

INTRUSION INC  
Form 10-K  
March 29, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 10-K**

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(Mark One)  
y

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 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**

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**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**

(Address of principal executive offices)

**75081**

(Zip Code)

Registrant's telephone number, including area code: **(972) 234-6400**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$0.01 par value**

(Title of class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No y

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes  No

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

Yes  No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition 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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

State the issuer's revenues for its most recent fiscal year: \$4,920,000.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2009: \$5,300,899.

As of March 30, 2010, 11,704,535 shares of the issuer's Common Stock were outstanding.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement filed in connection with the Registrant's 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

**INTRUSION INC.**

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**PART I**

**Item 1.** Description of Business.

In addition to the historical information contained herein, the discussion in this Form 10-K contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties, such as statements concerning:

- growth and anticipated operating results;
- developments in our markets and strategic focus;
- new products and product enhancements;
- potential acquisitions and the integration of acquired businesses, products and technologies;
- strategic relationships and future economic and business conditions.

The cautionary statements made in this Form 10-K should be read as being applicable to all related forward-looking statements whenever they appear in this Form 10-K. Our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the section captioned **Factors That May Affect Future Results of Operations** in Item 1 of this Form 10-K as well as those cautionary statements and other factors set forth elsewhere herein.

**General**

We develop, market and support a family of entity identification, high speed data mining, regulated information compliance, data privacy protection and network intrusion prevention/detection products. Our product families include:

- TraceCop for identity discovery and disclosure,
- Savant for network data mining,
- Compliance Commander for regulated information and data privacy protection,
- SecureNet for network intrusion prevention and detection.

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We market and distribute our products through a direct sales force to:

- end-users,
- value-added resellers,
- system integrators,
- managed service providers, and
- distributors.

Our end-user customers include:

- U.S. federal government entities,
- foreign government entities,
- local government entities,
- banks,
- credit unions,
- other financial institutions,
- hospitals and other healthcare providers, and
- other customers.

Essentially, our end-users can be defined as any end-user requiring network security solutions for protecting their mission critical data .

We were organized in Texas in September 1983 and reincorporated in Delaware in October 1995. 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](http://www.intrusion.com). References to the Company , we , us , our or Intrusion Inc. refer to Intrusion Inc. and its subsidiaries. Commander, SecureNet, TraceCop and Savant are trademarks of Intrusion Inc.

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On March 25, 2004, we completed a \$5.0 million private placement of 5% Convertible Preferred Stock and warrants. In the private placement, we sold 1,000,000 shares of preferred stock at a price of \$5.00 per share for gross proceeds of \$5.0 million, less \$275,000 of issuance costs. The preferred shares may be converted into 1,590,331 shares of common stock, par value \$0.01 per share, of Intrusion Inc. (our Common Stock ) at an initial conversion price of \$3.144 per share.

On March 18, 2004, we filed an amendment to our certificate of incorporation to effect a one-for-four (1:4) reverse stock split of our Common Stock. The reverse stock split became effective on March 29, 2004. All outstanding share numbers and related Common Stock numbers, such as earnings per share and outstanding options, included in this report are set forth on a post-split basis.

On March 28, 2005, we completed a private placement of 1,065,200 shares of our Series 2 5% Convertible Preferred Stock and warrants to purchase 532,600 shares of our Common Stock for gross proceeds of \$2,663,000. The preferred shares may be converted into 1,065,200 shares of Common Stock at an initial conversion price of \$2.50 per share, and the warrants may be exercised at a price of \$2.77 per share during the five-year period commencing on September 28, 2005. In connection with the closing of this private placement, we issued warrants to purchase 60,390 shares of our Common Stock at an exercise price of \$2.77 per share to employees of our financial advisor for the private placement.

On December 2, 2005, we completed an additional private placement of 564,607 shares of our Series 3 5% Convertible Preferred Stock and warrants to purchase 282,306 shares of our Common Stock for gross proceeds of \$1,230,843. The preferred shares may be converted into 564,607 shares of Common Stock at an initial conversion price of \$2.18 per share, and the warrants may be exercised at a price of \$0.40 per share during the five-year period commencing on June 2, 2006. In connection with the closing of this private placement, we issued warrants to purchase 27,531 shares of our Common Stock at an exercise price of \$2.58 per share to employees of our financial advisor for the private placement.

On March 29, 2006, we entered into a Loan and Security Agreement with Silicon Valley Bank ( SVB ) to establish a \$1.0 million line of credit with SVB (the 2006 Credit Line ). On June 30, 2008, we entered into an Amended and Restated Loan and Security Agreement with SVB to, among other things, replace the 2006 Credit Line with a \$2.5 million line of credit (the 2008 Credit Line ). On June 28, 2009, we entered into the First Amendment to the Amended and Restated Loan and Security Agreement (as amended, the Loan Agreement ) with SVB to replace the 2008 Credit Line with a \$1.25 million line of credit (the Current Line of Credit ). Our obligations under the Loan Agreement are secured by substantially all of our assets, including all of our intellectual property. In addition, G. Ward Paxton, the Company's Chief Executive Officer, has established a Guaranty Agreement with SVB for all outstanding balances under the Current Line of Credit. Borrowings under the Current Line of Credit are based on advances (each an Advance ) against certain of our accounts receivable that are approved by SVB (each an Eligible Account ). SVB may make an Advance of up to eighty percent (80%) of each Eligible Account, or such other percentage SVB may determine in its sole discretion. Each Advance is subject to a finance charge calculated as a daily rate that is based on a 360-day annual rate of the greater of the prime rate or 5.25%, plus 2.0%. Finance charges are payable at the same time its related Advance is due. Each Advance is also subject to a monthly collateral handling fee of 0.5% of all outstanding Advances, depending on certain qualifying financial factors specified in the Loan Agreement. The collateral handling fee is payable at the same time its related Advance is due. Each Advance must be repaid at the earliest of (a) the date that the Eligible Account related to the Advance is paid, (b) the date the Eligible Account is no longer eligible under the Loan Agreement, or (c) the date on which any Adjustment (as defined in the Loan Agreement) is asserted to the Eligible Account. On June 27, 2010, the Loan Agreement terminates and all outstanding Advances, accrued but unpaid finance charges, outstanding collateral handling fees, and other amounts become due under the Loan Agreement and related documents. We have certain non-financial and financial covenants, including a liquidity coverage ratio and a rolling EBITDA computation, as defined in the Loan Agreement. We have no borrowings outstanding under the Current Line of Credit as of December 31, 2009 and had borrowings available of \$152,000.

