

INTRUSION INC
Form DEF 14A
April 05, 2011

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Intrusion Inc.
(Name of Registrant as Specified In Its Charter)

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

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- No fee required.
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 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

1101 East Arapaho Road, Suite 200

Richardson, Texas 75081

(972) 234-6400

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 19, 2011

To the Stockholders of

Intrusion Inc.:

NOTICE IS HEREBY GIVEN that the 2011 Annual Meeting of Stockholders (the Meeting) of Intrusion Inc. (the Company) will be held at the Doubletree Hotel-Richardson, 1981 North Central Expressway, Richardson, Texas, at 10:00 A.M., Local Time, on Thursday, May 19, 2011, for the following purposes:

- (1) To elect five (5) directors to serve until the next Annual Meeting of Stockholders or until their respective successors are duly elected and qualified;
- (2) To approve the amendment to the 2005 Stock Incentive Plan, to change the authorized aggregate number of shares issuable under the plan from 3,000,000 to 3,400,000 shares, as described in the accompanying proxy statement and set forth in Appendix A thereto;
- (3) To ratify the appointment of Whitley Penn LLP as independent auditors of the Company for the fiscal year ending December 31, 2011; and

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(4) To transact such other business as may properly come before the Meeting or any adjournments thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. The record date for determining those stockholders who will be entitled to notice of, and to vote at, the Meeting and at any adjournment thereof is April 1, 2011. A list of stockholders entitled to vote at the Meeting will be available for inspection at the offices of the Company during the ten days prior to the Meeting.

All stockholders are cordially invited to attend the Meeting in person. Stockholders are urged, whether or not they plan to attend the Meeting, to complete, date and sign the enclosed Proxy and return it promptly in the enclosed postage prepaid envelope. Your Proxy may be revoked at any time prior to the Meeting. If you decide to attend the Meeting and wish to change your Proxy vote, you may do so by voting in person at the Meeting.

By Order of the Board of Directors

*G. WARD PAXTON
Chairman, President and Chief Executive Officer*

Richardson, Texas
April, 15, 2011

INTRUSION INC.

1101 East Arapaho Road, Suite 200

Richardson, Texas 75081

PROXY STATEMENT

for

ANNUAL MEETING OF STOCKHOLDERS

to be Held May 19, 2011

SOLICITATION AND REVOCABILITY OF PROXIES

The enclosed proxy (the **Proxy**) is being solicited on behalf of the Board of Directors (the **Board**) of Intrusion Inc. (the **Company**) for use at the Annual Meeting of Stockholders (the **Meeting**) to be held at the Doubletree Hotel- Richardson, 1981 North Central Expressway, Richardson, Texas, at 10:00 A.M., Local Time, on Thursday, May 19, 2011, or at such other time and place to which the Meeting may be adjourned. Proxies, together with copies of this Proxy Statement, are first being mailed to stockholders of record entitled to vote at the Meeting on or about April 15, 2011.

Execution and return of the enclosed Proxy will not affect a stockholder's right to attend the Meeting and to vote in person. Any stockholder executing a Proxy retains the right to revoke such proxy at any time prior to exercise at the Meeting. A Proxy may be revoked by delivery of written notice of revocation to the Secretary of the Company, by execution and delivery of a later Proxy or by voting the shares in person at the Meeting. If you attend the Meeting and vote in person by ballot, your proxy will be revoked automatically and only your vote at the Meeting will be counted. A Proxy, when executed and not revoked, will be voted in accordance with the instructions thereon. In the absence of specific instructions, Proxies will be voted by those named in the Proxy **FOR** the election as directors of those nominees named in the Proxy Statement, **FOR** the approval of each of the other proposals described in this Proxy Statement, and in accordance with their best judgment on all other matters that may properly come before the Meeting.

The enclosed form of Proxy provides a method for stockholders to withhold authority to vote for any one or more of the nominees for director while granting authority to vote for the remaining nominees. The names of all nominees are listed on the Proxy. If you wish to grant authority to vote for all nominees, check the box marked **FOR**. If you wish to withhold authority to vote for all nominees, check the box marked **WITHHOLD**. If you wish your shares to be voted for some nominees and not for one or more of the others, check the box marked **FOR** and indicate the name(s) of the nominee(s) for whom you are withholding the authority to vote by writing the name(s) of such nominee(s) on the Proxy in the space provided.

