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EDITED TRANSCRIPT

INTZ.OQ - Q3 2020 Intrusion Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 12, 2020 / 10:00PM GMT

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PRESENTATION

Operator

Good afternoon, and welcome to Intrusion's Third Quarter 2020 Financial Results Conference Call. (Operator Instructions) As a reminder, today's conference call is being recorded for replay purposes.

I would now like to turn the call over to Joel Achramowicz of Shelton Group, Investor Relations. Joel, please go ahead.

Joel William Achramowicz *- Shelton Group - MD of IR*

Thank you, Jason. Good afternoon, and welcome to Intrusion's Third Quarter 2020 Earnings Conference Call. I'm Joel Achramowicz, Managing Director of Shelton Group, Intrusion's Investor Relations firm. Joining me today are Jack Blount, Intrusion's President and CEO; Joe Head, Intrusion's Co-Founder and Senior Vice President of Direct Sales; and Michael Paxton, Intrusion's CFO.

Before we begin today's call, I want to remind you that today's conference call may contain forward-looking statements regarding future events, including, but not limited to, expectations for Intrusion of future business, financial performance and goals, customer industry adoption of Shield technology, successfully bringing to market Intrusion's design pipeline and executing on its business plan.

These forward-looking statements are based on estimates, judgments, current trends and market conditions and involve risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements. We encourage you to review the company's SEC filings, including the 2019 Form 10-K filed with the SEC on March 27, 2020, and other SEC filings made from time to time in which we discuss risk factors associated with investing in Intrusion.

All forward-looking statements are made as of the date of this call, Thursday, November 12, 2020, and except as required by law, we do not intend to update this information.

This conference call will be available for audio replay for at least 90 days in the Investor Relations section of Intrusion's website at www.intrusion.com.

Now we'll start off the call with a review of the financial results by Michael. And then Joe will follow with a review of government sales. And finally, Jack will review Intrusion's recent operating developments, progress with Shield and the company's key operating objectives going forward. Then we'll take your questions.

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Now with that, I'd like to turn the call over to Michael. Mike, please go ahead.

Michael L. Paxton - *Intrusion Inc. - CFO, Treasurer, Corporate Secretary & Director*

Thanks, Joel, and thank you to everyone who has joined us today. Now let us get to the third quarter results.

Revenue for the quarter was $1.6 million compared to $1.7 million in the prior quarter and $3.9 million in the same quarter a year ago. Revenue for the third quarter continued to be impacted by extended government shutdowns related to the pandemic, delaying renewals of our legacy business. We expect our legacy business to recover once conditions normalize.

Gross margin in the third quarter was 58.9% versus 60.7% last quarter and 62.1% in the third quarter of 2019. Operating expenses were $2.3 million compared to $1.7 million last quarter and $0.9 million in the same quarter a year ago.

Net loss for the third quarter of 2020 was $1.4 million compared to a net loss of $0.7 million in the prior quarter and net income of $1.5 million third quarter of 2019. After accrual of preferred dividends, net loss per share attributable to common shareholders in the third quarter was $0.10 on 14.45 million shares compared to a net loss per share attributable to common shareholders of $0.05 in the prior quarter and net income to common shareholders of $0.09 per diluted share in the same quarter a year ago.

Cash and equivalents at the end of the third quarter of 2020 were $1.5 million compared to $2.9 million prior quarter. Working capital was $1 million compared to $2.4 million last quarter.

Outstanding debt in the third quarter was $631,000. Subsequent to the end of the quarter, we raised $18.1 million in net proceeds from a follow-on offering of 3.6 million shares of our common stock priced at $8 per share, which closed on October 15, 2020.

The company offered 2,465,000 shares, which included the underwriter's option to purchase an additional 465,000 shares and a group of selling -- stock-selling shareholders offered an additional 1.1 million shares. Stockholders' equity in the third quarter of 2020 was $1.3 million compared to $2.5 million last quarter, and total assets were $4.8 million, excluding the new capital from our recent offering, compared to $5.9 million last quarter.

Due to the continued effect of the pandemic on our legacy business, we will not be providing quarterly guidance at this time. As our Shield offerings enter the market early next year, we will continue to monitor the environment and overall visibility, and we'll consider providing quarterly revenue guidance in future periods.

With that, I'd like to turn the call over to Senior VP and Co-Founder, Joe Head. Go ahead, Joe.

T. Joe Head - *Intrusion Inc. - Co-Founder, Vice Chairman & Senior VP of Strategic Programs*

Thanks, Mike. Appreciate it, Mike. Let's start with Shield. The beta program continues to be boring but very worthwhile. We found a few rough edges and put out -- have put out updates to respond to beta feedback. We're also getting feedback on a few select new features, which are being added for release in the next 2 weeks. These improvements add new reports listing which machines are worse than others in terms of automatic mitigation of compromises by our AI.

We deployed 2 more beta Shields in the past week, one to a user or a company recovering from a ransomware attack. My direct sales team is mostly complete now at 4 of the 5 regional sales managers hired and trained already. We just had one person missing in the Northwest but have some good candidates. Also have a Shield federal sales manager who's working on DoD sales and certifications. All the team knows about Shield and how to demo and to sell it. The team is making pitches to different organizations and comparing notes with each other daily on what sales approaches, and customer types are showing good responses to which approach. As you know, we're in the presales stage at this point while we're still in beta.

