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PRESENTATION

Operator

Good afternoon, and welcome to INTRUSION's Second Quarter 2021 Financial Results Conference Call. (Operator Instructions) As a reminder, today's conference call is being recorded for replay purposes.

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

Joel Achramowicz

Good afternoon, and welcome to INTRUSION's Second Quarter 2021 Earnings Conference Call. I'm Joel Achramowicz, Managing Director of Shelton Group, INTRUSION's Investor Relations Firm.

Joining me today are INTRUSION's Co-Founder and CTO Joe Head, the Company's CFO, Franklin Byrd, and also the Chief Marketing Officer Gary Davis. Also on today's call is INTRUSION's Chairman of the Board, Tony LeVecchio, who will be available for questions after management's prepared remarks.

Before we begin, 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's future business, financial performance and goals, customer-industry adoption of Shield technology, successfully bringing to market INTRUSION's design pipeline, executing on its business plan, anticipated capital needs as well as the engagement of investment professionals to assist the company. These, and all 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 2020 Form 10-K filed with the SEC on March 9, 2021, and other SEC filings made from time-to-time in which we may discuss risk factors associated with investing in INTRUSION. All forward looking statements are made as of the date of this call, Thursday, August 12, 2021, 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.

With that, it's my pleasure to turn the call over to Franklin. Franklin, please go ahead.

B. Franklin Byrd - *Intrusion Inc. - CFO*

Well, thanks, Joel, and thank you to everyone who's joined us on our call today.

Clearly there've been a number of significant developments at the company since our first quarter conference call.

On July 20th, we published the press release in which we provided preliminary revenue results for the second quarter. As part of this press release, we also announced certain organizational changes and new strategic activities, including the engagement of an investment banking firm to evaluate various funding sources as well as potentially constructive longer-term strategic options.

Additionally, we announced that INTRUSION CEO, Jack Blount, had left the company. In conjunction with these developments, the Board has asked Joe Head and me to assume operating responsibilities until a new CEO could be appointed. It is our aim to address each of these developments during the course of today's call.

Let me start with the review of the company's second quarter financial results.

Second quarter 2021 revenue was \$2.0 million, which was in line with the preliminary revenue results we reported in our July 20th release. This compares to \$1.9 million in the first quarter of this year and \$1.7 million in the second quarter of last year. The majority of the second quarter revenue consisted of our government business. Even though our Shield revenue was much higher in the second quarter than in the first, it only represented approximately 7% of our total second quarter revenue as it was still in the early stages of deployment.

As indicated in a recent announcement, the ramping up of our Shield solution has been slower than anticipated due to longer customer evaluation cycles. While we had hoped our appliance model would allow customers to simply plug the platform in and use Shield immediately, we found that customers actually wish to evaluate additional metrics and this renders the actual time to close more in line with the procurement processes for normal enterprise security software sales.

Activity in our government sector remained stable as re-openings occurred, and we expect this recovery to continue in the coming quarters.

Gross margin in the second quarter was 63% as compared to 66% last quarter and 61% in the second quarter of 2020.

Second quarter operating expenses were \$6.9 million compared to \$5.1 million last quarter and \$1.7 million in the same quarter a year ago. Included in these operating expenses were increases in non-cash stock compensation expense of \$0.6 million resulting from the rollout of our 2021 stock option plan and \$0.2 million in legal expense attributable to our annual shareholder meeting and ongoing legal matters. As indicated last quarter, the major increase in our operating expenses was primarily due to the additional hiring we had done to expand our sales and leadership team, combined with increased marketing spend around the development and launch of Shield.

At the quarter end, our total headcount was 112 compared to 80 in the prior quarter. In conjunction with the previously mentioned developments, on July 30th we took decisive action to significantly reduce expense and our cash burn by implementing a reduction in force. After the reduction in force and additional recent terminations, our headcount has been reduced to 76. Reductions were made across the entire company with some of the largest reductions coming from the sales and marketing and general administrative areas.

Net loss for the second quarter of 2021 was \$5.0 million or minus \$0.28 per share on 17.6 million weighted average shares compared to a net loss of \$3.9 million or minus \$0.22 per share in the prior quarter, and a net loss of \$0.7 million or minus \$0.05 per share in the second quarter of 2020.