On March 15, 2007, we completed a private placement of 925,926 shares of our Common Stock for gross proceeds of \$500,000.

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On June 27, 2007, we completed a private placement of 1,111,111 shares of our Common Stock for gross proceeds of \$500,000.

On September 26, 2007, we completed a private placement of 1,190,476 shares of our Common Stock for gross proceeds of \$500,000.

On February 4, 2010, the Company extended a revolving promissory note to borrow up to \$700,000 from G. Ward Paxton, the Company's Chairman, President and Chief Executive Officer through March 2011.



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On February 4, 2010, we received a written commitment from our Chief Executive Officer to invest up to an additional \$1,500,000 in the Company until March 2011, should such funding be required by the Company, on terms and conditions similar to the promissory note above.

**Government Sales**

Sales to U.S. government customers accounted for 77.5% of our revenues for the year ended December 31, 2009, compared to 86.2% of our revenue in 2008. We expect to continue to derive a substantial portion of our revenues from sales to governmental entities in the future as we continue to market our entity identification products, our data mining products, our regulated compliance and data leakage prevention products and our network intrusion prevention products to the government. Sales to the government present risks in addition to those involved in sales to commercial customers which could adversely affect our revenues, including potential disruption due to irregularities in or interruptions to appropriation and spending patterns, delays in approving a federal budget and the government's reservation of the right to cancel contracts and purchase orders for its convenience.

Generally, we make our sales under purchase orders and contracts. Our customers, including government customers, may cancel their orders or contracts with little or no prior notice and without penalty. Although we transact business with various government entities, we believe that the cancellation of any particular order in itself could have a material effect on our financial results. However, because we derive and expect to continue to derive a substantial portion of our revenue from sales to government entities, a large number of cancelled or renegotiated government orders or contracts could have a material adverse effect on our financial results. Currently, we are not aware of any proposed cancellation or renegotiation of any of our existing arrangements with government entities, and, historically, government entities have not cancelled or renegotiated orders which had a material adverse effect on our business.

**Industry Background**

With the Internet becoming a virtual business necessity over the last decade, the network security technology that was once deployed only by the government and the most sophisticated or security conscious of companies is now employed by businesses of all sizes as a critical component of all mission critical systems. Today, email, instant messengers, World Wide Web access, web sites, web-based applications and e-commerce are integral components of communications and operations for business as well as government, and the protection of the information communicated through or stored in these applications is crucial. Although the Internet has many business advantages, its openness and accessibility makes it a potential threat to the networks and systems that are attached to it. Computer hackers, curious or disgruntled employees, competitors, or even employees who might make the most innocent of mistakes may compromise or destroy information assets or disrupt the normal operations and jeopardize the brand equity of the enterprise. In addition, new regulations and mandates by the government to protect Personally Identifiable Information (PII) have made it imperative that companies have real-time data security products and processes in place.

As a result, enterprises are adopting a variety of security solutions to meet the challenge posed by external and internal threats. To be effective in securing its data, organizations require enterprise-wide information risk management solutions that are broadly deployed and centrally managed. It is our belief that securing the enterprise network requires the key elements of control and visibility. We see these as embodying the following:

- Control: the ability to affect network traffic including access to the network or parts thereof in order to enforce a security policy.

- Visibility: the ability to see and understand the nature of the network and the traffic on the network, which assists in decision making as well as crafting and constantly improving security policy.

We focus on providing these two primary elements of network security within a single product for overall network security and for the protection of specific classified, confidential or customer information assets.

## **Products**

### *TraceCop*

Our TraceCop product family includes a database of worldwide IP addresses which are regularly updated. In addition, other information and analysis results, such as geo-location data may also be included. Customers use the TraceCop data to aid in the identification and location of individuals involved in cyber crime. In addition to the IP database, the TraceCop family includes analysis software and a GUI interface to assist analysts in locating the bad guys. We sell the license fee and maintenance for the TraceCop database and either install and service the database at the Intrusion facility or

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install the TraceCop database on a customer server onsite.

*Savant*



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*Savant, a new product offering announced in the first quarter of 2010, is a high-speed network data mining product which organizes the data into networks of relationships. Savant operates on networks with data flows of up to 20 gigabits (10 gigabits at full duplex). Savant can read and record up to 20 gigabits without dropping packets. Some of the unique features include analysis which determines associations. Uses include building persona and internet habits of the customer's network users. Savant provides deep inspection of network traffic recording interesting data and relationships. Savant is a software product which we license to our customers and sell maintenance and upgrades. We also re-sell the server required to implement Savant into the customer's network.*



*Compliance Commander*





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Compliance Commander is our data leak prevention product family. Compliance Commander is a software product which operates on a standard computer or server and connects in-line to the customers' network. We license the Compliance Commander software to our customers and sell them software maintenance and upgrades. We also resell standard computers for implementation of the software.

*SecureNet*



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SecureNet is our Network Intrusion/Detection Product family. SecureNet is a software product which operates on a standard computer or server and connects inline to the customer's network. We license the SecureNet software to our customers and additionally sell software maintenance and upgrades. We also resell standard computers for implementation of the software. SecureNet provides network monitoring and analysis functions with the added ability to block malicious network traffic for up to two gigabit data flows. SecureNet products provide user customizable, protocol decode detection technology. Our SecureNet sensors have their own web browser interface for simplified configuration.

### **Third-Party Products**

We currently resell standard commercially available computers and servers from various vendors which we integrate with our different software products for implementation into our customer networks. We do not consider any of these third party relationships to be material.

### **Customer Services**

In addition to offering our network security products, we also offer a wide range of services, including design and configuration, project planning, training, installation and maintenance.

### **Product Development**

The network security industry is characterized by rapidly changing technology, standards, economy and customer demands. We believe that our future success depends in large part upon the timely enhancement of existing products as well as the development of technologically advanced new products that meet industry standards, perform successfully and simplify the users' tasks so that they can do more with fewer resources. We are currently marketing TraceCop, Savant, Compliance Commander and SecureNet products to meet emerging market requirements and are continuously engaged in testing to ensure that our products interoperate with other manufacturers' products, which comply with industry standards.

During 2009 and 2008, our research and development expenditures were approximately \$1.1 million each year. All of our expenditures for research and development have been expensed as incurred. At December 31, 2009, we had 17 employees engaged in research and product development.

### **Manufacturing and Supplies**

Our internal manufacturing operations consist primarily of replication of software on CDs, packaging, testing and quality control of finished units.

The hardware we sell is standard off-the-shelf products, which we OEM or resell from our suppliers.