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The sales team views Shield as a refreshing product to sell. It represents something truly new which everyone needs and has a compelling story with the ease of installation, the sales model being Security-as-a-Service and the fact that it automatically mitigates threats without increasing IT workloads. As Jack will probably talk about, we had a full round of training on Shield for 3 days last week, which included our reseller partner channel team and direct marketing teams as well.

In the previous 2 quarters calls in June and August, the government was still in the shutdown. From our government customer standpoint, they're still not very open. Our general customers are in a mixed state still, many are still working from home, some are working partial schedules and some others are back to work normal. I met with a few customers in D.C. area today this week, and all the meetings were not in government buildings. Most of the folks I met with had not been to their offices in months, but one team has worked continuously through the plague. So it varies widely, but it's about 90% closed.

Procurement departments aren't processing new contracts very much but are open for renewals, as we discussed in the last call. Today, we got a $1.2 million renewal for an existing customer and an additional $1.7 million renewal we got last month and expect 2 more small commercial orders in the coming couple of weeks. I met with 2 new potential customers this week, both represent new opportunities in the TraceCop and Shield space. We discussed helping clear defense contractors automatically mitigate compromises.

As we've said previously, we're not planning on abandoning or moving away from our traditional government customers, DoD customers, and we have plenty of bandwidth to keep our old customers happy. We plan to grow that traditional business as we sell Shield to all markets. We have 5 people dedicated to major accounts, including 3 additional folks targeting Shield sales to the federal government and defense contractors. But just as we described in the roadshow, we see a huge commercial market in the SMB space, which represents a huge market for Shield. The product continues to work as expected, and customers like it very much. I'm very pleased with the product, the team and the market outlook.

Now I'll pass the call back to Jack.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Thank you, Joe. That was a lot of good information you passed to everybody, and thank you for ignoring COVID and going to D.C. and working with our good customers up there. I know travel is difficult. Like you, I've been out of town this week, and I just landed a few minutes ago myself. So travel is not back to normal, yet it's still quite challenging. Thank you all for being on the call today.

Certainly, the forefront of everything that's on our mind today is Shield. Shield is a product that's been shipping in beta now for almost 2 months, and I think it's relevant to discuss some specifics about just how well Shield is performing given that Joe said it was boring. We have processed many billion packets of information through our 12 beta customers. And we've actually identified and killed 8,118,926 attacks in the month of October alone at just 12 customers. That may seem like an extraordinary number, it is, but what I tell customers every day is I believe that 12% of all internet traffic today is malware. We are under attack from every country, from every part of the world 24/7. And prior to this, I think people viewed cybercrime as the kid that dropped out of school working in his grandmother's basement.

That's simply not true today. There are armies of PhDs sitting in China, Russia,and other countries who have written very sophisticated AI programs that use supercomputers to attack every second of every day around the clock. That is why 12% of the Internet traffic that's out there is malware. Everything is under attack all of the time. If you look at the numbers, 94 million victims of cybercrime in 2019 alone, that's just a staggering number and it just continues to grow rapidly.

Every business is under attack, and most of them have been hit. Estimates are that 67% of American businesses were hit by cybercrime of one form or another in 2019 alone. So this is everyone's problem. If we quote Warren Buffett, he recently said that "cybercrime is a greater threat to humanity than nuclear weapons." And I think we know he's a well-respected businessman that makes a lot of money. So I think he said that with a lot of thought, not off-the-cuff.

Certainly, everyone is under attack. And everywhere I talk to, the myth continues that they're safe because they haven't been hit yet, because they haven't been taken out yet. That is truly a myth that the world has to get over. Every computer running on this planet today hooked to a network

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is infected with malware. I placed this bet, I guarantee people all the time. I've yet to go to a customer, I've yet to look at a network that isn't infected. There's thousands of reasons that, that is a true statement.

The biggest and foremost and most obvious is the fact that if you buy a computer or an IoT device, of which there's billions already in use in the world, that is manufactured in China, it has malware on it when it ships to America or any other country for that part. Bloomberg did a big study on this in 2018, yet somehow business largely ignored it. They purchase computers, Apples, Dells, Lenovos, every computer you can think of and they found malware chips on the motherboard of every computer they bought. And yet the report kind of went unnoticed. That's why I can guarantee you, you cannot go to a network that isn't already infected. Then there's 1,000 other ways, through WiFi networks, through memory sticks, through hotels that you stay in, through firewalls that get breached.

So the fact is the world needs to look at this problem different. It's not about putting locks on the doors and keeping the bad guys out, which is what all 800-plus cyber products in the market today are designed to do. Shield is the only product that is designed to work from the inside out. It assumes every network is infected and its job is to find those infections and kill them real time, not to generate thousands of alerts that drive IT engineers crazy. It simply kills them. It does create a report. IT can go look it up. They can do their own research. They can follow up. Everything that Shield does is documented and logged in the database. And that's how we know we killed 8,118,926 malware attacks in the month of October alone at just 12 customers. Get this product in the hands of a larger market, these numbers will skyrocket because cybercrime lives everywhere in the network.

