part of this private offering, we entered into a registration rights agreement with the initial purchasers of the old notes in which we agreed, among other things, to deliver this prospectus to you and to use our best efforts to complete the exchange offer. The following is a summary of the exchange offer.

Old Notes	8.0% Senior Notes due 2016, which were issued on December 6, 2006.
New Notes	8.0% Senior Notes due 2016. The terms of the new notes are substantially identical to those terms of the outstanding old notes, except that the transfer restrictions and registration rights relating to the old notes do not apply to the new notes.
Exchange Offer	<p>We are offering to exchange up to \$650.0 million aggregate principal amount of our new notes that have been registered under the Securities Act for an equal amount of our outstanding old notes that have not been registered under the Securities Act to satisfy our obligations under the registration rights agreements.</p> <p>The new notes will evidence the same debt as the old notes and will be issued under and be entitled to the benefits of the same indenture that governs the old notes. Holders of the old notes do not have any appraisal or dissenter rights in connection with the exchange offer. Because the new notes will be registered, the new notes will not be subject to transfer restrictions, and holders of old notes that have tendered and had their old notes accepted in the exchange offer will have no registration rights.</p>
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on _____, 2007, unless we decide to extend it.
Conditions to the Exchange Offer	<p>The exchange offer is subject to customary conditions, which we may waive. Please read The Exchange Offer Conditions to the Exchange Offer for more information regarding the conditions to the exchange offer.</p> <p>Unless you comply with the procedures described under the caption The Exchange Offer Procedures for Tendering Guaranteed Delivery,</p>
Procedures for Tendering Old Notes	you must do one of the following on or prior to the expiration of the exchange offer to participate in the exchange offer:

tender your old notes by sending the certificates for your old notes, in proper form for transfer, a properly completed and duly executed letter of transmittal, with any required signature guarantees, and all other documents required by the letter of transmittal, to Wells Fargo Bank, National Association, as registrar and exchange agent, at the address listed under the caption "The Exchange Offer - Exchange Agent"; or

Table of Contents

tender your old notes by using the book-entry transfer procedures described below and transmitting a properly completed and duly executed letter of transmittal, with any required signature guarantees, or an agent's message instead of the letter of transmittal, to the exchange agent. In order for a book-entry transfer to constitute a valid tender of your old notes in the exchange offer, Wells Fargo Bank, National Association, as registrar and exchange agent, must receive a confirmation of book-entry transfer of your old notes into the exchange agent's account at The Depository Trust Company prior to the expiration of the exchange offer. For more information regarding the use of book-entry transfer procedures, including a description of the required agent's message, please read the discussion under the caption "The Exchange Offer Procedures for Tendering Book-Entry Transfer."

Guaranteed Delivery Procedures

If you are a registered holder of the old notes and wish to tender your old notes in the exchange offer, but

the old notes are not immediately available,

time will not permit your old notes or other required documents to reach the exchange agent before the expiration of the exchange offer, or

the procedure for book-entry transfer cannot be completed prior to the expiration of the exchange offer,

then you may tender old notes by following the procedures described under the caption "The Exchange Offer Procedures for Tendering Guaranteed Delivery."

Special Procedures for Beneficial Owners

If you are a beneficial owner whose old notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in the exchange offer, you should promptly contact the person in whose name the old notes are registered and instruct that person to tender on your behalf.

If you wish to tender in the exchange offer on your own behalf, prior to completing and executing the letter of transmittal and delivering the certificates for your old notes, you must either make appropriate arrangements to register ownership of the old notes in your name or obtain a properly completed bond power from the person in whose name the old notes are registered.

Withdrawal; Non-Acceptance

You may withdraw any old notes tendered in the exchange offer at any time prior to 5:00 p.m., New York City time, on _____, 2007. If we decide for any reason not to accept any old notes tendered for exchange, the old notes will be returned to the registered holder at our expense promptly after the expiration or termination of the exchange offer. In the case of old notes tendered by book-entry transfer into the exchange agent's account at

The Depository Trust Company, any withdrawn or unaccepted old notes will be credited to the tendering holder's account at The Depository Trust Company. For further information regarding the withdrawal of tendered old notes, please read The Exchange Offer Withdrawal Rights.

Table of Contents

U.S. Federal Income Tax Considerations	The exchange of new notes for old notes in the exchange offer should not be a taxable event for U.S. federal income tax purposes. Please read the discussion under the caption "Material U.S. Federal Income Tax Considerations" for more information regarding the tax consequences to you of the exchange offer.
Use of Proceeds	The issuance of the new notes will not provide us with any new proceeds. We are making this exchange offer solely to satisfy our obligations under the registration rights agreement.
Fees and Expenses	We will pay all of our expenses incident to the exchange offer.
Exchange Agent	We have appointed Wells Fargo Bank, National Association as exchange agent for the exchange offer. You can find the address, telephone number and fax number of the exchange agent under the caption "The Exchange Offer - Exchange Agent."
Resales of New Notes	<p>Based on interpretations by the staff of the SEC, as set forth in no-action letters issued to third parties that are not related to us, we believe that the new notes you receive in the exchange offer may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act so long as:</p> <ul style="list-style-type: none">the new notes are being acquired in the ordinary course of business;you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate in the distribution of the new notes issued to you in the exchange offer;you are not our affiliate; andyou are not a broker-dealer tendering old notes acquired directly from us for your account. <p>The SEC has not considered this exchange offer in the context of a no-action letter, and we cannot assure you that the SEC would make similar determinations with respect to this exchange offer. If any of these conditions are not satisfied, or if our belief is not accurate, and you transfer any new notes issued to you in the exchange offer without delivering a resale prospectus meeting the requirements of the Securities Act or without an exemption from registration of your new notes from those requirements, you may incur liability under the Securities Act. We will not assume, nor will we indemnify you against, any such liability. Each broker-dealer that receives new notes for its own account in exchange for old notes, where the old notes were acquired by such broker-dealer as a result of market-making or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale</p>

of such new notes. Please read [Plan of Distribution](#).

Please read [The Exchange Offer - Resales of New Notes](#) for more information regarding resales of the new notes.

Consequences of Not Exchanging Your
Old Notes

If you do not exchange your old notes in this exchange offer, you will no longer be able to require us to register your old notes under the Securities Act, except in the limited circumstances provided under the

Table of Contents

registration rights agreement. In addition, you will not be able to resell, offer to resell or otherwise transfer your old notes unless we have registered the old notes under the Securities Act, or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act.

For information regarding the consequences of not tendering your old notes and our obligation to file a registration statement, please read [The Exchange Offer](#), [Consequences of Failure to Exchange Outstanding Securities](#) and [Description of the New Notes](#).

Description of the New Notes

The terms of the new notes and those of the outstanding old notes are substantially identical, except that the transfer restrictions and registration rights relating to the old notes do not apply to the new notes. As a result, the new notes will not bear legends restricting their transfer and will not have the benefit of the registration rights and special interest provisions contained in the old notes. The new notes represent the same debt as the old notes for which they are being exchanged. Both the old notes and the new notes are governed by the same indenture.

The following is a summary of the terms of the new notes. It may not contain all the information that is important to you. For a more detailed description of the new notes, please read [Description of the New Notes](#).

Issuer	Complete Production Services, Inc.
Securities Offered	\$650.0 million aggregate principal amount of 8.0% Senior Notes due 2016. The new notes are being offered as additional debt securities under the indenture pursuant to which we previously issued the old notes.
Maturity Date	December 15, 2016.
Interest	Interest on the new notes will accrue at the rate of 8.0% per year and will be payable semi-annually on June 15 and December 15 of each year, beginning on June 15, 2007.

In addition, if:

 this registration statement is not declared effective on or prior to the 270th day after the original date of issuance of the old notes or if the exchange offer is not consummated on or prior to the 40th day after this registration statement becomes effective,

 we are obligated to file a shelf registration statement and we fail to do so on or prior to the 30th day after the obligation arises or the shelf registration statement is not declared effective on or prior to the 90th day after the date of filing, or

 if this registration statement or the shelf registration statement, as the case may be, is declared effective and such registration statement thereafter

ceases to be effective or usable (subject to certain exceptions),

we agree to pay additional interest in an amount equal to 0.50% per year of the principal amount of old notes for the first 90-day period immediately following a default event, increasing by an additional 0.50% per year with respect to each subsequent 90-day period until all

Table of Contents

defaults have been cured, up to a maximum additional interest rate of 1.50% per year.

Subsidiary Guarantors

The new notes will initially be jointly and severally guaranteed on a senior unsecured basis by all our current domestic subsidiaries. If we cannot make payments on the new notes when they are due, the guarantor subsidiaries must make them instead.

Ranking

The new notes will be our senior unsecured obligations. The new notes will rank equally with all our existing senior indebtedness. The new notes will rank effectively junior to our secured debt to the extent of the collateral, including secured debt under our amended and restated revolving credit facility. On March 31, 2007, we had approximately \$132.1 million of indebtedness outstanding under our revolving credit facility, excluding approximately \$20.5 million in outstanding letters of credit and approximately an additional \$197.4 million available for future borrowings under our amended and restated revolving credit facility.

Optional Redemption

On or after December 15, 2011, we may redeem some or all of the new notes at any time at the redemption prices listed in the section Description of the New Notes under the heading Optional Redemption. On or before December 15, 2009, we may redeem up to 35% of the aggregate principal amount of the new notes with the proceeds of certain equity offerings at the redemption price listed in the section Description of the New Notes under the heading Optional Redemption. Additionally, we may redeem some or all of the new notes prior to December 15, 2011 at a redemption price equal to 100% of the principal amount of the new notes plus a make-whole premium described in the section Description of the New Notes under the heading Optional Redemption.

Change of Control

If we experience a Change of Control (as defined in the Description of the New Notes under the heading Certain Definitions), we will be required to make an offer to repurchase the new notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase.

Basic Covenants of Indenture

We will issue the new notes under the indenture, as supplemented, between us, the subsidiary guarantors and Wells Fargo Bank, National Association, as trustee. The indenture governing the new notes will restrict our ability and the ability of our restricted subsidiaries to, among other things:

borrow money;

pay dividends or make other distributions on stock;

purchase or redeem stock or subordinated indebtedness;

make investments;

create liens;

enter into transactions with affiliates;

sell assets; and

6

Table of Contents

merge with or into other companies or transfer all or substantially all our assets.

These limitations are subject to a number of important qualifications and exceptions. For more details, please read the section Description of the New Notes under the heading Certain Covenants.

Events of Default

If there is an event of default on the new notes, the principal amount of notes plus accrued and unpaid interest, if any, may be declared immediately due and payable in specified circumstances. Please read Description of the New Notes Events of Default and Remedies.

Risk Factors

Investing in the new notes involves substantial risk. Please read Risk Factors beginning on page 8 for a discussion of certain factors you should consider in evaluating an investment in the new notes.

Table of Contents

RISK FACTORS

You should consider carefully the following factors, as well as the other information set forth or incorporated by reference in the prospectus (including the risks and other disclosure that are presented in our Annual Report on Form 10-K for the year ended December 31, 2006, our Quarterly Report on Form 10-Q for the three months ended March 31, 2007 or other documents filed by us with the SEC, which are incorporated by reference into this prospectus), before deciding to participate in the exchange offer.

Risks Related to the Exchange Offer and the New Notes

If you do not properly tender your old notes, you will continue to hold unregistered outstanding notes and your ability to transfer outstanding notes will be adversely affected.

We will only issue new notes in exchange for old notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the old notes and you should carefully follow the instructions on how to tender your old notes. Neither we nor the exchange agent is required to tell you of any defects or irregularities with respect to your tender of old notes. Please read *The Exchange Offer Procedures for Tendering* and *Description of the New Notes*.

If you do not exchange your old notes for new notes in the exchange offer, you will continue to be subject to the restrictions on transfer of your old notes described in the legend on the certificates for your old notes. In general, you may only offer or sell the old notes if they are registered under the Securities Act and applicable state securities laws, or offered and sold under an exemption from these requirements. We do not plan to register any sale of the old notes under the Securities Act. For further information regarding the consequences of tendering your old notes in the exchange offer, please read *The Exchange Offer Consequences of Failure to Exchange Outstanding Securities*.

You may find it difficult to sell your new notes.

Although the new notes will trade in The PORTALsm Market and will be registered under the Securities Act, the new notes will not be listed on any securities exchange. Because there is no public market for the new notes, you may not be able to resell them.