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**Intellectual Property and Licenses**

Our success and our ability to compete are dependent, in part, upon our proprietary technology. We principally rely on a combination of contractual rights, trade secrets and copyright laws to establish and protect our proprietary rights in our products. In addition, we have recently applied for two patents. We have also entered into non-disclosure agreements with our suppliers, resellers and certain customers to limit access to and disclosure of proprietary information. There can be no assurance that the steps taken by us to protect our intellectual property will be adequate to prevent misappropriation of our technology or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology.

We have entered into software and product license agreements with various suppliers. These license agreements provide us with additional software and hardware components that add value to our security products. These license agreements do not provide proprietary rights that are unique or exclusive to us and are generally available to other parties on the same or similar terms and conditions, subject to payment of applicable license fees and royalties. We do not consider any of the product license, software or supplier agreements to be material to our business, but rather complementary to our business and product offerings.

**Sales, Marketing and Customers**

**Field Sales Force.** Our direct sales organization focuses on major account sales, channel partners including distributors, Value Added Resellers (VARs) and integrators; promotes our products to current and potential customers; and monitors evolving customer requirements. The field sales and technical support force provides training and technical support to our resellers and end users and assists our customers in designing secure data networking solutions. We currently conduct sales and marketing efforts from our principal office in Richardson (Dallas), Texas. In addition, we have sales personnel, sales engineers or sales representatives located in California, Europe and Asia.

**Distributors.** We have signed distribution agreements with distributors in the United States, Europe and Asia. In general, these relationships are non-exclusive.

**Resellers.** Resellers such as domestic and international system integrators and VARs sell our products as stand-alone solutions to end users and integrate our products with products sold by other vendors into network security systems that are sold to end users. Our field sales force and technical support organization provide support to these resellers. Our agreements with resellers are non-exclusive, and our resellers generally sell other products that may compete with our products. Resellers may place higher priority on products of other suppliers who are larger than and have more name recognition than us, and there can be no assurance that resellers will continue to sell and support our products.

**Foreign Sales.** We believe that rapidly evolving international markets are important sources of future net sales. Our export sales are currently being made through an indirect sales force comprised of international resellers in Europe and Asia. Export sales accounted for approximately 1.0% and 4.7% of total revenue in 2009 and 2008, respectively. See Management's Discussion and Analysis of Financial Conditions and Results of Operations included in this report for a geographic breakdown of our revenue in 2009 and 2008. Sales to foreign customers and resellers generally have been made in United States dollars.

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**Marketing.** We have implemented several methods to market our products, including public relations and placed articles, regular participation in and presenting during trade shows and seminars, advertisement in trade journals, telemarketing, distribution of sales literature and product specifications and ongoing communication with our resellers and installed base of end-user customers.

**Customers.** Our end-user customers include U.S. federal government entities, foreign government entities, banks, credit unions, other financial institutions, hospitals and other healthcare providers. Essentially, our customers include any entity requiring network security solutions for protecting their mission critical data. Sales to certain customers and groups of customers can be impacted by seasonal capital expenditure approval cycles, and sales to customers within certain geographic regions can be subject to seasonal fluctuations in demand.

In 2009, 77.5% of our revenue was derived from a variety of U.S. government entities through direct sales and indirectly through system integrators and resellers. In 2009, 76.6% of our total revenues are attributable to three U.S. Government customers through direct and indirect channels, all of which exceeded 10% of total revenue individually in 2009. Comparatively, sales to the U.S. Government through direct and indirect channels totaled 86.2% of total revenues for 2008 and 73.1% of our total revenues in 2008 were attributable to two customers, one of which exceeded 10% of our total revenues individually. A reduction in our sales to U.S. government entities could have a material adverse effect on our business and operating results if not replaced.

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**Backlog.** We believe that only a small portion of our order backlog is non-cancelable and that the dollar amount associated with the non-cancelable portion is immaterial. We purchase or contract inventory based upon our forecast of customer demand and maintain inventories in advance of receiving firm orders from customers. Commercial orders are generally fulfilled within two days to two weeks following receipt of an order. Certain government orders may be scheduled over several months, generally not exceeding one year.

**Customer Support, Service and Warranty.** We service, repair and provide technical support for our products. Our field sales and technical support force works closely with resellers and end-user customers on-site and by telephone to assist with pre- and post-sales support services such as network security design, system installation and technical consulting. By working closely with our customers, our employees increase their understanding of end-user requirements and provide input to the product development process.

We warrant all of our products against defects in materials and workmanship for periods ranging from 90 days to 12 months. Before and after expiration of the product warranty period, we offer both on-site and factory-based support, parts replacement and repair services. Extended warranty services are separately invoiced on a time and materials basis or under an annual maintenance contract.

**Competition**

The market for network and data protection security solutions is intensely competitive and subject to frequent product introductions with new technologies, improved price and performance characteristics. Industry suppliers compete in areas such as conformity to existing and emerging industry standards, interoperability with networking and other security products, management and security capabilities, performance, price, ease of use, scalability, reliability, flexibility, product features and technical support.

There are numerous companies competing in various segments of the data security markets. At this time, we do not have direct competitors for TraceCop. There are several different small start-up companies that perform some of the analysis functions that we perform in TraceCop, but these companies don't have the extensive data-base that we have in TraceCop. In our newest market segment, data mining, we compete with several small companies including Niksun and NetScout. Our competitors in the regulated information compliance market include Vontu (Symantec), Port Authority (Websense), Vericept, Reconnex (McAfee Inc.), Tablus (RSA Security) and a small number of start-up companies that entered the space within the last two years. Our principal competitors in the network intrusion prevention and detection market include Internet Security Systems, Inc.(IBM), Cisco Systems, Inc., Symantec, Inc., Netscreen (Juniper Networks, Inc.), McAfee Inc., Tipping Point Technologies, a division of 3Com Corporation, and NFR Security (Checkpoint).

Furthermore, some of our competitors have substantially greater financial, technical, sales and marketing resources, better name recognition and a larger customer base than we do. In addition, many of our competitors may provide a more comprehensive networking and security solution than we currently offer. Even if we do introduce advanced products that meet evolving customer requirements in a timely manner, there can be no assurance that our new products will gain market acceptance.

Certain companies in the network security industry have expanded their product lines or technologies in recent years as a result of acquisitions. Further, more companies have developed products which conform to existing and emerging industry standards and have sought to compete on the basis of price. We anticipate increased competition from large networking equipment vendors, which are expanding their capabilities in the network security market. In addition, we anticipate increased competition from private start-up companies that have developed or are developing

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advanced security products. Increased competition in the security industry could result in significant price competition, reduced profit margins or loss of market share, any of which could have a material adverse effect on our business, operating results and financial condition. There can be no assurance that we will be able to compete successfully in the future with current or new competitors.