So we are focusing on our core technology and our core values. And right now, we're focusing on hiring people so that we can build a sales force that can reach all of these customers. As Joe reported, we have 14 people here in Dallas in the boardroom I'm sitting in right now, getting extensive training last week on the Shield product. We had telesales people. We had, as Joe said, direct -- corporate sales directors for 4 of the 5 regions in the country. We had technical support people, so that Joe and I are not doing tech support as much anymore and we have actually people that are answering the phones doing that for us. So we added 14 people in about 10 days. We've added 2 people since then. So we have almost a full team to be effective for the next quarter or 2. We will be doing more hiring as we go forward, of course, in 2021.

Some of the key people we brought in that are absolutely of great and core value to us is the VP of Human Resources. She is responsible for the 16 hires we made in the last few weeks. We didn't pay a retainer fee. We didn't go to headhunters. She brought in great experience and talent that has hit the ground running day 1.

We have a new VP of IT that will be joining us as Thanksgiving comes. He brings in over 20 years of experience, both in the military and at AT&T, in large enterprise-class networks doing both cloud computing, desktop computing, virtual networks, et cetera. So he is a great talent and resource that we're bringing to the company that will be able to help us in many, many areas.

We've also hired a manager of our tele-sales force. He's the one managing the 6 tele-sales people we have on staff right now and has continued to interview additional resources to do that. We're also very, very engaged and aggressively working with the channel. I believe that the direct sales force and the tele-sales can jump-start sales now during the presales model. But I believe once we have distributors and resellers, value-added resellers signed on, which I'm working very hard to do right now, that we will see a dramatic upshift in sales immediately.

I believe we will have one of the largest distributors in the country for cybersecurity products signed on this month, under contract and training their people. We have another dozen resellers across the country that I am negotiating contracts with that will be signed up, I hope, certainly in November but certainly before Christmas at the very latest. So we are working on all 3 fronts, both telesales, direct sales, and channel sales, to make sure that we get Shield into the hands of the businesses that need it.

Businesses are being attacked dramatically every day. If you look at any of the numbers, it's staggering. $11.5 billion was paid in ransomware alone in 2019. That's over $141,000 per breach. If you look at some of the higher end, well, the largest one paid documented by IBM was a $40 million ransomware payout in late 2019. But if you look even more recent, the fourth largest health care organization, United Health Services, was hit in the month of September, shut down 400 hospitals across America. They couldn't do surgeries. They couldn't perform procedures. They were literally closed down for 3 days until they paid $3 million in ransom to get their data back.

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The same week, the second largest shipping company in the world was hit by ransomware. They had almost 800 ships afloat in the sea that stopped dead in their tracks because without their database and their GPS navigations, they didn't know where to send them. They paid $5 million in 2 days to get their ships access. So this is hitting at the high end. It's hitting at the low end. It's hitting everybody, and it's getting worse by the minute. And that's just the ransomware.

Certainly, if you look at intellectual property, that's rarely reported and far more costly and damaging. If you look at records stolen, Dubsmash reported that they had 161.5 million records stolen already this year. Capital One had to report they had 100 million records stolen already this year. Quest Diagnostics had 11.9 million records stolen. House reported they had 48 million records stolen already this year.

Cybercrime is on an extraordinary growth path and I see Shield as the only product that's making a difference in actually stopping cybercrime. We stop ransomware. We stop intellectual property theft. Shield works completely different than all other malware products I'm aware of.

Shield starts inside of your network. It watches every packet that moves going out of your network or trying to or coming on to your network. We open every packet. We use artificial intelligence to inspect it. If we think it's dangerous, we kill it. We don't let it connect. We don't let it leave the network. We don't let it connect with anything. It's just gone. Nobody else does that. We don't create alerts, we kill the bad guys.

As the president and COO of a very multibillion-dollar business that I met with earlier this week, when I was talking to him in more detail about how Shield works, he looked up at me and said, "You know, I get this jack. You're the first AI whack-a-mole product on the market." And I kind of laughed, but I actually like his analogy because we are like whack-a-mole. If you move, if you pop your head up, we will hit you and kill you. If you hide and sit on a disk and don't do anything then, yes, we're going to let you sit there forever. But as soon as you try to connect to something, we're going to check you out, find out if you're safe. If you're not, we kill you. That's why we blocked over 8 million attacks in 1 month at 12 customers.

So we focused on training. We focused on hiring. We have all the key positions, except the CFO position, filled right now. We have that one in very late stages of interviews and very close to being ready to close. So we will have a full team as we go into 2021, loaded for bear to go out there and show customers. We can go on-site and demo to a customer in 5 minutes that their network, like everybody else's, is infected. It makes it pretty hard not to pay a monthly service fee and try it out for a while. No contract, no purchasing hardware, try as you like it.

With that, I think I've covered the key points that I really want to make. I wanted you to understand that people are starting to understand, the statistics are coming out that every network is infected, and they have to change their model if they want to be able to protect themselves.

With this, I think we'll open it up to questions and see if I can answer anything you have on your mind. Hopefully, that was helpful to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Zach Cummins from B. Riley Securities.