We cannot assure you that an active market will exist for the new notes or that any trading market that does develop will be liquid. If an active market does not develop or is not maintained, the market price and liquidity of our new notes may be adversely affected. If a market for the new notes develops, they may trade at a discount from their initial offering price. The trading market for the notes may be adversely affected by:

- changes in the overall market for non-investment grade securities;
- changes in our financial performance or prospects;
- the financial performance or prospects for companies in our industry generally;
- the number of holders of the notes;
- the interest of securities dealers in making a market for the notes; and

prevailing interest rates and general economic conditions.

Historically, the market for non-investment grade debt has been subject to substantial volatility in prices. The market for the new notes, if any, may be subject to similar volatility. Prospective investors in the new notes should be aware that they may be required to bear the financial risks of such investment for an indefinite period of time.

Some holders who exchange their old notes may be deemed to be underwriters.

If you exchange your old notes in the exchange offer for the purpose of participating in a distribution of the new notes, you may be deemed to have received restricted securities and, if so, will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

Table of Contents

Risks Related to Our Indebtedness and the Notes

We may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness, including the notes. We cannot assure you that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements including our amended and restated revolving credit facility and the indenture that governs the notes. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our amended and restated revolving credit facility and the indenture that governs the notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. See Description of Other Indebtedness and Description of the New Notes.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

our debt holders could declare all outstanding principal and interest to be due and payable;

the lenders under our amended and restated revolving credit facility could terminate their commitments to loan us money and foreclose against the assets securing their borrowings; and

we could be forced into bankruptcy or liquidation, which could result in the loss of your investment in the notes.

Covenants in our debt agreements restrict our business in many ways.

The indenture governing the notes contains various covenants that limit our ability and/or our restricted subsidiaries ability to, among other things:

incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;

issue redeemable stock and certain preferred stock;

pay dividends or distributions or redeem or repurchase capital stock;

prepay, redeem or repurchase subordinated debt;

make loans and investments;

enter into agreements that restrict distributions from our subsidiaries;

sell assets and capital stock of our subsidiaries;

enter into certain transactions with affiliates;

consolidate or merge with or into, or sell substantially all of our assets to, another person; and

enter into new lines of business.

In addition, our amended and restated revolving credit facility contains restrictive covenants and requires us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet those tests.

Table of Contents

A breach of any of these covenants could result in a default under our amended and restated revolving credit facility and/or the notes. Upon the occurrence of an event of default under our amended and restated revolving credit facility, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under our amended and restated revolving credit facility could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under our amended and restated revolving credit facility. If the lenders under our amended and restated revolving credit facility accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay indebtedness under our amended and restated revolving credit facility and our other indebtedness, including the notes. See [Description of Other Indebtedness](#).

Our borrowings under our amended and restated revolving credit facility are, and are expected to continue to be, at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease.

If we default on our obligations to pay our indebtedness we may not be able to make payments on the notes.

Any default under the agreements governing our indebtedness, including a default under our amended and restated revolving credit facility that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness, could render us unable to pay principal, premium, if any, and interest on the notes and substantially decrease the market value of the notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness (including covenants in our amended and restated revolving credit facility), we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under our amended and restated revolving credit facility could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to obtain waivers from the required lenders under our amended and restated revolving credit facility to avoid being in default. If we breach our covenants under our amended and restated revolving credit facility and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under our amended and restated revolving credit facility, the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation. See [Description of Other Indebtedness](#) and [Description of the New Notes](#).

The notes and the guarantees are effectively subordinated to all of our secured debt, and, if a default occurs, we may not have sufficient funds to fulfill our obligations under the notes and the guarantees.

The notes are general senior unsecured obligations that rank equally in right of payment with all of our existing and future unsubordinated indebtedness. The notes are effectively subordinated to all our and our subsidiary guarantors secured indebtedness to the extent of the value of the assets securing that indebtedness. As of March 31, 2007, we had approximately \$20.5 million in outstanding letters of credit and approximately \$132.1 million outstanding under our amended and restated revolving credit facility. Our amended and restated revolving credit facility is secured and provides for future borrowings of up to \$350.0 million. All borrowings under the amended and restated revolving credit facility are secured by substantially all of our assets and rank effectively senior to the notes and the guarantees. In addition, the indenture governing the notes does, subject to some limitations, permit us to incur additional secured indebtedness, and the notes are effectively junior to any additional secured indebtedness we may incur.

In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure our secured indebtedness, including our amended and restated revolving credit facility, will be available to pay obligations on the notes only after all secured indebtedness, together with accrued interest, has been repaid in full

Table of Contents

from our assets. Our failure to comply with the terms of the amended and restated revolving credit facility would entitle those lenders to declare all the funds borrowed thereunder, together with accrued interest, immediately due and payable. Such lenders could then seek to foreclose on substantially all of our assets that serve as collateral. In this event, our secured lenders would be entitled to be repaid in full from the proceeds of the liquidation of those assets before those assets would be available for distribution to other creditors, including holders of the notes. Holders of the notes will participate in our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all of our other general creditors. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all the notes then outstanding. The guarantees of the notes have a similar ranking with respect to secured and unsecured senior indebtedness of the subsidiary guarantors as the notes do with respect to our secured and unsecured senior indebtedness, as well as with respect to any unsecured obligations expressly subordinated in right of payment to the guarantees.

We may not be able to repurchase the notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest. We may not be able to repurchase the notes upon a change of control because we may not have sufficient funds. Further, we may be contractually restricted under the terms of our amended and restated revolving credit facility or other future senior indebtedness from repurchasing all of the notes tendered by holders upon a change of control. Accordingly, we may not be able to satisfy our obligations to purchase the notes unless we are able to refinance or obtain waivers under our amended and restated revolving credit facility. Our failure to repurchase the notes upon a change of control would cause a default under the indenture and a cross default under our amended and restated revolving credit facility. Our amended and restated revolving credit facility also provides that a change of control, as defined in such agreement, will be a default that permits lenders to accelerate the maturity of borrowings thereunder and, if such debt is not paid, to enforce security interests in the collateral securing such debt, thereby limiting our ability to raise cash to purchase the notes, and reducing the practical benefit of the offer to purchase provisions to the holders of the notes. Any of our future debt agreements may contain similar provisions.

In addition, the change of control provisions in the indenture may not protect you from certain important corporate events, such as a leveraged recapitalization (which would increase the level of our indebtedness), reorganization, restructuring, merger or other similar transaction, unless such transaction constitutes a Change of Control under the indenture. Such a transaction may not involve a change in voting power or beneficial ownership or, even if it does, may not involve a change that constitutes a Change of Control as defined in the indenture that would trigger our obligation to repurchase the notes. Therefore, if an event occurs that does not constitute a Change of Control as defined in the indenture, we will not be required to make an offer to repurchase the notes and the holder may be required to continue to hold the notes despite the event. See Description of Other Indebtedness and Description of the New Notes Offers to Purchase; Repurchase at the Option of the Noteholders Change of Control Offer.

We may incur substantially more debt. This could further exacerbate the risks described above.

We and our subsidiary guarantors may be able to incur substantial additional indebtedness in the future. The terms of the indenture do not fully prohibit us or our subsidiary guarantors from doing so. If we incur any additional indebtedness, including trade payables, that ranks equally with the notes, the holders of that debt will be entitled to share ratably with the holders of the notes in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of our company. This may have the effect of reducing the amount of proceeds available to repay the notes. We have a \$350.0 million revolving credit facility with approximately \$197.4 million of undrawn availability as of March 31, 2007. All of those borrowings are secured by substantially all of our assets and rank effectively senior to the notes and the guarantees. If new debt is added to our current debt levels, the related risks that we and our subsidiary guarantors now face could intensify. The subsidiaries that guarantee

the notes are also guarantors under our amended and restated revolving credit facility. See Description of the New Notes and Description of Other Indebtedness.

Table of Contents

Your ability to transfer the notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the notes.

The notes are a new issue of securities for which there is no established public market. We do not intend to have the notes listed on a national securities exchange or to arrange for quotation on any automated dealer quotation systems, although we expect that they will be eligible for trading in the PORTALsm Market. No party is obligated to make a market in the notes. Therefore, we cannot assure you as to the development or liquidity of any trading market for the notes. The liquidity of any market for the notes will depend on a number of factors, including:

- the number of holders of notes;
- our operating performance and financial condition;
- our ability to complete the offer to exchange the old notes for the new notes;
- the market for similar securities;
- the interest of securities dealers in making a market in the notes; and
- prevailing interest rates.

Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. We cannot assure you that the market, if any, for the notes will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which you may sell your notes. Therefore, we cannot assure you that you will be able to sell your notes at a particular time or the price that you receive when you sell will be favorable.

Federal and state fraudulent transfer laws permit a court to void the notes and the guarantees, and, if that occurs, you may not receive any payments on the notes.

The original issuance of the notes and the guarantees may be subject to review under federal and state fraudulent transfer and conveyance statutes. While the relevant laws may vary from state to state, under such laws the payment of consideration will be a fraudulent conveyance if (1) a subsidiary guarantor entered into the guarantee with the intent of hindering, delaying or defrauding its creditors or (2) we or any of our subsidiary guarantors, as applicable, received less than reasonably equivalent value or fair consideration in return for issuing either the notes or a guarantee, and, in the case of (2) only, one of the following is also true:

- we or any of our subsidiary guarantors were or was insolvent or rendered insolvent by reason of the incurrence of the indebtedness; or
- payment of the consideration left us or any of our subsidiary guarantors with an unreasonably small amount of capital to carry on the business; or
- we or any of our subsidiary guarantors intended to, or believed that we or it would, incur debts beyond our or its ability to pay as they mature.

If a court were to find that the issuance of the notes or a guarantee was a fraudulent conveyance, the court could void the payment obligations under the notes or such guarantee or subordinate the notes or such guarantee to presently

existing and future indebtedness of ours or such subsidiary guarantor, or require the holders of the notes to repay any amounts received with respect to the notes or such guarantee. In the event of a finding that a fraudulent conveyance occurred, you may not receive any repayment on the notes. Further, the voidance of the notes could result in an event of default with respect to our other debt and that of our subsidiary guarantors that could result in acceleration of such debt.

Generally, an entity would be considered insolvent if, at the time it incurred indebtedness:

the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all its assets; or

the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts and liabilities, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they become due.

Table of Contents

We cannot be certain as to the standards a court would use to determine whether or not we or the subsidiary guarantors were solvent at the relevant time, or regardless of the standard that a court uses, that the issuance of the notes and the guarantees would not be subordinated to our or any subsidiary guarantor's other debt.

If the guarantees were legally challenged, any guarantee could also be subject to the claim that, since the guarantee was incurred for our benefit, and only indirectly for the benefit of the subsidiary guarantor, the obligations of the applicable subsidiary guarantor were incurred for less than fair consideration. A court could thus void the obligations under the guarantees, subordinate them to the applicable subsidiary guarantor's other debt or take other action detrimental to the holders of the notes.

As a holding company, our main source of cash is distributions from our subsidiaries.

We conduct operations primarily through our subsidiaries, and these subsidiaries directly own substantially all of our operating assets. Therefore, our operating cash flow and ability to meet our debt obligations, including the notes, will depend principally on the cash flow provided by our subsidiaries in the form of loans, dividends or other payments to us as an equity holder, service provider or lender. The ability of our subsidiaries to make such payments to us will depend on their earnings, tax considerations, legal restrictions and contractual restrictions imposed by their own indebtedness. Although the indenture for the notes limits the right of certain of our subsidiaries to enter into consensual restrictions on their ability to pay dividends and make other payments to us, these limitations are subject to a number of significant qualifications and exceptions. Please read [Description of the New Notes](#) [Certain Covenants](#) [Limitation on Dividends and Other Payment Restrictions Affecting the Subsidiaries](#).

In addition, not all of our subsidiaries guarantee our obligation under the notes. Creditors of such subsidiaries (including trade creditors) generally are entitled to payment from the assets of those subsidiaries before those assets can be distributed to us. As a result, the notes are effectively subordinated to the prior payment of all of the debts (including trade payables) of our non-guarantor subsidiaries.

Risks Related to Our Business and Our Industry

Our business depends on the oil and gas industry and particularly on the level of activity for North American oil and gas. Our markets may be adversely affected by industry conditions that are beyond our control.