### **Employees**

As of December 31, 2009, we employed a total of 27 persons, including 6 in sales, marketing and technical support, 17 in research, product development and engineering, and 4 in administration and finance.

None of our employees are represented by a labor organization, and we are not a party to any collective bargaining agreement. We have not experienced any work stoppages and consider our relations with our employees to be good.

Competition in the recruiting of personnel in the networking and data security industry is intense. We believe that



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our future success will depend in part on our continued ability to hire, motivate and retain qualified management, sales and marketing, and technical personnel. To date, we have not experienced significant difficulties in attracting or retaining qualified employees.

**Item 1A. Risk Factors**

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating Intrusion Inc. and our business.

*Our cash, cash equivalents, and investments remained relatively constant at \$519,000 at December 31, 2009 compared to \$554,000 at December 31, 2008. We may not have sufficient cash to operate our business and may not be able to maintain certain liquidity requirements under our existing debt instruments. Additional debt and equity offerings to fund future operations may not be available and, if available, may significantly dilute the value of our currently outstanding common stock.*

As of December 31, 2009, we had cash and cash equivalents of approximately \$519,000, down from approximately \$554,000 as of December 31, 2008. We generated net income of \$379,000 in the last quarter of 2009 and \$186,000 net income for the year 2009 compared to a net loss for the year 2008 of \$808,000. We are obligated to make payments of accrued dividends on all our outstanding shares of preferred stock that will reduce our available cash resources. As of December 31, 2009, in addition to cash and cash equivalents of \$519,000, we had \$152,000 in funding available under our \$1.25 million line of credit at Silicon Valley Bank, and \$1.2 million funding available from a written commitment to invest up to \$1.5 million from G. Ward Paxton, our CEO. Based on projections of growth in revenue and net income in the coming quarters, and the borrowings available previously mentioned, we believe that we will have sufficient cash resources to finance our operations and expected capital expenditures for the next twelve months. We expect to fund our operations through Company profits, our line of credit, borrowings from the Company's CEO, and possibly additional investments of private equity and debt, which, if we are able to obtain, will have the effect of diluting our existing common stockholders, perhaps significantly. Any equity or debt financings, if available at all, may be on terms which are not favorable to us and, in the case of equity financings, may result in dilution to our stockholders. If our operations do not generate positive cash flow in the upcoming year, or if we are not able to obtain additional debt or equity financing on terms and conditions acceptable to us, if at all, we may be unable to implement our business plan, fund our liquidity needs or even continue our operations.

*To remain profitable, we must continue to meet or exceed our current revenue levels.*

We had a net income of \$186,000 for the fiscal year ended December 31, 2009, but have incurred large operating losses in previous years. For the year ended December 31, 2009, we had net income of \$0.2 million and had an accumulated deficit of approximately \$58.1 million as of December 31, 2009, compared to a net loss of \$0.8 million and an accumulated deficit of approximately \$58.3 million as of December 31, 2008. We need to generate and sustain equal to or greater revenues from the sales of our products if we are to remain profitable and grow. If we are unable to sustain these revenue levels, net losses may occur and we may never be able to sustain profitability or generate positive cash flow from operations in the future.

*If our newer products do not achieve market acceptance, our revenue growth may suffer.*

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Our new network security products, entity identification products and regulated information compliance systems have only been in the market place for a limited period of time and may have longer sales cycles than our previous products. Accordingly, we may not achieve the meaningful revenue growth needed to sustain operations. We#146;s financial statements has been carried out in accordance with generally accepted accounting standards or that the financial statements are presented in accordance with generally accepted accounting principles.

Based on the review and discussions referred to in items (i) through (iii) above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Fund s annual report for the Fund s fiscal year ended November 30, 2014.

Submitted by the Audit Committee

of the Fund s Board of Directors

Robert D. Agdern

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Riordan Roett

January 21-22, 2015

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### Board Recommendation and Required Vote

Directors are elected by a plurality of the votes cast by the holders of shares of the Fund's common stock present in person or represented by proxy at a meeting at which a quorum is present. For purposes of the election of Directors, abstentions and broker non-votes will not be considered votes cast, and do not affect the plurality vote required for Directors.

**The Board of Directors, including the Directors who are not interested persons unanimously recommends that stockholders of the Fund vote FOR each of the nominees for Director.**

### Disclosure of Fees Paid to Independent Registered Public Accounting Firm

**Audit Fees.** The aggregate fees billed in the fiscal years ended November 30, 2013 and November 30, 2014 for professional services rendered by KPMG for the audit of the Fund's annual financial statements, or services that are normally provided in connection with the statutory and regulatory filings or engagements were \$158,800 and \$120,000, respectively.

**Audit-Related Fees.** The aggregate fees billed by KPMG in connection with assurance and related services related to the annual audit of the Fund and for review of the Fund's financial statements, other than the Audit Fees described above, for the fiscal years ended November 30, 2013 and November 30, 2014 were \$12,000 and \$47,000, respectively.

In addition, there were no Audit Related Fees billed in the fiscal years ended November 30, 2013 and November 30, 2014 for assurance and related services by KPMG to LMPFA and any entity controlling, controlled by or under common control with LMPFA that provides ongoing services to the Fund (LMPFA and such other entities together, the Service Affiliates), that were related to the operations and financial reporting of the Fund.

**Tax Fees.** The aggregate fees billed by KPMG for tax compliance, tax advice and tax planning services, which include the filing and amendment of federal, state and local income tax returns, timely regulated investment company qualification review and tax distribution and analysis planning to the Fund for the fiscal years ended November 30, 2013 and November 30, 2014 were \$99,763 and \$94,750, respectively.

There were no fees billed by KPMG to the Service Affiliates for tax services for the fiscal years ended November 30, 2013 and November 30, 2014 that were required to be approved by the Fund's Audit Committee.

**All Other Fees.** The aggregate fees billed for other non-audit services rendered by KPMG to the Fund for the fiscal years ended November 30, 2013 and November 30, 2014 were \$0 and \$0, respectively.

There were no other non-audit services rendered by KPMG to the Service Affiliates in the fiscal years ended November 30, 2013 and November 30, 2014.

Generally, the Audit Committee must approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided to the Service Affiliates that relate directly to the operations and financial reporting of the Fund. The Audit Committee may implement policies and procedures by which such services are approved other than by the full Committee but has not yet done so.

