INTRUSION INC
Form S-3
January 05, 2006

As Filed with the Securities and Exchange Commission on January 5, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Intrusion Inc.

(Name of Issuer in Its Charter)

DELAWARE	**3576**	**75-1911917**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

MICHAEL PAXTON
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Intrusion Inc.
1101 E. Arapaho Road
Richardson, Texas 75081
Telephone: (972) 234-6400
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Address and telephone number of principal executive offices,
principal place of business and agent for service

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copies to:

THOMAS R. NELSON
AKASH D. SETHI
Patton Boggs LLP
2001 Ross Avenue, Suite 3000
Dallas, Texas 75201
Telephone: (214) 758-1500
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Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box: ý

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. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) 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. o

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Shares to be Registered	Amount to be Registered (1)(2)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value $0.01 per share	874,444	$ 2.00 (3)	$ 1,748,888 (3)	$ 187.13 (3)

(1) In addition to the shares set forth in the table, the amount to be registered includes an indeterminate number of shares issuable as a result of stock splits, stock dividends and similar transactions in accordance with Rule 416.

(2) Includes 309,837 shares of our common stock reserved for issuance upon the exercise of outstanding warrants and 564,607 shares of our common stock reserved for issuance upon the conversion of outstanding convertible preferred stock.

(3) Estimated pursuant to Rule 457(c) solely for the purposes of calculating the amount of the registration fee based on the average high and low prices of our common stock as reported by The Nasdaq Capital Market on January 3, 2006.

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 Commission, acting pursuant to said Section 8(a), may determine.

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

SUBJECT TO COMPLETION, DATED JANUARY 5, 2006

PRELIMINARY PROSPECTUS

874,444 SHARES

Intrusion Inc.
Common Stock

This prospectus relates to up to 874,444 shares of our common stock that the selling stockholders named on page 17 in this prospectus, or their respective pledgees, donees, transferees or other successors in interest that receive these shares as a gift, partnership distribution or other non sale related transfer, may offer for resale from time to time.

Of the 874,444 shares of common stock to which this prospectus relates:

564,607 shares underlie currently outstanding convertible preferred stock; and

309,837 shares underlie currently outstanding warrants.

The prices at which these stockholders may sell the shares will be determined by the prevailing market prices for the shares or in negotiated transactions. We will not receive any of the proceeds from the sale of the shares, but we will receive the exercise price of the warrants if they are exercised for cash. If all of the warrants for which we are registering the underlying shares of our common stock are exercised for cash, as of the date of this prospectus, we would receive an aggregate of approximately $799,379.46

Our common stock is currently quoted on The Nasdaq Capital Market under the symbol INTZ. On January 3, 2006, the closing price for our common stock as reported by The Nasdaq Capital Market was $2.00.

An investment in our common stock involves substantial risk. These risks are described under the caption Risk Factors beginning on page 2 and the section entitled Additional Factors That May Affect Future Results of Operations in the documents we file with the Securities and Exchange Commission that are incorporated by reference in this prospectus.

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.

The date of this prospectus is , 2006.

TABLE OF CONTENTS

INTRUSION INC.

RISK FACTORS

NOTE REGARDING FORWARD-LOOKING STATEMENTS

DESCRIPTION OF SECURITIES AND RELATED TRANSACTIONS

PLAN OF DISTRIBUTION

USE OF PROCEEDS

SELLING STOCKHOLDERS

LEGAL MATTERS

EXPERTS

WHERE YOU CAN FIND ADDITIONAL INFORMATION

INTRUSION INC.

General

We develop, market and support a family of regulated information compliance and data protection products, entity identification systems along with network intrusion prevention and detection systems that address vital security issues facing organizations with mission critical business applications or housing classified, confidential or customer information assets. Our products include Compliance Commander for regulated information and data privacy protection, TraceCop for entity identification and location, SpySnare for real-time inline blocking of spyware and unwanted peer-to-peer applications, and SecureNet for network intrusion prevention and detection.

We market and distribute our products through a direct sales force to end-users and distributors and by numerous domestic and international system integrators, managed service providers and value-added resellers. Our end-user customers include high technology, manufacturing, telecommunications, retail, transportation, healthcare, insurance, entertainment, utilities and energy companies, government entities, financial institutions and academic institutions.

We were organized in Texas in September 1983 and reincorporated in Delaware in October 1995. For more than 15 years, we provided local area networking equipment and were known as Optical Data Systems or ODS Networks. On June 1, 2000, we changed our name from ODS Networks, Inc. to Intrusion.com, Inc., and our NASDAQ ticker symbol from ODSI to INTZ to reflect our focus on intrusion detection solutions. On November 1, 2001, we changed our name from Intrusion.com, Inc. to Intrusion Inc.

Our principal executive offices are located at 1101 East Arapaho Road, Richardson, Texas 75081, and our telephone number is (972) 234-6400. Our website URL is www.intrusion.com. Information contained in or linked to our website are not a part of this prospectus. References to we, us and our in this prospectus refer to Intrusion Inc. and its subsidiaries.

This Prospectus

This prospectus relates to up to 874,444 shares of our common stock that the selling stockholders listed on page 17, or their respective pledgees, donees, transferees or other successors in interest that receive these shares as a gift, partnership distribution or other non-sale related transfer, may offer for resale from time to time. These shares represent shares of our common stock underlying shares of our convertible preferred stock and warrants that were issued to the selling stockholders in various transactions. These transactions are summarized below and are more fully described under the section entitled *Description of Securities and Related Transactions* beginning on page 6 of this prospectus.

The Transactions

Private Placement

On December 2, 2005, we entered into a Securities Purchase Agreement with various investors, including G. Ward Paxton, our Chairman, President and Chief Executive Officer, and James F. Gero, a member of our Board of Directors, pursuant to which the investors purchased 564,607 shares of our Series 3 5% convertible preferred stock and warrants to purchase up to 282,306 shares of our common stock. Mr. Paxton and Mr. Gero invested an aggregate of $180,000 in the private placement in exchange for 82,569 shares of the preferred stock and warrants to purchase an aggregate of 41,285 shares of our common stock.

Our agreements with these investors require us to register all 846,913 shares of our common stock underlying these shares of preferred stock and warrants. These shares cover the number of shares of our common stock issuable by us upon conversion of the preferred stock and upon the exercise of the warrants, including the 123,854 shares of common stock underlying the preferred stock and warrants acquired by Mr. Paxton and Mr. Gero.

Compensation of Placement Agent

Stonegate Securities, Inc. acted as our placement agent in connection with the private placement. As part of its compensation, we issued warrants to purchase an aggregate of the 27,531 shares of our common stock to two affiliates of Stonegate. This prospectus includes all of these shares.

RISK FACTORS

You should carefully consider the risks below and those contained in the section entitled Factors That May Affect Future Results of Operations in the documents we file with the SEC that are incorporated by reference in this prospectus, specifically the factors included in our Form 10-KSB for the year ended December 31, 2004, and our Form 10-QSB for the quarter ended September 30, 2005, before making an investment decision. The risks described below and incorporated herein are those we currently believe may materially affect us.

Certain rights of the holders of our preferred stock may hinder our ability to raise additional financing.