Turning to the balance sheet, at quarter end, June 30, 2021, the company had cash and cash equivalent of \$9.3 million, which is down from \$13.1 million at the end of the first quarter.

Working capital was \$7.3 million and we had no outstanding debt at the end of the quarter.

As previously indicated, we believe the company's current cash position combined with a slower ramp of revenue from Shield are likely to result in a need for additional capital in order to fund near-term operating losses and execute on our strategic growth initiatives, before we reach profitability.

Given these expectations, on August 5th the company completed a multipurpose shelf registration, which provides the flexibility to take in additional capital through various types of securities transactions.

I would like to emphasize that the primary intended purpose of the shelf is to satisfy the potential requirements for additional capital in the near term, at the discretion of the Board. As of today, the registration has not yet become effective.

Separately, the company is evaluating other potential funding and long-term strategic options. However, these evaluations are still in the early stages.

Both the company and its Board are firmly committed to considering all potential options that are consistent with our goals of accelerating INTRUSION's growth, achieving improved operating results, as well as maximizing shareholder value.

Regarding the company's outlook for the third quarter, together with recent developments, our near-term visibility remains very limited with respect to the timing of recovery of the government business and the ramp on our Shield revenues.

Given the difficulties in forecasting with respect to timing, some of which is outside the control of the company, we are maintaining our policy of not providing quarterly guidance.

We will, however, continue to reevaluate our approach on an ongoing basis as the business and the visibility of evolve in future quarters.

With that, I'd like to turn the call over to Joe Head for an update on current market dynamics and our product initiatives. Joe?

T. Joe Head - Intrusion Inc. - Co-Founder & CTO

Thank you, Franklin. I'm pleased to join you on today's call. As many of you know, I'm a Co-Founder of INTRUSION, I have been at the company since 1983. I'm speaking to you this afternoon as someone who's deeply vested in the company's success, both professionally and personally. Therefore, I understand and share in any disappointment felt by my fellow shareholders. But my focus remains on enabling sales by providing technical clarity on what we've accomplished, knocking down barriers to sales by completing bug fixes, filing new patents and developing new features in Shield.

I remain confident in the long-term opportunities for INTRUSION, as I believe we have a highly differentiated cybersecurity solution that implements Zero Trust in a natural way, is easy to install and is underpinned with one of the most extensive threat intelligence databases in the world. It's the only product that I am aware of that uses historical IP reputation to determine if you are at risk and it determines immediately if a connection is good or bad. That's especially important with Zero-Day and malware-free attack techniques, which typically start with a call home from an agent that is already on your network. It is covered by 2 existing patents.

Last August, we filed a provisional patent--and this provisional will be supplemented as a formal filing this month--which is then divided into 2 patents following up on our provisional filings last August. I've witnessed the technology work in the lab, in the federal government and DOD to defend against some of the world's most sophisticated adversaries, and also successfully deployed and applied by private enterprise customers to stop cyberattacks.

The point I want to make unmistakably clear is Shield works. It's simply a matter of ramping up our go-to-market efforts and reducing the sales cycle time.

My predominant focus at the company over the last several years has been on our core government business. So I'll start with a brief update on this area first. Our base government business has remained more or less flat for a long time. This business is steady and renewing with longstanding customers expected to continue renewing as they have for years. Some have slight increases expected, including a few new programs starts in the last half of the year. So this business is expected to continue at historical run rates with a slight trend up.

Shifting to our enterprise business. Over the last several quarters, we've made substantial progress with the launch and commercialization of our Shield solution.

We took Shield from a concept in late 2019 to working Beta in early 2020, and finally to general availability in January of 2021. As with all new product launches, we had early customers who were patient and supportive while helping us get the solution to market. But some customers found certain bugs and corner cases, which they felt needed fixing. From March 10th through early July 2021, we made upgrades to Shield, fixed several bugs and started shipping the latest version in July.

We've also separated our core Shield code updates from our reputation/Whitelist updates, so these can be made daily or as needed. Of the things we upgraded, the most important one was related to a future Google tracking change, where DNS common names are beginning to be used instead of cookies to track users. This was a fundamental change in how DNS redirect chains are used and this change in Shield rules prevents false positives, blocking otherwise good sites to ensure our false positive rates stay very low going forward.