Zachary Cummins - *B. Riley Securities, Inc., Research Division - Analyst*

Thank you for all the really helpful updates around Shield. So I guess just starting off with the reseller program, it sounds like you're in the later stages with a pretty major reseller. But I was just pretty curious of dozen or so others that you're targeting, I just want to get a sense of your strategy with the mix there of pure technology resellers versus maybe integrators and consulting firms that would be selling this product.

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Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Well, we certainly want to go to all the market over time. I focused initially here at the first on technology resellers because they're the ones that are most aware of the problem, and we'll look out to the other segments. Certainly, I have relationships with Deloitte and Accenture, for example. I have -- I do have a trip scheduled in January to go to D.C. and meet with executives at both of those firms in the same week. I do think we can bring them on as a system integrator, reseller, consultant for the Shield product.

I really had no pushback from hardly anybody I've met with about Shield. They recognize how unique it is. They recognize how affordable it is. They recognize that it's the first plug-and-play IT product in the market. And they recognize that it proves its value 5 minutes after you install it, which I don't know any other IT product that actually does that.

So the reception has been very good. It's just been about bandwidth. I have been internally focused here to get the product out initially then to start hiring salespeople to train them. And now that I'm getting the sales force in place, I will be able to reach out to the relationships I have with the channel, where I've spent -- all 6 of the companies I've run, I've sold my products through the channel. And I think we'll be able to fire up the channel very quickly.

Zachary Cummins - *B. Riley Securities, Inc., Research Division - Analyst*

Understood. That's helpful. And then to that point to kind of your last statement there, I was going to ask what's really the typical ramp time we should be thinking about for each reseller partner once you have a formalized relationship in place?

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Well, I guess, that's going to be new because again they don't really -- they've never had a plug-and-play IT product. They never had a product that they could walk in the door and through a Zoom session, log in to a live one and actually show them how it works. So their initial reaction to me is they think they're going to have people effective within 30 days. That the learning curve is going to be very, very short, and they're going to be very productive very fast. I think that's true. We will certainly see.

It is a very, very different product in that regard. They like the fact that they're going to get paid a renewal revenue. So they don't just make money upfront. They make money every month the customer continues to use the product. So they have a revenue stream guarantee just as we do. So it's really kind of a game changer in the channel market, and I think it's going to be extremely well received.

Zachary Cummins - *B. Riley Securities, Inc., Research Division - Analyst*

Understood. That's helpful. And then with the direct sales force, it sounds like you largely have the entire team in place now. I'm just curious what's really the strategy and how they're really going to be attacking the market now, now that you're resellers in place? And I guess what are the types of customers they're really going to be targeting to try to get in the door?

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Well, again, my experience in the past is where the reseller channel generally has not been real effective, certainly not upfront, is in your Fortune 500, Fortune 100 accounts. And those are longer lead times. They take more work. They take more level of expertise. And we believe those will take a very experienced cybersecurity sales executive who's been doing this for years with other products, to be able to go in and educate them, to be able to talk to the half a dozen or 12 different executives that you get involved in, in those size companies.

But our goal is to use that direct sales force. That's why we put Joe in charge of it because Joe's only sold really to the government and a couple of Fortune 100 customers his whole career. He's really focused at the very, very high-end complex side of the market. So we think he is the right person to really lead that sales force to be effective, killing the giants and bringing in amazing success next year.

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Zachary Cummins - *B. Riley Securities, Inc., Research Division - Analyst*

Understood. And then just one final question for me and then I'll pass over the line. But in terms of the beta testing, it's almost hard to fathom the amount of threats that you blocked in the month of October so really demonstrating the value of the product. I'm just curious if you can share anything, the feedback you've received from a lot of the participants in the beta test and whether you think they're going to be interested in signing a contract at the end of the test.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

I expect them all to sign a contract. I've had 2 CEOs tell me I can't take the product out until I replace it with a GA [i.e., general availability] (added by company after the call) product, for example. I had one COO this week tell me that he now has 3 beta machines at 3 different businesses of his, so he's kind of a roll-up company. He has a lot of smaller companies that he's brought underneath his umbrella.

So we initially went into their corporate office. They got a second Shield from us and went into one of their other subsidiaries. They just took a third one from us last week, and we installed it yesterday in the third company. And I spent about 2 hours talking to him, and he said to me verbally that if things continue the way they are right now that he plans to roll this out in every one of his subsidiaries in 2021. And that would certainly be thousands of seats.

Operator

Your next question comes from the line of Howard Brous from Wellington Shields.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

Jack, Joe, Mike, I just want to congratulate you on the transformation from government business to commercial business and doing what you're doing. I think it's just great, so congratulations to all 3 of you. Joe.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Thank you.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

Joe, I would like to address the old base business, if you will. You talked about 2 contracts, $1.2 million, $1.7 million. Do you have any other potential contracts going into procurement?

T. Joe Head - *Intrusion Inc. - Co-Founder, Vice Chairman & Senior VP of Strategic Programs*

We have several more renewals coming in, and we've got some excitement rolling about some new projects. I met with 2 of those today. So I -- and we talked about that, the traditional kind of things that we talk about because so much focus is on Shield. But we have the same level of activity and same prospect pile that we've been working through the pandemic side of things.