We cannot issue shares of capital stock with rights senior to those of our existing 5% preferred stock, Series 2 5% preferred stock or Series 3 5% preferred stock without the approval of at least a majority of the holders of our 5% preferred stock, all of the holders of our Series 2 5% preferred stock, and holders of at least 75% of our Series 3 5% preferred stock voting or acting as separate classes. We also cannot incur certain indebtedness without the approval of at least a majority of the holders of our 5% preferred stock. In addition, holders of the Series 3 5% preferred stock who are not executive officers or directors have the right to purchase a pro rata portion of certain future issuances of securities by us. The combination of these provisions could hinder or delay our ability to raise additional debt or equity financing.

You will experience substantial dilution upon the conversion or redemption of the shares of preferred stock and the exercise of warrants that we issued in our recent private placements.

On March 25, 2004, we completed a $5,000,000 private placement in connection with which we issued 1,000,000 shares of our 5% Convertible Preferred Stock and warrants to acquire 556,619 shares of our common stock. The conversion price for the preferred stock and the exercise price of the warrants is $3.144 per share. We also issued our placement agent a warrant for 64,408 shares of our common stock at an exercise price of $3.144 per share. As of January 5, 2006, there were 259,696 shares of 5% preferred stock, representing approximately 413,003 shares of common stock upon conversion, and warrants to purchase 556,619 shares of common stock outstanding.

In addition, on March 28, 2005, we completed a $2,663,000 private placement in connection with which we issued 1,065,200 shares of our Series 2 5% Convertible Preferred Stock and warrants to acquire 532,600 shares of our common stock. We also issued two affiliates of our placement agent warrants to purchase an aggregate of 60,390 shares of common stock. The conversion price for the preferred stock is $2.50 per share and the exercise price of the warrants is $2.77 per share. As of January 5, 2006, there were 500,000 shares of Series 2 5% preferred stock, representing 500,000 shares of common stock upon conversion, and warrants to purchase 532,600 shares of common stock outstanding.

Finally, on December 2, 2005, we completed a $1,230,842.92 private placement in connection with which we issued 564,607 shares of our Series 3 5% preferred stock and warrants to acquire 282,306 shares of our common stock. We also issued two affiliates of our placement agent warrants to purchase an aggregate of 27,531 shares of common stock. The conversion price of the preferred stock is $2.18 per share and the exercise price of the warrants is $2.58 per share. As of January 5, 2006, there were 564,607 shares of Series 3 5% preferred stock, representing 564,607 shares of common stock upon conversion, and warrants to purchase 282,306 shares of common stock outstanding.

On January 5, 2006, we had 6,909,507 shares of common stock outstanding. As a result, we expect the private placements to result in a further dilution to holders of our common stock upon conversion of the preferred stock and exercise of the warrants of 3,001,464 shares of common stock, or an approximately 43.4% increase in the number of shares of our common stock outstanding.

Further, the occurrence of certain specified events described below under *Description of Securities and Related Transactions Terms of the Series 3 5% Convertible Preferred Stock Redemption* entitle holders of our Series 3 5% preferred stock to require us to redeem their shares for a number of shares of our common stock equal to the redemption price divided by 75% of the ten-day average of the volume weighted average price of our common stock ending on the day immediately preceding the holder s election to redeem, subject to a floor of $0.87 per share.

Holders of our Series 2 5% preferred stock have similar redemption rights without a floor. The redemption price for the shares

of Series 3 5% preferred stock equals the sum of (1) the greater of $2.834 and the volume weighted average price of our common stock on the trading day immediately preceding the redemption event multiplied by $2.18 divided by the conversion price of the Series 3 5% preferred stock then in effect plus (2) any accrued but unpaid dividends on the Series 3 5% preferred stock plus (3) any unpaid liquidated damages or other amounts payable to the holders of the Series 3 5% preferred stock. The redemption price for the shares of Series 2 5% preferred stock equals the sum of (1) the greater of $3.25 and the volume weighted average price of our common stock on the trading day immediately preceding the redemption event multiplied by $2.50 divided by the conversion price of the Series 2 5% preferred stock then in effect plus (2) any accrued but unpaid dividends on the Series 2 5% preferred stock plus (3) any unpaid liquidated damages or other amounts payable to the holders of the Series 2 5% preferred stock. As a result, assuming we have paid all liquidated damages and other amounts to the holders, accrued but unpaid dividends on January 5, 2006 of $12,079, a volume weighted average price of $2.05, which was the ten-day weighted average closing price of our common stock on December 30, 2005, and our 6,909,507 shares of common stock outstanding on January 5, 2006, we would issue approximately 2,105,480 shares of our common stock if a specified redemption event occurs and all holders of Series 3 5% preferred stock and Series 2 5% preferred stock elected to redeem their shares for common stock. This would represent an increase of approximately 30.5% in the number of shares of our common stock as of January 5, 2006.

The conversion of preferred stock or exercise of warrants we issued in our recent private placements may cause the price of our common stock to decline.

The holders of the shares of 5% preferred stock and warrants we issued on March 25, 2004, and the holders of the shares of Series 2 5% preferred stock and warrants we issued on March 28, 2005, may freely convert their shares of preferred stock and exercise their warrants and sell the underlying shares of common stock pursuant to effective registration statements we filed with the SEC. As of January 6, 2006, 740,304 shares of 5% preferred stock had converted into 1,177,327 shares of common stock, and 565,200 shares of Series 2 5% preferred stock had converted into 565,200 shares of common stock. In addition, upon the effectiveness of the registration statement related to this prospectus, the investors in our December 2, 2005, private placement would be able to freely sell the shares of common stock underlying their shares of Series 3 5% preferred stock and warrants we issued to them in that private placement upon the conversion of their shares and exercise of their warrants.

For the four weeks ended on December 30, 2005, the average daily trading volume of our common stock on The Nasdaq Capital Market was 21,563 shares. Consequently, if holders of preferred stock or warrants elect to convert their remaining shares or exercise their warrants and sell a material amount of their underlying shares of common stock on the open market, the increase in selling activity could cause a decline in the market price of our common stock. Furthermore, these sales, or the potential for these sales, could encourage short sales, causing additional downward pressure on the market price of our common stock.

The payment of accrued dividends on our preferred stock may strain our cash resources.

Shares of our 5% preferred stock accrue cash dividends equal to $0.25 per share per annum, payable in arrears on March 31 and September 30 of each year, shares of our Series 2 5% preferred stock accrue cash dividends equal to $0.125 per share per annum, payable in arrears on the first business day of March, June, September and December of each year and shares of our Series 3 5% preferred stock accrue cash dividends equal to $0.109 per share per annum, payable in arrears on the first business day of March, June, September and December of each year. The amount of the dividends on our Series 2 5% preferred stock may increase to $0.45 per share per annum and the amount of the dividends on our Series 3 5% preferred stock may increase to $0.3294 per share per annum upon the occurrence of certain event entitling the holders of these shares to redemption.

During 2004, we paid $129 thousand in dividends related to our 5% convertible preferred stock and at January 5, 2006, we have dividends accrued of $17,254 related to our 5% preferred stock, $6,178 related to our Series 2 5% preferred stock and $5,901 related to our Series 3 5% preferred stock.