As for the non-geek summary, I've told the sales force, there are no showstoppers or reasons to hold back. Shield was good when we launched it and is far superior with the July 2021 release. We will continue to evolve Shield to meet the needs of the market.

We continue to be committed to a channel first distribution model for Shield, both domestically and internationally, to help reduce sales cycle times and barriers to entry. We're also seeing strong demand in the federal government and we'll continue our focus there.

I think it's critical that we better leverage our distribution partners to introduce the prospective customers to the benefits that Shield offers to their security. Although we have secured a few early customers, we're working diligently on signing more customers. Of our initial two large customers, one has proceeded with a deployment plan and the other has changed its CISO and hasn't committed to a deployment schedule yet. But the overall process of launching a new cybersecurity solution to the marketplace and the implementation of our solution across a global organization has been slower than we anticipated. But that has not changed our focus or belief in the efficacy of Shield and the valuable protection it offers customers in helping them fight the growing war on cybercrime. With so many recent global network breaches, it's very clear the market needs a more effective solution to these threats. We remain convinced that Shield stands to be a critically important part of the solution. Overall interest in our solution remains high, and the recognition we are receiving is increasing.

You should know that we're establishing a new advisory board of technical cybersecurity experts and executives, who will collectively serve as a valuable resource to help us further refine and optimize our go-to-market strategy. They are already opening doors for us and assisting us in new opportunities.

We've also reached out recently to independent labs and product reviewers, such as IDC's former Research Vice President, Charles Kolodgy, who currently does cybersecurity consulting and should have his review of Shield by the end of the month; and Ten Mile Square, a product testing company, has just published its findings from their testing of Shield that we can make available to customers. We hope that these new reports will add new objective perspectives that will further validate our plans regarding Shield.

Finally, we've asked our CMO, Gary Davis, to apply the data-driven rigor and go-to-market discipline he brought to our marketing efforts to lead our sales team and build a more consistent and predictable sales forecast, driving higher closed-deal volumes. He will also drive tighter alignment between our sales and marketing teams. He started in this capacity earlier this week.

Now Gary will share a few words of our participation at the Black Hat event last week.

Gary Davis

Thank you, Joe. I look forward to applying the techniques I used at companies like McAfee and Intel to help propel Shield's efforts on the sales efforts going forward.

Let me now share some results from our presence at the important Black Hat security conference last week. For those unfamiliar with our space, Black Hat is one of the most significant conferences in cybersecurity. This year, we had both a physical and a virtual presence. Our booth was between CrowdStrike and Darktrace. It's difficult to say specifically, but I would say we had over twice as much traffic as either of those companies. In fact, we had such a long line at our booth that some of the Darktrace booth staff started to survey those waiting in our line. We had 4 live demo stations, which were busy nonstop. Some verbatim comments from those attending include:

"You guys look like you're here for business."

"I've seen you guys everywhere here at the event and want to find out more about your products."

And that's just a sampling. I could not be happier with how the event went. We are still working on the numbers, but between the virtual and live event, I would say that we now have over 200 qualified opportunities and new channel partner leads to work on.

Back to you, Joe.

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

Thanks, Gary. In closing, I want you know that we understand how difficult this period has been for you, our valued investors. We want you to know that we still believe firmly that Shield is a powerful and effective solution for helping organizations fight cybercrime, which is a major global crisis today. Though the sales cycle for Shield will take longer than we anticipated, the feedback we continue to receive from our customers and prospects remains encouraging. As more details become available regarding our progress in the areas I've outlined, we'll provide them to you as soon as we can. On behalf of INTRUSION's employees and the Board, I want to thank you sincerely for your patience, trust and support as we continue our efforts to grow our government business, once again, while we also are working to establish Shield as a unique and powerful tool for fighting the increasing prevalence of global cybercrime.

With that, we'll open the call to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Zach Cummins with B. Riley Securities.

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

I appreciate all the incremental information around the recent changes of the company. I mean Franklin, just starting off, it's nice to see that some revenue was generated from Shield this quarter. Any sense you can give us on kind of the average roughly price being paid? Is it still safe to assume somewhere around \$20 a month?

