

INTRUSION INC
Form 10-Q
November 12, 2009
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended September 30, 2009

OR

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from to

Commission File Number 0-20191

INTRUSION INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-1911917
(I.R.S. Employer
Identification No.)

1101 East Arapaho Road, Suite 200, Richardson, Texas 75081

(Address of principal executive offices)

(Zip Code)

(972) 234-6400

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

* * * * *

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the Registrant's Common Stock, \$0.01 par value, on October 31, 2009 was 11,704,535.

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Item 1. FINANCIAL STATEMENTS

INTRUSION INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value amounts)

	September 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 103	\$ 554
Accounts receivable	283	341
Inventories, net	17	20
Prepaid expenses	69	56
Total current assets	472	971
Property and equipment, net	129	169
Other assets	39	39
TOTAL ASSETS	\$ 640	\$ 1,179
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 598	\$ 538
Loan payable to officer	970	480
Dividends payable	318	187
Deferred revenue	100	1,090
Total current liabilities	1,986	2,295
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.01 par value: Authorized shares 5,000		
Series 1 shares issued and outstanding 220 in 2009 and 260 in 2008 Liquidation preference of \$1,226 as of September 30, 2009	778	918
Series 2 shares issued and outstanding 460 Liquidation preference of \$1,256 as of September 30, 2009	724	724
Series 3 shares issued and outstanding 354 Liquidation preference of \$843 as of September 30, 2009	504	504
Common stock, \$0.01 par value:		
Authorized shares 80,000		
Issued shares 11,715 in 2009 and 11,648 in 2008 Outstanding shares 11,705 in 2009 and 11,638 in 2008	117	116
Common stock held in treasury, at cost 10 shares	(362)	(362)
Additional paid-in capital	55,545	55,443
Accumulated deficit	(58,473)	(58,280)

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Accumulated other comprehensive loss	(179)	(179)
Total stockholders' deficit	(1,346)	(1,116)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 640	\$ 1,179

See accompanying notes.

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INTRUSION INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net product revenue	\$ 1,194	\$ 1,078	\$ 3,171	\$ 2,509
Net customer support and maintenance revenue	59	137	230	452
Total revenue	1,253	1,215	3,401	2,961
Cost of product revenue	432	367	1,133	975
Cost of customer support and maintenance revenue	3	6	12	18
Total cost of revenue	435	373	1,145	993
Gross profit	818	842	2,256	1,968
Operating expenses:				
Sales and marketing	198	349	733	1,081
Research and development	288	210	904	920
General and administrative	235	244	768	739
Operating income (loss)	97	39	(149)	(772)
Interest expense, net	(18)	(22)	(44)	(45)
Income (loss) before income tax provision	79	17	(193)	(817)
Income tax provision				
Net income (loss)	\$ 79	\$ 17	\$ (193)	\$ (817)
Preferred stock dividends accrued	(38)	(41)	(116)	(121)
Net income (loss) attributable to common stockholders	\$ 41	\$ (24)	\$ (309)	\$ (938)
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 0.00	\$ 0.00	\$ (0.03)	\$ (0.08)
Diluted	\$ 0.00	\$ 0.00	\$ (0.03)	\$ (0.08)
Weighted average common shares outstanding:				
Basic	11,704	11,638	11,669	11,638
Diluted	13,529	11,638	11,669	11,638

See accompanying notes.

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INTRUSION INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended	
	September 30, 2009	September 30, 2008
Operating Activities:		
Net loss	\$ (193)	\$ (817)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	57	33
Stock-based compensation	71	55
Changes in operating assets and liabilities:		
Accounts receivable	58	(651)
Inventories	3	52
Prepaid expenses and other assets	(13)	43
Accounts payable and accrued expenses	81	(61)
Deferred revenue	(990)	(107)
Net cash used in operating activities	(926)	(1,453)
Investing Activities:		
Purchases of property and equipment	(16)	(23)
Financing Activities:		
Net activity under line of credit		30
Borrowings from officer	490	1,180
Proceeds from the issuance of common stock	1	
Net cash provided by financing activities	491	1,210
Net decrease in cash and cash equivalents	(451)	(266)
Cash and cash equivalents at beginning of period	554	362
Cash and cash equivalents at end of period	\$ 103	\$ 96
SUPPLEMENTAL DISCLOSURE OF NON CASH FINANCING ACTIVITIES:		
Preferred stock dividends accrued	\$ 116	\$ 121
Inventory transferred to property and equipment	\$	\$ 33
Series 1 preferred stock converted to common	\$ 140	\$

See accompanying notes.

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INTRUSION INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

We develop, market and support a family of entity identification, regulated information compliance, data privacy protection, data leak prevention and network intrusion prevention/detection products. Our product families include: TraceCop for identity discovery and disclosure, Compliance Commander for regulated information compliance, leak protection and data privacy protection, and Intrusion SecureNet for network intrusion prevention and detection. Our products help protect critical information assets by quickly detecting, protecting, analyzing and reporting attacks or misuse of classified, private and regulated information for government and enterprise networks.

Our TraceCop products include: (1) databases containing IP addresses which are continually updated and used in the determination of the origination of cyber based attacks or other cyber based crimes; (2) analysis software used for the location of cyber based attacks and (3) data collected relative to the location of the crimes.

We market and distribute our products through a direct sales force to end-users, distributors and system integrators, managed service providers and value-added resellers. Our end-user customers include U.S. federal government entities, banks, credit unions, other financial institutions, foreign government entities and local government entities, hospitals and other healthcare providers, academic institutions and commercial customers.

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 April 17, 2000, we announced plans to sell, or otherwise dispose of, our networking divisions, which included our Essential Communications division and our local area networking assets. On June 1, 2000, we changed our name from ODS Networks, Inc. to Intrusion.com, Inc., and our ticker symbol from ODSI to INTZ to reflect our focus on intrusion prevention and detection solutions, along with information compliance and data privacy protection products. 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, Suite 200, Richardson, Texas 75081, and our telephone number is (972) 234-6400. Our website URL is www.intrusion.com. References to we, us, our or Intrusion Inc. refer to Intrusion Inc. and i