Delaware law provides that we may only pay dividends out of our capital surplus or, if no surplus is available, out of our net profits for the fiscal year the dividend is declared and/or the preceding fiscal year. We have not had net profits for the last two fiscal years ended as of December 31, 2004. However, we did have sufficient capital surplus, defined as the amount by which our net assets exceed our stated capital, based on par value of our outstanding shares as

provided by Delaware law. Although we are currently able to pay accrued dividends on our outstanding shares of preferred stock, we cannot assure you that our net assets will continue to exceed our stated capital or that we will have net profits in order to pay these dividends in the future. These dividends continue to accrue on our outstanding shares of preferred stock, regardless of whether we are legally able to pay them. The accrual of these dividends may adversely affect our operating results. Moreover, the payment of these dividends could strain our available cash resources, which could adversely affect our ability to operate or grow our business.

In addition, our inability to pay dividends could require us to redeem outstanding shares of Series 2 5% preferred stock and Series 3 5% preferred stock for shares of our common stock issued at a price equal to 75% of the average of the volume weighted average price of our common stock for the ten days ending on the day immediately preceding an election to redeem, subject, in the case of the Series 3 5% preferred stock, to a floor of $0.87. As a result, the issuance, or potential issuance, of these additional shares of common stock could cause our stock price to decline. Furthermore, our inability to pay dividends could adversely affect our ability to raise equity financing in the future if required.

Our management may spend the proceeds of this offering in ways with which you do not agree.

Our management will have broad discretion over how we use the net proceeds of this offering and could spend proceeds in ways with which you do not agree. Pending deployment of the funds, the proceeds may be invested in ways that do not yield favorable returns. Please see the *Use of Proceeds* section of this prospectus for information about how we plan to use the proceeds of this offering.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the materials incorporated herein by reference contain forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forwarding-looking words such as may, will, expect, intend, anticipate, believe, esti continue and other similar words. You should read statements that contain these words carefully because they discuss our future expectations, make projections of our future results of operations or of our financial condition or state other forward-looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control. Our actual results could differ materially from the expectations we describe in our forward-looking statements as a result of certain factors, as more fully described in the Risk Factors section of this prospectus and the section entitled Factors That May Affect Future Results of Operations and elsewhere in the documents we file with the SEC that are incorporated herein.

DESCRIPTION OF SECURITIES AND RELATED TRANSACTIONS

Private Placement

On December 2, 2005, we completed a private placement under Rule 506 of Regulation D with six institutional investors and three individual accredited investors, including G. Ward Paxton, our Chairman, President and Chief Executive Officer, and James F. Gero, a member of our Board of Directors, pursuant to which the investors paid us an aggregate of $1,230,842.92 in consideration for (1) 564,607 shares of our Series 3 5% convertible preferred stock convertible into shares of our common stock at an initial conversion price of $2.18 per share and (2) warrants to purchase up to 282,306 shares of our common stock at an initial exercise price of $2.58 per share.

As a condition to the consummation of the private placement, each of our officers and directors executed a voting agreement pursuant to which they have agreed to vote the shares owned by them in favor of any proposal to stockholders requesting an approval of the issuance of more then 1,381,900 shares of our common stock, which represents 19.999% of our common stock outstanding as of December 2, 2005, upon conversion of the shares of preferred stock and the exercise of the warrants we issued in this private placement, to the extent this approval is required by Nasdaq rules.

Compensation of Placement Agent

Stonegate Securities, Inc. acted as our placement agent for this private placement. As compensation for services rendered to us by Stonegate, we agreed to:

- pay Stonegate a cash fee equal to $60,016.80, including a $5,000 retainer fee; and

- issue to Stonegate or its assigns warrants to purchase an aggregate of 27,531 shares of our common stock at an exercise price of $2.58 per share.

We issued the warrants to two affiliates of Stonegate pursuant to Rule 506 of Regulation D.

Terms of the Series 3 5% Convertible Preferred Stock

Dividends. Holders of the Series 3 5% preferred stock are entitled to a 5% per annum dividend per share. The dividend accrues and is payable in cash quarterly on the first business day of March, June, September and December of each year, beginning on March 1, 2006. Dividends may increase to 18% per annum upon the occurrence of certain redemption events described below under *Terms of the Series 3 5% Convertible Preferred Stock-Redemption*.

Accrued but unpaid dividends are payable upon the conversion or redemption of the shares of preferred stock and upon a liquidation event. Dividends not paid within five business days of the day they are due accrue daily interest at the lesser of 18% per annum or the maximum rate permitted by law, until the dividends and the accrued interest are paid in cash.

As long as any shares of the Series 3 5% preferred stock are outstanding, we cannot pay dividends or make other distribution on, redeem shares of, or set money aside or create a sinking fund for that purpose for, any shares of capital stock ranking junior to the Series 3 5% preferred stock with respect to dividends, including our common stock. However, this restriction does not apply to the payment of accrued dividends on our existing 5% preferred stock and Series 2 5% preferred stock or the conversion of any of our convertible capital stock in accordance with its terms.

Voting Rights. Holders of the preferred stock have no voting rights, except as required by law. However, as long as any shares of the Series 3 5% preferred stock remain outstanding, we cannot take any of the following actions without the separate class vote or written consent of at least 75% of the then outstanding shares of the Series 3 5% preferred stock:

alter or change adversely the powers, preferences or privileges of the Series 3 5% preferred stock;

alter or amend the Certificate of Designation creating the Series 3 5% preferred stock;

authorize or create any class stock ranking senior to, or on an equal basis with, the Series 3 5% preferred stock with respect to dividends, redemption or liquidation;

amend our certificate of incorporation, bylaws or other organizational documents in a manner which adversely affects the rights of any of the holders of the Series 3 5% preferred stock;

increase the authorized number of shares of the Series 3 5% preferred stock; or

enter into any agreement to do any of the above.

Conversion. The holders of the Series 3 5% preferred stock have the option to convert their shares into shares of our common stock at an initial conversion price of $2.18 per share. We also have the right to force conversion of outstanding shares of the Series 3 5% preferred stock after December 2, 2006, if the following conditions are met:

the volume weighted average price of our common stock must be at least 200% of the conversion price of the preferred stock then in effect, for a period of 20 consecutive trading days immediately preceding the redemption;

we notify the holders of the conversion within one trading day after our common stock meets the above trading price requirement;

we have honored all requested conversions of the Series 3 5% preferred stock, if any;

we have paid any liquidated damages or other amounts owing on the Series 3 5% preferred stock;

the registration statement related to this prospectus is effective and is expected to remain effective;

our common stock is traded on The Nasdaq Capital Market, The Nasdaq National Market, the New York Stock Exchange, the American Stock Exchange or the OTC Bulletin Board;

we have a sufficient number of authorized but unissued shares of our common stock to permit the conversion;

no event which would give the holders the right to redeem their shares has occurred;

the issuance of the shares of common stock would not cause a relevant holder to exceed the 4.99% beneficial ownership limitation described below; and

we have not publicly announced any merger or consolidation, sale of all or substantially all of our assets, tender or exchange offer, reclassification of our common stock or any share exchange or any transaction which would constitute a change of control for purposes of the liquidation preference of the Series 3 5% preferred stock.

