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Intrusion Inc. NasdaqCM:INTZ

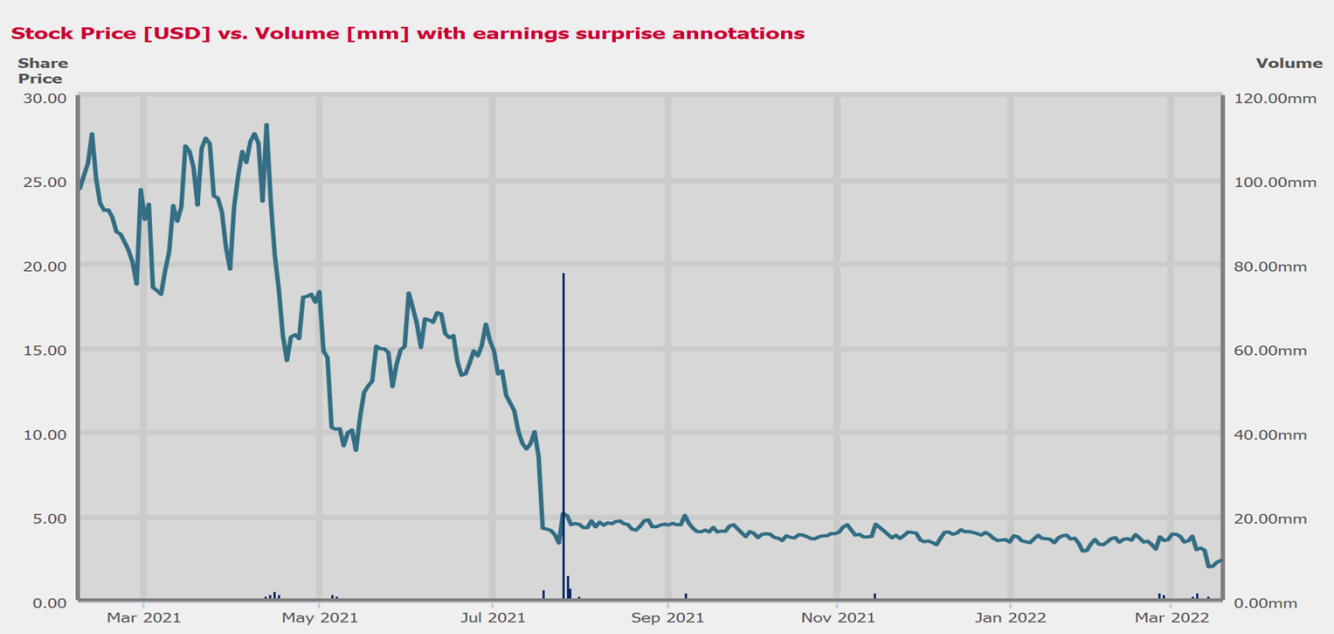
FQ4 2021 Earnings Call Transcripts

Thursday, March 17, 2022 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	(0.18)	(0.20)	NM	(0.19)	(0.98)	(1.05)	NM	(0.52)
Revenue (mm)	2.38	1.64	▼ (30.67 %)	3.40	8.01	7.28	▼ (9.11 %)	16.25

Currency: USD
Consensus as of Feb-15-2022 12:30 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	(0.12)	(0.22)	NM
FQ2 2021	(0.20)	(0.28)	NM
FQ3 2021	(0.25)	(0.34)	NM
FQ4 2021	(0.18)	(0.20)	NM

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Call Participants

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Zachary Cummins
B. Riley Securities, Inc., Research Division

ATTENDEES

David Freund

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Intrusion Inc. Fourth Quarter and Full Year 2021 Conference Call. [Operator Instructions] Thank you. David Freund, you may begin your conference.

David Freund

Thank you, operator, and good afternoon, everyone. Thank you for joining us to discuss Intrusion's fourth quarter and full year 2021 results. With me on today's call are Tony Scott, Chief Executive Officer; and Franklin Byrd, Chief Financial Officer. The call is being webcast and will be archived on the Investor Relations section of our website.