The Audit Committee approved 100% of the Audit Related Fees, Tax Fees and Other Fees, if any, for each of the fiscal years ended November 30, 2013 and November 30, 2014.

The Audit Committee shall not approve non-audit services that the Committee believes may impair the independence of the registered public accounting firm. As of the date of the approval of the Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent registered public accounting firm, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Audit Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Manager and any Covered Service Provider constitutes not more than 5% of the total amount of revenues paid to the independent registered public accounting firm during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) LMPFA and (c) any entity partially controlled by or under common control with LMPFA that provides ongoing services to the Fund during the fiscal year in which the services are provided that would not have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Audit Committee and approved by the Audit Committee (or its delegate(s)) prior to the completion of the audit.

No aggregate non-audit fees have been billed to the Fund and to the Service Affiliates by KPMG for non-audit services rendered to the Fund and Service Affiliates for the fiscal years ended November 30, 2013 and November 30, 2014.

The Audit Committee has considered whether the provision of non-audit services to the Service Affiliates that were not pre-approved by the Audit Committee (because they did not require pre-approval) is compatible with maintaining KPMG's independence. All services provided by KPMG to the Fund or to the Service Affiliates that were required to be pre-approved by the Audit Committee were pre-approved.

A representative of KPMG, if requested by any stockholder, will be present via telephone at the Meeting to respond to appropriate questions from stockholders and will have an opportunity to make a statement if he or she chooses to do so.

**5% Beneficial Ownership**

At January 23, 2015, to the knowledge of management, the registered stockholders who owned of record or owned beneficially more than 5% of the Fund's capital stock outstanding is noted below. As of the close of business on January 23, 2015, Cede & Co., a nominee for participants in the Depository Trust Company, held of record 30,920,876 shares, equal to approximately 99% of the Fund's outstanding shares, including the shares shown below.

<b>Percent</b>	<b>Name</b>	<b>Address</b>
6.90% <sup>(1)</sup>	Morgan Stanley and Morgan Stanley Smith Barney LLC	1585 Broadway New York, NY 10036
11.99% <sup>(2)</sup>	First Trust Advisors L.P. and affiliates	120 East Liberty Drive Suite 400 Wheaton, IL 60187

(1) Based upon information obtained from Schedule 13G/A filed with the SEC on February 17, 2015.

(2) Based upon information obtained from Schedule 13G/A filed with the SEC on February 2, 2015.

### **Submission of Stockholder Proposals and Other Stockholder Communications**

All proposals by stockholders of the Fund that are intended to be presented at the 2016 Annual Meeting of Stockholders must be received by the Fund for inclusion in the Fund's proxy statement and proxy relating to that meeting no later than October 23, 2015. Any stockholder who desires to bring a proposal at the 2016 Annual Meeting of Stockholders without including such proposal in the Fund's proxy statement must deliver written notice thereof to the Secretary of the Fund (addressed to c/o Legg Mason, 100 First Stamford Place, 6th Floor, Stamford, CT 06902) during the period from December 20, 2015 to January 19, 2016. However, if the Fund's 2016 Annual Meeting of Stockholders is held earlier than February 18, 2016 or later than May 19, 2016, such written notice must be delivered to the Secretary of the Fund no earlier than 90 days before the date of the 2016 Annual Meeting of Stockholders and no later than the later of 60 days prior to the date of the 2016 Annual Meeting of Stockholders or 10 days following the public announcement of the date of the 2016 Annual Meeting of Stockholders. Stockholder proposals are subject to certain regulations under the federal securities laws.

The Fund's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, Accounting Matters). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer (CCO). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund's Audit Committee Chair (together with the CCO, Complaint Officers). Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

The Fund's Audit Committee Chair may be contacted at:

ClearBridge Energy MLP Opportunity Fund Inc.

Audit Committee Chair

c/o Robert K. Fulton, Esq.

Stradley Ronon Stevens & Young, LLP

2600 One Commerce Square

Philadelphia, PA 19103

A stockholder who wishes to send any other communications to the Board should also deliver such communications to the Secretary of the Fund at 100 First Stamford Place, 6th Floor, Stamford, CT 06902. The Secretary is responsible for

determining, in consultation with other officers of the Fund, counsel, and other advisers as appropriate, which stockholder communications will be relayed to the Board.

### **Expenses of Proxy Solicitation**

The costs of preparing, assembling and mailing material in connection with this solicitation of proxies will be borne by the Fund and are expected to be approximately \$37,000. Proxies may also be solicited in-person by officers of the Fund and by regular employees of LMPFA or its affiliates, or other representatives of the Fund or by telephone, in addition to the use of mails. Brokerage houses, banks and other fiduciaries may be requested to forward proxy solicitation material to their principals to obtain authorization for the execution of proxies, and will be reimbursed by the Fund for such out-of-pocket expenses.

### **Other Business**

The Fund's Board of Directors does not know of any other matter that may come before the Meeting. If any other matter properly comes before the Meeting, it is the intention of the persons named in the proxy to vote the proxies in accordance with their judgment on that matter.

By Order of the Board of Directors,

Robert I. Frenkel

Secretary

February 20, 2015

**IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. STOCKHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING ARE THEREFORE URGED TO COMPLETE AND SIGN, DATE AND RETURN THE PROXY CARD AS SOON AS POSSIBLE IN THE ENCLOSED POSTAGE-PAID ENVELOPE.**



**AUDIT COMMITTEE CHARTER****ESTABLISHMENT AND PURPOSE**

This document serves as the Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by Legg Mason Partners Fund Advisor, LLC or one of its affiliates (Adviser) listed on Appendix A hereto (each such Charter being a separate Charter). The primary purposes of the Committee are to (a) assist Board oversight of (i) the integrity of the Fund's financial reporting, (ii) the Fund's compliance with legal and regulatory requirements (iii) the qualifications and independence of the Fund's independent registered public accountants and (iv) the performance of the Fund's internal audit function and independent registered public accountants; (b) approve, and recommend to the Independent Board Members (as such term is defined below) for their ratification, the selection, appointment, retention or termination of the Fund's independent registered public accountants, as well as approving the compensation thereof; (c) approve all audit and permissible non-audit services provided to the Fund and certain other persons by the Fund's independent registered public accountants; and (d) for each closed-end Fund, prepare the report required to be prepared by the Committee pursuant to the rules of the Securities and Exchange Commission for inclusion in the Fund's annual Proxy Statement.

**DUTIES AND RESPONSIBILITIES**

The Fund's independent registered public accountants are accountable to the Committee.