Because the original purchase price and the initial conversion price are the same, each share of Series 3 5% preferred stock is initially convertible into one share of our common stock. The Series 3 5% preferred stock contains adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassifications or similar events of our capital stock as well as any rights offering or pro rata distribution of cash, property, assets or securities to holders of our common stock.

A holder of Series 3 5% preferred stock cannot convert their shares into shares of our common stock if that holder would beneficially own greater than 4.99% of our issued and outstanding shares of common stock, as determined in accordance with Section 13(d) of the Exchange Act, upon conversion. However, this restriction does not apply to any

holder of Series 3 5% preferred stock who is one of our directors or officers. Although this restriction does not limit the conversion of the shares of Series 3 5% preferred stock purchased by Mr. Paxton or Mr. Gero, neither Mr. Paxton nor Mr. Gero may convert their shares into common stock unless and until the issuance is approved by our stockholders to the extent required by Nasdaq rules.

In addition, we cannot issue shares to a holder of Series 3 5% preferred stock if the number of shares issuable upon conversion of all shares of Series 3 5% preferred stock added together with the number of shares issuable upon the exercise of the private placement warrants exceeds 1,381,900 shares, or 19.999% of our outstanding shares of common stock on December 2, 2005, unless we have received the requisite approval of our stockholders under Nasdaq Marketplace Rule 4350.

Rank; Liquidation Preference. The holders of Series 3 5% preferred stock rank prior to the holders of our common stock, existing 5% preferred stock and existing Series 2 5% preferred stock with respect to the distribution of our assets upon a dissolution, liquidation or other similar event. The liquidation preference for the Series 3 5% preferred stock is an amount equal to $2.18 per share plus any accrued but unpaid dividends.

In addition to a dissolution, liquidation or similar event, the following change of control transactions constitute a liquidation:

an acquisition by an individual, legal entity or group, as defined in Rule 13d-5(b)(1) of the Exchange Act of 1934, as amended, of more than 33% of our voting securities;

a merger or consolidation with or into another entity, after which our stockholders own less than 66% of the aggregate voting power of the surviving corporation;

a sale of all or substantially all of our assets to an entity in which our stockholders own less than 66% of aggregate voting power of the acquiring entity;

a replacement at one time or within one year of more than half the members of our board of directors which is not approved by the members of our board of directors or their nominees; and

the execution of a binding agreement to effect any of the above transactions.

Redemption. Holders of Series 3 5% preferred stock can require us to redeem all of their shares of upon the occurrence of any of the following events:

the failure of the registration statement relating to this prospectus to be declared effective by the SEC by July 20, 2006;

the registration statement ceases to be effective or a holder is not permitted to resell its shares of common stock registered for resale for more than 90 calendar days in any twelve month period;

our failure to deliver certificates for common stock within 10 trading days of a request to convert, or we publicly announce that we will not comply with requests to convert;

our failure to pay a holder for any damages that holder incurs as a result of open market purchases to cover sales of common stock for which we did not timely issue common stock certificates on conversion within ten days after receipt of notice of the damages from that holder;

our failure to have a sufficient number of authorized but unissued shares of our common stock to permit conversion;

our breach of any representation, warranty, covenant or agreement in the Securities Purchase Agreement, Registration Rights Agreement, warrants or other transaction documents executed in

connection with the private placement which we have not cured within 45 days after notice of such breach;

our redemption of any shares of common stock, existing 5% preferred stock or existing Series 2 5% preferred stock, other than conversions of the existing 5% preferred stock and Series 2 5% preferred stock and the repurchase of up $100,000 per calendar year of common stock from employees, officers, directors, consultants and other service providers upon their termination;

we become party to a change of control transaction that results in a liquidation of the Series 3 5% preferred stock; or

we have filed for bankruptcy, whether voluntarily or involuntarily, or made a general assignment for the benefit of creditors.

The redemption price is the sum of (1) the greater of $2.834 and the product of the volume weighted average price of our common stock on the trading day immediately preceding the event multiplied by $2.18 divided by the conversion price then in effect plus (2) any accrued but unpaid dividends on the Series 3 5% preferred stock plus (3) all liquidated damages or other amounts payable to the holders of Series 3 5% preferred stock. The redemption price is payable in cash if a redemption event occurs as a result of our failure to deliver stock certificates upon conversion, our public announcement of our refusal to comply with conversion requests, our failure to pay damages to a holder who is forced to cover a sale for which we did not timely issue certificates, our breach of the provisions of any of the agreements executed in connection with the private placement, our becoming party to a change of control transaction or our voluntary bankruptcy. In the case of any other redemption event, a holder has the option to receive a number of shares of our common stock equal to the redemption price divided by 75% of the ten-day average of the volume weighted average price of our common stock ending on the day immediately preceding the holder s election, subject to a floor of $0.87 per share, or an increase in the dividends payable per share to 18% per annum. Mr. Paxton and Mr. Gero will not be able to receive stock upon redemption of their shares unless and until the issuance is approved by our stockholders to the extent required by Nasdaq rules. Payment of the redemption price is due within five trading days after the holder provides us with a notice of payment, after which the unpaid amount accrues interest daily at a rate equal to the lower of 18% per annum and the highest rate permitted by law.

Terms of the Warrants

Private Placement Warrants. The warrants we issued in the private placement have an initial exercise price of $2.58 per share and are exercisable for our common stock at any time during the period commencing on June 2, 2006 and ending on or before June 2, 2011. The warrants contain a cashless exercise provision, permitting the holder at any time on or after December 2, 2007, in lieu of paying the exercise price, to surrender the warrant for a number of shares of common stock determined by multiplying the number of shares of common stock underlying the warrant by a fraction based on the exercise price of the warrant and the volume weighted average price of our common stock on trading day immediately preceding the exercise date. A holder may only use the cashless exercise if there is no effective registration statement covering the resale of the shares of common stock underlying the warrant at the time the holder wishes to exercise.

All of the warrants contain adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassification or similar events of our capital stock as well as pro rata distributions of cash, property, assets or securities to holders of our common stock. In addition, if we issue shares of common stock or securities convertible into or exercisable for shares of common stock at a price less than the exercise price of the warrants, other than an issuance exempt from the purchasers pre-emptive rights described below under *Pre-emptive Rights and Restrictions on Future Sales of Equity Pre-emptive Rights*, the exercise price of the warrants will reset to the lower price.

A holder of a warrant cannot exercise warrants for shares of our common stock if that holder would beneficially own greater than 4.99% of our issued and outstanding shares of common stock, as determined in accordance with Section 13(d) of the Exchange Act, upon exercise of the warrants. However, this restriction does not apply to any holder of a warrant who is one of our directors or officers. Although this restriction does not currently limit the exercise

of the warrants acquired by Mr. Paxton or Mr. Gero, neither Mr. Paxton or Mr. Gero may exercise their warrants for common stock unless the issuance is approved by our stockholders to the extent required by Nasdaq rules.