Before I turn the call over to Tony, I'd like to note that today's discussion will contain forward-looking statements based on the business environment as we currently see it. And as such, it does include certain risks and uncertainties. Please refer to our SEC filings for more information on the specific risk factors that could cause our actual results to differ materially from the projections described in today's conference call. Any forward-looking statements that we make on this call are based upon information that we believe as of today, and we undertake no obligation to update these statements as a result of new information or future events.

In addition to U.S. GAAP reporting, we report certain financial measures that do not conform to generally accepted accounting principles. During the call, we may use non-GAAP measures if we believe it useful to investors or we believe it will help investors better understand our performance or business trends.

And with that, I'd like to turn the call over to Tony.

Anthony E. Scott
President, CEO & Director

Good afternoon, everyone, and thank you for joining us today. I'm pleased to update you on our recent performance and our progress with respect to our previously announced strategy. In January 2022, we outlined our strategic priorities and medium-term plan for Shield. We enjoyed the opportunity to highlight Shield's unique cybersecurity offering and demonstrate how we are driving the business forward. While there is still much work to be done, I'm pleased to say that we are making tremendous progress on our stated initiatives.

First, we took swift and direct action in the fourth quarter to realign our sales and marketing resources while ensuring our ability to participate in the growing demand for cybersecurity threat protection. These actions were necessary to stabilize expenses and to rightsize the organization.

Second, we are in active and fruitful conversations with several strategic and premier channel partners that can help expand Shield's exposure, generate revenue and can be a force multiplier for Intrusion's sales and marketing. Additionally, we have realigned our messaging and marketing to highlight how INTRUSION Shield products complement existing cybersecurity solutions that an organization may already have in place.

And third, as you saw in our 8-K and press release, we improved our financial flexibility by entering a $10 million unsecured notes offering with Streeterville Capital in the first quarter of 2022. As a reminder, we aim to raise a total of $15 million to $20 million in the year. The proceeds of our fundraising, combined with our existing financial tools, will enable us to invest in Shield and ensure that it's the best positioned solution to address modern cybersecurity challenges, including zero-day attacks.

As a result of these actions, Intrusion is a more stable, efficient and disciplined enterprise that possesses the ability and agility to respond appropriately to rising demand and customer needs while preserving

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financial prudence and accountability. We remain focused on driving operational excellence, developing innovative new products, and generating value for our customers and our shareholders.

Before I turn the call over to Franklin to discuss our financial performance in more detail, I'd like to take a moment to provide a high-level overview of our progress with Shield and our expectations for our legacy consulting business.

Shield adoption continues to gain traction, and we expect it will continue to become a greater portion of our revenue moving forward. Additionally, we are engaged in an increasing number of customer pilots and proof-of-concept installations working with and through our channel partners. While we are encouraged by the positive early feedback we are receiving, it's still too early to quantify the impact these trials will have on our full 2022 results. Still, we are setting a solid foundation for the company to build upon in 2022 and beyond as we create a solid base of annually recurring revenue.

Further, when I introduced myself to everyone in January, I mentioned that we are working on several new innovative Shield products that we plan to unveil in the second half of the year. These offerings include a cloud-based product; a shield endpoint product; and a high availability, high throughput option that will be hardware-based. I'm pleased to say that the development of these new products remains on track and on schedule. We still expect to roll out these products in the second half of 2022, with some having demo capability in the coming quarter.

Finally, let me turn to our consulting business. While that business was limited by a continuing resolution, otherwise known as a CR from the government sector in 2021, which restricted funding for new projects, this business still performed well in the year and remains a healthy part of our business. We continue to invest. And as the CR has now ended and there's a full budget, we expect an increase in revenue for our consulting business. The combination of an increasing number of proof-of-concept demos and the end of the continuing resolution established a strong foundation for the business and could result in upside to our 2022 results.

In summary, we recognize that we still have work to do along our plan for developing our organization, raising needed capital, developing an enhanced product offering and delivering sustainable results. However, I'm pleased by all the progress we have made so far. We realigned our sales and marketing resources, developed relationships with several strategic and premier channel partners and improved our financial flexibility by entering into a $10 million financing agreement with Streeterville Capital. Shield continues to accelerate with a growing number of prototypes and demos, and we expect healthy growth in our consulting business in 2022.