The Committee shall:

1. Bear direct responsibility for the appointment, compensation, retention and oversight of the Fund's independent registered public accountants, or of any other public accounting firm engaged for the purpose of performing other audit, review or attest services for the Fund.
2. Confirm with any independent registered public accountants retained to provide audit services that the independent registered public accountants has ensured the appropriate rotation of the lead audit partner pursuant to applicable regulations.

<sup>1</sup> The Committee shall not approve non-audit services that the Committee believes may impair the independence of the independent registered public accountants. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent registered public accountants, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, and fairness opinions; (iv) actuarial services; (v) internal audit services; (vi) management functions; (vii) human resources; (viii) broker or dealer; (ix) legal services; (x) expert services unrelated to the

audit; and (xi) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund ( Covered Service Providers ) constitutes not more than 5% of the total amount of revenues paid to the independent registered public accountants during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

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3. Approve (a) all audit and permissible non-audit services<sup>1</sup> to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund's independent registered public accountants to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.
4. Discuss with the independent registered public accountants any disclosed relationships or services that may diminish the objectivity and independence of the independent registered public accountants and, if so determined by the Committee, recommend that the Board take appropriate action to ensure the independence of the independent registered public accountants.
5. Review, in consultation with the independent registered public accountants, the proposed scope of the Fund's audit each year, including the audit procedures to be utilized in the review of the Fund's financial statements.
6. Inquire of the Adviser and the independent registered public accountants as to significant tax and accounting policies elected by the Fund (including matters affecting qualification under Subchapter M of the Internal Revenue Code).
7. Review with the independent registered public accountants any problems or difficulties the registered public accountants may have encountered during the conduct of the audit and management's response, including a discussion with the independent registered public accountants of the matters required to be discussed by Statement on Auditing Standards No. 61, 89, 90 or any subsequent Statement, relating to the conduct of the audit.
8. Review, in consultation, as appropriate, with the independent registered public accountants and significant Fund service providers, matters relating to internal controls over financial reporting and disclosure controls and procedures of the Fund and of the Fund's significant service providers.
9. Request, receive and/or review from the independent registered public accountants such other materials as deemed necessary or advisable by the Committee in the exercise of its duties under this Charter; such materials may include, without limitation, any other material written communications bearing on the Fund's financial statements, or internal or disclosure controls, between the independent registered public accountants and the Fund, the Adviser or other Fund service providers, such as any management letter or schedule of unadjusted differences, and any comment or deficiency letter (to the extent such letters relate to financial reporting) received from a regulatory or self-regulatory organization addressed to the Fund or the Adviser that relates to services rendered to the Fund.
10. For each closed-end Fund, establish procedures regarding the receipt, retention and treatment of complaints that the Fund may receive regarding Fund accounting, internal accounting controls or auditing matters, including procedures for the confidential or anonymous submission by Fund officers, employees, stockholders or service providers of concerns regarding questionable accounting or auditing matters related to the Fund.

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11. For each closed-end Fund, obtain and review a report by the Fund's independent registered public accountants describing (i) the auditing firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five

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years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues; and (iii) (to assess the auditor's independence) all relationships between the independent registered public accountants and the Fund.

12. For each closed-end Fund, discuss policies with respect to risk assessment and risk management.
13. For each closed-end Fund, review hiring policies for employees or former employees of the Fund's independent registered public accountants.
14. For each closed-end Fund, discuss with management and the Fund's independent registered public accountants the Fund's audited financial statements, including any narrative discussion by management concerning the Fund's financial condition and investment performance and, if appropriate, recommend the publication of the Fund's annual audited financial statements in the Fund's annual report in advance of the printing and publication of the annual report.
15. For each closed-end Fund, discuss with management, prior to the printing and distribution of the Fund's semi-annual report, the Fund's unaudited financial statements, including any narrative discussion by management concerning the Fund's financial condition and investment performance. The Committee may delegate the foregoing to a sub-committee of the Committee composed of two or more members (the Sub-Committee), as may be determined by the Committee and reflected in the Committee's minutes.
16. For each closed-end Fund, discuss the Fund's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
17. For each closed-end Fund, review and evaluate annually the performance of the Committee and the adequacy of this Charter and recommend any proposed changes to the Charter to the Board for approval. The Committee shall have the resources and authority appropriate to discharge its responsibilities, including the authority to retain, as it deems necessary to carry out its duties, special counsel and other experts or consultants at the expense of the Fund. The Fund shall provide appropriate funding, as determined by the Committee, for the Committee to carry out its duties and its responsibilities, including (a) for compensation to be paid to, or services to be provided by, the Fund's independent registered public accountants or other public accounting firm providing audit, review or attest services for the Fund, (b) for payment of compensation to any outside legal, accounting or other advisors, counsel or consultants employed by the Committee and (c) for the ordinary administrative expenses of the Committee (and the Sub-Committee). In performing its duties, the Committee and Sub-Committee shall consult as it deems appropriate with the members of the Board, officers and employees of the Fund, the Adviser, the Fund's sub-adviser(s), if any, the Fund's counsel, counsel to the Independent Board Members and the Fund's other service providers.

## **COMPOSITION**

The Committee shall be composed of each Board member who has been determined not to be an interested person, as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940 Act), of the Fund (the Independent Board Members), or such lesser number as the Board of the Fund may specifically determine and reflect in the Board's minutes, each of whom shall be financially literate and at least one of whom shall have

accounting or related financial management expertise as

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determined by the Fund's Board in its business judgment. Each member of the Committee must also meet the independence and experience requirements as set forth in the New York Stock Exchange's Listed Company Manual or as set forth in the American Stock Exchange's listing standards, as applicable, and the independence requirements applicable to investment companies set forth in the Securities Exchange Act of 1934. For those Funds listed on the New York Stock Exchange, no member of the Committee may serve on the audit committees of more than three public companies, including the Funds, unless the Board determines that such simultaneous service would not impair the ability of such member to serve on the Committee effectively. The Committee shall elect a Chairperson, who shall preside over Committee meetings. The Chairperson shall serve for a term of three years, which term may be renewed from time to time.

### **MEETINGS**

The Committee shall meet on a regular basis, but not less frequently than twice a year. Special meetings may also be held upon reasonable notice to the members of the Committee. An agenda shall be established for each meeting. The Committee may request any officer or employee of the Fund, the Fund's counsel, counsel to the Independent Board Members, the Adviser, the Fund's independent registered public accountants or other interested persons to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee will meet periodically with the Fund's independent registered public accountants outside the presence of the Fund's and the Adviser's officers and employees. The Committee will also meet periodically with the Fund's management outside the presence of the Fund's independent registered public accountants. Meetings of the Committee may be held in person, by telephone or by other appropriate means.