In addition, we cannot issue shares of common stock upon the exercise of a warrant if the number of shares to be issued upon the exercise of all of the private placement warrants added together with the number of shares issuable upon the conversion of the Series 3 5% preferred stock, exceeds 1,381,900, or 19.999% of our outstanding shares of common stock on December 2, 2005, unless we have received the requisite approval of our stockholders under Nasdaq Marketplace rule 4350.

Stonegate Warrants. The warrants we issued to the affiliates of Stonegate have an initial exercise price of $2.58 per share and are exercisable for our common stock at any time on or before December 2, 2011. Each warrant contains a cashless exercise provision, permitting the holder, in lieu of paying the exercise price, to surrender the warrant for a number of shares of common stock determined by multiplying the number of shares of common stock underlying the warrant by a fraction based on the exercise price of the warrant and the current market value of our common stock.

The warrants contain adjustment provisions upon the occurrence of stock splits, stock dividends, combinations, reclassification or similar events of our capital stock.

Pre-emptive Rights and Restrictions on Future Sales of Equity

Pre-emptive Rights. Pursuant to the terms of the Securities Purchase Agreement entered into in connection with the private placement, we granted the investors, other than Mr. Paxton and Mr. Gero, who continue to own shares of preferred stock prior to the sale, the right to purchase up to 100% of the securities we may offer in certain future sales of securities within 180 days of the effective date of the registration statement relating to this prospectus.

The investors right of purchase will not apply to the following issuances by us:

- shares issuable upon the conversion of the Series 3 5% preferred stock or the exercise of the warrants;
- securities we issue to directors, officers, employees and consultants as compensation;
- securities issuable upon the exercise of options, warrants or other convertible securities currently outstanding, as long as we have not amended these securities to increase the number of shares issuable upon conversion or to decrease the exercise price other than as a result of their respective anti-dilution provisions;
- shares of stock issued in connection with a stock split, stock dividend or recapitalization;
- securities we issue in connection with commercial lending and lease transactions;
- securities we issue as compensation to registered broker-dealers engaged by us to obtain financing on our behalf;
- securities we issue in connection with acquisitions or strategic transactions; and
- shares of stock we issue in a firm commitment, underwritten public offering with gross proceeds of at least $30,000,000.

Restrictions of Future Sales. The Securities Purchase Agreement also restricts us from issuing any shares of common stock or other securities convertible or exercisable for common stock until the date that is 180 days after the effective date of the registration statement relating to this prospectus. In addition, as long as any investor holds Series 3 5% preferred stock or warrants, we cannot issue debt or equity securities that are convertible or exercisable for shares of common stock at a price that varies with the trading price of our common stock or is subject to reset for events contingent on our business or the price of our common stock or enter into any other agreement, including an equity line

of credit, pursuant to which we sell securities at a future determined price. However, these restrictions do not apply to transactions which are exempt from the pre-emptive rights described above.

These provisions may hinder or delay our ability to raise additional debt or equity financing if and when we require additional capital to operate or grow our business.

Registration Rights

In connection with the Securities Purchase Agreement, we entered into a Registration Rights Agreement, pursuant to which we are required to file a registration statement to register the 846,913 shares of common stock issuable upon the conversion of the preferred stock and upon the exercise of the warrants issued to the investors in the private placement. This prospectus relates to the registration of all of these shares of common stock. Under the terms of the Registration Rights Agreement, we may be subject to the payment of partial liquidated damages if any of the following events occurs:

the registration statement relating to this prospectus is not declared effective by the SEC by the earlier to occur of January 6, 2006 or the fifth trading day after the SEC informs us that they have no further review of the registration statement;

we fail to request acceleration of the registration statement relating to this prospectus within five trading days of the SEC informing us they have no further review of the registration statement or to file a pre-effective amendment to the registration statement within ten trading days after receiving any SEC comments; or

the registration statement ceases to be effective or a holder is not permitted to resell its shares of common stock registered for resale for more than 30 calendar days in any twelve month period.

The amount of liquidated damages will equal 1% of the aggregate purchase price paid to us by the investors in the private placement for the first thirty-day period, and 2% of the aggregate purchase price for each subsequent thirty-day period, each pro rated for any shorter period, following any of the above events. The damages are payable on the monthly anniversary of the date of the event giving rise to the damages. Any damages not paid within seven days of the date due will accrue daily interest at the lesser of 18% per annum and the maximum amount permitted by law until paid in full. No damages are payable to the affiliates of Stonegate with respect to the shares of common stock underlying the warrants we issued to them or to any person who is one of our officers or directors at the time the payment is due. Therefore, Mr. Paxton and Mr. Gero are not currently entitled to receive any of these damages.

We must keep the registration statement related to this prospectus effective until the earlier to occur of the date when all the securities covered by the registration statement may be sold without restriction pursuant to Rule 144(k) and the date on which all securities covered by the registration statement have been sold.

PLAN OF DISTRIBUTION

Shares of our common stock held by the selling stockholders and covered by this prospectus may be sold or distributed at any time or from time to time by the selling stockholders, their pledgees, donees, transferees or other successors in interest, in one or more transactions. The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. The selling stockholders may sell their shares at market prices prevailing at the time of sale, at prices related to the then current market price, at varying prices determined at the time of sale in negotiated transactions, or at such other price as the selling stockholders may determine from time to time.

The selling stockholders may offer their shares at various times in one or more of, or a combination of, the following or other kinds of transactions:

transactions on any national securities exchange or U.S. inter-dealer system of a registered national securities association on which the common stock may be listed or quoted at the time of sale;

in the over-the-counter market;

in private transactions and transactions otherwise than on these exchanges or systems or in the over-the-counter market;

in connection with short sales of the shares entered into after the effective date of the registration statement of which this prospectus is a part;

by pledge to secure or in payment of debt and other obligations;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

through the writing of options, whether the options are listed on an options exchange or otherwise; or

in connection with the writing of non-traded and exchange-traded call options, in hedge transactions and in settlement of other transactions in standardized or over-the-counter options.

No selling stockholder had any agreement or understanding, directly or indirectly, with any person to distribute the shares underlying the preferred stock and warrants at the time the selling stockholder purchased them. All of the selling stockholders purchased the securities in the ordinary course of business.

If the selling stockholders effect these transactions by selling shares to or through broker-dealers or agents, those broker-dealers or agents may receive compensation in the form of commissions, discounts or concessions from selling stockholders or commissions from purchasers of the shares for whom they may act as agent. These commissions, discounts or concessions as to a particular broker-dealers or agents may be in excess of customary commissions in the types of transactions involved. Broker-dealers or agents and any other participating broker-dealers or the selling stockholders may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act in connection with sales of the shares. Because selling stockholders may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act, the selling stockholders will be subject to the prospectus delivery requirements of the Securities Act. The selling stockholders have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers with respect to the sale of the shares covered by this prospectus.

The selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions in connection with distributions of the shares or otherwise. In these transactions, broker-dealers or other financial institutions may engage in short sales of the shares in the course of hedging the positions they assume with selling stockholders. The selling stockholders also may sell shares short and redeliver the shares to close out short positions. Several of the selling stockholders have entered into short positions as of the date hereof. None of the shares issuable upon conversion of the preferred stock or exercise of the warrants and none of the other shares described in this prospectus will be used to cover any of these short positions or any other short positions prior to the effectiveness of the registration statement relating to this prospectus. The selling stockholders may enter into option or other transactions with broker-dealers or other financial institutions which require the delivery to the broker-dealer or financial institutions of the shares. The broker-dealer or other financial institutions may then resell or otherwise transfer those shares pursuant to this prospectus.