B. Franklin Byrd - *Intrusion Inc. - CFO*

Yes. I now know our policy is not to really talk about what's in the customer contracts, and we're not going to do so here. But Joe, if you want to add to that, I don't know, that I got much more to add to that Zach.

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

In general, though we're quoting it at the \$20 and then our resellers get a discount off of it. So in general, that's our going in, it's sort of \$20 or \$14 if you look at the 30%-off thing.

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

Got it. That's helpful. In terms of the backlog, I guess, of signed seats for some it had last up...

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

The other comment I'd make, though, is that there's certain markets that we've had a little progress in like education, where you start looking at the ratio of staff to students. And so there's some price adjustment you have to do in the educational market, that's reasonably the same across the industry. If that makes sense.

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

Understood. Completely. That's helpful. And I mean, in terms of the last time, you updated on kind of the backlog that you had for Shield, I think it was over \$50,000. I mean, any update you can give around that? It sounds like at least one of those customers is moving forward, while the other is still kind of regathering itself after a change in leadership?

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

Yes. We're -- I think the best answer is we're -- Gary has in the process of restacking all of our opportunities as well as the things on the backlog to see how those will progress. And I think our idea is to get that stuff in a less fuzzy state and then give you guys some periodic updates on how that's proceeding. Like Gary said at Black Hat and in the commercial world, we're chasing a lot of nice opportunities. The question is, how do you put numbers on them and when?

Gary Davis

But Zach, I think your question is more tied to past deals that we've closed, right?

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

Yes. Yes, that's correct.

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

Yes. So yes, one's got a schedule, and we'll have some good clarity for you on revenues as the quarters click by, but one's proceeding, one's pausing, but then we have some others that we're working that will be falling in place as we go forward.

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

Understood. That's helpful. And Gary, I mean, with you taking over the sales operation now, I mean, can you give us a sense of maybe some of the changes that you're thinking of making and some of the techniques that you've used in your prior experience here that you want to adopt here at INTRUSION?

Gary Davis

Well, in certain words, we're going to stay channel-tuned first, that gives us the quickest time to market. Typically, resellers and distributors have a network of customers that they can bring to the table, so we're going to stay committed to that. I have noticed, just to be transparent, this change happened this week, so still kind of working through and understanding where I need to lean in a bit more. One of the areas I think that we could drive more traction is from coming up with the comp plan that's more compelling for our reps as well as our channel partners. We need to make sure they're properly incented. And so I'm looking to -- at things I can do there to make sure they have the proper motivation incentives to go sell as quick as possible. That's one thing. We're also looking at finalizing a value-added distributor that covers Europe and the Middle East. We're also having discussions with a top 5 distributor that has some 3,100 resellers in their network and are really close to signing them as well. So there's several things we're doing to make sure that we get as many resellers as possible, getting Shield in front of their end-user customers.

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

Understood. That's helpful. I appreciate the context. And Franklin, I saw a kind of a nice jump in deferred revenue here in Q2 on the balance sheet. Is that related to Shield revenue being booked?

B. Franklin Byrd - *Intrusion Inc. - CFO*

No, that's not. That's actually our legacy product. Cash and receipt, yes.

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

Got it. Okay. Helpful. Then I guess on that legacy business, it sounds like it's starting to stabilize, and then maybe you can see an uptick there. I mean, what's the overall strategy, I guess, in terms of trying to leverage that to drive more Shield adoption in the government?

B. Franklin Byrd - *Intrusion Inc. - CFO*

Yes. I'll tell you a little bit about the way I'm seeing it. It's moving what I'm hearing and then maybe Joe might have some more input on how to leverage that into the Shield business. But yes, we are seeing an uptick, and I hope and believe you will see an uptick in -- as we actually move more into Q4 on that. As you probably know, some of the congressional budgets have been on -- kind of on hold for a little while, sitting behind the infrastructure budget that was just approved. So we're here and starting to get calls about potential new business there. So -- but Joe, do you want to comment...