One-third of the Committee's members, but not fewer than two members, shall constitute a quorum. At any meeting of the Committee, the decision of a majority of the members present and voting shall be determinative as to any matter submitted to a vote.

For purposes of the Sub-Committee and its review of the semi-annual reports as set forth under paragraph 15 above, the Sub-Committee shall meet with such frequency and at such dates as may be necessary for each Fund's semi-annual report (meeting dates to be coordinated with each Fund's management). The Sub-Committee may request any officer or employee of the Fund, the Fund's counsel, counsel to the Independent Board Members, the Adviser, the Fund's independent registered public accountants or other interested persons to attend a meeting of the Sub-Committee or to meet with any members of, or consultants to, the Sub-Committee. The Sub-Committee shall report regularly to the Committee as to its activities.

### **REPORTING**

The Chairperson shall report regularly to the Board on the result of the Committee's deliberations and make such recommendations as deemed appropriate.

### **LIMITS ON ROLE OF COMMITTEE**

The function of the Committee is oversight. The Fund's management is responsible for (i) the preparation, presentation and integrity of the Fund's financial statements, (ii) the maintenance of appropriate accounting and financial reporting principles and policies and (iii) the maintenance of internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accountants are responsible for planning and carrying out proper audits and reviews. In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not





employees of the Fund. As such, it is not the duty or responsibility of the Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures or to set auditor independence standards. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Fund from which it receives information and (ii) the accuracy of the financial and other information provided to the Committee by such persons and organizations absent actual knowledge to the contrary (which shall be promptly reported to the Fund's Board) and (iii) statements made by the officers and employees of the Fund, the Adviser or other third parties as to any information technology, internal audit and other non-audit services provided by the independent registered public accountants to the Fund. The designation of a person as an audit committee financial expert, within the meaning of the rules adopted and implemented under Section 407 of the Sarbanes-Oxley Act of 2002, shall not impose any greater responsibility or liability on that person than the responsibility and liability imposed on such person as a member of the Committee, nor does it decrease the duties and obligations of other Committee members or the Board.

In carrying out its responsibilities, the Committee's policies and procedures shall be adapted, as appropriate, in order to best react to a changing environment.

**AMENDMENTS**

This Charter may be amended by a vote of a majority of the Board members.

*amended as of February 11, 2014*

ClearBridge American Energy MLP Fund Inc. ( CBA )

ClearBridge Energy MLP Fund Inc. ( CEM )

ClearBridge Energy MLP Opportunity Fund Inc. ( EMO )

ClearBridge Energy MLP Total Return Fund Inc. ( CTR )

Legg Mason BW Global Income Opportunities Fund Inc. ( BWG )

Legg Mason Permal Alternatives Fund Inc.

LMP Capital and Income Fund Inc. ( SCD )

LMP Corporate Loan Fund Inc. ( TLI )

LMP Real Estate Income Fund Inc. ( RIT )

Permal Hedge Strategies Fund I

Permal Hedge Strategies Fund II

Permal Hedge Strategies Portfolio

Western Asset Emerging Markets Debt Fund Inc. ( ESD )

Western Asset Emerging Markets Income Fund Inc. ( EMD )

Western Asset Global Corporate Defined Opportunity Fund Inc. ( GDO )

Western Asset Global High Income Fund Inc. ( EHI )

Western Asset Global Partners Income Fund Inc. ( GDF )

Western Asset High Income Fund II Inc. ( HIX )

Western Asset High Income Opportunity Fund Inc. ( HIO )

Western Asset High Yield Defined Opportunity Fund Inc. ( HYI )

Western Asset Inflation Management Fund Inc. ( IMF )

Western Asset Intermediate Muni Fund Inc. ( SBI )

Western Asset Investment Grade Defined Opportunity Trust Inc. ( IGI )

Western Asset Managed High Income Fund Inc. ( MHY )

Western Asset Managed Municipals Fund Inc. ( MMU )

Western Asset Middle Market Debt Fund Inc. ( WAM )

Western Asset Middle Market & High Yield Fund Inc.

Western Asset Mortgage Defined Opportunity Fund Inc. ( DMO )

Western Asset Municipal Defined Opportunity Trust Inc. ( MTT )

Western Asset Municipal High Income Fund Inc. ( MHF )

Western Asset Municipal Partners Fund Inc. ( MNP )

Western Asset Opportunistic Income Fund Inc.

Western Asset Variable Rate Strategic Fund Inc. ( GFY )

Western Asset Worldwide Income Fund Inc. ( SBW )

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## NOMINATING COMMITTEE CHARTER

### ORGANIZATION

The Nominating Committee of each registered investment company listed on Appendix A hereto (each, a Fund and together, the Funds ) shall be composed solely of Directors who are not interested persons of the Fund as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940 Act ) and, with respect to those Funds listed on the New York Stock Exchange, who are independent as defined in the New York Stock Exchange listing standards ( Independent Directors ). The Board of Directors of the Fund (the Board ) shall nominate the members of the Committee and shall designate the Chairperson of the Committee. The Chairperson shall preside at each meeting of the Committee.

### RESPONSIBILITIES

The Committee shall select and nominate persons for election or appointment by the Board as Directors of the Fund.

### EVALUATION OF POTENTIAL NOMINEES

In evaluating a person as a potential nominee to serve as a Director of the Fund, the Committee should consider among other factors it may deem relevant:

whether or not the person is an interested person as defined in the 1940 Act and whether the person is otherwise qualified under applicable laws and regulations to serve as a Director of the Fund;

whether or not the person has any relationships that might impair his or her independence, such as any business, financial or family relationships with Fund management, the investment manager of the Fund, other Fund service providers or their affiliates;

whether or not the person serves on boards of, or is otherwise affiliated with, competing financial service organizations or their related mutual fund complexes;

whether or not the person is willing to serve, and willing and able to commit the time necessary for the performance of the duties of a Director of the Fund;

the contribution which the person can make to the Board and the Fund (or, if the person has previously served as a Director of the Fund, the contribution which the person made to the Board during his or her previous term of service), with consideration being given to the person's business and professional experience, education and such other factors as the Committee may consider relevant;

the character and integrity of the person; and

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whether or not the selection and nomination of the person would be consistent with the requirements of the Fund's retirement policies.