RECORD DATE AND VOTING SECURITIES

Only stockholders of record at the close of business on April 1, 2011 are entitled to notice of, and to vote at, the Meeting. The stock transfer books of the Company will remain open between the record date and the date of the Meeting. A list of stockholders entitled to vote at the Meeting will be available for inspection at the executive offices of the Company. On the April 1, 2011 record date, the Company had 11,817,732 outstanding shares of Common Stock, \$0.01 par value (the Common Stock); 220,000 outstanding shares of 5% Convertible Preferred Stock, par value \$0.01 per share (the 5% Preferred Stock); 460,000 shares of Series 2 5% Convertible Preferred Stock, par value \$0.01 per share (the Series 2 5% Preferred Stock) and 354,056 shares of Series 3 5% Convertible Preferred Stock, par value \$0.01 per share (the Series 3 5% Preferred Stock). The holders of Series 2 and Series 3 5% Preferred Stock do not have voting rights, other than as required by the Delaware General Corporation Law. Therefore, the holders of the Series 2 and Series 3 5% Preferred Stock are not entitled to vote with respect to the proposals set forth in this Proxy Statement.

QUORUM AND VOTING

The presence at the Meeting, in person or by Proxy, of the holders of a majority of the shares of Common Stock outstanding or issuable upon conversion of the 5% Preferred Stock is necessary to constitute a quorum. Holders of Common Stock are entitled to one vote for each share of Common Stock held on each matter to be voted on at the

Meeting including the election of directors. Holders of 5% Preferred Stock are entitled to vote on an as-converted to Common Stock basis, with any fractional votes being rounded to the nearest whole vote. As of the record date, each share of 5% Preferred Stock was convertible into 1.59 shares of Common Stock. As a result, each holder is entitled to 1.59 votes for each share of 5% Preferred Stock held on each matter to be voted on at the Meeting, including the election of directors, representing an aggregate of approximately 349,800 votes attributable to holders of the 5% Preferred Stock or 2.9% of total votes entitled to be cast at the Meeting.

All votes will be tabulated by the inspector of election appointed for the Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Abstentions and broker non-votes are counted as present for purposes of determining the presence or absence of a quorum for the transaction of business. Abstentions will be counted towards the tabulations of votes cast on matters presented at the Meeting and will have the same effect as negative votes (other than the election of directors) whereas broker non-votes will not be counted for purposes of determining whether a matter has been approved.

Assuming the presence of a quorum, the following paragraphs describe the vote required by the stockholders of record to approve each of the proposals set forth in this Proxy Statement.

- **Proposal One.** The five nominees receiving the greatest number of votes of the shares of Common Stock outstanding or issuable upon conversion of the 5% Preferred Stock present in person or represented by Proxy at the Meeting and entitled to vote shall be deemed elected even if they receive the affirmative vote of less than a majority of the shares of Common Stock outstanding or issuable upon conversion of the 5% Preferred Stock entitled to be voted at the Meeting. Cumulative voting is prohibited in the election of directors, and Proxies cannot be voted for more than five nominees.
- **Proposal Two.** The affirmative vote of the holders of a majority of the shares of Common Stock outstanding or issuable upon conversion of the 5% Preferred Stock entitled to vote at the Meeting and present in person or by Proxy, is required for the approval to the amendment of the 2005 Incentive Stock Plan.
- **Proposal Three.** The affirmative vote of the holders of a majority of the shares of Common Stock outstanding or issuable upon conversion of the 5% Preferred Stock entitled to vote at the Meeting and present in person or by Proxy, is required for the ratification of the appointment of Whitley Penn LLP as independent auditors.

The Board unanimously recommends a vote **FOR** each of the proposals set forth in this Proxy Statement.