Plus, I think some new things have opened up with Shield, which have obviously put some focus on -- particularly on the cleared defense contractor space of protecting them with Shield. Because a lot of the stuff we've done traditionally is reporting on who's eating you instead of fixing it. And so we've had some good discussions about how to attack that market, from helping the guys that normally defend the government as well as selling directly to the people affected.

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Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

Just as I look at the old TraceCop government business, can I look at it somewhat similar to 2019 or close to it? Does that sound reasonable at this point in time?

T. Joe Head - *Intrusion Inc. - Co-Founder, Vice Chairman & Senior VP of Strategic Programs*

It does, minus the one bubble cushion order we had. Go ahead, Jack.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Yes. I was just going to say, if the election can get over and the government can actually go back to business, yes, there is a big demand for that service, for that database, for that content. But again, between the pandemic and the election, government hasn't done anything in months. And I'm hoping that will be behind us by the time we close the year at Christmas, and we'll be off and really moving forward in January. Every consultant I talk to believes that.

So I'm pretty bullish that our traditional consulting business will be back to where it was in 2019. As you know, recently, I did an announcement that I promoted Mike McClure to be VP of that division so that we did not lose focus on it as the rest of us were focused on Shield business. So we do have that being focused, and we do have that growing.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

So getting to Shield, part of what you were saying earlier, Joe, was something about ransomware, and I didn't get it. The phone started -- just static on the phone. So could you talk about ransomware? Was there any of the beta testers where you prevented ransomware from hitting them?

T. Joe Head - *Intrusion Inc. - Co-Founder, Vice Chairman & Senior VP of Strategic Programs*

We we've seen plenty of signs that we stopped the ransomware from calling home, and that's in those 8 million. And they're -- that's the ever-present thing that Shield does for you is it stops the ransomware by neutralizing any beachhead they establish. The comment I made that probably blipped out was that this last week, we added 2 more Shield beta customers and put them online. One of those was just recovering from a ransomware attack. And I've made the comment to their president as he talked to me for what he should do next.

Sony, I think, went through 5 or 6 redeployments of hardware. They get wiped. They had to restore the stuff, but they didn't replace the hardware. So down hidden in Bios and hidden in the computers was the original pathogens that ate them again and ate them again. And then finally, they bought all new computers and put all new software on it from scratch and isolated that from the poisoned network.

And so my comment was that we've -- yes, of our 16 or so beta customers, 2 of those were just reeling from the process of recovering from a ransomware attack. The entire 12% of all the traffic that is malware related that we're blocking, yes, that -- this is what you need if somebody did not tell you what hit you in the stomach but tell you it stopped it from hitting you. But -- go ahead.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

I was just going to say, I think one of the things that people don't understand, Joe, about ransomware is they seem to be under the impression that it gets on your network and then it goes and encrypts your data and your -- it's already eating your lunch. Ransomware is not that sophisticated. It doesn't work that way. The actual code that they have to put on your network, on your computer to be able to track your backups and when you're doing them and where you're doing them and what data is being backed up is a very large program. You can't get that program on a network

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out front. So what you do is you get a beachhead on the network with a very, very tiny piece of code that looks innocuous to everyone, and then it calls home. The way networks are designed, anything inside of your network can call out any place at once. So it calls home, and then it starts downloading the sophisticated applications that are going to monitor your entire network, encrypt your database.

So we -- in this 8 million, 70% of those kills that we did were on outbound traffic. I would say a large number of those -- we are researching this deeper right now, but I would say a large number of those are actually ransomware call homes that can't ever successfully call home so they can't download anything to attack you. So that's why we attack ransomware so effectively is because we understand how it works, and we understand that it has to call home to be effective against you, and we simply don't allow call homes to happen.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

So let me understand that these computers have already been infected, and this is just the process of calling home that you've interfered with.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Correct, right. They have the infection. They know how to call home, but that's all they know how to do at this point. They don't know how to encrypt your data. They don't know how to find your data on your network. The code isn't that smart or that sophisticated. If it was, it'd be too big and it will be blocked by firewalls and other cybersecurity products. These malware agents that are getting on people's networks, just like the ones that are built into chip coming from China, are tiny. They're very tiny. They really can't do anything.

When I was in the government and the CIO, we looked at millions of these. And everyone we looked at was a tiny piece of code that could do one and only one thing, call home. But when it successfully calls home, then it can download whatever it wants. It can do whatever it wants to you, and that's how they're being so successful. Since we don't allow call homes, 70% of this 8 million that we blocked, that we killed was call homes.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

So you have currently 16 beta customers?

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Yes, we do.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

When would you convert, whether January 1 -- not literally in January 1, but beginning of January, those 16 customers, beta customers will convert to Shield customers?

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Yes.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

Is that correct?

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Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Yes. I believe we will have them -- most of them, if not 100% of them as customers starting January 4.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

In addition, the salesmen you hired are selling the product also for a January, if you will, start date.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Correct. So they're doing presales, taking orders so that we can ship product January 4 to a number of new customers around the country. This will be a new build. That's what you do betas for. As Joe said, we've added a number of features that customers have requested. We found 2 significant bugs that have been fixed, and the product will be much improved when we ship it to the full market.