The cybersecurity landscape is changing rapidly, with zero-day attacks being more prevalent. And Shield is uniquely suited to help enterprises adapt to the changing environment and see the previously unseen threats to their networks. Going forward, we will continue to refine our messaging while utilizing value-added channel partners in our executive-led direct sales model to drive Shield's growth. I'm excited about what Intrusion will do in 2022, and I look forward to updating you on our progress.

And with that, I'd like to turn the call over to Franklin to discuss the financials in more detail. Franklin, over to you.

B. Franklin Byrd
Chief Financial Officer

Thanks, Tony. Revenue for the fourth quarter of 2021 was $1.6 million, which is in line with our fourth quarter 2020 results. Full year revenue of $7.3 million increased 10% year-over-year. The increase in our full year revenue was primarily due to the Shield revenue that we received in 2021.

As a reminder, we introduced Shield in 2021, and we are pleased with the early progress we are making with that product. During the fourth quarter, Shield accounted for 12% of our revenue, which is relatively in line with the third quarter of 2021. As Tony mentioned, we are pleased with the traction we're seeing on Shield, and we expect the revenue contribution to continue to improve moving forward.

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Gross margin for the fourth quarter was 65%, an improvement from 58% for the fourth quarter of 2020. The full year gross margin was 64%, expanded from 59% in 2020. The improvement in gross margin is primarily due to the increase in Shield sales. We expect the gross margin to continue at its healthy levels and possibly improve further as Shield adoption continues.

Fourth quarter operating expenses were $4.9 million, which is in line with our fourth quarter 2020 results. As a reminder, the fourth quarter 2020 operating expenses included a $1.1 million noncash write-off for the abandonment of a prior office lease.

Operating expenses for the full year were $24.2 million, up 132% from 2020. The increase in operating expenses was largely driven by the higher sales and marketing costs. While our sales and marketing expenses were unaligned with our Shield adoption rate for the first part of 2021, we quickly corrected those issues and recalibrated our go-to-market strategy. Operating expenses for the fourth quarter were at the lowest levels in all of 2021, and we expect operating expenses to remain stable following our swift action to rightsize our sales and marketing resources. Additionally, we expect headcount trends to be steady for the near future.

Net loss for the fourth quarter was $3.9 million or $0.20 per share compared to a net loss of $3.9 million or $0.23 per share for the fourth quarter of 2020. The full year net loss was $18.8 million or $1.05 per share compared to a net loss of $6.5 million or $0.45 per share in 2020.

Turning to the balance sheet. As of December 31, 2021, we had cash and cash equivalents of $4.1 million, down from $16.7 million in the prior year. As of December 31, 2021, working capital was $2.1 million, down from $16.2 million in the prior year.

As Tony just highlighted, last week, we closed on a financing where we sold a 7% unsecured note under securities purchase agreement with Streeterville Capital. The aggregate principal amount of this note was $5.4 million, and we received $5 million less certain reimbursed expenses.

We also received an option to sell a second 7% unsecured note on similar terms as the first note. Our option to sell the second note is subject to certain conditions, including that within 180 days of issuance, we obtain stockholder approval under NASDAQ rules for the issuance of more than 19.99% of our outstanding common stock in connection with potential redemptions of the notes. Each note has an 18-month maturity. And 6 months after a note has been issued, the noteholder can submit to redemption notice for up to $500,000 per note, which we can choose to satisfy subject to certain exceptions and limitations in cash, common stock or a combination of both. This financing enables us to meet our operational needs while prudently investing in our new Shield products.

Additionally, our ATM facility remains in place, and we will utilize it opportunistically to finance our operating activities, invest in Shield as well as potential note repayments.