PROPOSAL ONE

ELECTION OF DIRECTORS

The Board for the ensuing year will consist of five directors who are each to be elected at the Meeting for a term of office expiring at the next Annual Meeting of Stockholders or until their respective successors have been elected and qualified. It is intended that the persons named in the following table will be nominated as directors of the Company and that the persons named in the accompanying Proxy, unless otherwise

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directed, will vote for the election of such nominees at the Meeting. Each of the nominees has indicated his willingness to serve as a member of the Board of Directors, if elected. However, in the event any nominee shall become unavailable for election to the Board for any reason not presently known or contemplated, the Proxy holders will be vested with discretionary authority in such instance to vote the enclosed Proxy for such substitute as the Board shall designate.

The following slate of five nominees has been nominated by the Board of Directors:

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Name of Nominee	Age	Position(s)	Director Since
G. Ward Paxton	75	Chairman, President, Chief Executive Officer and Director	1983
T. Joe Head	54	Vice Chairman, Vice President and Director	1983
J. Fred Bucy, Jr. (1)(2)*	82	Director	1993
James F. Gero (1)(2)*	66	Director	2003
Donald M. Johnston (1)(2)*	61	Director	1983

* Independent Director as defined by Nasdaq Rule 5605(a)(2).

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

G. Ward Paxton was named President and Chief Executive Officer of the Company on November 28, 2001. He is also co-founder of the Company and has served as Chairman of the Board since the Company's inception in September 1983. Mr. Paxton also served as President and Chief Executive Officer of the Company from 1983 until June 2000 and served as Chief Financial Officer from 1983 until 1994. Prior to founding the Company, Mr. Paxton was Vice President of Honeywell Optoelectronics, a division of Honeywell, Inc., from 1978 to 1983. From 1969 to 1978, Mr. Paxton was Chairman of the Board, President, Chief Executive Officer and founder of Spectronics, Inc., which was acquired by Honeywell, Inc. in 1978. Prior to founding Spectronics, Inc., Mr. Paxton held various managerial and technical positions at Texas Instruments Incorporated from 1959 to 1969. Mr. Paxton holds Ph.D., M.S. and B.S. degrees in Physics from the University of Oklahoma. As our CEO, Mr. Paxton has demonstrated dedication and leadership, and possesses a unique insight and understanding, of our operations and business strategy. Mr. Paxton's position as our President and Chief Executive Officer and his extensive business and senior management experience make him particularly qualified for service as Chairman of our Board.

T. Joe Head is co-founder of the Company and has served as a director since the Company's inception in September 1983. Mr. Head was named Vice Chairman of the Board of Directors in June 2000 and was named Vice Chairman and Vice President on February 14, 2003. He also served as Senior Vice President from 1983 until 1998 and Executive Vice President from 1998 until June 2000. Prior to co-founding the Company, Mr. Head held the positions of Product Marketing Manager and Marketing Engineer of Honeywell Optoelectronics, from 1980 to 1983. Mr. Head holds a B.S. degree in Electrical Engineering from Texas A & M University. Mr. Head's extensive experience and vision in technology, and his knowledge in the area of government sales make him particularly qualified for service on the Board.

J. Fred Bucy, Jr. has served as a director of the Company since 1993. Mr. Bucy was employed in various technical and managerial capacities by Texas Instruments Incorporated from 1953 through his retirement in 1985. At the time of his retirement, Mr. Bucy was President, Chief Executive Officer and a director of Texas Instruments. Mr. Bucy was a Trustee of Southwest Research Institute. He was Chairman of the Texas National Research Laboratory Commission (re-appointed by George W. Bush in 1995) until 2001. Mr. Bucy was also a member of the Coordinating Board Advisory Committee on Research of the Texas College and University System and a former member of the Board of Regents of Texas Tech University and Texas Tech University Health Sciences Center from 1973 to 1991, including four years as its Chairman. Mr. Bucy has been accorded Distinguished Alumnus and Distinguished Engineer Awards by Texas Tech University, is a fellow of the Institute of Electrical and Electronics Engineers, a member of National Academy of Engineers, and is a life member of the Navy League. Mr. Bucy was awarded an honorary Doctor of Science degree from Texas Tech University in 1994. Mr. Bucy was recognized as an Eminent Member of Eta Kappa Nu in 2002. Mr. Bucy's extensive business experience in various technical and managerial capacities at Texas Instruments make him particularly qualified as a member of our Board, Audit Committee and Compensation Committee.