We depend on our customers' willingness to make operating and capital expenditures to explore for, develop and produce oil and gas in North America. If these expenditures decline, our business may suffer. Our customers' willingness to explore, develop and produce depends largely upon prevailing industry conditions that are influenced by numerous factors over which management has no control, such as:

- the supply of and demand for oil and gas;
- the level of prices, and expectations about future prices, of oil and gas;
- the cost of exploring for, developing, producing and delivering oil and gas;
- the expected rates of declining current production;
- the discovery rates of new oil and gas reserves;
- available pipeline and other transportation capacity;

weather conditions, including hurricanes that can affect oil and gas operations over a wide area;
domestic and worldwide economic conditions;
political instability in oil and gas producing countries;
technical advances affecting energy consumption;
the price and availability of alternative fuels;
the ability of oil and gas producers to raise equity capital and debt financing; and
merger and divestiture activity among oil and gas producers.

Table of Contents

The level of activity in the North American oil and gas exploration and production industry is volatile. Expected trends in oil and gas production activities may not continue and demand for the services provided by us may not reflect the level of activity in the industry. Any prolonged substantial reduction in oil and gas prices would likely affect oil and gas production levels and therefore affect demand for the services we provide. A material decline in oil and gas prices or North American activity levels could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, a decrease in the development rate of oil and gas reserves in our market areas may also have an adverse impact on our business, even in an environment of stronger oil and gas prices.

Because the oil and gas industry is cyclical, our operating results may fluctuate.

Oil and gas prices are volatile. Until recently, these prices have generally been at historically high levels. Gas prices have recently declined substantially from historically high levels. Oil prices have also declined. The increase in prices over the last few years has caused oil and gas companies and drilling contractors to change their strategies and expenditure levels, which has benefited us. However, the recent decline in oil and gas prices may result in a decrease in the expenditure levels of oil and gas companies and drilling contractors which would in turn adversely affect us. We have experienced in the past, and may experience in the future, significant fluctuations in operating results as a result of the reactions of our customers to changes in oil and gas prices. We reported a loss in 2002, and our income from continuing operations in 2006 was \$137.3 million compared to \$50.9 million in 2005, \$11.3 million in 2004 and \$0.3 million in 2003.

Substantially all of the service and rental revenue we earn is based upon a charge for a relatively short period of time (an hour, a day, a week) for the actual period of time the service or rental is provided to our customer. By contracting services on a short-term basis, we are exposed to the risks of a rapid reduction in market price and utilization and volatility in our revenues. Product sales are recorded when the actual sale occurs, title or ownership passes to the customer and the product is shipped or delivered to the customer.

There is potential for excess capacity in our industry.

Because oil and gas prices and drilling activity have been at historically high levels, oilfield service companies have been acquiring new equipment to meet their customers' increasing demand for services. If these levels of price and activity decrease, there is a potential for excess capacity in the oilfield service industry. This could result in an increased competitive environment for oilfield service companies, which could lead to lower prices and utilization for our services and could adversely affect our business.

We may be unable to employ a sufficient number of skilled and qualified workers.

The delivery of our services and products requires personnel with specialized skills and experience who can perform physically demanding work. As a result of the volatility of the oilfield service industry and the demanding nature of the work, workers may choose to pursue employment in fields that offer a more desirable work environment. Our ability to be productive and profitable will depend upon our ability to employ and retain skilled workers. In addition, our ability to expand our operations depends in part on our ability to increase the size of our skilled labor force. The demand for skilled workers is high, and the supply is limited, particularly in the U.S. Rocky Mountain region, which is one of our key regions. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the wage rates that we must pay, or both. If either of these events were to occur, our capacity and profitability could be diminished and our growth potential could be impaired.

Our executive officers and certain key personnel are critical to our business and these officers and key personnel may not remain with us in the future.

Our future success depends upon the continued service of our executive officers and other key personnel. If we lose the services of one or more of our executive officers or key employees, our business, operating results and financial condition could be harmed.

Table of Contents

Our operating history may not be sufficient for investors to evaluate our business and prospects.

We are a company with a short combined operating history. In addition, two of our combining companies, IPS and CES, have grown significantly over the last few years through acquisitions. This may make it more difficult for investors to evaluate our business and prospects and to forecast our future operating results. Our historical combined financial statements included in this prospectus are based on the separate businesses of IPS, CES and IEM for the periods prior to the Combination. As a result, the historical information may not give you an accurate indication of what our actual results would have been if the Combination had been completed at the beginning of the periods presented or of what our future results of operations are likely to be. Our future results will depend on our ability to efficiently manage our combined operations and execute our business strategy.

We participate in a capital intensive business. We may not be able to finance future growth of our operations or future acquisitions.

Historically, we have funded the growth of our operations and our acquisitions from bank debt, private placement of shares, our initial public offering in April 2006, the private placement of the old notes, as well as cash generated by our business. In the future, we may not be able to continue to obtain sufficient bank debt at competitive rates or complete equity and other debt financings. If we do not generate sufficient cash from our business to fund operations, our growth could be limited unless we are able to obtain additional capital through equity or debt financings. Our inability to grow as planned may reduce our chances of maintaining and improving profitability.

Our inability to control the inherent risks of acquiring and integrating businesses could adversely affect our operations.

Acquisitions have been, and our management believes acquisitions will continue to be, a key element of our business strategy. We may not be able to identify and acquire acceptable acquisition candidates on favorable terms in the future. We may be required to incur substantial indebtedness to finance future acquisitions and also may issue equity securities in connection with such acquisitions. Such additional debt service requirements may impose a significant burden on our results of operations and financial condition. The issuance of additional equity securities could result in significant dilution to stockholders. Acquisitions may not perform as expected when the acquisition was made and may be dilutive to our overall operating results. Additional risks we will face include:

- retaining and attracting key employees;
- retaining and attracting new customers;
- increased administrative burden;
- developing our sales and marketing capabilities;
- managing our growth effectively;
- integrating operations;
- operating a new line of business; and
- increased logistical problems common to large, expansive operations.

If we fail to manage these risks successfully, our business could be harmed.

Our customer base is concentrated within the oil and gas production industry and loss of a significant customer could cause our revenue to decline substantially.

Our top five customers accounted for approximately 23% of our revenue for the years ended December 31, 2006 and 2005. Although none of our customers accounted for more than 10% of our revenue during the years ended December 31, 2006 and 2005, our top ten customers represented approximately 37% and 35% of our revenue for the years then ended, respectively. It is likely that we will continue to derive a significant portion of our revenue from a relatively small number of customers in the future. If a major customer decided not to continue to use our services, revenue would decline and our operating results and financial condition could be harmed.

Table of Contents

Our indebtedness could restrict our operations and make us more vulnerable to adverse economic conditions.

As of March 31, 2007, our long-term debt, including current maturities, was \$787.1 million. Our level of indebtedness may adversely affect operations and limit our growth, and we may have difficulty making debt service payments on our indebtedness as such payments become due. Our level of indebtedness may affect our operations in several ways, including the following:

our level of debt increases our vulnerability to general adverse economic and industry conditions;

the covenants that are contained in the agreements that govern our indebtedness limit our ability to borrow funds, dispose of assets, pay dividends and make certain investments;

any failure to comply with the financial or other covenants of our debt could result in an event of default, which could result in some or all of our indebtedness becoming immediately due and payable; and

our level of debt may impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or other general corporate purposes.

Our business depends upon our ability to obtain key raw materials and specialized equipment from suppliers.

Should our current suppliers be unable to provide the necessary raw materials or finished products (such as workover rigs or fluid-handling equipment) or otherwise fail to deliver the products timely and in the quantities required, any resulting delays in the provision of services could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may not be able to provide services that meet the specific needs of oil and gas exploration and production companies at competitive prices.

The markets in which we operate are highly competitive and have relatively few barriers to entry. The principal competitive factors in our markets are product and service quality and availability, responsiveness, experience, technology, equipment quality, reputation for safety and price. We compete with large national and multi-national companies that have longer operating histories, greater financial, technical and other resources and greater name recognition than we do. Several of our competitors provide a broader array of services and have a stronger presence in more geographic markets. In addition, we compete with several smaller companies capable of competing effectively on a regional or local basis. Our competitors may be able to respond more quickly to new or emerging technologies and services and changes in customer requirements. Some contracts are awarded on a bid basis, which further increases competition based on price. As a result of competition, we may lose market share or be unable to maintain or increase prices for our present services or to acquire additional business opportunities, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our operations are subject to hazards inherent in the oil and gas industry.

Risks inherent to our industry, such as equipment defects, vehicle accidents, explosions and uncontrollable flows of gas or well fluids, can cause personal injury, loss of life, suspension of operations, damage to formations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment. These risks could expose us to substantial liability for personal injury, wrongful death, property damage, loss of oil and gas production, pollution and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators. In particular, our customers

may elect not to purchase our services if they view our safety record as unacceptable, which could cause us to lose customers and substantial revenues. In addition, these risks may be greater for us because we sometimes acquire companies that have not allocated significant resources and management focus to safety and have a poor safety record.

Our operations have experienced fatalities. Many of the claims filed against us arise from vehicle-related accidents that have in certain specific instances resulted in the loss of life or serious bodily injury. Our safety

Table of Contents

procedures may not always prevent such damages. Our insurance coverage may be inadequate to cover our liabilities. In addition, we may not be able to maintain adequate insurance in the future at rates we consider reasonable and commercially justifiable and insurance may not continue to be available on terms as favorable as our current arrangements. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by us or a claim at a time when we are not able to obtain liability insurance could have a material adverse effect on our ability to conduct normal business operations and on our financial condition, results of operations and cash flows. Although our senior management is committed to improving our overall safety record, they may not be successful in doing so.

If we become subject to product liability claims, it could be time-consuming and costly to defend.

Since our customers use our products or third party products that we sell through our supply stores, errors, defects or other performance problems could result in financial or other damages to us. Our customers could seek damages from us for losses associated with these errors, defects or other performance problems. If successful, these claims could have a material adverse effect on our business, operating results or financial condition. Our existing product liability insurance may not be enough to cover the full amount of any loss we might suffer. A product liability claim brought against us, even if unsuccessful, could be time-consuming and costly to defend and could harm our reputation.

We are subject to extensive and costly environmental laws and regulations that may require us to take actions that will adversely affect our results of operations.

Our business is significantly affected by stringent and complex foreign, federal, state and local laws and regulations governing the discharge of substances into the environment or otherwise relating to environmental protection. As part of our business, we handle, transport, and dispose of a variety of fluids and substances used or produced by our customers in connection with their oil and gas exploration and production activities. We also generate and dispose of hazardous waste. The generation, handling, transportation, and disposal of these fluids, substances, and waste are regulated by a number of laws, including the Resource Recovery and Conservation Act; the Comprehensive Environmental Response, Compensation, and Liability Act; the Clean Water Act; the Safe Drinking Water Act; and analogous state laws. Failure to properly handle, transport, or dispose of these materials or otherwise conduct our operations in accordance with these and other environmental laws could expose us to liability for governmental penalties, cleanup costs associated with releases of such materials, damages to natural resources, and other damages, as well as potentially impair our ability to conduct our operations. We could be exposed to liability for cleanup costs, natural resource damages and other damages under these and other environmental laws as a result of our conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior operators or other third parties. Environmental laws and regulations have changed in the past, and they are likely to change in the future. If existing regulatory requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

Any failure by us to comply with applicable environmental laws and regulations may result in governmental authorities taking actions against our business that could adversely impact our operations and financial condition, including the:

issuance of administrative, civil and criminal penalties;

denial or revocation of permits or other authorizations;

imposition of limitations on our operations; and

performance of site investigatory, remedial or other corrective actions.

The effect of environmental laws and regulations on our business is discussed in greater detail under **Business Environmental Matters** included in Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Table of Contents

The nature of our industry subjects us to compliance with other regulatory laws.

Our business is significantly affected by state and federal laws and other regulations relating to the oil and gas industry in general, and more specifically with respect to health and safety, waste management and the manufacture, storage, handling and transportation of hazardous materials and by changes in and the level of enforcement of such laws. The failure to comply with these rules and regulations can result in substantial penalties, revocation of permits, corrective action orders and criminal prosecution. The regulatory burden on the oil and gas industry increases our cost of doing business and, consequently, affects our profitability. We may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. It is impossible for management to predict the cost or impact of such laws and regulations on our future operations.

If we fail to develop or maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. Our efforts to continue to develop and maintain internal controls may not be successful, and we may be unable to maintain adequate controls over our financial processes and reporting in the future, including compliance with the obligations under Section 404 of the Sarbanes-Oxley Act of 2002. We must comply with Section 404 for our fiscal year ending December 31, 2007. Any failure to develop or maintain effective controls, or difficulties encountered in our implementation or other effective improvement of our internal controls, could harm our operating results.

A terrorist attack or armed conflict could harm our business.