Before turning the call over to the operator for Q&A, I'd like to echo some of Tony's earlier remarks. Despite a challenging 2021, we still delivered double-digit top line growth and healthy gross margin expansion driven by our Shield product's growth. We acted swiftly to realign our sales and marketing resources and our go-to-market strategy, and our expenses declined to manageable levels as a result. We are encouraged by the interest in our Shield products and the ending of the continuing resolution as a tailwind for our consulting business. 2022 will be an exciting year of Shield and look forward to updating you on our progress.
With that, we can go to Q&A. Operator?

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Question and Answer

Operator

[Operator Instructions] Your first question comes from Zach Cummins with B. Riley Securities.

Zachary Cummins
B. Riley Securities, Inc., Research Division

Tony, the first one, can you give us a little more insight into some of the feedback you received from your ongoing pilot programs that you have for Shield? I think in the press release, you mentioned you have 18 pilots or proof of concepts going on right now.

Anthony E. Scott
President, CEO & Director

Yes, I'd be happy to. So let me do a little bit of context setting for it. So in the part of Q4 and early in Q1, we've been focusing on really strengthening the relationship with our channel partners and resellers in particular. And in particular, those that have been putting resources in place, going through training, understanding how to sell and use the product, et cetera. And so that activity has borne fruit and has led to these pilots that we mentioned and proof of concepts.

And the feedback has been great, and we've learned a number of things from our customers in terms of how they want to use the product and the value that they see in it. So we're encouraged by that feedback. And of course, every customer has special things that they want to see done, and we're taking that into account, and we'll put those requests into our engineering pipeline. But so far, I'm quite pleased with the reception that we're getting.

Zachary Cummins
B. Riley Securities, Inc., Research Division

Understood. That's helpful. And in terms of your new marketing and messaging for Shield, I mean, I know it's still pretty early in terms of the change in approach and how you're marketing this to both people and partners. But is there any insight you can share in terms of maybe the feedback you've received since you've had this change in messaging and kind of how that's opened up your conversations with both potential customers or strategic relationships?

Anthony E. Scott
President, CEO & Director

Yes. And again, just to bring everybody into the same conversation, when I came on board and talked to both people internally and some of our external customers and people we had relationships with, I was getting very mixed messages about what Shield did, what it was good for. And there was no bad answers there, but it was confusing, I think, to the market price. And in some cases, people thought we were trying to replace an Intrusion detection and prevention device. In other cases, people thought we were a firewall and we were trying to replace whatever firewall technology they had in place and so on.

And so our new messaging, which I think is very accurate in terms of where we provide added value, is that we help make all of the other solutions that you may already have in place work better. We help you see things that you're not probably currently seeing and know things about traffic in your network that you probably don't know or see today. And indeed, that's what we're seeing with our customers. They're quite intrigued by the traffic that they now have visibility of that was slipping by before.

So as a part of that new sales approach, we're not going in saying we're a better firewall or a better IDPS or whatever. We're saying, "Hey, let us show you how we can make all the other stuff that you have even better." And that seems to resonate. And even in Intrusion, we use our technology in combination with other technologies as well so we're not unlike I think most other organizations.

Zachary Cummins

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B. Riley Securities, Inc., Research Division

Understood. That's helpful. And final question for me is really around your consulting business. It's nice to see that stabilize in a pretty tough environment in 2021. But can you just talk about maybe some of the growth opportunities you see ahead here now that you have the resolution done and out of the way with an official budget in place? And is there opportunities to be able to embed Shield into some of that existing consulting business? And maybe some of the cross-selling opportunities you can see with that product?

Anthony E. Scott
President, CEO & Director

Yes. I think those that are familiar with our consulting business know that we're primarily DoD-focused. And we've spent the last -- ever since I joined in November in particular, but in January and February, beginning to focus on the civilian side of the federal government, where I have actually strong relationships because of prior roles. And also, I think we have a great opportunity to engage with state and local entities as well. So we think there's a great potential for upside for that legacy sort of consulting business. And we're going to continue to invest in that. And I think one of the values there is that, particularly on the federal side, they see a lot of things before anybody else does. So it's a great source of -- for us of understanding where the puck is headed, if you will.

Operator

Your next question comes from the line of Scott Buck with H.C. Wainwright.