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James F. Gero was named a director of the Company on October 27, 2003. Mr. Gero is former Chairman of the Board and a principal stockholder of Sierra Technologies, Inc., which was formed in September 1991, and is a private investor. Mr. Gero serves on the Board of Directors of Drew Industries, a public company which supplies a broad array of components for recreational vehicles and manufactured homes, and is Chairman of Orthofix, N.V., a publicly traded medical device manufacturer. Mr. Gero is a former Chairman and Chief Executive Officer of Varo Inc., a manufacturer of high technology systems. Prior to becoming Chairman and CEO of Varo Inc., Mr. Gero served as Vice President and General Manager at Allied Signal Corporation. Mr. Gero holds a B.S. degree from State University of New York, an

M.B.A. degree from University of New Haven and an M.S. degree from Fairleigh Dickinson. Mr. Gero's extensive experience serving on boards of both public and private companies and his knowledge in the areas of strategic planning, finance, and corporate governance make him particularly qualified for service on our Board, Audit Committee and Chairman of our Compensation Committee.

Donald M. Johnston has served as a director of the Company since November 1983. Mr. Johnston is President of Massey Burch Capital Corp., a venture capital firm. He served as President of Massey Burch Investment Group, Inc., a venture capital firm, from 1990 until December 1993, where he had been a principal since 1982. Prior to that time, Mr. Johnston was the President of InterFirst Venture Corporation, a venture capital subsidiary of Interfirst Bancshares, Inc., and the Executive Director of First Dallas, Ltd., a corporate finance group in London, England. Mr. Johnston holds a B.A. degree from Vanderbilt University and an M.B.A. degree from Southern Methodist University. Mr. Johnston's broad array of business experience and expertise in financial matters and venture capital investing, as well as a demonstrated commitment to corporate governance make him particularly qualified for service on our Board, Compensation Committee and Chairman of our Audit Committee.

All directors of the Company hold office until the next ensuing annual meeting of stockholders or until their respective successors are duly elected and qualified. All officers of the Company are elected annually by the Board and serve at the discretion of the Board. There are no family relationships between any director or officer of the Company and any other such person except that Michael L. Paxton, Vice President, Chief Financial Officer, Secretary and Treasurer, is the son of G. Ward Paxton, Chairman, President and Chief Executive Officer.

Stockholder Approval

The affirmative vote of a plurality of the shares of Common Stock outstanding or issuable upon conversion of outstanding 5% Preferred Stock present in person or by proxy at the Meeting is required for the election of each of the nominees for director.

The Board recommends a vote FOR the election of such nominees.

CORPORATE GOVERNANCE

The business affairs of the Company are managed under the direction of the Board. The Board meets on a regularly scheduled basis during the fiscal year of the Company to review significant developments affecting the Company and to act on matters requiring Board approval. It also holds special meetings as required from time to time when important matters arise requiring Board action between scheduled meetings. The Board of Directors or its authorized committees met 16 times during the 2010 fiscal year. During fiscal year 2010, each director participated in at least 75% or more of the aggregate of (1) the total number of meetings of the Board of Directors (held during the period for which he was a director) and (2) the total number of meetings of all committees of the Board on which he served (during the period that he served).

Board Leadership Structure

The current leadership structure of the Company provides for the combination of the roles of the Chairman of the Board and the Chief Executive Officer. The Board believes that the Chief Executive Officer is best situated to serve as the Chairman of the Board because he is the director

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most familiar with the Company's business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. Independent directors and management have different perspectives and roles in strategy development. The Company's independent directors bring experience, oversight and expertise from outside the Company and industry, while the Chief Executive Officer brings Company-specific experience and expertise. One of the key responsibilities of the Board is to develop the Company's strategic direction and hold management accountable for the execution of strategy once it is developed. The Company believes that the combined role of Chairman of the Board and Chief Executive Officer is in the best interest of the Company's stockholders because it promotes strategy development and execution, and facilitates information flow between management and the Board, which are essential to effective governance of the Company.