Terrorist activities, anti-terrorist efforts and other armed conflicts involving the United States or other countries may adversely affect the United States and global economies and could prevent us from meeting our financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and gas, potentially putting downward pressure on demand for our services and causing a reduction in our revenues. Oil and gas related facilities could be direct targets of terrorist attacks, and our operations could be adversely impacted if infrastructure integral to our customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

Conservation measures and technological advances could reduce demand for oil and gas.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and gas, technological advances in fuel economy and energy generation devices could reduce demand for oil and gas. Management cannot predict the impact of the changing demand for oil and gas services and products, and any major changes may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Fluctuations in currency exchange rates in Canada could adversely affect our business.

We have substantial operations in Canada. As a result, fluctuations in currency exchange rates in Canada could materially and adversely affect our business. For the year ended December 31, 2006, our Canadian operations represented approximately 7% of our revenue from continuing operations and 3% of our net income from continuing operations before taxes and minority interest, compared to approximately 9% of our revenue from continuing operations and 4% of our net income from continuing operations before taxes and minority interest for the year ended December 31, 2005. For the three-month period ended March 31, 2007, our Canadian operations represented

approximately 7% of our revenue from continuing operations and 8% of our net income from continuing operations before taxes and minority interest.

Table of Contents

We are susceptible to seasonal earnings volatility due to adverse weather conditions in Canada.

Our operations are directly affected by seasonal differences in weather in Canada. The level of activity in the Canadian oilfield services industry declines significantly in the second calendar quarter, when frost leaves the ground and many secondary roads are temporarily rendered incapable of supporting the weight of heavy equipment. The duration of this period is referred to as spring breakup and has a direct impact on our activity levels in Canada. The timing and duration of spring breakup depend on weather patterns but generally spring breakup occurs in April and May. Additionally, if an unseasonably warm winter prevents sufficient freezing, we may not be able to access wellsites and our operating results and financial condition may, therefore, be adversely affected. The demand for our services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting operating results. The volatility in weather and temperature in the Canadian oilfield can therefore create unpredictability in activity and utilization rates. As a result, full-year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

Our operations in Mexico are subject to specific risks, including dependence on Petróleos Mexicanos (PEMEX) as the primary customer, exposure to fluctuation in the Mexican peso and workforce unionization.

Our business in Mexico is substantially all performed for PEMEX pursuant to multi-year contracts. These contracts are generally two years in duration and are subject to competitive bid for renewal. Any failure by us to renew our contracts could have a material adverse effect on our financial condition, results of operations and cash flows.

The PEMEX contracts provide that 70% to 80% of the value of our billings under the contracts is charged to PEMEX in U.S. dollars with the remainder billed in Mexican pesos. The portion billed in U.S. dollars to PEMEX is converted to pesos on the date of payment. Invoices are paid approximately 45 days after the invoice date. As such, we are exposed to fluctuations in the value of the peso. A material decrease in the value of the Mexican peso relative to the U.S. dollar could negatively impact our revenues, cash flows and net income.

Our operations in Mexico are party to a collective labor contract made effective as of October 2006 between Servicios Petrotec S.A. DE C.V., one of our subsidiaries, and Unión Sindical de Trabajadores de la Industria Metálica y Similares, the metal and similar industry workers labor union. We have not experienced work stoppages in the past but cannot guarantee that we will not experience work stoppages in the future. A prolonged work stoppage could negatively impact our revenues, cash flows and net income.

Our U.S. operations are adversely impacted by the hurricane season in the Gulf of Mexico, which generally occurs in the third calendar quarter.

Hurricanes and the threat of hurricanes during this period will often result in the shut-down of oil and gas operations in the Gulf of Mexico as well as land operations within the hurricane path. During a shut-down period, we are unable to access wellsites and our services are also shut down. This situation can therefore create unpredictability in activity and utilization rates, which can have a material adverse impact on our business, financial conditions, results of operations and cash flows.

When rig counts are low, our rig relocation customers may not have a need for our services.

Many of the major U.S. onshore drilling services contractors have significant capabilities to move their own drilling rigs and related oilfield equipment and to erect rigs. When regional rig counts are high, drilling services contractors exceed their own capabilities and contract for additional oilfield equipment hauling and rig erection capacity. Our rig relocation business activity is highly correlated to the rig count; however, the correlation varies over the rig count

range. As rig count drops, some drilling services contractors reach a point where all of their oilfield equipment hauling and rig erection needs can be met by their own fleets. If one or more of our rig relocation customers reach this tipping point, our revenues attributable to rig relocation will decline much faster than the corresponding overall decline in the rig count. This non-linear relationship between our rig relocation business activity and the rig count in the areas in which we have rig relocation operations can increase significantly our earnings volatility with respect to rig relocation.

Table of Contents

Increasing trucking regulations may increase our costs and negatively impact our results of operations.

Among the services we provide, we operate as a motor carrier and therefore are subject to regulation by the U.S. Department of Transportation and by various state agencies. These regulatory authorities exercise broad powers, governing activities such as the authorization to engage in motor carrier operations and regulatory safety. There are additional regulations specifically relating to the trucking industry, including testing and specification of equipment and product handling requirements. The trucking industry is subject to possible regulatory and legislative changes that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload services. Some of these possible changes include increasingly stringent environmental regulations, changes in the hours of service regulations which govern the amount of time a driver may drive in any specific period, onboard black box recorder devices or limits on vehicle weight and size.

Interstate motor carrier operations are subject to safety requirements prescribed by the U.S. Department of Transportation. To a large degree, intrastate motor carrier operations are subject to state safety regulations that mirror federal regulations. Such matters as weight and dimension of equipment are also subject to federal and state regulations.

From time to time, various legislative proposals are introduced, including proposals to increase federal, state, or local taxes, including taxes on motor fuels, which may increase our costs or adversely impact the recruitment of drivers. We cannot predict whether, or in what form, any increase in such taxes applicable to us will be enacted.

We are self-insured for certain health care benefits for our employees.

On January 1, 2007, we began a self-insurance program to pay claims associated with the health care benefits provided to certain of our employees in the United States. Under this program, we continue to use the insurance company which provided our coverage in 2006 to administer the program, and we have purchased a stop-loss policy with this provider which will insure for individual claims which exceed a designated ceiling. Pursuant to this program, we accrue expense based upon expected claims, and make periodic claim payments to our administrator, which facilitates the payment of claims to the medical care providers. There is a risk that our actual claims incurred may exceed the projected claims, and we may incur more expense than expected for health insurance coverage. There is also a risk that we may not adequately accrue for claims that are incurred but not reported. Either of these events could have a material adverse effect on our financial position, results of operations or cash flows.

Risks Related to Our Relationship with SCF

L.E. Simmons, through SCF, may be able to control the outcome of stockholder voting and may exercise this voting power in a manner adverse to you.

SCF owns approximately 35% of our outstanding common stock. L.E. Simmons is the sole owner of L.E. Simmons and Associates, Incorporated, the ultimate general partner of SCF. Accordingly, Mr. Simmons, through his ownership of the ultimate general partner of SCF, may be in a position to control the outcome of matters requiring a stockholder vote, including the election of directors, adoption of amendments to our certificate of incorporation or bylaws or approval of transactions involving a change of control. The interests of Mr. Simmons may differ from yours, and SCF may vote its common stock in a manner that may adversely affect you.

One of our directors may have conflicts of interest because he is affiliated with SCF. The resolution of these conflicts of interest may not be in our or your best interests.

One of our directors, Andrew L. Waite, is a current officer of L.E. Simmons and Associates, Incorporated, the ultimate general partner of SCF. This may create conflicts of interest because this director has responsibilities to SCF and its owners. His duties as an officer of L.E. Simmons and Associates, Incorporated may conflict with his duties as a director of our company regarding business dealings between SCF and us and other matters. The resolution of these conflicts may not always be in our or your best interests.

Alfred Riedler

CFO

4,150
6,411
14,687
12,590
20,981 100,000 \$
\$
\$
\$
\$
\$0.59
0.59
0.59
0.81
5.20
1.90 12/31/2011
12/31/2012
12/31/2013
03/02/2015
07/13/2016
12/17/2016

Steve Yin

VP Sales and

Marketing

41,962 75,000 \$
\$0.81
1.90 03/02/2016
12/17/2016

- (1) Mr. Jones was the Company's President and Chief Executive Officer the completion of its merger (through its predecessor Sand Hill IT Security Acquisition Corp.) with Old St. Bernard Software, Inc. (successor to St. Bernard Software, Inc., a private company at the time of the merger) on July 27, 2006 until November 1, 2006.
- (2) Mr. Polanen was the Company's Chief Executive Officer prior to the completion of its merger (through its predecessor Sand Hill IT Security Acquisition Corp.) with Old St. Bernard Software, Inc. (successor to St. Bernard Software, Inc., a private company at the time of the merger) on July 27, 2006 for which he received no monetary compensation.
- (3) Each of the listed options (other than for Mr. Rossi) vests over three years as follows: one-third ($\frac{1}{3}$) of the option vests on the first anniversary of the grant date and the remaining two-thirds ($\frac{2}{3}$) of the option vests in equal monthly installments from the 13th through the 36th month from the date of the grant. Mr. Rossi's options vest in three equal annual installments beginning one year from the date of grant.

DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards (2)	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
Humphrey P. Polanen	\$ 24,174		\$ 124,135				\$ 148,309
Scott R. Broomfield	\$ 16,734		\$ 124,135				\$ 140,869
Bart A.M. van Hedel	\$ 17,734		\$ 124,135				\$ 141,869
Mel S. Lavitt	\$ 21,042		\$ 124,135				\$ 145,177
Louis E. Ryan	\$ 22,027		\$ 124,135				\$ 146,162
Rich Arnold	\$ 17,609		\$ 124,135				\$ 141,744
Cary Grossman (1)	\$						\$ 0
Daniel Johnson (1)	\$						\$ 0
Keith Walz (1)	\$						\$ 0
Alberto Micalizzi (1)	\$						\$ 0

- (1) These individuals were directors of the Company prior to the completion of its merger (through its predecessor Sand Hill IT Security Acquisition Corp.) with Old St. Bernard Software, Inc. (successor to St. Bernard Software, Inc., a private company at the time of the merger) on July 27, 2006.
- (2) The value of option awards relates to the award of 50,000 options per Company director made in fiscal 2006. Each of the listed options vests over three years as follows: one-third ($\frac{1}{3}$) of the option vests on the first anniversary of the grant date and the remaining two-thirds ($\frac{2}{3}$) of the option vests in equal monthly installments from the 13th through the 36th month from the date of the grant.

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

Prior to the date of the Company's initial public offering, the Company issued a total of 1,000,000 shares of common stock (by its predecessor entity Sand Hill IT Security Acquisition Corp.) to the individuals set forth below at a purchase price of \$0.025 per share as follows:

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership
Humphrey Polanen	459,441
Sand Hill Security, LLC (1)	100,000
Keith Walz	174,825
Scott Broomfield (2)	174,825
Cary Grossman (3)	48,951
Dan Johnson	20,979
Alberto Micalizzi	20,979
Total	1,000,000

(1) Sand Hill Security, LLC Membership Interests are held by (i) the Polanen and Nicodimos Family Trust, of which Mr. Polanen is a trustee, (ii) the Broomfield Family Trust, of which Mr. Broomfield is a trustee, (iii) Dan Johnson, (iv) Keith Walz, (v) Alberto Micalizzi, and (vi) the Grossman Family Limited Partnership, of which Mr. Grossman is a general partner.

(2) Mr. Broomfield's shares are held by the Broomfield Family Trust, of which Mr. Broomfield is a Co-Trustee.

(3) Mr. Grossman's shares are held by Grossman Family Limited Partnership, of which Mr. Grossman is a general partner. Sand Hill Security, LLC, an affiliate of certain of the Company's current and former directors and officers as described above, made advances aggregating \$40,000 to the Company to cover expenses related to its initial public offering. The loan was payable without interest on the earlier of July 31, 2004 or the consummation of the initial public offering. The loan was repaid in July 2004 from the proceeds of the Company's initial public offering.

The Company has reimbursed certain of its current and former officers and directors for reasonable out-of-pocket business expenses incurred by them in connection with certain activities on the Company's behalf such as identifying and investigating possible target businesses and business combinations. There is no limit on

the amount of accountable out-of-pocket expenses reimbursable by the Company, which will be reviewed only by its board of directors or a court of competent jurisdiction if such reimbursement is challenged.