Scott Christian Buck
H.C. Wainwright & Co, LLC, Research Division

I'm curious in the current, I don't know, global environment whether you guys are getting more incoming calls given heightened tensions with a hacker hotbed in Russia.

Anthony E. Scott
President, CEO & Director

Well, let me answer it this way. Any time there are world events that get people's attention, whether it's the hacking of a major institution or anything related to cyber, it tends to increase the number of calls that we get and interest in how we might be able to help. So the current situation is no different, and we have noticed a significant increase in people wondering if something that Intrusion can do can help them. So you hate to, in some ways, be the beneficiary of some of these world events, but nevertheless, it is absolutely a factor.

Scott Christian Buck
H.C. Wainwright & Co, LLC, Research Division

That's helpful, Tony. And then in terms of educating your channel partners on the Shield product, I mean can you give us a little color on that process and time line and when those relationships really start to accelerate sales?

Anthony E. Scott
President, CEO & Director

Well, in the case of these resellers that we've been very focused on the last -- since November and now during the quarter, we're engaging in sales training or making sure they have all the support materials that they need. We're making sure we have the support processes in place so that when they sell or they have customer questions or whatever, that they're well prepared to both the answer to those questions and support their customers.

We've spent a lot of time making sure that they're equipped with all the tools that they need to both sell and support prospective customers. And the active ones are getting Shield units out in the customers' hands and conducting proof of concepts and doing exactly what we hoped they would do, and we'll ramp that up even more in Q2.

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We just hired a new channel manager who has experience building that kind of capability with cybersecurity products, and we're really looking forward to what he can bring to the table in terms of accelerating us even faster in that space.

Scott Christian Buck
H.C. Wainwright & Co, LLC, Research Division

That's very helpful. And then last one for me. Just on the sequential decline in sales and marketing expense, I'm curious, is that all heads? Or is that lower headcount and a change in how you're actually marketing the product?

Anthony E. Scott
President, CEO & Director

It's both. We did a pretty significant reduction in headcount in sales and marketing, but we also eliminated a bunch of expense that, frankly, we just was not generating results for us. We had a theory of the case about how to go to market that just wasn't working very well, and so we cut out all of the expense and headcount related to those things that weren't working. And we've kept the things that are working and were working, and we're going to amplify those as I previously outlined. So the answer is it was both.

Operator

Your next question comes from Ed Woo with Ascendiant Capital.

Edward Moon Woo
Ascendiant Capital Markets LLC, Research Division

As the COVID cases seems to be coming down if this is return to normal, have you noticed any significant improvement in your sales cycle?

Anthony E. Scott
President, CEO & Director

I don't think we noticed any significant changes at this particular point. I do know that we're getting invited to more in-person kinds of things than we were, obviously, during the height of COVID. There seemed to be more events being scheduled, and people are sort of coming out of whatever cave they've been living in for the last couple of years. So I think that will translate into good things for us. But in terms of the cycle itself, I think it's probably a little too early to tell.

What I do know though is with heightened awareness around cybersecurity and as events take place, people are -- have a renewed sense of urgency, I would say, in terms of improving their cybersecurity posture. And I think in the long run, that bodes well for a shortening of sales cycles, if anything.

Edward Moon Woo
Ascendiant Capital Markets LLC, Research Division

Great. And as you do your restructuring on sales and marketing, you don't really move towards resellers. Have you noticed any changes in your implementation and sales cycles?

Anthony E. Scott
President, CEO & Director

Again, probably a little too early to tell. But I will say, in Q1, we saw a pretty significant increase in both interest and, as I was saying before, motivation on the part of end customers to engage and see whether Intrusion technology can help them or not. So the jury is probably still out on that, but I'm encouraged by what I see in Q1.

Operator

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

George Russell Cleveland

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RENN Capital Group, Inc.

Two questions. The first one, there seems to be a lot of confusion about this offering, $10 million. I wonder if you could go over the whole conversion price. And that when it was announced, it had a very big impact on the stock.

The second question is, will you be able to announce some of our partners and our channel partners that we are relying on? So those 2 questions, if you would.