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

Yes. I mean I put some words in my prepared remarks about the government business, but it's been relatively flat for a while with reasonable contribution to the bottom line on the profit from the GPM side. We do see a couple of new programs -- well, one new program start, that's a good one, plus we've got some increased spend and some legacy ones. So I mentioned in the comments that we expect an uptick in revenues from the legacy. And then if you turn to the Shield government side, I guess, the center of my and Gary's focus has been taking that to the commercial -- to

the boring commercial world if you come at it from a government guys perspective. However, I've got a number of government programs that they say they're picking us and they've rumored amounts, which are non-0 and appreciable.

Gary Davis

And compelling, I would say.

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

Yes. But those haven't made their way through when, who's going to place an order for what. But I do think there's some good uptick there, and that's particularly leverageable because they're a long history knowing the people that are making the choices is they know that you need a product like Shield to get it done, and we're already working from the side of being friends of the government techies that know what works and what can't.

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

Understood. That's helpful. And Franklin, in terms of, I guess, just restructuring your overall operating expenses, I mean, headcount down to 76, I believe you said now. I mean, how should I be thinking about operating expenses as we kind of go-forward here in terms of what you guys need to continue to pursue growth opportunities for Shield?

B. Franklin Byrd - *Intrusion Inc. - CFO*

No, that's a great question. If you kind of look at our headcount, it kind of resembles our Q1 headcount. So I see right now, by Q4, we're going to be, for OpEx and employees, et cetera, it will be more in the Q1 range. And that kind of makes sense. I think we're kind of -- we're launching again almost. We're still different strategies, different people, different structures a little bit, but we're launching just like we were in Q1. So Q4, I think it's going to look a lot like Q1. Q3 is going to be a hybrid, right? Because we started a lot of this. Our reduction in force was not quite midway in, but a third way into the Q3 and the winding down of some of the -- we're doing -- there are some cost initiatives that we've undergone in Q3 that you'll see the full benefit for in Q4. So Q3 will be kind of a mixture between Q2 and Q4.

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

Understood. And yes, absolutely. I appreciate it. Thanks. And then in terms of your funding for going forward, I mean, it seems like you have some initiatives in place. But I mean, can you just give us a sense of kind of where you're at from a cash perspective now and kind of how we should be thinking about the necessary funding going forward?

B. Franklin Byrd - *Intrusion Inc. - CFO*

Sure, sure. I mean, as you saw, we closed the quarter with a little over \$9 million on the balance sheet, and we're going to be very judicious with our spend. It's a little bit changes on our approach here, and we're going to find other ways to supplement that as we roll out the new Shield product, just a little slower than we originally anticipated. So I know that you've seen and modeled and commented on our release today that about the shelf registration that we filed last week. We do expect to use some of the funding from that to kind of help fund some of the negative cash until Shield comes online fully, and we feel pretty comfortable about it. We've also talked about other strategic options that are a little less vetted at this time, with just kind of like early discussions, so I'm not going to talk about those today, but I'm happy to talk more about the shelf.

Operator

Your next question is from Russell Cleveland with RENN Capital.

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

One suggestion, as I do a lot of these calls is to limit the questions to people, so you don't have someone talking for 20 minutes. But I've got a very simple question. It seems like Shield is such a great idea and the sales cycle seems to be way off here. So give me some flavor about the sales cycle. I mean, it seems like a no-brainer for companies to join this. And you mentioned in your comments that it was more like other software. So give me some thoughts on why the sales cycle was long and how -- what do we think we're going to have to do here to get the Shield moving as it should be? So it's all about the sales cycle, if you could comment on that.

T. Joe Head - Intrusion Inc. - Co-Founder & CTO

Yes, 100%. This is a product which is highly differentiated from anything we've ever seen before. I've been in the market for years, and years as well. The distinction is the buying centers are the buying centers, right? And they're accustomed to buying software and services in a certain way, right? So no matter how innovative Shield is, you're still going to have to be beholden to the process that a typical large company procurement would go through. And I think that was the thing that we didn't really respect when we were doing some of our early planning. And again, I think you're spot on that the thing that we need is going to kind of break us through the impasse is, once we get enough momentum with early adopters, and those early adopters are kind of proving what we say it does, along with these reviews and independent tests, that that's going to be the thing that's going to really help open up the dam and really start driving a huge amount of opportunities to Shield. Does that answer your question?