The selling stockholders also may loan or pledge the shares to a broker-dealer. The broker-dealer or other financial institutions may sell the shares so loaned, or upon a default the broker-dealer may sell the pledged shares pursuant to this prospectus.

Under the securities laws of certain states, the shares may be sold in those states only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Selling stockholders may also resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act, rather than under this prospectus, provided they meet the criteria and conform to the requirements of such rule.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the shares may not simultaneously engage in market making activities with respect to our common stock until his or her participation in that distribution is completed. In addition, each selling stockholder will be subject to applicable provisions of the Exchange Act and the associated rules and regulations under the Exchange Act, including Regulation M, which provisions may limit the timing of purchases and sales of shares of common stock by the selling stockholders.

We will make copies of this prospectus available to the selling stockholders. We have informed them of the need for delivery of copies of this prospectus to purchasers at or prior to the time of any sale of the shares offered hereby. The selling stockholders may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the shares against certain liabilities, including liabilities under the Securities Act.

At the time a particular offer of shares is made, we will file a supplement to this prospectus, if required, that will disclose:

- the name of each such selling stockholder and of the participating broker-dealer(s);
- the number of shares involved;

the price at which such shares were sold;

the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable;

that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus; and

other facts material to the transaction.

In addition, upon being notified by a selling stockholder that a donee or pledgee intends to sell more than 500 shares, we will file a supplement to this prospectus.

We entered into the registration rights agreement described under *Description of Securities and Related Transactions Registration Rights* for the benefit of the selling stockholders to register the shares of common stock under applicable federal and state securities laws. Pursuant to the terms of the registration rights agreement, we will pay all expenses of the registration of the shares except that the selling stockholders will pay any applicable commissions and discounts attributable to the sales of the shares and costs and expenses of their own counsel. We have agreed to indemnify the selling stockholders against certain liabilities relating to the registration statement, including liabilities under the Securities Act. Conversely, each selling stockholder has agreed to indemnify us against certain liabilities relating to the information given to us in writing by that selling stockholder for inclusion in the registration statement, including liabilities under the Securities Act.

USE OF PROCEEDS

We will receive the exercise price of the warrants, if they are exercised for cash, but will receive no proceeds from the resale of the underlying shares which may be offered hereby. As of the date of this prospectus, if all of the warrants for which we are registering the underlying shares of our common stock are exercised for cash, we would receive an aggregate of approximately $799,379.46. We intend to use the proceeds, if any, from the exercise of the warrants for general corporate purposes and working capital.

SELLING STOCKHOLDERS

The following table identifies each of the selling stockholders and sets forth information as of the date of this prospectus with respect to the number of shares which may be offered under this prospectus from time to time by each selling stockholder. This information includes shares obtainable upon conversion or exercise of shares of preferred stock and warrants, which are currently convertible or exercisable into shares of our common stock. Except as otherwise indicated, the persons named in the table below have sole investment and voting power with respect to all shares beneficially owned, subject to community property laws, where applicable. Percentage ownership is based on 6,909,507 shares of our common stock outstanding on January 5, 2006. For purposes of this table, the shares of common stock beneficially owned by a person or group of persons before the offering equals the sum of:

any shares beneficially owned unrelated to the Series 3 5% preferred stock and warrants, including any shares that person or group has the right to acquire within 60 days;

the shares beneficially owned underlying the Series 3 5% preferred stock based on a conversion price of $2.18;

the shares beneficially owned underlying the warrants based on an exercise price of $2.58; and

in calculating the percentage for each selling stockholder, the shares issuable upon conversion of the Series 3 5% preferred stock and exercise of the warrants for any selling stockholder are included in the denominator of the shares outstanding for that selling stockholder but are not included in the denominator for any other person.

Under the terms of the Series 3 5% preferred stock and warrants we issued in the private placement, the shares of Series 3 5% preferred stock are convertible and the warrants are exercisable by any selling stockholder who participated in the private placement only to the extent that the number of shares of common stock issuable pursuant to those securities, together with the number of shares of our common stock owned by that selling stockholder and its affiliates (but not including shares of common stock underlying unconverted portions of the Series 3 5% preferred stock or unexercised portions of the warrants) would not exceed 4.99% of the then outstanding common stock as determined in accordance with Section 13(d) of the Exchange Act. However, this restriction does not apply to any holder of Series 3 5% preferred stock or warrants who is one of our directors or officers. Although this restriction does not currently limit the conversion of shares or the exercise of warrants by Mr. Paxton or Mr. Gero, neither Mr. Paxton nor Mr. Gero may convert their shares into, or exercise their warrants for, common stock unless the issuance is approved by our stockholders to the extent required by NASDAQ rules. In addition, we cannot issue shares of common stock to any selling stockholder who participated in the private placement upon the conversion of their shares or the exercise of their warrants if the number of shares to be issued upon the conversion of all of the shares of Series 3 5% preferred stock and all of the warrants we issued in the private placement exceeds 1,381,900, or 19.99% of our outstanding shares of common stock on December 2, 2005, unless we have received the requisite approval of our stockholders under Nasdaq Marketplace Rule 4350. Finally, the selling stockholders who participated in the private placement may not exercise their warrants until June 2, 2006. Accordingly, the number of shares of common stock set forth in the columns Shares Beneficially Owned Before Offering and Shares Offered in the table below for certain selling stockholders may exceed the number of shares of common stock that the selling stockholder could beneficially own at any given time through the ownership of their shares or Series 3 5% preferred stock or warrants.

All of the shares of common stock being offered by this prospectus are being offered by the selling stockholders for their own accounts. Because the selling stockholders may sell all, some or none of the shares covered by this prospectus, and there are currently no agreements, arrangements or understandings with any of the selling stockholders with respect to the sale of any of the shares, we cannot estimate the number of shares or the percentage of outstanding shares of common stock, that will be held by any of them upon termination of this offering. For purposes of this table, we are assuming that the selling stockholders will sell all of the shares offered by this prospectus and will not acquire any additional shares.

This prospectus also covers any additional shares of common stock which may become issuable in connection with shares sold by reason of a stock dividend, stock split, recapitalization or other similar transaction effected without us

receiving any cash or other value, which results in an increase in the number of our outstanding shares of common stock.

Of the 874,444 shares of common stock being offered by the selling stockholders:

846,913 shares are issuable upon conversion of the Series 3 5% preferred stock and the exercise of the warrants purchased by the investors in the private placement described under *The Transactions Private Placement* and *Description of Securities and Related Transactions Private Placement*; and

27,531 shares are issuable upon the exercise of the warrants we issued to two affiliates of Stonegate Securities, Inc., for acting as our placement agent in the private placement; see *The Transactions Compensation of Placement Agent*, *Description of Securities and Related Transactions Compensation of Placement Agent*, and *Certain Relationships among the Selling Stockholders and Intrusion Stonegate Securities*.