While the Committee is solely responsible for the selection and nomination of Directors, the Committee may consider nominees recommended by Fund stockholders as it deems appropriate. Stockholders who wish to recommend a nominee should send nominations to the Secretary of the Fund that include all information

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relating to such person that is required to be disclosed in solicitations of proxies for the election of Directors. The recommendation must be accompanied by a written consent of the individual to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders.

**QUORUM**

A majority of the members of the Committee shall constitute a quorum for the transaction of business, and the act of a majority of the members of the Committee present at any meeting at which there is a quorum shall be the act of the Committee.

**NOMINATION OF DIRECTORS**

After a determination by the Committee that a person should be selected and nominated as a Director of the Fund, the Committee shall present its recommendation to the Board for its consideration.

**MEETINGS**

The Committee may meet either on its own or in conjunction with meetings of the Board. Meetings of the Committee may be held in person, video conference or by conference telephone. The Committee may take action by unanimous written consent in lieu of a meeting.

Adopted: February 15, 2007

*amended as of October 24, 2013*

ClearBridge American Energy MLP Fund Inc. ( CBA )

ClearBridge Energy MLP Fund Inc. ( CEM )

ClearBridge Energy MLP Opportunity Fund Inc. ( EMO )

ClearBridge Energy MLP Total Return Fund Inc. ( CTR )

Legg Mason BW Global Income Opportunities Fund Inc. ( BWG )

Legg Mason Permal Alternatives Fund Inc.

LMP Capital and Income Fund Inc. ( SCD )

LMP Corporate Loan Fund Inc. ( TLI )

LMP Real Estate Income Fund Inc. ( RIT )

Permal Hedge Strategies Fund I

Permal Hedge Strategies Fund II

Permal Hedge Strategies Portfolio

Western Asset Emerging Markets Debt Fund Inc. ( ESD )

Western Asset Emerging Markets Income Fund Inc. ( EMD )

Western Asset Global Corporate Defined Opportunity Fund Inc. ( GDO )

Western Asset Global High Income Fund Inc. ( EHI )

Western Asset Global Partners Income Fund Inc. ( GDF )

Western Asset High Income Fund II Inc. ( HIX )

Western Asset High Income Opportunity Fund Inc. ( HIO )

Western Asset High Yield Defined Opportunity Fund Inc. ( HYI )

Western Asset Inflation Management Fund Inc. ( IMF )

Western Asset Intermediate Muni Fund Inc. ( SBI )

Western Asset Investment Grade Defined Opportunity Trust Inc. ( IGI )

Western Asset Managed High Income Fund Inc. ( MHY )

Western Asset Managed Municipals Fund Inc. ( MMU )

Western Asset Middle Market Debt Fund Inc. ( WAM )

Western Asset Middle Market & High Yield Fund Inc.

Western Asset Mortgage Defined Opportunity Fund Inc. ( DMO )

Western Asset Municipal Defined Opportunity Trust Inc. ( MTT )

Western Asset Municipal High Income Fund Inc. ( MHF )

Western Asset Municipal Partners Fund Inc. ( MNP )

Western Asset Opportunistic Income Fund Inc.

Western Asset Variable Rate Strategic Fund Inc. ( GFY )

Western Asset Worldwide Income Fund Inc. ( SBW )

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**CLEARBRIDGE ENERGY MLP  
OPPORTUNITY FUND INC.**

**CLEARBRIDGE ENERGY MLP OPPORTUNITY FUND INC.**

**YOUR VOTE IS IMPORTANT NO  
MATTER HOW MANY SHARES  
YOU OWN. PLEASE CAST YOUR  
PROXY VOTE TODAY!**

**CLEARBRIDGE ENERGY MLP OPPORTUNITY FUND INC.**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Robert I. Frenkel, George P. Hoyt, Michael Kocur and Barbara Allen and each of them, attorneys and proxies for the undersigned, with full power of substitution and revocation to represent the undersigned and to vote on behalf of the undersigned all shares of ClearBridge Energy MLP Opportunity Fund Inc. (the Fund) which the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Fund to be held at Legg Mason, 620 Eighth Avenue (at 41<sup>st</sup> Street), 49<sup>th</sup> Floor, New York on March 20, 2015, at 11:00 a.m., Eastern Standard Time and at any adjournments thereof (the Meeting). The undersigned hereby acknowledges receipt of the Notice of Meeting and accompanying proxy statement and hereby instructs said attorneys and proxies to vote said shares as indicated hereon. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Meeting. A majority of the proxies present and acting at the Meeting in person or by substitute (or, if only one shall be so present, then that one) shall have and may exercise all of the power and authority of said proxies hereunder. The undersigned hereby revokes any proxy previously given.

**This proxy, if properly executed, will be voted in the manner directed by the stockholder. If no direction is made, this proxy will be voted FOR the election of the nominees as director.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON March 20, 2015.** The Proxy Statement is available at [www.proxyonline.com/docs/leggmason](http://www.proxyonline.com/docs/leggmason).

**Please refer to the Proxy Statement for a discussion of the proposal.**

**PLEASE VOTE, DATE AND SIGN ON THE REVERSE SIDE HEREOF AND RETURN THE SIGNED PROXY PROMPTLY IN THE ENCLOSED ENVELOPE.**

[PROXY ID NUMBER HERE]

[BAR CODE HERE]

[CUSIP HERE]

**CLEARBRIDGE ENERGY MLP OPPORTUNITY FUND INC.**

**YOUR SIGNATURE IS REQUIRED FOR YOUR VOTE TO BE COUNTED.**

Please sign this proxy card exactly as your name(s) appear(s) on the proxy card. Joint owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, a majority must sign. If a corporation, the signature should be that of an authorized officer who should state his or her title.

SIGNATURE (AND TITLE IF APPLICABLE)  
DATE

SIGNATURE (IF HELD JOINTLY)  
DATE

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.**

**PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE. Example: 1**

**FOR WITHHOLD**

**The Board of Directors recommends a vote FOR the following proposal:**

1. Election of Directors: (1) Class III Director, to serve until the 2017 Annual Meeting of Stockholders; (2-4) Class I Directors to serve until the 2018 Annual Meeting of Stockholders

(01) Robert D. Agdern	<input type="radio"/>	<input type="radio"/>
(02) Carol L. Colman	<input type="radio"/>	<input type="radio"/>
(03) Daniel P. Cronin	<input type="radio"/>	<input type="radio"/>
(04) Paolo M. Cucchi	<input type="radio"/>	<input type="radio"/>

THANK YOU FOR VOTING

[PROXY ID NUMBER HERE]

[BAR CODE HERE]

[CUSIP HERE]