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

Well, yes, is it -- are we talking 30 days, 90 days, 6 months, a year, what's your thought on the process now? And maybe we just don't know.

T. Joe Head - Intrusion Inc. - Co-Founder & CTO

Well, I think the typical sales cycle right now is closer to 6 months. I think once we get that critical mass of customers under our belt, it's going to shrink significantly. Probably the most aggressive we would ever see it was going to be probably 30 days, and that's once you're well established, you're well-known and your value is well understood. In fact, last quarter, I believe we had one customer that cradle to grave was less than 60 days. So some of those are happening now, but I wouldn't say that that's the norm. That's more the outlier than what we're seeing.

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

Cradle to wedding, you said grave.

T. Joe Head - Intrusion Inc. - Co-Founder & CTO

Yes, I guess cradle to wedding.

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

That's the order.

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

Bad choice of words.

Operator

(Operator Instructions) Your next question is from Howard Brous with Wellington Shield.

Howard Brous

Joe, you had mentioned earlier 2 things. One, tell me about -- you mentioned 2 specific reports, one from IDC and one from CMO that talks about Shield, and that it works. You mentioned you're spending that -- go ahead, you talk.

Gary Davis

Let me clarify that. I'll start with that one. The -- what we said, we had an independent testing company called Ten Mile Square which actually compared the Shield to our marketing claims. And we got the report back, and I'm happy to report that -- I'm happy to say that the report was very favorable and that we -- that Shield does, in fact, do what we claim it does, which is really what we expected. The other group we're talking to are product reviewers. And one of those reviewers, his name is Charles Kolodgy, he's the Former VP of Research at IDC. He's now has his own company and does security research and things of that nature, but that was just to give context of the type of companies and people we're reaching out to do these reviews and tests.

Howard Brous

Okay. Given that, can the Ten Mile Square report be put on the website, sent to customers' prospects?

Gary Davis

Absolutely. Yes. Yes, we're using it for that. And Howard, one of our goals was to have that ready before we went to Black Hat, and we had -- a number of our resellers were there. Some of them were actually looking for independent confirmation. And since we had that, we can lock and load and then started to bring their customers by the booth. So that was a helpful thing to have.

Howard Brous

Someone I know attended Black Hat and said that you guys were absolutely logged. Tell me about it.

Gary Davis

We were. In a good way, in a good way. It was funny because we had -- this is our big coming out. I think everybody would agree that INTRUSION forever had been kind of sitting in the wings, waiting for something to happen, and it was literally refreshing to be between CrowdStrike and Darktrace, which are 2 goliaths in the space right now and see all the traffic kind of going by them right to our booth and we were busy non-stop. We had 4 demo stations, we were constantly being engaged. We had a line for people who wanted to get coffee. It was just energy...

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

20 to 40 in the booth at the time. The low ebb, I saw was 30 minutes before close. We had 4 people there, and then we got mobbed again.

Gary Davis

Yes. No. So it's -- from a pure marketing and sales perspective, that's what you want. When you leave that event and everybody's high fiving and they're saying how we've got to get all these new opportunities and start closing deals. It's a good position to be in for sure.

Howard Brous

Great. Let me go off on a tangent and get back to the original business, TraceCop and Savant. You were several years ago before COVID, before the government basically shut down, you were generating \$15 million, \$16 million in revenue. What are your chances of coming to that level, say, in Q4, annualized, of course.

T. Joe Head - Intrusion Inc. - Co-Founder & CTO

We won't be that high again. That -- when we hit \$15 million, that was sort of an aberration of a gift where we got \$9.3 million in unspent funds in 2019, if I remember correctly. So if you look at our steady state, it ran about \$8 million, \$8.5 million a year, and we'll do better than that this year because we've got some new program starts, but it currently won't be -- I don't think it will be above \$10 million based on what we see right now. So it's up, like I said, up a little but not stunningly. So I think \$9.5 million is probably where we get to with what we see.

Howard Brous

All right. Fair enough. And at similar gross margins that you've experienced in the past. Is that correct statement?