Anthony E. Scott
President, CEO & Director

Sure. So let me start with kind of our theory of the case, and then I'll have Franklin comment on the specifics of the deal. But when I came in, in November, and I've done my due diligence, there were a couple of things that stood out and that we actually formed our strategy around.

The first one was it was clear to me that we were going to have to invest in some new product offerings, and as I previously announced, cloud and endpoint and so on. And I knew that it was going to take us a half a year thereabouts to get those products in a shape where we could demo and ultimately sell them. And so when you do the math, you pretty quickly figure out that we didn't have the money in the bank at that particular point to fund those activities, and so a capital raise becomes a necessity.

And so our strategy was -- is playing out, and we're right on plan with where I thought we needed to be and where we had planned to be. And so our strategy was raise enough capital to get through the cycle of the 6-month product development and realignment of resources. We've talked before about fixing messaging and marketing and our go-to-market strategy and all of those kinds of things.

So after making the announcement that we plan to raise capital, we were approached by all sorts of different folks with all kinds of different ways that we could satisfy that capital need. And at the end of the day, we chose one that I think best satisfied our cost of capital and our immediate needs.

And our whole theory of the case is hinged on the new products that we've announced, particularly the cloud product. Comes -- revenue comes in the form of annual recurring revenue. And I know from my previous experience that the market values annual recurring revenue at 6 to 8x more valuable than a traditional revenue. So if we have a product that's generating $1 million in ARR, enterprise value is 6 to 7x greater than $1 million of just ordinary income.

So our whole strategy is based on products that will generate ARR, and that presumably moves the stock up into a place that it's not been yet, and this vehicle that we've chosen gives us the best return when that happens. And so that's kind of the overall arching strategy, and I'll let Franklin cover the specifics of the deal.

B. Franklin Byrd
Chief Financial Officer

Thanks, Tony. Yes, sir, Mr. Cleveland, happy to answer that question. The first thing I would just kind of echo what Tony was saying is our evaluation of this particular vehicle was across several other opportunities, and one of the main thoughts that we looked at was where our price is today versus where we believe it should be. And we truly believe it's lower than what our real valuation is today. So that's a big part of it. This particular structure allows us to help perform and show our company performance, increase our stock price and then if we choose transact at future stock prices.

But to answer the specific question, it's a 2-note structure, one that we've executed and one that has a condition precedent that you probably read about. They both have 7% coupons. They both had an original issue discount of around 6%. And they're both 18-month notes with nothing that transpires, no redemptions for the first 6 months. After 6 months, the noteholder can redeem up to certain amounts per month, and we can decide how we redeem that. If we want to redeem it in cash, we will. If we want to redeem it in stock, we can. If we do it in stock, there will be a 15% discount on that future stock price, or

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we can do a combination of both. And as you know, we still have our ATM product in place today, so that gives us a little bit more flexibility.

George Russell Cleveland
RENN Capital Group, Inc.

Okay. So you have a choice. From your side, you could either pay it off or would be in line with the market at a 15% discount. So I think that's where the confusion comes in. So the discount is only 15% off the market at that time.

B. Franklin Byrd
Chief Financial Officer

Yes, sir. That's correct.

George Russell Cleveland
RENN Capital Group, Inc.

Okay. And then the second question I had was we talk about channel partners. We'll be -- can we start announcing these and who they are? Give us credibility and so forth. So what's the answer there?

Anthony E. Scott
President, CEO & Director

Yes. We'll announce channel partners probably in conjunction with significant sales that they make. I don't want to temper the airwaves with announcements that aren't significant or meaningful to us. The company had the prior experience of announcing that it signed up a bunch of channel partners. And in some cases, some weren't as active as the others, and many of them didn't generate any revenue for us. So I don't want to make meaning or not meaningful announcements about channel partners. But as we do significant deals, you will see us mention them and be public about it.

And that also is true for -- it may be sort of buried in what we've been saying, but we're also in discussions with some strategic partners, think OEMs and large technology companies. And as material things occur with those kinds of partners, we'll also announce those.

Operator

Your next question comes from the line of Walter Schenker with MAZ Partners.