The Company also believes that the combined role of the Chairman of the Board and the Chief Executive Officer is appropriate in light of the independent oversight of the Board. Although the Board has not designated a lead independent director, the Company has a long history of strong independent directors, with 3 out of the 5 current members of the Board being independent. In addition, the Audit and Compensation Committees of the Board are comprised solely of independent directors. The Board regularly reviews the Company's leadership structure and reserves the right to alter the structure as it deems appropriate.

Board Role in Risk Oversight and Management

The Board has an active role in the oversight and management of the Company's risks and carries out its role directly and through Board committees. The Board's direct role in the Company's risk management process includes regular or periodic receipt and discussion of reports from management and the Company's outside counsel and advisers on areas of material risk to the Company, including operational, strategic, financial, legal and regulatory risks.

The Board has also historically delegated the oversight and management of certain risks to the Audit and Compensation Committees of the Board. The Audit Committee is responsible for the oversight of Company risks relating to accounting matters, financial reporting and related party transactions. To satisfy these oversight responsibilities, the Audit Committee regularly meets with and receives and discusses reports from the Chief Financial Officer, the Company's independent registered public accountant, and the Company's outside counsel. The Compensation Committee is responsible for the oversight of risks relating to the Company's compensation and benefit programs. To satisfy these oversight responsibilities, the Compensation Committee regularly meets with and receives and discusses reports from the Chief Executive Officer and the Chief Financial Officer to understand the financial, human resources and stockholder implications of compensation and benefit decisions.

The Board has also addressed risk through the adoption of corporate policies. The Board has adopted a Code of Business Conduct and Ethics and a Code of Ethics for Senior Financial Employees that are designed to ensure that directors, officers and employees of the Company are aware of their legal and ethical responsibilities and conduct the Company's business in a consistently legal and ethical manner.

Committees

The Board has established Audit and Compensation Committees to devote attention to specific subjects and to assist it in the discharge of its responsibilities. The functions of the Audit Committee and the Compensation Committee are described below.

Audit Committee. The Audit Committee is composed of: Donald M. Johnston (Chairman), James F. Gero, and J. Fred Bucy, Jr. Each member of the Audit Committee is independent (as defined in Nasdaq Marketplace Rule 5605(a)(2)). The Audit Committee has at least one financial expert (as defined by 407 (d)(5)(ii) of Regulation S-K). Mr. Bucy is currently the Audit Committee financial expert. The functions performed by the Audit Committee, its membership and the number of meetings held during the fiscal year, are set forth in the Report of the Audit Committee, included in this Proxy Statement. The Audit Committee is governed by a written charter, which was approved by the Audit Committee on March 18, 2004, and is included under the investor relations section on the Company's website, www.intrusion.com. The Audit Committee held six meetings during fiscal year 2010.

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Compensation Committee. The Compensation Committee is composed of Mr. Gero (Chairman), Mr. Bucy and Mr. Johnston, each of whom is an independent director, as defined by Nasdaq Rule 4200. The Compensation Committee met five times during the 2010 fiscal year. The Compensation Committee is empowered to advise management and make recommendations to the Board with respect to the compensation and other employment benefits of executive officers, key employees and directors of the Company. The Compensation Committee also administers the Company's stock incentive plan for officers, key employees and directors, and the Company's incentive bonus programs for executive officers and employees. The Compensation Committee is authorized, among other powers, to determine from time to time the individuals to whom options shall be granted, the number of shares to be covered by each option and the time or times at which options shall be granted pursuant to the stock incentive plan. The Compensation Committee currently operates without a written charter.

Notwithstanding anything to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (the Exchange Act), that might incorporate this Proxy or future filings made by the Company under those statutes, the Compensation Committee Report, the Audit Committee Report, the Audit Committee Charter and references to the independence of Audit Committee members are not deemed filed with the Securities and Exchange Commission (the SEC). They also shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by the Company under those statutes, except the extent the Company specifically incorporates such information by reference in such filings.