T. Joe Head - *Intrusion Inc. - Co-Founder, Vice Chairman & Senior VP of Strategic Programs*

It's been a great beta. So my comment earlier, guys, is the beta has been relatively boring and that we just found the 2 big bugs and had a few requests to enhance. But what's been not boring at all is this huge amount of call homes that nobody appreciated being as large as they are. It's amazing how much we're blocking.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

And Joe, that was exactly my last question. How boring has it been?

T. Joe Head - *Intrusion Inc. - Co-Founder, Vice Chairman & Senior VP of Strategic Programs*

Well, I use it from the perspective of -- I hate when you have a problem to get somebody on the phone that doesn't know what they're talking about, so we've made sure all of our sales folks are network-technical good people. So that when somebody answers the phone, they can understand your question and help you go through it right now because you get a lot of security questions.

So it's been boring from the perspective of we're not having midnight or other calls that say, "I'm having problems, help me." So it's boring in that it takes care of itself and didn't need any configuration. There was nothing you screwed up when you set it up that needs fixing. But from a usability standpoint, you just train the folks here to how you use the Shield dashboard and then it becomes a self-licking ice cream cone because they see all the stuff that they never saw before and then they saw the stuff that you protected them from that they didn't even know was going on.

The other thing we've said that we want to repeat in passing is that ransomware gets the headlines, but ransomware is like Ebola. It kills you fast, but it doesn't kill that many people. The slow drip of stealing intellectual property is more a slow death that doesn't make the headlines, and it's the vast majority of the 3 trillion 2 years ago and the 6 trillion next year that's economic damage from the silent theft. And to us, all the call homes are just a messaging method for remote guys to do numerous things, the major part being theft of intellectual property.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

Which prompted me to ask another question, and I apologize. The conversion of these government pieces of business to Shield, does this take place near term, long term? And how large could it possibly be in terms of some of the pieces of the Department of Defense, as an example?

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T. Joe Head - *Intrusion Inc. - Co-Founder, Vice Chairman & Senior VP of Strategic Programs*

I think the defense contractors are probably relatively shorter time frame than government itself because of just bureaucracy and the magnitude of people you have to get concurrence on. So -- and most people see that as a longer-term 12-, 18-month cycle. As Jack mentioned, we think we're going to have some quicker ones particularly those that are already in deep dew and looking for help.

But I would think that the defense contractors are probably in the 6-month-ish frame on the fast converters. But it's -- big account sales take a while, but we believe that the pent-up appetite and the ease of installation and the quickness of proven its efficacy against the problem, it's hard to guess how quick things are going to accelerate, but we do expect some shortening of sales cycles.

Howard D. Brous - *Wellington Shields & Co., LLC - Broker*

Congratulations on the transformation.

Operator

Your next question comes from the line of Ross Taylor from ARS Investment.

Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

A couple of quick questions. First, are any of your beta sites defense contractors?

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

No, they're not.

Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

Okay. It would seem that, that would be a very rich market given how aggressively penetrated they are. I mean the joke is talk to anyone, it seems like the Chinese have plans for our...

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Actually, one I missed, yes. One of them is -- I apologize for that, one of them is a defense contractor. And they're very, very happy with the product.

Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

That's cool. As I said, it seems like there's a definite real need there. Second, you've built a pretty substantial team. It looks like it's a pretty impressive team. Are you building that team on the anticipation of having this product do well in the market? Or is this a reaction to what you're already seeing? The fact that you opened for presale would seem to indicate you already are seeing demand push to try to get you to start to build a backlog. Is that the case?

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Yes. We certainly -- I felt we were seeing a demand that couldn't be ignored, but I couldn't ship when I'm still in beta and I'm still fixing bugs and making it better. So we decided to take the approach that Apple has very successfully taken for the past many years, during presales, get the

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customers' information and to get their addresses, find out what they need, find out what their network looks like so that we can successfully do a very quick start in the marketplace.

Again, this is a radically different product. The plug-and-play alone makes it a radically different product. The fact that it doesn't generate alerts but actually kills bad things makes it a radically different product. So I think it is going to have a very, very rapid word-of-mouth kind of adoption and I wanted salespeople in the street that they could get a hold of, that could come on-site as needed.

As the channel ramps up, I believe the channel will take over the bulk of our sales in 2021. But to jump start it, especially at the low end, I think tele-sales is very, very commonly the only way to get to the SMB market. And at the very high end, direct sales is the only way to get to that market. But that leaves about 70% of the market for the channel to service. We're not going to compete with the channel. We're going to take them leads. We're going to support them in growing that market. We understand their value. We want them to be insanely successful.

Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

Okay. And this is a product that would seem to do very well if you can get it into the public mindset. So what efforts are you guys going to be making in the coming weeks to get this in front of people? As I said, that almost seems like it should be an infomercial or put it on QVC or something of that nature.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Yes. We are going to do a lot of advertising. We have a very, very talented marketing lady that's working on things for us already. You may have seen our Wall Street Journal ad that ran a couple of weeks ago, a full page. That generated I don't know how many thousands of either e-mails or phone calls off of that, but that was insanely successful to make -- to raise the awareness.