The Company, prior to the consummation of the merger of the Company (formerly Sand Hill IT Security Acquisition Corp.) and Old St. Bernard Software, Inc. (formerly St. Bernard Software, Inc. a private company), paid a \$7,500 per-month administrative fee and reimbursed certain out-of-pocket expenses of certain of the Company's current and former officers and directors.

Humphrey P. Polanen, The Broomfield Family Trust and Sand Hill Security LLC, have loaned the Company approximately \$10,000, \$25,000 and \$20,000, respectively, for operating expenses. Each of these loans bore interest at the rate of 10% and matured on July 26, 2006. Each of these lenders waived any claims they had with respect to these loans.

The Broomfield Family Trust, an affiliate of Scott Broomfield, a director and officer of the Company, and BeeBird Beheer B.V., an affiliate of Bart van Hedel, also a director of the Company, have made available \$125,000 and \$375,000, respectively, to the Company, as a bridge loan pursuant to secured promissory notes. Amounts borrowed under the notes were due on November 25, 2006 and bore interest at 12%. In connection with the execution of the notes, the Broomfield Family Trust and BeeBird Beheer B.V. received warrants for an aggregate of 10,535 shares of the Company's common stock exercisable at a price equal to the last reported sale price on the day prior to the maturity date of the notes on the primary market on which the Company's shares are traded. These notes were secured by a lien on substantially all of the assets of the Company, subject to the lien of the Company's existing senior lender.

The Company previously owed approximately \$178,000 to John E. Jones, its former chief executive officer, pursuant to the terms of a promissory note. The note was unsecured, bore interest at 18%, and required monthly interest only payments until May 2006, at which time all amounts outstanding came due.

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 comprised of what are now equivalent to 252,851 shares of Company common stock and one warrant which may be exercised for what are now equivalent to 421,419 shares of Company common stock for an exercise price of \$2.9662 per share. The warrants are exercisable from the grant date until December 31, 2008. The warrants are exercisable for cash or on a net-share settlement basis. The holders of the warrants do not have registration rights and the Company can deliver unregistered shares upon their exercise. There are no liquidated damages provisions related to the warrants. The issuance was made in a 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 pays 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.

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., Bradford Weller, Secretary, 15015 Avenue of Science, San Diego, CA 92128 or contact Bradford Weller at 858-524-2009. 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
Bradford Weller
Secretary

May [•], 2007

A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-KSB for the fiscal year ended December 31, 2006 is available without charge upon written request to: Corporate Secretary, St. Bernard Software, Inc., 15015 Avenue of Science, San Diego, CA 92128.

ANNEX A

ST. BERNARD SOFTWARE, INC.

2006 EMPLOYEE STOCK PURCHASE PLAN

Adopted by the board of directors: December 18, 2006

Approved by stockholders: , 2007

1. PURPOSE.

- (a) The purpose of this Plan is to provide a means by which Employees of the Company and certain designated Related Corporations may be given an opportunity to purchase shares of the Common Stock of the Company.
- (b) The Company, by means of the Plan, seeks to secure and retain the services of current and new Employees and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Related Corporations.
- (c) The Company intends that the Purchase Rights be considered options issued under an Employee Stock Purchase Plan.

2. DEFINITIONS.

As used in the Plan and any Offering, unless otherwise specified, the following terms have the meanings set forth below:

- (a) *Board* means the Board of Directors of the Company.
- (b) *Code* means the Internal Revenue Code of 1986, as amended.
- (c) *Committee* means a committee appointed by the Board in accordance with Section 3(c) of the Plan.
- (d) *Common Stock* means the common stock of the Company.
- (e) *Company* means St. Bernard Software, Inc., a Delaware corporation.
- (f) *Contributions* means the payroll deductions and other additional payments specifically provided for in the Offering that a Participant contributes to fund the exercise of a Purchase Right. A Participant may make additional payments into his or her account if specifically provided for in the Offering, and then only if the Participant has not already had the maximum permitted amount withheld through payroll deductions during the Offering.
- (g) *Corporate Transaction* means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:
 - (i) a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;
 - (ii) a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;
 - (iii) the consummation of a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or
 - (iv) the consummation of a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

- (h) Director** means a member of the Board.
- (i) Earnings** of an Employee with respect to any Offering has the meaning defined in such Offering.
- (j) Eligible Employee** means an Employee who meets the requirements set forth in the Offering for eligibility to participate in the Offering, provided that such Employee also meets the requirements for eligibility to participate set forth in the Plan.
- (k) Employee** means any person, including Officers and Directors, who is employed for purposes of Section 423(b)(4) of the Code by the Company or a Related Corporation. Neither service as a Director nor payment of a director's fee shall be sufficient to make an individual an Employee of the Company or a Related Corporation.
- (l) Employee Stock Purchase Plan** means a plan that grants Purchase Rights intended to be options issued under an employee stock purchase plan, as that term is defined in Section 423(b) of the Code.
- (m) Exchange Act** means the Securities Exchange Act of 1934, as amended.
- (n) Fair Market Value** means, as of any date, the value of the Common Stock determined as follows:
- (i)** If the Common Stock is listed on any established stock exchange or traded on the Nasdaq Global Select Market or the Nasdaq Global Market (formerly the Nasdaq National Market), the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.
- (ii)** If the Common Stock is listed or traded on the Nasdaq Capital Market (formerly the Nasdaq Small Cap Market), the Fair Market Value of a share of Common Stock shall be the mean between the bid and asked prices for the Common Stock on the date of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable. Unless otherwise provided by the Board, if there is no closing sales price (or closing bid if no sales were reported) for the Common Stock on the date of determination, then the Fair Market Value shall be the mean between the bid and asked prices for the Common Stock on the last preceding date for which such quotation exists.
- (iii)** In the absence of such markets for the Common Stock, the Fair Market Value shall be determined by the Board in good faith.
- (o) Initial Offering** means the first Offering under this Plan.
- (p) Offering** means the grant of Purchase Rights to purchase shares of Common Stock under the Plan to Eligible Employees.
- (q) Offering Date** means a date selected by the Board for an Offering to commence.
- (r) Officer** means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (s) Participant** means an Eligible Employee who holds an outstanding Purchase Right granted pursuant to the Plan.
- (t) Plan** means this St. Bernard Software, Inc. 2006 Employee Stock Purchase Plan.
- (u) Purchase Date** means one or more dates during an Offering established by the Board on which Purchase Rights shall be exercised and as of which purchases of shares of Common Stock shall be carried out in accordance with such Offering.
- (v) Purchase Period** means a period of time specified within an Offering beginning on the Offering Date or on the next day following a Purchase Date within an Offering and ending on a Purchase Date. An Offering may consist of one or more Purchase Periods.

(w) *Purchase Right* means an option to purchase shares of Common Stock granted pursuant to the Plan.

(x) *Related Corporation* means any parent corporation or subsidiary corporation, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code. The Board shall have the authority to determine the time or times at which parent corporation or subsidiary corporation status is determined within the forgoing definition.

(y) *Securities Act* means the Securities Act of 1933, as amended.

(z) *Trading Day* means any day on which the exchange(s) or market(s) on which shares of Common Stock are listed, whether it be an established stock exchange, the Nasdaq Global Select Market, the Nasdaq Global Market, Nasdaq Capital Market or otherwise, is open for trading.

3. ADMINISTRATION.

(a) The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in Section 3(c). Whether or not the Board has delegated administration, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(b) The Board (or the Committee) shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine when and how Purchase Rights to purchase shares of Common Stock shall be granted and the provisions of each Offering of such Purchase Rights (which need not be identical).

(ii) To designate from time to time which Related Corporations of the Company shall be eligible to participate in the Plan.

(iii) To construe and interpret the Plan and Purchase Rights, and to establish, amend and revoke rules and regulations for the administration of the Plan. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iv) To amend the Plan as provided in Section 15.

(v) Generally, to exercise such powers and to perform such acts as it deems necessary or expedient to promote the best interests of the Company and its Related Corporations and to carry out the intent that the Plan be treated as an Employee Stock Purchase Plan.

(vi) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees who are foreign nationals or employed outside the United States.

(c) The Board may delegate administration of the Plan to a Committee of the Board composed of one (1) or more members of the Board. If administration of the Plan is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revert in the Board some or all of the powers previously delegated. If administration is delegated to a Committee, references to the Board in this Plan and in the Offering document shall thereafter be deemed to be to the Board or the Committee, as the case may be.

(d) All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES OF COMMON STOCK SUBJECT TO THE PLAN.

(a) Subject to the provisions of Section 14(a) relating to adjustments upon changes in Common Stock, the shares of Common stock that may be sold pursuant to Purchase Rights granted under the Plan shall not exceed in the aggregate four hundred thousand (400,000) shares of Common Stock, plus an annual increase to be added on the first day of each Company fiscal year, beginning in 2008 and ending in (and including) 2017, equal to the least of: (i) the difference between four hundred thousand (400,000) and the number of shares remaining authorized for issuance after the last purchase of shares, (ii) four hundred thousand (400,000) shares of Common Stock, or (iii) an amount determined by the Board or a Committee. If any Purchase Right granted under the Plan shall for any reason terminate without having been exercised, the shares of Common Stock not purchased under such Purchase Right shall again become available for issuance under the Plan.

(b) The Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. GRANT OF PURCHASE RIGHTS; OFFERING.

(a) The Board may from time to time grant or provide for the grant of Purchase Rights to purchase shares of Common Stock under the Plan to Eligible Employees in an Offering (consisting of one or more Purchase Periods) on an Offering Date or Offering Dates selected by the Board. Each Offering shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate, which shall comply with the requirements of Section 423(b)(5) of the Code that all Employees granted Purchase Rights shall have the same rights and privileges. The terms and conditions of an Offering shall be incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings need not be identical, but each Offering shall include (through incorporation of the provisions of this Plan by reference in the document comprising the Offering or otherwise) the period during which the Offering shall be effective, which period shall not exceed twenty-seven (27) months beginning with the Offering Date, and the substance of the provisions contained in Sections 6 through 9, inclusive.

(b) If a Participant has more than one Purchase Right outstanding under the Plan, unless he or she otherwise indicates in agreements or notices delivered hereunder: (i) each agreement or notice delivered by that Participant shall be deemed to apply to all of his or her Purchase Rights under the Plan, and (ii) a Purchase Right with a lower exercise price (or an earlier-granted Purchase Right, if different Purchase Rights have identical exercise prices) shall be exercised to the fullest possible extent before a Purchase Right with a higher exercise price (or a later-granted Purchase Right if different Purchase Rights have identical exercise prices) shall be exercised.

6. ELIGIBILITY.

(a) Purchase Rights may be granted only to Employees of the Company or, as the Board may designate as provided in Section 3(b), to Employees of a Related Corporation. An Employee shall not be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee has been in the employ of the Company or the Related Corporation, as the case may be, for such continuous period preceding such Offering Date as the Board may require, but in no event shall the required period of continuous employment be greater than two (2) years. In addition, the Board may provide that no Employee shall be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee's customary employment with the Company or the Related Corporation is more than twenty (20) hours per week and/or more than five (5) months per calendar year.

(b) No Employee shall be eligible for the grant of any Purchase Rights under the Plan if, immediately after any such Purchase Rights are granted, such Employee owns stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Related Corporation. For purposes of this Section 6(c), the rules of Section 424(d) of the Code shall apply in

determining the stock ownership of any Employee, and stock which such Employee may purchase under all outstanding Purchase Rights and options (whether vested or unvested) shall be treated as stock owned by such Employee.

(c) As specified by Section 423(b)(8) of the Code, an Eligible Employee may be granted Purchase Rights under the Plan only if such Purchase Rights, together with any other rights granted under all Employee Stock Purchase Plans of the Company and any Related Corporations, do not permit such Eligible Employee's rights to purchase stock of the Company or any Related Corporation to accrue at a rate which exceeds twenty five thousand dollars (\$25,000) of Fair Market Value of such stock (determined at the time such rights are granted, and which, with respect to the Plan, shall be determined as of their respective Offering Dates) for each calendar year in which such rights are outstanding at any time.

(d) Officers of the Company and any designated Related Corporation, if they are otherwise Eligible Employees, shall be eligible to participate in Offerings under the Plan. Notwithstanding the foregoing, the Board may provide in an Offering that Employees who are highly compensated Employees within the meaning of Section 423(b)(4)(D) of the Code shall not be eligible to participate.