T. Joe Head - Intrusion Inc. - Co-Founder & CTO

Yes, no change there. And then I do think -- you hinted at one thing. We do believe that Savant as a supplement to Shield in the government space will be a thing in deeper analysis. And we've actually been so busy with Shield and every other thing we've been doing that we haven't gotten around to come out with a new pricing model for Savant. But I do believe that's essential and will contribute and be an upside for us.

Howard Brous

Two more comments. One, TraceCop, how many bad IP addresses you currently have in your background of Tracecop? Last time we spoke with you, you're talking about 3.5 billion.

T. Joe Head - Intrusion Inc. - Co-Founder & CTO

Those are still conservative and roughly correct. So the 8.5 billion we've been quoting that has the 3.1 and 5.4 billion is still about correct. However, we understated it to the extreme, so there's a lot of IPv6 in there. And it's actually like ten to the 42nd power of the whitelist that's already loaded. But even if people take off their shoes and socks, they can't count that high. So we've stayed with the 8.5 billion for marketing purposes, but it's conservative and amazingly lower than what we actually loaded.

Gary Davis

It's important from a marketing perspective that we have highly defensible numbers, right? And you can come in those type of numbers, they're easy for people to get their heads around. And so we tend to lean into that number. But to Joe's point, the number is much higher than that. It's just -- you've got to be careful that your marketing claims are something that people can understand.

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

Yes. So these are very conservative numbers. And part of the thing is I'm not going to give somebody a whole list so they can check it because that's a very valuable list.

Howard Brous

So last but not least, given the number, evaluation of TraceCop, which you and I go back many, many years about the same question, is certainly, could I assume that it's initially greater than the last sale of the stock, \$4.70? Is that a fair comment?

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

I believe so, yes.

Gary Davis

I mean if you look at our space, just to add a little bit more color to that, please, most all the cybersecurity companies, that's what they value, right? The threat intelligence they have that informs their products is how they work. And our threat intelligence, to Joe's point, is very unique and very substantial compared to every cybersecurity that I'm aware of. So I think that the share price, and this is just my opinion, is not reflective of just the value that what's in TraceCop alone.

Howard Brous

So if you had a competitor who had something similar to TraceCop, what number do you think he would have in terms of the number of bad IP addresses?

Gary Davis

Well, just to be clear, most cybersecurity companies don't use IP as these signatures, and it's very different. My last company, we talked about our global threat intelligence having a petabyte of data, but it was all signatures. It was all based on a known malware we would create a signature to help stop that malware from infecting our customers' devices. And what we do with Shield and TraceCop is very different than that. Now you look at IP, so we're getting ahead of when something could -- would attack you and affect you negatively. So it's a very different type of threat intelligence. It's value is no less. It's just different.

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

But most -- I mean, most of the block lists range about 300,000 when you start looking at what's known by signature, some of them might flower that up to 1 million, but we kind of start. But I think the thing that's really wrong about most people's approach is, if you list all the things that you know are bad, that's different than being the guard at the White House and only letting in the people then that you know that have a badge. And so a whitelist says, I know and I trust this IP in this whole thing. A blacklist as I know you're a terrorist, a shooter, a sniper, a bomber, but then there's that whole vast area of people that you don't let in your house that are just -- I don't know you, so goodbye. And so being Whitelist- oriented says, I have good reputation for these. I just don't know the rest of these. It's that space that lets us block unknowable things because they come from a space for which there's no reputation. So sorry for all the words on that, but I think that fundamental difference between small blacklist and immense trust ratings is where our secret lies.

Operator

Your next question is from Gary Schade with Gary Schade Auto.

Unidentified Analyst

I was looking at the July 23rd SEC report, it talked about Jack Blount being terminated. I wondered if you could tell me why.

Anthony J. LeVecchio - *Intrusion Inc. - Executive Chairman & Principal Executive Officer*

Yes. This is Tony LeVecchio. We basically have filed an 8-K and all that detail is in there.

Unidentified Analyst

Yes. I've read it. And it didn't explain very well to me what happened.