Really, the 2 things that I think that I have been blessed in being able to put together because of my background experience and reputation, I may have mentioned this before to some of you but I don't think I've said it on the call, I have secured a spot on Fox Business News with Kathy Ireland late in this month, November. They say their viewership for that show is 100 million viewers worldwide. So this will be a premier explanation, demonstration of the value and ease of use of Shield available to all America. In addition to that and I think that is foremost the reason Kathy Ireland wants us on that show is because she likes -- she's a billionaire. She's a very successful lady. She doesn't do things by accident. She believes we have the most state-of-the-art cybersecurity product she's ever heard of, that her experts have heard of. And she wants to be recognized as the lady that brought it to America. So that's a huge exposure.

Likewise, in December, I start an infomercial on PBS with Laurence Fishburne on his technology show. They say they have 140 million worldwide viewers. And that filming will be rebroadcast 6 times once a month for 6 following months. So that gives us a massive exposure to the marketplace.

In addition to that, we're running ads in, I think, 9 different technology magazines right now. I think it goes up in Q1 to 12 different magazines on a regular every month kind of basis, full-page ads, explaining the value, the ease-of-use of Shield. So we are working diligently and spending our money wisely to get as many touch points as we can.

In addition, I am going be doing Benchmark Discovery Conference in November. I'm doing Needham's Growth Conference in January. So we have a tremendous amount of exposure in a very short period of time that's going to move the needle very quickly.

Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

As currently designed, Shield is really a server-based product? It's kind of the thing you put into an office. It works best in an office environment as opposed to for remote users or for mobile users and things of that nature, correct?

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Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Well, Shield is an appliance that physically installs on your corporate network, and it protects everybody on that network. It protects your IoT devices, although we don't charge you for those. We only charge you for the servers and the workstations. But it also protects all of your remote workers as long as they're using a VPN dial-in to get back into their corporation, which almost all businesses make them do. So if you're on a VPN, we view that as if you're sitting at a workstation in the office. So we're protecting all those remote workers because of COVID that are working home today using their VPN.

So we are getting a large part of the market. As we preannounced that we have an intent to spread the market wider, we will be announcing a cloud product early next year because the cloud is growing rapidly. People are moving away from their local area networks. There's really 3 clouds and all 3 of them have different operating systems, different infrastructures, different environments. So you literally have to develop a solution for each one. Amazon's AWS is the largest market with about 60% market share. Azure is the second largest with 27% market share, and Google is the smallest with about 12% market share.

So we have a prototype of a product that we have done a lot of preliminary work with, but we realized that it was not as complete as needed to be able to service those 3 environments. One of the things that I did is I went out and recruited and hired one of the top cloud architects in the country. He's worked at Level 3 for many years. He worked at AT&T. He is really a brilliant architect, and one of the top experienced cloud architects in the nation, I think. I have hired him. He is working at the company now. He is evaluating our cloud product as we have it developed today. He is building us a spec of what's missing, what needs to be done.

So we'll have a more detailed road map about delivering for that to the marketplace in the very near future. Does that help?

Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

Yes, it does help a great deal and 2 last things. One, can you confirm the economics and the price per seat per month and also the profitability? And lastly, will you commit to giving us an update ahead of the end of the year as you start to see, give us an idea what the rollout is going to look like so we can kind of see where demand starts?

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Well, we'll have to evaluate whether we can do that or not. I certainly have no issue right now with being willing to do that. So I will look into our ability to do that. You lost my train of thought with your first question, and I apologize.

Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

With the price that's out there, yes, I was a little confused about the economics of it.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

We've been consistent from the very start, it's one price. It's $20 per seat per month per seat, and a seat is either a workstation or a server. As I said, we don't charge for the millions or thousands of IoT devices you have. But because they have an IP address, we are protecting them. So it's very cheap. We think -- Gartner tells us it's priced way too low. We did that deliberately because we want to get large market penetration.

There's 34 million businesses in America that need Shield. I want to get to as many of them as I can. There is no contract required. It's simply a monthly service fee. You can sign a contract. If you want a 10% discount, you can sign a 1-year contract and prepay it. If you want a 25% discount, you can sign a 3-year contract. So we do have contracts if you want one or you can stay on a month-to-month try if you like it model forever. So we want to make it easy to buy, easy to install, easy to see the benefits of it.

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Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

Well, it sounds really exciting. I mean it seems like it's a game changer.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Thank you. I believe it is a total game changer. It is the most exciting project in my 42-year career I've ever worked on, and I've worked on some pretty successful launches in my career if you studied my career. But I think this will be the biggest one ever.

The market is just explosive. Cybercrime is growing out of control because it's so profitable. As Joe said, everybody hears about ransomware and thinks that's the big apple. That's really probably not 20% of the harm that's being done. The real harm -- and mostly, ransomware, by the way, is done by Russia, if you don't know that. Russia has really dominated. You can actually go out on the Internet and buy a ransomware kit platform, they call it, and they will sell you and you pay them a percentage of all the money you make. That's how sophisticated and established ransomware is.

The real crime most of the time -- China is doing most of the real crime. They're stealing the intellectual property. They're stealing the records, they're stealing the assets. It's very common. I talk to businesses at least once a month, probably more often, that we're working internally here in America designing the next-generation product for some manufacturing or something else. And apparently, the Chinese got on their network, stole their intellectual property, built it in China and are selling it before they got their product out at half the price they were going to charge. And they're putting those businesses, bankrupting those businesses.