Walter M. Schenker
MAZ Capital Advisors, LLC

Two unrelated questions. Since you are still selling and marketing a product based on a box, you have 18 people evaluating the product at this point you said, could you give us some sense as to the range in broad terms as to the size of those 18? They range from 50 seats to 1,000 seats potentially. Obviously, someone may layer into the product, 50 seats to 5,000. I'm -- just some sense as to the types of how big the businesses are that are evaluating this.

Anthony E. Scott
President, CEO & Director

It's a pretty broad range, and we have to sort of put some of this in context. Some of these POCs are for organizations that currently have one box, but their actual deployment would involve, if they do the appliance, multiple boxes, and it could be 1 or 10 or 25 depending on what their bandwidth needs are.

We -- when we get the cloud product in the second half of the year, then that's a different model in terms of how it would get installed and the bandwidth it could service. So today, with the appliance, we're limited to some degree in terms of the bandwidth we want to service. When we get to the cloud product, the bandwidth issue more or less goes away. So it's hard to characterize what the actual deployment is in each of these cases.

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Really what they're interested in is what can you see that's going on in my network that I'm not seeing today or I don't know about, and either the cloud product or the appliance product shows that kind of information and demonstrates value to the customer. So it could be that some of these current POCs and so on will say, "I like what you do, but I want to have the cloud product." Or some may say, "This is so valuable right now, I'll go with the current implementation." And it's just too early for us to quantify either way.

Walter M. Schenker
MAZ Capital Advisors, LLC

And at this point, you're still marketing under the original plan, which is a monthly charge per seat for the 18 that you're talking to. The cloud may be marketed differently, but at this point, that's the model.

Anthony E. Scott
President, CEO & Director

Yes.

Walter M. Schenker
MAZ Capital Advisors, LLC

Okay. And then on a totally -- go on. I shouldn't cut you off.

Anthony E. Scott
President, CEO & Director

Well, I was going to say we also have and we previously announced a high reliability fail-over, high-throughput hardware solution, and a number of the customers are also interested in that as well. So I don't -- as I've said before, I don't think hardware goes away completely in the new world. I think there are -- in this -- even based on my own experience, there's a lot of different needs if you have a large and expansive network, and I see some customers that are going to probably want a combination of hardware and also the cloud solution because they're in a hybrid sort of world with their technology. So we're not going to abandon hardware at all, but we're going to give customers the option of using hardware or cloud or both depending on what's appropriate for their specific environment.

Walter M. Schenker
MAZ Capital Advisors, LLC

Okay. And then just on a totally unrelated area. You have now have the access to $5 million, potential access to $10 million. You've indicated you like to get to $15 million to $20 million of capital. I know you and I discussed, but you've discussed with other people and the company has discussed with other people, I believe all shareholders would like to see an equity commitment by you and possibly other members of management and other people who you've dealt with over time. You didn't indicate the possibility or the desire at some point, at some point, for that to happen. Could you just address how we get you to have a bigger stake in the company?

Anthony E. Scott
President, CEO & Director

Sure. It's a great question and one that I get asked pretty often these days. So here's the situation. I have a portfolio that's a bit locked up at the moment. I'm doing some things to unlock that, and I will make an investment at a point in the future as soon as I get some flexibility in what I can do with my personal portfolio. And I'm excited about doing that, and you'll see an announcement when that happens.

So -- but I'll also point out, I'm personally subsidizing my existence at Intrusion as well. So every month, I'm making a contribution so that I can be here and do the things that we're anticipating doing, and I'm happy to continue doing that as well so we can get this rocket ship really launched.

Operator

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

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Porter Ross Taylor
ARS Investment Partners, LLC

When I listen to you described the financing, it strikes me as it makes sense if you believe that you are within 6 months to a year of a major revenue ramp that's going to push you to where you actually become a free cash flow generating business. Is that a safe assumption to make?

Anthony E. Scott
President, CEO & Director

I think it has to be taken in -- it's safe if you take it in the context of annual recurring revenue being the force multiplier, if you will, on the stock price. So in that sense, we believe that the current stock price way undervalues the company, and I'm counting on the fact that in the second half of the year, we can demonstrate that with annual recurring revenue and what that foretells for the future.