Other than Mr. Gero, Mr. Paxton and the affiliates of Stonegate, Mr. Griffith and Mr. Shelmire, none of the selling stockholders has had a material relationship with us within the past three years other than as a result of the ownership of shares or our common stock or other securities. See *Certain Relationships among the Selling Stockholders and Intrusion*.

Name of Selling Stockholder	Shares Beneficially Owned Before Offering(1)	Shares Offered	Shares Owned After the Offering	
			Number	Percent
Alpha Capital AG (2)	172,019	172,019	0	0.0%
Bluegrass Growth Fund, L.P. (3)	98,808	68,808	30,000	*
Enable Growth Partners LP (4)	585,245	172,019	413,226	5.6%
Enable Opportunity Partners LP (5)	34,403	34,403	0	0.0%
Gero, James F. (6)	453,882	41,285	412,597	5.6%
Griffith, Scott R.	13,766	13,766	0	0.0%
Nite Capital L.P. (7)	274,019	172,019	102,000	1.5%
Paxton, G. Ward (8)	993,564	82,569	910,995	11.7%
Payne, Marshall R. (9)	137,731	34,791	102,940	1.5%
Shelmire, IV, Jesse B.	13,765	13,765	0	0.0%
TCMP3 Partners L.P. (10)	99,600	69,000	30,600	*
Total(11)	2,876,802	874,444	2,002,358	22.5%

* Less than 1%

Footnotes to Selling Stockholder Table:

(1) Beneficial ownership is calculated in accordance with the rules of the Securities and Exchange Commission in accordance with Rule 13d-3(d)(1). In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days following January 5, 2006 are deemed outstanding. However, these shares are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

Certain shares of common stock shown as beneficially owned are issuable upon conversion of the 5% preferred stock or exercise of warrants we issued in a private placement on March 25, 2004. Under the terms of these shares preferred stock and warrants, the shares of 5% preferred stock are convertible and the warrants are exercisable only to the extent that the number of shares of common stock issuable pursuant to those securities, together with the number of shares of common stock owned by the relevant person and its affiliates (but not including shares of common stock underlying unconverted portions of the 5% preferred stock or unexercised portions of the warrants) would not exceed 9.9% of the then outstanding shares of common stock as determined in accordance with Section 13(d) of the Exchange Act. In addition, certain shares of common stock shown as beneficially owned are issuable upon the conversion of Series 2 5% preferred stock and warrants issued in private placement on March 28, 2005. Under the terms of the Series 2 5% preferred stock, the shares are

convertible only to the extent that the number of shares of common stock issuable upon conversion thereof and upon the exercise of the warrants, together with the number of shares of common stock owned by the relevant person and its affiliates (but not including shares of common stock underlying unconverted portions of the Series 2 5% preferred stock or unexercised portions of the warrants) would not exceed 4.99% of the then outstanding common stock as determined in accordance with Section 13(d) of the Exchange Act. However, this restriction does not apply to Mr. Paxton or Mr. Gero. Accordingly, the number of shares of common stock set forth in the column under Shares Beneficially Owned Before Offering in the table above exceeds the number of shares of common stock that they could beneficially own at any given time through the ownership of these securities.

(2) Konrad Ackerman and Ranier Posch have voting and/or investment control over the shares held by Alpha Capital AG. Mr. Ackerman and Mr. Posch disclaim beneficial ownership of these shares.

(3) Includes 20,000 shares of our common stock issuable upon conversion of our Series 2 5% preferred stock and 10,000 shares of our common stock issuable upon the exercise of existing warrants. Brian Shatz has voting and/or investment control over the shares held by Bluegrass Growth Fund LP. Mr. Shatz disclaims beneficial ownership of these shares.

(4) Includes the equivalent of 200,000 shares that may be issued upon conversion of Series 2 5% preferred stock, 63,130 shares that may be issued upon the conversion of 5% preferred stock and 150,096 shares that Enable Growth Partners L.P. may acquire upon the exercise of existing warrants. Mitch Levine has voting and/or investment control over the shares held by Enable Growth Partners LP. Mr. Levine disclaims beneficial ownership of these shares.

(5) Mitch Levine has voting and/or investment control over the shares held by Enable Opportunity Partners LP. Mr. Levine disclaims beneficial ownership of these shares.

(6) Includes the equivalent of 60,000 shares that may be issued upon conversion of Series 2 5% preferred stock, 95,419 shares that may be issued upon conversion of 5% preferred stock and 63,397 shares that Mr. Gero may acquire upon the exercise of existing warrants. Also includes 4,168 shares that Mr. Gero may acquire upon exercise of options that are currently exercisable or will become exercisable within 60 days of January 5, 2006.

(7) Includes the equivalent of 102,000 shares that may be issued upon the exercise of existing warrants. Keith Goodman has voting and/or investment control over the shares held by Nite Capital L.P. Mr. Goodman disclaims beneficial ownership of these shares.

(8) Includes the equivalent of 4,996 shares held by Mr. Paxton in the Intrusion Stock Fund in the Intrusion 401(k) Savings Plan. Includes the equivalent of 160,000 shares that may be issued upon conversion of Series 2 5% preferred stock, 222,646 shares that may be issued upon conversion of 5% preferred stock and 157,926 shares that Mr. Paxton may acquire upon the exercise of existing warrants.

(9) Includes the equivalent of 40,000 shares that may be issued upon conversion of Series 2 5% preferred stock, 31,807 shares that may be issued upon conversion of 5% preferred stock and 31,133 shares that Mr. Payne may acquire upon the exercise of existing warrants.

(10) Includes the equivalent of 30,600 shares that may be issued upon the exercise of existing warrants. Walter Schenker and Steven Slawson have voting and/or investment control over the shares held by TCMP3 Partners L.P. Mr. Schenker and Mr. Slawson disclaim beneficial ownership of these shares.

(11) See notes (3), (4), and (6) through (10) above.

Certain Relationships among the Selling Stockholders and Intrusion

Directors and Executive Officers

The following selling stockholders are directors and, in one instance, an executive officer of our company:

G. Ward Paxton - President, Chief Executive Officer, Chairman of the Board and director; and

James F. Gero - director.

Stonegate Securities, Inc.

Stonegate Securities, Inc. acted as our financial advisor and placement agent in connection with the issuance of our Series 3 5% convertible preferred stock and warrants to the investors in the private placement. As compensation for acting as our placement agent, we paid Stonegate an aggregate of $60,016.80. In addition, we issued to Jesse B. Shelmire, IV and Scott R. Griffith, two affiliates of Stonegate, warrants to purchase an aggregate of 27,531 shares of our common stock at an exercise price of $2.58 per share.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Patton Boggs LLP, Dallas, Texas.

EXPERTS

Our consolidated financial statements for the year ended December 31, 2004 and 2003, appearing in our Annual Report (Form 10-KSB) for the year ended December 31, 2004, have been audited by KBA Group LLP, independent registered public accounting firm, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the SEC s public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to you without charge at the SEC s web site at http://www.sec.gov.