So the real harm that Joe said is the theft of intellectual property and most of that goes on, and nobody ever sees it. They can be on your ---network for months, years. They can steal all your intellectual property. They can go build a competing product, and you never have any idea they were on your network. We're the first and only product that sees them and stops them from exfiltrating that data.

Porter Ross Taylor - *ARS Investment Partners, LLC - Partner*

Yes. As I said, it sounds pretty amazing.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Thank you.

Operator

Your final question comes from the line of Russell Cleveland from RENN Capital.

George Russell Cleveland - *RENN Capital Group, Inc. - President & Sole Director*

Thanks so much for the call. A lot of good information. I know time is getting on, I just have a simple question. I think most investors looking at it see the potential Shield a very exciting product. But the question is when are we going to be able to announce contracts? We have beta. Now early in the discussion, someone said before January 1 or something, but could you comment on this that they want to see the actual contracts being signed? So can you comment on that?

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Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Well, as we've consistently said, you will see contracts, you will see customers, you will see sales in Q1. So again, because we don't require a contract, the presales is really about getting established, getting your address, getting your network information, so that we know where to start shipping things to you. And most of those are not signing contracts. They want to go month-to-month. They want to try and see if they like it because they say it's too good to be true. I certainly understand why they feel that way, and I know they're going to be convinced.

Every beta customer we signed up basically took it on a bet that I couldn't prove to them that their network was infected, and they thought I was going to pay them $500 for getting on their network and they get to show me their network is clean. I didn't pay anybody $500, and nobody is giving me the beta product back. And 3 of the customers have already expanded the number of beta products they have, and one of them has said they're going to roll it out corporate-wide next year.

So the reception is amazing. The numbers will show up in Q1. They will be very aggressive. I am very confident we're going to exceed the numbers that we've forecasted during the fundraising when we talked about that. And at Thanksgiving and Christmas, if you look at the technology market, our competitors aren't selling anything right now because there's really nobody that buys much technology in November, December. They're all evaluating. They're all getting new budgets for 2021. It's a very low sales cycle for all technology companies.

So we're capitalizing on that by getting the education out there, getting the awareness, getting the customers ready for the product to come in as soon as the first of the year turns over. And we are very, very confident that we are going to blow out the numbers that we forecasted and have installations right and left. We did not -- for example, we did not put anything into the numbers we showed you during our fundraising, which was $15 million in revenue from Shield in 2021. We did not build any customer in there with more than 100 seats. So again, we think those are extremely conservative numbers. We already have one customer that's talking to us about 8,000 seats. We have another customer that's talking to us about 2,000 seats. I have another customer that I met with in Utah that's talking -- that has 1,400 seats.

So I believe the forecast we've given you is incredibly conservative, but I want the numbers to prove themselves in Q1 as we start shipping the products and start proving the results to you. I'm from Missouri, show me, so I'm going to show you what we're going to deliver.

George Russell Cleveland - *RENN Capital Group, Inc. - President & Sole Director*

So really, we're not going to announce big contracts because there --- is there a government going to take this on and major companies without a major contract or not.

Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Probably not. If we sign a major contract, we could announce that. If we have a month-to-month contract, we aren't going to preannounce those. We'll let them see how long it takes them to switch over to a contract. I think 90% of our customers are going to ship over to a contract 3 months after they take our product.

We're doing the month-to-month to make it easy for them to try it because we know that everybody thinks no cybercrime product works. We said that in the Wall Street Journal. They've all failed. They all think we're going to be yet another failure because they think we're too good to possibly be true, and yet our 14 beta customers are proving we are. Again, blocking 8 million attacks in 1 month is extraordinary. It blows everybody's minds.

George Russell Cleveland - *RENN Capital Group, Inc. - President & Sole Director*

Well, let me -- I guess the answer really is we're not going to be announcing big contracts necessarily. So we're going to basically grow the business, but investors should not expect some big announcement. Is that what I'm hearing?

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Jack B. Blount - *Intrusion Inc. - President, CEO & Director*

Not until later in the year next year, yes. We will after -- halfway through the year, after people have had it, we will be -- again, I just told you, 3 big contracts that I'm already working on that we will announce those when those sign for sure.

Thank you all very much for your time. I'd just like to make a couple of summary comments. We talked a lot about business. But again, just to let you understand the real breadth of this problem, I did one of these podcasts last week about the education market. There was over 1,000 schools in America hit by ransomware last year, many of those were trying to do virtual education with kids at home because they couldn't go to school and everything shut down. They could not do their virtual classes. Last month alone, there was 11 major school districts in North America hit by ransomware. Those 226 schools were shut down by ransomware last month alone.

So this isn't just business. If you are using the Internet, you are at risk of ransomware. They're coming after everybody. They don't care whether you're big or small. Fundamentally, Gartner says this is a $7 billion market for cybersecurity products in 2021. That's the market we're selling into, 34 million businesses in America, $7 billion market. And we believe the product is revolutionary and is going to transform cybercrime completely.

So we're excited to have you all as investors. We're excited to be out there selling the product we're selling, the solution we're selling and making customers safe to do business again. Thank you. Have a great day.

Operator

That concludes today's conference call. You may now disconnect.

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