Report of the Audit Committee

The Audit Committee oversees the Company's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with Whitley Penn LLP, the Independent Registered Public Accounting Firm to the Company, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles, the matters required to be discussed by SAS 114 (The Auditor's Communication with Those Charged with Governance), as amended, and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards. In addition, the Audit Committee has discussed with Whitley Penn LLP the auditors' independence from management and the Company, including the matters in the written disclosures and the letter from Whitley Penn LLP required by applicable professional and regulatory standards including those of the Public Company Accounting Oversight Board, and considered the compatibility of non-audit services with the auditors' independence.

The Audit Committee discussed with Whitley Penn LLP the overall scope and plans for their audit. The Audit Committee meets with Whitley Penn LLP, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee held six meetings during fiscal year 2010.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2010 for filing with the SEC. The Audit Committee and the Board have also recommended, subject to stockholder ratification, the selection of Whitley Penn LLP as the Company's Independent Registered Public Accounting Firm.

Respectfully submitted,

AUDIT COMMITTEE
of the Board of Directors

Donald M. Johnston, Audit Committee Chair
James F. Gero, Audit Committee Member
J. Fred Bucy, Jr., Audit Committee Member

REPORT OF COMPENSATION COMMITTEE

The Compensation Committee is responsible for administering the compensation programs of the executive officers. The Compensation Committee sets performance goals and objectives for the Chief Executive Officer and the other executive officers, evaluates their performance with respect to those goals and sets their compensation based upon the evaluation of their performance. In evaluating executive officer pay, the Compensation Committee may consider recommendations from the Chief Executive Officer with respect to goals and compensation of the other executive officers. The Compensation Committee also periodically reviews director compensation. All decisions with respect to executive and director compensation are approved by the Compensation Committee and recommended to the full Board for ratification.

The Compensation Committee is responsible for administering all of the Company's equity-based plans. The Compensation Committee also periodically reviews compensation and equity-based plans and makes its recommendations to the board with respect to these areas.

On February 3, 2011, the Committee approved an amendment to the Company's 2005 Stock Incentive Plan (the Amended 2005 Plan) as a replacement to the 2005 Stock Incentive Plan (the 2005 Plan). If approved by the stockholders under Proposal Two, the Amended 2005 Plan will become effective on May 19, 2011. A full description of the Amended 2005 Plan can be found in the section *Proposal Two-Proposal to Approve Amendment to the 2005 Stock Incentive Plan*.

It is the opinion of the Compensation Committee that the executive compensation policies and plans, including, without limitation, the Amended 2005 Plan, provide the necessary total remuneration program to properly align the Company's performance and the interests of the Company's stockholders through the use of competitive and equitable executive compensation in a balanced and reasonable manner, for both the short and long-term.

Respectfully submitted,

COMPENSATION COMMITTEE
of the Board of Directors

James F. Gero, Compensation Committee Chair
J. Fred Bucy, Jr., Compensation Committee Member
Donald M. Johnston, Compensation Committee Member

Nomination of Directors

The Company does not have a formal nominating committee. Instead, the independent members of the Board, Mr. Bucy, Mr. Gero and Mr. Johnston, act as a nominating committee considering nominees and appointees to the Board in accordance with Nasdaq Marketplace Rule 5605(e), and the Board believes that the independent directors can serve effectively in this capacity without the need for a formal committee. In nominating and evaluating candidates to determine if they are qualified to become Board members, these Directors consider a number of attributes, including:

- personal and professional character, integrity, ethics and values, without regard to race, religion, gender or national origin;

- general business experience and leadership profile, including experience in corporate management, such as serving as an officer or former officer of a publicly held company, or experience as a board member of another publicly held company;

- strategic planning abilities and experience;

- aptitude in accounting and finance;

- expertise in domestic and international markets;

- experience in the network security or telecommunications industry;

- understanding of relevant technologies;

- academic expertise in an area of the Company's operations;

- communications and interpersonal skills; and

- practical and mature business judgment.