Anthony J. LeVecchio - *Intrusion Inc. - Executive Chairman & Principal Executive Officer*

I mean, if you kind of look at what's happened, we are short on revenue and we went far beyond our expense levels, and we really needed to recalibrate. And fundamentally, the Board and the CEO didn't necessarily agree on the strategy. So it's -- I certainly wished that Shield had taken off with the volumes that we had initially hoped for, but it didn't. So we then needed to pare back our expenses accordingly, and that's what we've done. We've also got a lot of interesting opportunities that Gary and Joe will address and tackle for us so.

Unidentified Analyst

Yes. Tony, do you plan on staying on as the CEO or does your Board have an idea of who will carry on as CEO in the future?

Anthony J. LeVecchio - *Intrusion Inc. - Executive Chairman & Principal Executive Officer*

Yes, it won't be me. I'm not an operating guy, I'm doing this until we kind of sort through all the plans and strategies, and then we'll have a replacement. I can't tell you exactly when. I think right now, we're trying to get our arms around all the things that Gary and Joe and Franklin have talked about.

Unidentified Analyst

Sure. Yes, I've listen to Jack speak of your products and the artificial intelligence angle and the advantage that your products have over other companies. And I've run my own companies and certainly had to loan them money for years and years, keep them afloat while the sales were ramping up. And so I was just concerned because I've invested \$400,000 of my money in INTRUSION, and I got to be honest with you, the elephant in the room is, I invested in Jack Blount. Not Joe Head or Franklin Byrd, so I'm just worried about my investment, and I just would like some assurance that the Board is going to take care of my investment.

Anthony J. LeVecchio - *Intrusion Inc. - Executive Chairman & Principal Executive Officer*

Well, the Board definitely is interested in taking care of your investment and every other shareholder's investment. I mean, quite honestly, we got behind on the revenue. We got way ahead on hiring. And we also had to have some fiscal responsibility here. And we -- if things are going to be slower, we have to slow down the spend and that's exactly what we're going to do. And that's exactly what we've done. That doesn't mean we've

lost interest. I think if anything, we have additional validations that the product works and the product is dynamic, as Jack described. So we don't disagree with that at all. It's just that when things are slower, you just can't necessarily keep spending at a level that you can't sustain. So that's regrouping.

Unidentified Analyst

And borrow the money to do just that.

Anthony J. LeVecchio - *Intrusion Inc. - Executive Chairman & Principal Executive Officer*

Well, a lot of the big companies that you look at, excuse me, that we compete with have spent hundreds of millions of dollars. We raised \$18 million. We're down to half of that. So you got to live within what you could afford and we have some very, very interesting opportunities, and we're going to pursue those. It may not go as fast as we'd hoped it would go, but what we've really found is that the customers, because our approach is a little bit unique compared to what the industry is seeing, said, gee, I don't know if I want to let you inside my firewall initially. And secondly, we want to evaluate this a little bit longer. So the overall picture that Jack painted is a good picture, it's just going to take longer. And we're going to probably have to slow down the spend, which will take a longer time to get to where we all hopefully would have gotten sooner.

Unidentified Analyst

Well, one last question is, the company opened to rehiring Jack?

Anthony J. LeVecchio - *Intrusion Inc. - Executive Chairman & Principal Executive Officer*

We haven't entertained that one way or the other.

Unidentified Analyst

Well, some of your shareholders hope you do.

Anthony J. LeVecchio - *Intrusion Inc. - Executive Chairman & Principal Executive Officer*

Okay. Good to know.

Operator

And that concludes the question-and-answer session for today. I'll hand the conference over back to Joe Head for closing remarks.

T. Joe Head - *Intrusion Inc. - Co-Founder & CTO*

Thank you, operator. Before closing the call, I want to quickly highlight several upcoming events at which INTRUSION will be participating. We plan to host meetings with investors at the H.C. Wainwright Conference on September 14th. And we will also attend 2 important cybersecurity technology conferences, the Gartner Security & Risk Management Conference, September 20 through 22nd and Global Security Exchange, September 27th to 29th. Then we're also planning to participate at Black Hat Europe in November. Please contact the Shelton Group if you'd like to schedule a meeting with us during the H.C. Wainwright investor event. Thank you again for joining us on today's call and for your continued support of INTRUSION. Operator, you may now disconnect the call.

Operator

Thank you, sir. For all participants, thank you for joining. This concludes today's conference call. You may now disconnect. Stay safe and healthy.

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