In terms of actual cash flows, there's any number of scenarios that it's a little too early to predict. With success with the products, we would probably increase our R&D expense, we could consider doing acquisitions. We could consider any number of things, and all of those have impacts on cash flow. So a little too early at this point to forecast that, but our plan is to be responsible with the resources that we have and do what's prudent and always focus on enterprise value for our shareholders.

Porter Ross Taylor
ARS Investment Partners, LLC

Now do you foresee any of the channel or strategic partners that you're looking at working with and who are looking at utilizing Shield, providing capital upfront in any way?

Anthony E. Scott
President, CEO & Director

That could be a scenario with the big strategic partners. To make this successful, there's always going to need to be some investment on their part and some investment on our part to bring this solution to market jointly, and part of that formula could be a capital investment. We're not requiring that at this particular point, but we're not ruling it out either, and it's been a part of the discussion.

Porter Ross Taylor
ARS Investment Partners, LLC

Okay. Obviously, given where the stock price is, getting a strategic investor would probably send an exceptionally powerful message.

Anthony E. Scott
President, CEO & Director

I agree. I agree.

Porter Ross Taylor
ARS Investment Partners, LLC

I look at this company and really see it as what I'll call a late-stage venture cap. But unlike many late-stage venture caps, you have the product, you have another product, consulting, that has the potential to return to where it was prior to COVID, which was generating north of $10 million a year in revenues, which would be a meaningful increase. And as a result, this strikes me as you would be able to find strategic investors. I mean you're not looking for a lot of money. You're really looking at starting this $10 million, $15 million, $20 million, you were saying. It strikes me as this would be a -- I mean it's almost might be too small a deal, but it's a very lucrative deal, it sounds. How -- what kind of response have you gotten when you've approached strategics?

Anthony E. Scott
President, CEO & Director

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They've been very enthusiastic, and then the devil is always in the details. So we're now into the details and figuring out how to work together and what makes sense and those kinds of things. But I agree with you. We're optimistic in terms of where we can go, and I'm not going to belittle it. We've got work to do, and we're all going to be working real hard to make sure we get there. There's a renewed energy and focus in the company that I'm very pleased with. And morale is high, and we're ready to take the hill. So I'm pretty excited about that.

Porter Ross Taylor
ARS Investment Partners, LLC

Speaking of taking the hill, the call that announced your hiring also announced that the company had a Shield system in place, at least one with the Pentagon or the DoD or however you wish to refer to it. Can you tell us what that system is doing there and who it's being used by?

Anthony E. Scott
President, CEO & Director

I'm afraid that's not something we can discuss in this kind of a forum, unfortunately.

Porter Ross Taylor
ARS Investment Partners, LLC

But it's safe to say that, I mean, as an outsider looking in and with people I know involved in cybersecurity in the Pentagon, it would strike me as this product is actually being utilized -- the fact that it's being utilized by the Pentagon, says that you passed a pretty strenuous testing hurdle.

Anthony E. Scott
President, CEO & Director

Yes. I wish I could comment on this, but I would get myself into trouble if I -- I'm sorry.

Porter Ross Taylor
ARS Investment Partners, LLC

Your inability to comment says a lot. Your inability to comment says a lot because it's just sitting in the back room being tested. It probably isn't a big deal and you would be able to comment on that.

Operator

There are no further questions at this time. I'll turn the call back to Tony Scott for closing remarks.

Anthony E. Scott
President, CEO & Director

Well, I'd like to just conclude the call today by saying that I really appreciate the support that I feel from our investors, and many of you have called and offered your insight and sharing your thoughts on the company and things that we could do going forward. And I'm grateful for that. As I've said in my remarks, I think the team is energized, and we're ready to scale to new heights. So we're looking forward to what we can do together as a team in the next few months and show the world what we've been working on. So I appreciate all the support. Keep the cards and letters coming, as they used to say, and I look forward to talking to you in the near future. Thanks so much.

Operator
This concludes today's conference call. Thank you for joining. You may now disconnect.

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