These directors also evaluate Board members and nominees service on the board of other public companies. Although these directors use these and other criteria to evaluate potential nominees, there are no stated minimum criteria for nominees. These directors also evaluate candidates identified by their personal contacts and other Board members.

These directors will also consider nominees proposed by stockholders. Although the Company has no formal policy regarding stockholder nominees, stockholder nominees are viewed in substantially the same manner as other nominees. The consideration of any candidate for director will be based on the assessment of the individual's background, skills and abilities, and if such characteristics qualify the individual to fulfill the needs of the Board at that time. To recommend a prospective nominee for consideration, stockholders should submit the candidate's name and qualifications to the Company's Secretary in writing at the address listed above. There have been no changes to the procedures by which stockholders may recommend nominees to the Board since the date of the Company's proxy statement for its 2010 annual meeting of stockholders. The Company received one recommendation for a Board nominee for election at the 2011 Meeting from a stockholder. The Board decided that at this time it is satisfied with the current Board.

The Board annually reviews the requisite skills and characteristics of Board members, as well as the composition of the Board as a whole. This assessment includes a consideration of independence, diversity, skills, experience and industry backgrounds in the context of the needs of the Board and the Company. Directors are expected to exemplify the highest standards of personal and professional integrity; and to constructively challenge management through their active participation and questioning.

Communication with the Board

Due to the historical trend of infrequent communication from current stockholders, the Company does not have formal procedures for stockholder communication with the Board. Any matter intended for the Board, or for any individual member or members of the Board, should be directed to the Company's Secretary at the address of the

Company indicated above, with a request to forward the same to the intended recipient. In general, all stockholder communication delivered to the Company's Secretary for forwarding to the Board or specified Board members will be forwarded in accordance with the stockholder's instructions, unless the Secretary believes the question or issue may be addressed adequately by the Company's investor relations department. However, the Secretary reserves the right to not forward to Board members any abusive, threatening or otherwise inappropriate materials.

Policy Regarding Board Attendance at Stockholders Meetings

Although it has no formal policy requiring attendance, the Company encourages all directors to attend all meetings of stockholders. All five of the Company's directors attended the 2010 annual stockholders meeting.

Code of Ethics

All of the Company's directors and employees are required to abide by the Company's Code of Business Conduct and Ethics, and the Company's Chief Executive Officer, Chief Financial Officer, and other senior financial employees are also required to abide by the Company's Code of Ethics for Senior Financial Employees (together, the Codes), which the Company adopted on March 18, 2004 to comply with Nasdaq and SEC requirements to insure that the Company's business is conducted in a consistently legal and ethical manner. Both Codes cover all areas of professional conduct, including conflicts of interest, fair dealing and the strict adherence to all laws and regulations applicable to the conduct of the Company's business. The full text of the Codes is published on the Company's website at www.intrusion.com; click on the investor relations tab, and then Code of Ethics. The Company intends to disclose future amendments to, or waivers from, certain provisions of the Codes of Ethics on the Company's website within four business days following the date of such amendment or waiver. Upon the written request of any stockholder, the Company will furnish, without charge, a copy of each of the Codes. This request should be directed to the Company's Secretary at the address indicated above.

PROPOSAL TWO

PROPOSAL TO APPROVE AMENDMENT TO THE 2005 STOCK INCENTIVE PLAN

The Company has used stock options as a key element of its overall compensation program for employees of the Company. The Board and the Compensation Committee believe that it is important to have equity-based incentives available to attract and retain quality employees for the Company. On February 3, 2011, the Board approved, subject to stockholder approval at the Meeting, a proposal to amend the 2005 Plan. The following descriptions present summaries of (i) the 2005 Plan as it currently exists and (ii) the proposed amendment to the 2005 Plan.

Description of the Existing 2005 Stock Incentive Plan

The 2005 Plan consists of three (3) separate equity incentive programs:

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- the Discretionary Option Grant Program;
- the Stock Issuance Program; and
- the Automatic Option Grant Program for non-employee Board members.