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information filed with the SEC will update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13a, 13(c), or 15(d) of the Securities Exchange Act of 1934 until our offering is completed.

our Annual Report on Form 10-KSB for the year ended December 31, 2004;

our Quarterly Reports on Form 10-QSB for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005;

our Current Reports on Form 8-K dated March 29, 2005, May 3, 2005 (item 8.01), June 15, 2005 and December 6, 2005; and

the description of our common stock contained in our registration statement on Form 8-A filed with the SEC, including any amendments or reports filed for the purpose of updating such description.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Michael Paxton
Vice President and Chief Financial Officer
Intrusion Inc.
1101 E. Arapaho Road
Richardson, Texas 75081
(972) 234-6400

You should rely only on the information incorporated by reference or provided in this prospectus or the prospectus supplement. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or the prospectus supplement is accurate as of any date other than the date on the front of the document.

We have not authorized any person to make a statement that differs from what is in this prospectus. If any person does make a statement that differs from what is in this prospectus, you should not rely on it. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state in which the offer or sale is not permitted. The information in this prospectus is complete and accurate as of its date, but the information may change after that date.

Intrusion Inc.

874,444 Shares
of Common Stock

PROSPECTUS

, 2006

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. ***Other Expenses of Issuance and Distribution***

SEC Registration Fees	$	187.13
Legal Fees		45,000.00*
Accounting Fees and Expenses		10,000.00*
Printing Fees		7,500.00*
Transfer Agent s Fees and Costs of Certificates		2,000.00*
Placement Agent Fees		60,106.80
Miscellaneous		10,000.00*
Total	$	134,793.93

* Estimated

ITEM 15. ***Indemnification of Directors and Officers***

Section 145 of the Delaware General Corporation Law (the DGCL) provides, in effect, that any person made a party to any action by reason of the fact that he is or was our director, officer, employee or agent may and, in certain cases, must be indemnified by us against, in the case of a non-derivative action, judgments, fines, amounts paid in settlement and reasonable expenses (including attorneys fees) incurred by him as a result of such action, and in the case of a derivative action, against expenses (including attorneys fees), if in either type of action he acted in good faith and in a manner he reasonably believed to be in our not opposed to our best interests. This indemnification does not apply, in a derivative action, to matters as to which it is adjudged that the director, officer, employee or agent is liable to us, unless upon court order it is determined that, despite such adjudication of liability, but in view of all the circumstances of the case, he is fairly and reasonably entitled to indemnity for expenses, and, in a non-derivative action, to any criminal proceeding in which such person had reasonable cause to believe his conduct was unlawful.

Article Six, Section 3 of our Certificate of Incorporation provides that no director shall be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by the DGCL.

We have entered into Indemnification Agreements with the each of our directors and executive officers. Pursuant to our agreements, we will be obligated, to the extent permitted by applicable law, to indemnify our directors and officers against all expenses, judgments, fines and penalties incurred in connection with the defense or settlement of any actions brought against them by reason of the fact that they were our directors or officers or assumed certain responsibilities at our direction. We also have purchased directors and officers liability insurance in order to limit our exposure to liability of indemnification of directors and officers.

ITEM 16. ***Exhibits and Financial Statement Schedules***

Exhibit Number	Description
4.1(1)	Form of Series 3 5% Convertible Preferred Stock Certificate.
4.2(1)	Certificate of Designations of the Series 3 5% Convertible Preferred Stock of Intrusion Inc.
4.3(1)	Form of Common Stock Purchase Warrant issued to the investors in the private placement.
4.4(1)	Form of Representative s Warrant for the Purchase of Shares of Common Stock issued to certain affiliates of Stonegate Securities, Inc.
4.5(1)	Form of Voting Agreement executed by each of the executive officers and directors of Intrusion Inc.

Exhibit Number	Description
4.6(1)	Registration Rights Agreement dated as of December 2, 2005 by and among Intrusion Inc. and each of the purchasers listed on the signature pages thereto.
5.1	Opinion of Patton Boggs LLP, regarding the legality of the securities covered by this registration statement.
10.1(1)	Securities Purchase Agreement dated as of December 2, 2005, by and among Intrusion Inc. and the investors listed on the signature pages thereto.
10.2(1)	Placement Agency Agreement dated December 2, 2005, by and between Intrusion Inc. and Stonegate Securities, Inc.
23.1	Consent of KBA Group LLP.
23.2	Consent of Patton Boggs LLP (included in its opinion filed as Exhibit 5.1).
24.1	Power of Attorney (included on the signature page to this Registration Statement).

(1) Incorporated herein by reference to the Registrant s Current Report on Form 8-K dated December 6, 2005.

ITEM 17. ***Undertakings***

The Registrant hereby undertakes:

(1) To file, during any period in which offers or sales of securities are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the commission pursuant to rule 424(b) if, in the aggregate, the charges in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement or is contained in a form of prospectus filed pursuant to Rule 424(b) that is deemed a part of and included in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

For determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of the securities, the Registrant undertakes that in a primary offering of securities of the Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered

or sold to such purchaser by means of any of the following communications, the Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the Registrant or used or referred to by the Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the Registrant or its securities provided by or on behalf of the Registrant; and

(iv) Any other communication that is an offer in the offering made by the Registrant.

The Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant s annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act, may be permitted to directors, officers and controlling persons of Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

For the purpose of determining liability under the Securities Act to any purchaser, the Registrant undertakes that each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

INDEX TO EXHIBITS

Exhibit Number	Description
4.1(1)	Form of Series 3 5% Convertible Preferred Stock Certificate.
4.2(1)	Certificate of Designations of the Series 3 5% Convertible Preferred Stock of Intrusion Inc.
4.3(1)	Form of Common Stock Purchase Warrant issued to the investors in the private placement.
4.4(1)	Form of Representative s Warrant for the Purchase of Shares of Common Stock issued to certain affiliates of Stonegate Securities, Inc.
4.5(1)	Form of Voting Agreement executed by each of the executive officers and directors of Intrusion Inc.
4.6(1)	Registration Rights Agreement dated as of December 2, 2005 by and among Intrusion Inc. and each of the purchasers listed on the signature pages thereto.
5.1	Opinion of Patton Boggs LLP, regarding the legality of the securities covered by this registration statement.
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(1) Incorporated herein by reference to the Registrant s Current Report on Form 8-K dated December 6, 2005.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Richardson, State of Texas, on January 5, 2006.

INTRUSION INC.

By: /s/ G. Ward Paxton
G. Ward Paxton
President, Chief Executive Officer and Chairman of the Board

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints G. Ward Paxton and Michael Paxton, his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to sign any registration statement for the same offering covered by this registration statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ G. Ward Paxton G. Ward Paxton	President, Chief Executive Officer and Chairman of the Board (principal executive officer)	January 5, 2006
/s/ Michael Paxton Michael Paxton	Vice President and Chief Financial Officer and General Counsel (principal financial and accounting officer)	January 5, 2006
/s/ T. Joe Head T. Joe Head	Vice President of Strategic Projects and Director	January 5, 2006
/s/ J. Fred Bucy, Jr. J. Fred Bucy, Jr.	Director	January 5, 2006

/s/ Donald M. Johnston Donald M. Johnston	Director	January 5, 2006
/s/ James F. Gero James F. Gero	Director	January 5, 2006