7. PURCHASE RIGHTS; PURCHASE PRICE.

(a) On each Offering Date, each Eligible Employee, pursuant to an Offering made under the Plan, shall be granted a Purchase Right to purchase up to that number of shares of Common Stock purchasable either with a percentage or with a maximum dollar amount, as designated by the Board, but in either case not exceeding fifteen percent (15%), of such Employee's Earnings (as defined by the Board in each Offering) during the period that begins on the Offering Date (or such later date as the Board determines for a particular Offering) and ends on the date stated in the Offering, which date shall be no later than the end of the Offering.

(b) The Board shall establish one (1) or more Purchase Dates during an Offering as of which Purchase Rights granted pursuant to that Offering shall be exercised and purchases of shares of Common Stock shall be carried out in accordance with such Offering.

(c) In connection with each Offering made under the Plan, the Board may specify a maximum number of shares of Common Stock that may be purchased by any Participant on any Purchase Date during such Offering. In connection with each Offering made under the Plan, the Board may specify a maximum aggregate number of shares of Common Stock that may be purchased by all Participants pursuant to such Offering. In addition, in connection with each Offering that contains more than one Purchase Date, the Board may specify a maximum aggregate number of shares of Common Stock that may be purchased by all Participants on any Purchase Date under the Offering. If the aggregate purchase of shares of Common Stock issuable upon exercise of Purchase Rights granted under the Offering would exceed any such maximum aggregate number, then, in the absence of any Board action otherwise, a pro rata allocation of the shares of Common Stock available shall be made in as nearly a uniform manner as shall be practicable and equitable.

(d) The purchase price of shares of Common Stock acquired pursuant to Purchase Rights shall be not less than the lesser of:

(i) an amount equal to eighty-five percent (85%) of the Fair Market Value of the shares of Common Stock on the Offering Date; or

(ii) an amount equal to eighty-five percent (85%) of the Fair Market Value of the shares of Common Stock on the applicable Purchase Date.

8. PARTICIPATION; WITHDRAWAL; TERMINATION.

(a) A Participant may elect to authorize payroll deductions pursuant to an Offering under the Plan by completing and delivering to the Company, within the time specified in the Offering, an enrollment form (in

such form as the Company may provide). Each such enrollment form shall authorize an amount of Contributions expressed as a percentage of the submitting Participant's Earnings during the Offering (not to exceed the maximum percentage specified by the Board). Each Participant's Contributions shall remain the property of the Participant at all times prior to the purchase of Common Stock, but such Contributions may be commingled with the assets of the Company and used for general corporate purposes except where applicable law requires that Contributions be deposited with an independent third party. To the extent provided in the Offering, a Participant may begin making Contributions after the beginning of the Offering. To the extent provided in the Offering, a Participant may thereafter reduce (including to zero) or increase his or her Contributions. To the extent specifically provided in the Offering, in addition to making Contributions by payroll deductions, a Participant may make Contributions through the payment by cash or check prior to a specified Purchase Date of the Offering.

(b) During an Offering, a Participant may cease making Contributions and withdraw from the Offering by delivering to the Company a notice of withdrawal in such form as the Company may provide. Such withdrawal may be elected at any time prior to the end of the Offering, except as provided otherwise in the Offering. Upon such withdrawal from the Offering by a Participant, the Company shall distribute to such Participant all of his or her accumulated Contributions (reduced to the extent, if any, such Contributions have been used to acquire shares of Common Stock for the Participant) under the Offering, and such Participant's Purchase Right in that Offering shall thereupon terminate. A Participant's withdrawal from an Offering shall have no effect upon such Participant's eligibility to participate in any other Offerings under the Plan, but such Participant shall be required to deliver a new enrollment form in order to participate in subsequent Offerings.

(c) Purchase Rights granted pursuant to any Offering under the Plan shall terminate immediately upon a Participant ceasing to be an Employee for any reason or for no reason (subject to any post-employment participation period required by law) or other lack of eligibility. The Company shall distribute to such terminated or otherwise ineligible Employee all of his or her accumulated Contributions (reduced to the extent, if any, such Contributions have been used to acquire shares of Common Stock for the terminated or otherwise ineligible Employee) under the Offering, without interest.

(d) Purchase Rights shall not be transferable by a Participant otherwise than by will, the laws of descent and distribution, or by a beneficiary designation as provided in Section 13. During a Participant's lifetime, Purchase Rights shall be exercisable only by such Participant.

(e) Unless otherwise specified in an Offering, the Company shall have no obligation to pay interest on Contributions.

9. EXERCISE.

(a) On each Purchase Date during an Offering, each Participant's accumulated Contributions (without any increase for interest) shall be applied to the purchase of shares of Common Stock up to the maximum number of shares of Common Stock permitted pursuant to the terms of the Plan and the applicable Offering, at the purchase price specified in the Offering. No fractional shares shall be issued upon the exercise of Purchase Rights unless specifically provided for in the Offering.

(b) If any amount of accumulated Contributions remains in a Participant's account after the purchase of shares of Common Stock and such remaining amount is less than the amount required to purchase one share of Common Stock on the final Purchase Date of an Offering, then such remaining amount shall be held in such Participant's account for the purchase of shares of Common Stock under the next Offering under the Plan, unless such Participant withdraws from such next Offering, as provided in Section 8(b), or is not eligible to participate in such Offering, as provided in Section 6, in which case such amount shall be distributed to such Participant after the final Purchase Date, without interest. If the amount of Contributions remaining in a Participant's account after the purchase of shares of Common Stock is at least equal to the amount required to purchase one (1) whole share of Common Stock on the final Purchase Date of the

Offering, then such remaining amount shall be distributed in full to such Participant at the end of the Offering.

(c) No Purchase Rights may be exercised to any extent unless the shares of Common Stock to be issued upon such exercise under the Plan are covered by an effective registration statement pursuant to the Securities Act and the Plan is in material compliance with all laws applicable to the Plan. If on a Purchase Date during any Offering hereunder the shares of Common Stock are not so registered or the Plan is not in such compliance, no Purchase Rights or any Offering shall be exercised on such Purchase Date, and the Purchase Date shall be delayed until the shares of Common Stock are subject to such an effective registration statement and the Plan is in such compliance, except that the Purchase Date shall not be delayed more than twelve (12) months and the Purchase Date shall in no event be more than twenty-seven (27) months from the Offering Date. If, on the Purchase Date under any Offering hereunder, as delayed to the maximum extent permissible, the shares of Common Stock are not registered and the Plan is not in such compliance, no Purchase Rights or any Offering shall be exercised and all Contributions accumulated during the Offering (reduced to the extent, if any, such Contributions have been used to acquire shares of Common Stock) shall be distributed to the Participants, without interest.

10. COVENANTS OF THE COMPANY.

The Company shall seek to obtain from each federal, state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of Common Stock upon exercise of the Purchase Rights. If, after commercially reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of shares of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell shares of Common Stock upon exercise of such Purchase Rights unless and until such authority is obtained.

11. USE OF PROCEEDS FROM SHARES OF COMMON STOCK.

Proceeds from the sale of shares of Common Stock pursuant to Purchase Rights shall constitute general funds of the Company.

12. RIGHTS AS A STOCKHOLDER.

A Participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, shares of Common Stock subject to Purchase Rights unless and until the Participant's shares of Common Stock acquired upon exercise of Purchase Rights are recorded in the books of the Company (or its transfer agent).

13. DESIGNATION OF BENEFICIARY.

(a) A Participant may file a written designation of a beneficiary who is to receive any shares of Common Stock and/or cash, if any, from the Participant's account under the Plan in the event of such Participant's death subsequent to the end of an Offering but prior to delivery to the Participant of such shares of Common Stock or cash. In addition, a Participant may file a written designation of a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death during an Offering. Any such designation shall be on a form provided by or otherwise acceptable to the Company.

(b) The Participant may change such designation of beneficiary at any time by written notice to the Company. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such shares of Common Stock and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole

discretion, may deliver such shares of Common Stock and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

14. ADJUSTMENTS UPON CHANGES IN SECURITIES; CORPORATE TRANSACTIONS.

(a) If any change is made in the shares of Common Stock, subject to the Plan, or subject to any Purchase Right, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan shall be appropriately adjusted in the type(s), class(es) and maximum number of shares of Common Stock subject to the Plan pursuant to Section 4, and the outstanding Purchase Rights shall be appropriately adjusted in the type(s), class(es), number of shares and purchase limits of such outstanding Purchase Rights. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (Notwithstanding the foregoing, the conversion of any convertible securities of the Company shall not be treated as a transaction not involving the receipt of consideration by the Company.)

(b) In the event of a Corporate Transaction, then: (i) any surviving or acquiring corporation may continue or assume Purchase Rights outstanding under the Plan or may substitute similar rights (including a right to acquire the same consideration paid to stockholders in the Corporate Transaction) for those outstanding under the Plan, or (ii) if any surviving or acquiring corporation does not continue or assume such Purchase Rights or does not substitute similar rights for Purchase Rights outstanding under the Plan, then, the Participants' accumulated Contributions shall be used to purchase shares of Common Stock within ten (10) business days prior to the Corporate Transaction under the ongoing Offering, and the Participants' Purchase Rights under the ongoing Offering shall terminate immediately after such purchase.

15. AMENDMENT OF THE PLAN.

(a) The Board at any time, and from time to time, may amend the Plan. However, stockholder approval shall be sought to the extent necessary and required for the Plan to satisfy the requirements of Section 423 of the Code or other applicable laws or regulations.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been impaired, the Board (or Committee) shall be entitled to shorten the length of any ongoing Offerings, limit the frequency and/or number of changes in the amount withheld during an Offering, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholdings in excess of the amount designed by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board (or the Committee) determines in its sole discretion advisable and which are consistent with the Plan.

(c) The rights and obligations under any Purchase Rights granted before amendment of the Plan shall not be impaired by any amendment of the Plan except: (i) with the consent of the person to whom such Purchase Rights were granted, (ii) as necessary to comply with any laws or governmental regulations (including, without limitation, the provisions of the Code and the regulations promulgated thereunder relating to Employee Stock Purchase Plans), or (iii) as expressly allowed under Sections 14 and 15.

16. TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board in its discretion may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate at the time that all of the shares of Common Stock reserved for issuance

under the Plan, as increased and/or adjusted from time to time, have been issued under the terms of the Plan. No Purchase Rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Any benefits, privileges, entitlements and obligations under any Purchase Rights while the Plan is in effect shall not be impaired by suspension or termination of the Plan except (i) as expressly allowed under Section 15 or with the consent of the person to whom such Purchase Rights were granted, (ii) as necessary to comply with any laws, regulations, or listing requirements, or (iii) as necessary to ensure that the Plan and/or Purchase Rights comply with the requirements of Section 423 of the Code.

17. EFFECTIVE DATE OF PLAN.

The Plan shall become effective on the later of (a) the date the Plan was adopted by the Board and (b) the date the Plan was approved by the stockholders of the Company (such date, the *Effective Date*); provided, however, in no event may Purchase Rights be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

18. MISCELLANEOUS PROVISIONS.

(a) The Plan and Offering do not constitute an employment contract. Nothing in the Plan or in the Offering shall in any way alter the at will nature of a Participant's employment or be deemed to create in any way whatsoever any obligation on the part of any Participant to continue in the employ of the Company or a Related Corporation, or on the part of the Company or a Related Corporation to continue the employment of a Participant.

(b) Any reference herein to a enrollment forms, written designation or other written agreement or document shall include any agreement or document delivered electronically or posted on the Company's intranet.

(c) The provisions of the Plan shall be governed by the law of the State of California without resort to that state's conflicts of laws rules.

ANNEX B

ST. BERNARD SOFTWARE, INC.

2005 STOCK OPTION PLAN

1. **PURPOSE.** This Stock Option Plan (the *Plan*) is intended to serve as an incentive to, and to encourage stock ownership by certain eligible participants rendering services to St. Bernard Software, Inc., a Delaware corporation, and certain affiliates as set forth below (the *Corporation*), so that they may acquire or increase their proprietary interest in the Corporation and to encourage them to remain in the service of the Corporation.

2. **ADMINISTRATION.**

2.1 *Committee.* The Plan shall be administered by the Board of Directors of the Corporation (the *Board of Directors*), or a committee of two or more members appointed by the Board of Directors (the *Committee*). At the time that the Corporation has a class of equity securities which have been registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the *Exchange Act*), or is a publicly-held corporation under Internal Revenue Code Section 162(m), membership in the Committee is limited to Non-Employee Directors as defined in Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934 and outside directors as defined in Treasury Regulation § 1.162-27(e)(3). The Committee shall select one of its members as Chairman and shall appoint a Secretary, who need not be a member of the Committee. The Committee shall hold meetings at such times and places as it may determine and minutes of such meetings shall be recorded. Acts by a majority of the Committee in a meeting at which a quorum is present and acts approved in writing by a majority of the members of the Committee shall be valid acts of the Committee.

2.2 *Term.* If the Board of Directors selects a Committee, the members of the Committee shall serve on the Committee for the period of time determined by the Board of Directors and shall be subject to removal by the Board of Directors at any time. The Board of Directors may terminate the function of the Committee at any time and resume all powers and authority previously delegated to the Committee.

2.3 *Authority.* The Committee shall have sole discretion and authority to grant options under the Plan to eligible participants rendering services to the Corporation or any parent or subsidiary of the Corporation, as defined in Section 424 of the Internal Revenue Code of 1986, as amended (the *Code*) (*Parent or Subsidiary*), at such times, under such terms and in such amounts as it may decide. For purposes of this Plan and any Stock Option Agreement (as defined below), the term *Corporation* shall include any Parent or Subsidiary, if applicable. Subject to the express provisions of the Plan, the Committee shall have complete authority to interpret the Plan, to prescribe, amend and rescind the rules and regulations relating to the Plan, to determine the details and provisions of any Stock Option Agreement, to accelerate any options granted under the Plan and to make all other determinations necessary or advisable for the administration of the Plan.

2.4 *Type of Option.* The Committee shall have full authority and discretion to determine, and shall specify, whether the eligible individual will be granted options intended to qualify as incentive options under Section 422 of the Code (*Incentive Options*) or options which are not intended to qualify under Section 422 of the Code (*Non-Qualified Options*); provided, however, that Incentive Options shall only be granted to employees of the Corporation, or a Parent or Subsidiary thereof, and shall be subject to the special limitations set forth herein attributable to Incentive Options.

2.5 *Interpretation.* The interpretation and construction by the Committee of any provisions of the Plan or of any option granted under the Plan shall be final and binding on all parties having an interest in this Plan or any option granted hereunder. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under the Plan.

3. ELIGIBILITY.

3.1 *General.* All directors, officers, employees of and certain persons rendering services to the Corporation, or any Parent or Subsidiary relative to the Corporation's, or any Parent's or Subsidiary's management, operation or development shall be eligible to receive options under the Plan. The selection of recipients of options shall be within the sole and absolute discretion of the Committee. No person shall be granted an Incentive Option under this Plan unless such person is an employee of the Corporation on the date of grant. No person shall be granted an option under this Plan unless such person has executed, if requested by the Committee, the grant representation letter set forth on Exhibit A, as such Exhibit may be amended by the Committee from time to time.

3.2 *Termination of Eligibility.*

3.2.1 If an optionee ceases to be employed by the Corporation, or its Parent or Subsidiary, is no longer an officer or member of the Board of Directors of the Corporation, or no longer performs services for the Corporation, or its Parent or Subsidiary, for any reason (other than for cause, as hereinafter defined, or such optionee's death), any option granted hereunder to such optionee shall expire three months after the date the occurrence giving rise to such termination of eligibility (or 1 year in the event an optionee is disabled, as defined in Section 22(e)(3) of the Code) or upon the date it expires by its terms, whichever is earlier. Any option that has not vested in the optionee as of the date of such termination shall immediately expire and shall be null and void. The Committee shall, in its sole and absolute discretion, decide, utilizing the provisions set forth in Treasury Regulations § 1.421-7(h), whether an authorized leave of absence or absence for military or governmental service, or absence for any other reason, shall constitute termination of eligibility for purposes of this Section.

3.2.2 If an optionee ceases to be employed by the Corporation, or its Parent or Subsidiary, is no longer an officer or member of the Board of Directors of the Corporation, or no longer performs services for the Corporation, or its Parent or Subsidiary and such termination is as a result of cause, as hereinafter defined, then all options granted hereunder to such optionee shall expire on the date of the occurrence giving rise to such termination of eligibility or upon the date it expires by its terms, whichever is earlier, and such optionee shall have no rights with respect to any unexercised options. For purposes of this Plan, cause shall mean an optionee's personal dishonesty, willful misconduct, theft, fraud, embezzlement, alcoholism, or drug abuse or making or attempting to make any unauthorized use or disclosure of confidential information or trade secrets of the Corporation or its parent or subsidiary corporations.

3.3 *Death of Optionee and Transfer of Option.* In the event an optionee shall die, an option may be exercised (subject to the condition that no option shall be exercisable after its expiration and only to the extent that the optionee's right to exercise such option had accrued at the time of the optionee's death) at any time within twelve months after the optionee's death by the executors or administrators of the optionee or by any person or persons who shall have acquired the option directly from the optionee by bequest or inheritance. Any option that has not vested in the optionee as of the date of death or termination of employment, whichever is earlier, shall immediately expire and shall be null and void. No option shall be transferable by the optionee other than by will or the laws of intestate succession.

3.3.1 *Limitation on Incentive Options.* No person shall be granted any Incentive Option to the extent that the aggregate fair market value of the Stock (as defined below) to which such options are exercisable for the first time by the optionee during any calendar year (under all plans of the Corporation as determined under Section 422(d) of the Code) exceeds \$100,000.

4. **IDENTIFICATION OF STOCK.** The Stock, as defined herein, subject to the options shall be shares of the Corporation's authorized but unissued or acquired or reacquired common stock (the "Stock"). The aggregate number of shares subject to outstanding options shall not exceed 5,000,000 shares of Stock (subject to adjustment as provided in Section 6). If any option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for purposes of this Plan.

Notwithstanding the above, at no time shall the total number of shares of Stock issuable upon exercise of all outstanding options and the total number of shares of Stock provided for under any stock bonus or similar plan of the Corporation exceed 30% as calculated in accordance with the conditions and exclusions of §260.140.45 of Title 10, California Code of Regulations, based on the shares of the issuer which are outstanding at the time the calculation is made.

5. TERMS AND CONDITIONS OF OPTIONS. Any option granted pursuant to the Plan shall be evidenced by an agreement (*Stock Option Agreement*) in such form as the Committee shall from time to time determine, which agreement shall comply with and be subject to the following terms and conditions:

5.1 *Number of Shares*. Each option shall state the number of shares of Stock to which it pertains.

5.2 *Option Exercise Price*. Each option shall state the option exercise price, which shall be determined by the Committee; provided, however, that (i) the exercise price of any Incentive Option shall not be less than the fair market value of the Stock, as determined by the Committee, on the date of grant of such option, (ii) the exercise price of any Incentive Option granted to an employee who owns more than 10% of the total combined voting power of all classes of the Corporation's stock, as determined for purposes of Section 422 of the Code, shall not be less than 110% of the fair market value of the Stock, as determined by the Committee, on the date of grant of such option, and (iii) the exercise price of any Non-Qualified Option shall not be less than 100% of the fair market value of the Stock, as determined by the Committee, on the date of grant of such option. In the event that the fair market value of the price of the common stock declines below the price at which the option is granted, the Committee shall have the discretion and authority to cancel, reduce, or otherwise modify the price of any unexercised option, including, but not limited to, a regrant of the option at a new price more commensurate with the fair market value of the stock. The Committee must receive the approval of the Board of Directors before any action is taken in accordance with this provision.

5.3 *Term of Option*. The term of an option granted hereunder shall be determined by the Committee at the time of grant, but shall not exceed ten years from the date of the grant. The term of any Incentive Option granted to an employee who owns more than 10% of the total combined voting power of all classes of the Corporation's stock, as determined for purposes of Section 422 of the Code, shall in no event exceed five years from the date of grant. All options shall be subject to early termination as set forth in this Plan. In no event shall any option be exercisable after the expiration of its term.

5.4 *Method of Exercise*. An option shall be exercised by written notice to the Corporation by the optionee (or successor in the event of death) and execution by the optionee of an exercise representation letter in the form set forth on Exhibit B, as such Exhibit may be amended by the Committee from time to time. Such written notice shall state the number of shares with respect to which the option is being exercised and designate a time, during normal business hours of the Corporation, for the delivery thereof (*Exercise Date*), which time shall be at least 30 days after the giving of such notice unless an earlier date shall have been mutually agreed upon. At the time specified in the written notice, the Corporation shall deliver to the optionee at the principal office of the Corporation, or such other appropriate place as may be determined by the Committee, a certificate or certificates for such shares. Notwithstanding the foregoing, the Corporation may postpone delivery of any certificate or certificates after notice of exercise for such reasonable period as may be required to comply with any applicable listing requirements of any securities exchange. In the event an option shall be exercisable by any person other than the optionee, the required notice under this Section shall be accompanied by appropriate proof of the right of such person to exercise the option.

5.5 *Medium and Time of Payment*. The option exercise price shall be payable in full on or before the option Exercise Date in any one of the following alternative forms:

5.5.1 Full payment in cash or certified bank or cashier's check;

5.5.2 Full payment in shares of Stock held by the optionee for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and having a fair market value on the Exercise Date in the amount equal to the option exercise price;

5.5.3 Full payment in the form of a promissory note bearing interest at not less than the applicable federal rate in effect at the time of execution of the promissory note;

5.5.4 Should the Corporation's outstanding Stock be registered under Section 12(g) of the Exchange Act, at the time the option is exercised, through a special sale and remittance procedure pursuant to which the optionee shall concurrently provide irrevocable written instruction to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale;

5.5.5 A combination of the consideration set forth in Sections 5.5.1, through 5.5.4 equal to the option exercise price; or

5.5.6 Any other method of payment complying with the provisions of Section 422 of the Code with respect to Incentive Options, provided the terms of payment are established by the Committee at the time of grant and any other method of payment established by the Committee with respect to Non-Qualified Options.

5.6 *Fair Market Value.* The fair market value of a share of Stock on any relevant date shall be determined in accordance with the following provisions:

5.6.1 If the Stock at the time is neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market, then the fair market value shall be determined by the Committee after taking into account such factors as the Committee shall deem appropriate.

5.6.2 If the Stock is not at the time listed or admitted to trading on any stock exchange but is traded in the over-the-counter market, the fair market value shall be the mean between the highest bid and lowest asked prices (or, if such information is available, the closing selling price) of one share of Stock on the date in question in the over-the-counter market, as such prices are reported by the National Association of Securities Dealers through its NASDAQ system or any successor system. If there are no reported bid and asked prices (or closing selling price) for the Stock on the date in question, then the mean between the highest bid price and lowest asked price (or the closing selling price) on the last preceding date for which such quotations exist shall be determinative of fair market value.

5.6.3 If the Stock is at the time listed or admitted to trading on any stock exchange, then the fair market value shall be the closing selling price of one share of Stock on the date in question on the stock exchange determined by the Committee to be the primary market for the Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Stock on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

5.7 *Rights as a Shareholder.* An optionee or successor shall have no rights as a shareholder with respect to any Stock underlying any option until the date of the issuance to such optionee of a certificate for such Stock. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such Stock certificate is issued, except as provided in Section 6.

5.8 *Modification, Extension and Renewal of Options.* Subject to the terms and conditions of the Plan, the Committee may modify, extend or renew outstanding options granted under the Plan, or accept the surrender of outstanding options (to the extent not exercised) and authorize the granting of new options in substitution therefor.

5.9 *Vesting and Restrictions.* The option agreements authorized under the Plan shall contain such other provisions, including without limitation, restrictions upon the exercise of the option, as the Committee shall

deem advisable. Thus, for example, the Committee may require that all or any portion of an option not be exercisable until a specified period of time has passed or some other event has occurred.

5.10 *Other Provisions.* The Stock Option Agreements shall contain such other provisions, including without limitation, restrictions or conditions upon the exercise of options, as the Committee shall deem advisable.

6. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION.

6.1 *Subdivision or Consolidation.* Subject to any required action by shareholders of the Corporation, the number of shares of Stock covered by each outstanding option, and the exercise price thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Stock of the Corporation resulting from a subdivision or consolidation of shares, including, but not limited to, a stock split, reverse stock split, recapitalization, continuation or reclassification, or the payment of a stock dividend (but only on the Stock) or any other increase or decrease in the number of such shares effected without receipt of consideration by the Corporation. Any fraction of a share subject to option that would otherwise result from an adjustment pursuant to this Section shall be rounded downward to the next full number of shares without other compensation or consideration to the holder of such option.

6.2 *Capital Transactions.* Upon a sale or exchange of all or substantially all of the assets of the Corporation, a merger or consolidation in which the Corporation is not the surviving corporation, a merger, reorganization or consolidation in which the Corporation is the surviving corporation and shareholders of the Corporation exchange their stock for securities or property, a liquidation of the Corporation, or similar transaction as determined by the Committee (Capital Transaction), the exercisability of each option issued under this Plan shall automatically accelerate so that each such option shall, immediately prior to the specified date of the Capital Transaction, become fully exercisable with respect to the total number of shares of Stock at the time subject to such option and may be exercised for all or any portion of such shares. Upon consummation of the Capital Transaction, all outstanding options under this Plan shall terminate and cease to be outstanding, unless assumed by the successor corporation or parent thereof. Notwithstanding any other provision in this Section 6.2, a Capital Transaction shall not include a merger of the Corporation with or into a shell corporation for the purpose of facilitating a public offering of the stock of the Corporation.

6.3 *Adjustments.* To the extent that the foregoing adjustments relate to stock or securities of the Corporation, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.

6.4 *Ability to Adjust.* The grant of an option pursuant to the Plan shall not affect in any way the right or power of the Corporation to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve, liquidate, sell or transfer all or any part of its business or assets.

6.5 *Notice of Adjustment.* Whenever the Corporation shall take any action resulting in any adjustment provided for in this Section, the Corporation shall forthwith deliver notice of such action to each optionee, which notice shall set forth the number of shares subject to the option and the exercise price thereof resulting from such adjustment.

6.6 *Limitation on Adjustments.* Any adjustment, assumption or substitution of an Incentive Option shall comply with Section 425 of the Code, if applicable.

7. **NONASSIGNABILITY.** Options granted under this Plan may not be sold, pledged, assigned or transferred in any manner other than by will or by the laws of intestate succession, and may be exercised during the lifetime of an optionee only by such optionee. Any transfer in violation of this Section shall void such option, and any Stock Option Agreement entered into by the optionee and the Corporation regarding such transferred option shall be void and have no further force or effect. No option shall be pledged or hypothecated in any way, nor shall any option be subject to execution, attachment or similar process.

8. CASH-OUT OF OPTIONS.

Once the Corporation's outstanding Stock is registered under Section 12(g) of the Exchange Act, one or more optionees subject to the short-swing profit restrictions of the Federal securities laws may, in the Committee's sole discretion, be granted limited cash-out rights to operate in tandem with their outstanding options under the Plan. Any option with such a limited right in effect for at least six (6) months shall automatically be canceled upon the acquisition of fifty percent (50%) or more of the Corporation's outstanding Stock (excluding the Stock holdings of officers and directors of the Corporation who participate in this Plan) pursuant to a tender or exchange offer made by a person or group of related persons (other than the Corporation or a person that directly or indirectly controls, is controlled by or is under common control with the Corporation) which the Board of Directors does not recommend the Corporation's stockholders to accept. In return for the canceled option, the optionee shall be entitled to a cash contribution from the Corporation in an amount equal to the excess of (i) the Cash-Out Price of the shares of Stock in which the optionee is vested under the canceled option over (ii) the aggregate exercise price payable for such vested shares. The cash distribution payable upon such cancellation shall be made within five (5) days following the completion of such tender or exchange offer, and neither the approval of the Committee nor the consent of the Board of Directors shall be required in connection with such cancellation and distribution.

For purposes of calculating the cash distribution, the Cash-Out Price per share of the vested Stock subject to the canceled option shall be deemed to be equal to the greater of (i) the fair market value per share on the date of surrender, as determined in accordance with the valuation provisions of subsection 5.6, or (ii) the highest reported price per share paid in effecting the tender or exchange offer. However, if the canceled option is an Incentive Option, then the Cash-Out Price shall not exceed the value per share determined under clause (i) above.

The shares of Stock subject to any option canceled for an appreciation distribution in accordance with this Section 8 shall not be available for subsequent option grants under the Plan.

9. RIGHT OF FIRST REFUSAL.

Stock issued pursuant to this Plan together with any rights, securities or additional stock that have been received pursuant to a stock dividend, stock split, reorganization or other transaction that has been received as a result of an employee option or stock acquired pursuant thereto shall be subject to a right of first refusal by the Corporation in the event the holder of such shares proposes to sell, pledge or otherwise transfer said shares or any interest in said shares to any person or entity. Any holder of shares of Stock (or other securities) acquired under the Plan desiring to transfer such Stock (or other securities) or any interest therein shall give written notice to the Corporation describing the proposed transfer, including the price of shares proposed to be transferred, the proposed transfer price and terms, and the name and address of the proposed transferee. Unless otherwise agreed by the Corporation and the holder of such shares, repurchases by the Corporation under this Section shall be at the proposed price and terms specified in the notice to the Corporation. The Corporation's rights under this Section shall be freely assignable.

If the Corporation fails to exercise its right of first refusal within 30 days from the date upon which the Corporation received the shareholder's written notice, the shareholder may, within the next 90 days, conclude a transfer of the exact number of shares covered by said notice on terms not more favorable to the transferee than those described in the notice. Any subsequent proposed transfer by such transferee shall again be subject to the Corporation's right of first refusal. If the Corporation exercises its right of first refusal, the shareholder shall endorse and deliver to the Corporation the stock certificates representing the shares being repurchased, and the Corporation shall promptly pay the shareholder the total repurchase price as set forth in the terms of the agreement. The holders of shares being repurchased pursuant to this Section shall cease to have any rights with respect to such shares immediately upon repurchase.

No written notice of a proposed transfer shall be required under this Section and no right of first refusal shall exist with respect to transfers by will or the laws of intestate succession.

The right of first refusal set forth in this Section shall terminate upon the consummation of an underwritten public offering of the Corporation's Stock registered under the Securities Act of 1933, as amended (the "Act").

Any attempted transfer of any Stock or securities subject to this right of first refusal which is not made in compliance with this Section shall be null and void.

The Committee may assign the Corporation's repurchase option under this Section to any person selected by the Committee including one or more of the shareholders of the Corporation.

10. NO RIGHT OF EMPLOYMENT. Neither the grant nor exercise of any option nor anything in this Plan shall impose upon the Corporation or any other corporation any obligation to employ or continue to employ any optionee. The right of the Corporation and any other corporation to terminate any employee shall not be diminished or affected because an option has been granted to such employee.

11. TERM OF PLAN. This Plan is effective on the date the Plan is adopted by the Board of Directors and options may be granted pursuant to the Plan from time to time within a period of ten (10) years from such date, or the date of any required shareholder approval required under the Plan, if earlier. Termination of the Plan shall not affect any option theretofore granted.

12. AMENDMENT OF THE PLAN. The Board of Directors of the Corporation may, subject to any required shareholder approval, suspend, discontinue or terminate the Plan, or revise or amend it in any respect whatsoever with respect to any shares of Stock at that time not subject to options.

13. APPLICATION OF FUNDS. The proceeds received by the Corporation from the sale of Stock pursuant to options may be used for general corporate purposes.

14. RESERVATION OF SHARES. The Corporation, during the term of this Plan, shall at all times reserve and keep available such number of shares of Stock as shall be sufficient to satisfy the requirements of the Plan.

15. NO OBLIGATION TO EXERCISE OPTION. The granting of an option shall not impose any obligation upon the optionee to exercise such option.

16. APPROVAL OF BOARD OF DIRECTORS AND SHAREHOLDERS. The Plan shall not take effect until approved by the Board of Directors of the Corporation. This Plan shall be approved by a vote of the shareholders within 12 months from the date of approval by the Board of Directors. In the event such shareholder vote is not obtained, all options granted hereunder, whether vested or unvested, shall be null and void. Further, any stock acquired pursuant to the exercise of any options under this Agreement may not count for purposes of determining whether shareholder approval has been obtained.

17. WITHHOLDING TAXES. Notwithstanding anything else to the contrary in this Plan or any Stock Option Agreement, the exercise of any option shall be conditioned upon payment by such optionee in cash, or other provisions satisfactory to the Committee, of all local, state, federal or other withholding taxes applicable, in the Committee's judgment, to the exercise or to later disposition of shares acquired upon exercise of an option (including any repurchase of an option or the Stock).

18. PARACHUTE PAYMENTS. Any outstanding option under the Plan may not be accelerated to the extent any such acceleration of such option would, when added to the present value of other payments in the nature of compensation which becomes due and payable to the optionee would result in the payment to such optionee of an excess parachute payment under Section 280G of the Code. The existence of any such excess parachute payment shall be determined in the sole and absolute discretion of the Committee.

19. SECURITIES LAWS COMPLIANCE. Notwithstanding anything contained herein, the Corporation shall not be obligated to grant any option under this Plan or to sell, issue or effect any transfer of any Stock

unless such grant, sale, issuance or transfer is at such time effectively (i) registered or exempt from registration under the Securities Act of 1933, as amended (the Act), and (ii) qualified or exempt from qualification under the California Corporate Securities Law of 1968 and any other applicable state securities laws. As a condition to exercise of any option, each optionee shall make such representations as may be deemed appropriate by counsel to the Corporation for the Corporation to use any available exemption from registration under the Act or qualification under any applicable state securities law.

20. RESTRICTIVE LEGENDS. The certificates representing the Stock issued upon exercise of options granted pursuant to this Plan will bear any legends required by applicable securities laws as determined by the Committee.

21. NOTICES. Any notice to be given under the terms of the Plan shall be addressed to the Corporation in care of its Secretary at its principal office, and any notice to be given to an optionee shall be addressed to such optionee at the address maintained by the Corporation for such person or at such other address as the optionee may specify in writing to the Corporation.

22. INFORMATION TO PARTICIPANTS. The Corporation shall make available to all holders of options the information required pursuant to § 260.140.46 of the California Code of Regulations.

As adopted by the Board of Directors on March 2, 2005.

ST. BERNARD SOFTWARE, INC., a Delaware
corporation

By: /s/ JOHN JONES
John Jones, CEO

B-8

EXHIBIT A

St. Bernard Software, Inc.

Re: *2005 Stock Option Plan*

To Whom It May Concern:

This letter is delivered to St. Bernard Software, Inc., a Delaware corporation (the Corporation), in connection with the grant to (the Optionee) of an option (the Option) to purchase shares of the Common Stock of the Corporation (the Stock) pursuant to the St. Bernard Software, Inc. 2005 Stock Option Plan dated January , 2005 (the Plan). The Optionee understands that the Corporation's receipt of this letter executed by the Optionee is a condition to the Corporation's willingness to grant the Option to the Optionee.

The Optionee acknowledges that the grant of the Option by the Corporation is in lieu of any and all other promises of the Corporation to the Optionee, whether written or oral, express or implied, regarding the grant of options or other rights to acquire Stock. Accordingly, in anticipation of the grant of the Option, the Optionee hereby relinquishes all rights to such other rights, if any, to acquire stock of the Corporation.

In addition, the Optionee makes the following representations and warranties with the understanding that the Corporation will rely upon them.

1. The Optionee acknowledges receipt of a copy of the Plan and Agreement. The Optionee has carefully reviewed the Plan and Agreement.
2. The Optionee understands and acknowledges that the Option and the Stock are subject to the terms and conditions of the Plan.
3. The Optionee understands and agrees that, at the time of exercise of any part of the Option for Stock, the Optionee may be required to provide the Corporation with additional representations, warranties and/or covenants similar to those contained in this letter.
4. The Optionee is a resident of the State of California.
5. The Optionee will notify the Corporation immediately of any change in the above information which occurs before the Option is exercised in full by the Optionee.

The foregoing representations and warranties are given on at .

EXHIBIT B

St. Bernard Software, Inc.

Re: *2005 Stock Option Plan*

To Whom It May Concern:

I, _____ (the Optionee), hereby exercise my right to purchase _____ shares of Common Stock (the Stock) of St. Bernard Software, Inc., a Delaware corporation (the Corporation), pursuant to, and in accordance with, the St. Bernard Software, Inc. 2005 Stock Option Plan dated _____, 2005 (the Plan) and Stock Option Agreement (the Agreement) dated January _____, 2005. As provided in such Plan, I deliver herewith payment as set forth in the Plan in the amount of the aggregate option exercise price. Please deliver to me at my address as set forth above stock certificates representing the subject shares registered in my name (and _____, as _____).

The Optionee hereby represents as follows:

1. The Optionee acknowledges receipt of a copy of the Plan and Agreement. The Optionee has carefully reviewed the Plan and Agreement.
2. The Optionee is a resident of the State of California.
3. The Optionee represents and agrees that if the Optionee is an affiliate (as defined in Rule 144 under the Securities Act of 1933) of the Corporation at the time the Optionee desires to sell any of the Stock, the Optionee will be subject to certain restrictions under, and will comply with all of the requirements of, applicable federal and state securities laws.

The foregoing representations and warranties are given on _____ at _____.