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INTRUSION Inc.

Strategic Update Conference Call

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CORPORATE PARTICIPANTS

David Freund, *Investor Relations, Alpha IR Group*

Tony Scott, *Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Scott Buck, *H.C. Wainwright*

Zach Cummins, *B. Riley Securities*

Russell Cleveland, *Renn Capital Group, Inc.*

Wally Wadman, *Constitution Research*

PRESENTATION

Operator

Good afternoon and welcome to INTRUSION's Strategic Update Conference Call.

As a reminder, today's conference is being recorded for replay purposes.

I would now like to turn the call over to David Freund of Alpha IR Group. David, please go ahead.

David Freund

Thank you, Operator, and good afternoon, everyone.

With me on today's call are Tony Scott, Chief Executive Officer, and Franklin Byrd, Chief Financial Officer.

The call is being webcast today 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 our projections described in today's conference. 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.

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

Tony.

Tony Scott

Thank you. I appreciate the opportunity today to talk to our investors and people in the market. I also wanted to say thanks to our Board and our investors for the support I've felt over the last several weeks as I take on this role.

The purpose of the call today is to give you an update on our strategy and some of the things that I think you can look forward to specifically hearing from us in the next several months. I'm going to talk a little bit about our product, about our marketing, messaging, and then an update on our planned fundraising activities.

Let me get started with just a short description of how I got here and why I'm here in the first place. For the last four years, I've been working, advising companies and consulting with tech companies of various sizes, on strategy and technology and branding and go-to-market. I've also been working as a venture capitalist investing in early-stage cybersecurity technology.

Over the course of the four years, I've had a chance to look at hundreds of different companies, particularly in the cybersecurity space. When I ran across INTRUSION a few months ago, I was quite intrigued. I saw it as a novel approach to an ever-changing cybersecurity landscape. Thus, the discussions began and ultimately led to a conversation with the Board about coming on as CEO.

First of all, I'm really excited to be here. But I wanted to give you some historical perspective from my point of view. I was the Federal CIO for the last two years of the Obama Administration. Prior to that, I served in roles as CIO for VMware, for Microsoft, and for the Walt Disney Company, and for several years before that I was Chief Technology Officer at General Motors. Through each of those roles, I'm going back to the early 2000s, I've seen an emerging cybersecurity landscape.

I've seen a very changing landscape in terms of the kinds of threats or the kinds of things that we worried about as professionals in an IT organization. That set of changes continues to this day. It's one of the reasons I was very interested in INTRUSION, because I felt very strongly, particularly after doing my due diligence, that INTRUSION had a set of technologies and approach that was very relevant to the kinds of threats that we're now facing today and will face in the future.

We know a couple of things to be true, cyber threats are not going away, there's more zero days as a percentage of all attacks than there was a few years ago. Some have estimated that as much as 60% of new attacks are zero days. When you have that kind of situation, what you realize is that the old things that we were doing might not always work, we need to keep improving our game, and we need to keep getting better at what we do.

That, coupled with an increased focus on privacy that has a very close nexus to cybersecurity, means that CIOs, and organizations that they work for, all over the world need better tools to protect themselves, both from attacks and to protect our privacy. When I looked at INTRUSION, what I saw was a very novel approach. I saw 30 years of history of doing very, very creative work. In technology, I saw a talented team that was very experienced. I also saw a number of things that I thought I could help with, in terms of addressing historical problems that the Company was facing. I want to talk about those things and what we're doing as we continue the conversation today.

The first thing that I saw was kind of mixed messaging, frankly. INTRUSION had put out a lot of words and things in the press and on our website that were not untrue, but very mixed in terms of the claims,

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and I found that that was confusing, at least to me, and I talked to a number of others and that was confirmed. One of the first things that we've been engaged in is tightening up our messaging about who we are, why we exist, why we should be in the conversation if we're talking to potential customers. You'll see that revised messaging roll out over the next several weeks.

The second thing that I felt it was important for us to work on was our product. The Shield product that we have been selling is primarily a hardware-based product that we're asking customers to plug into their network and perform the functions that it performs. As a CIO, I knew that asking somebody to plug in a new piece of hardware into the network probably was a heavy lift, at least in some organizations. We've done some things to make sure that it's an easier insertion strategy for companies to try out our products and not risk shutting down their network or causing other problems.

To do that, we're introducing, in the second half of the year, some additional capabilities, one of which is a cloud-based product that has no hardware that is required to be inserted. I'll get in, in the next coming months, into some of the other innovations we have that we're thinking about in terms of the Shield product. But the bottom line on this is there's several variations of this that you'll see coming that will allow us to offer our technology into a number of new markets.

We also have re-thought our go-to-market strategy. The new path forward in that regard is through partners. I'll group them into three categories.

First, strategic partners that can sell our product along with their products, and we've already started some very fruitful discussions along that line. These will take weeks to months to materialize, but I'm very encouraged by the early conversations. Secondly, we're going to focus on channel partners, value-added resellers, MSPs, MSSPs, who professionally can be a force multiplier for us from a sales and marketing perspective. Then lastly, we'll have executive-led direct sales, and I and the Management team here have really great contacts in our industry, and it falls on us to help explain to our potential customers what our products are and why they should be trying them out.

Lastly, I wanted to mention today, obviously, we're planning on a capital raise, our target is $15 million to $20 million. That'll allow us to fund our needed efforts over the next year or so. That's our overall plan in that regard.

I wanted to spend just a minute or two on the product, because I realized I didn't say all of the things I had intended to on that front. We're working on introducing a high availability, high throughput option, that will be hardware based. We'll have a cloud-based product, as I mentioned, and also a Shield endpoint product is on the roadmap. The combination of those things will allow us to serve a variety of different needs with our core technology.

One big part of the messaging as well that I also neglected to mention is we're not going to ever claim to be the 100% all singing, all dancing solution to any organization's cybersecurity issues. But we owe it to our customers to explain to them where we fit in their overall cybersecurity architecture and the unique role that INTRUSION can play in making all of the other products that they have better, and so that's a big part of and a key part of our messaging going forward.

Those are some of the highlights. I'm very excited to be here at INTRUSION, happy with the team that we have put together here. I'm very appreciative of our investors who've been patient with us as a company over the last year or so, and I also want to be appreciative of the Board, who's given me a vote of confidence in terms of this new strategy that we've just outlined.

Those are the highlights. Happy to take some questions and welcome any feedback you'd be interested in giving us.

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Operator

Your first question comes from Scott Buck with H.C. Wainwright. Your line is open.

Scott Buck

Hi, Tony. Good afternoon.

Tony Scott

Good afternoon.

Scott Buck

First, I appreciate you taking the time to host this call.

As far as questions, I get my first one is some of these adaptations to Shield, are they already complete and in testing mode? Or is this something that you feel like you can develop over the next six months? And if that's the case, what are we talking about in terms of maybe additional engineer hiring, etc.?

Tony Scott

Sure. Great question. We have prototypes in some cases, we have demos available in other cases, not everything is at the same stage of development. All of them will require additional engineering work before we're ready to bring them to the marketplace. I would anticipate some time in the second half of the year, again, dependent on fundraising, obviously. But we're not years away from these products, we're months away I would say given where we're at.

Keep in mind, the underlying technology is well developed and well on its way. Think of these as different interfaces to our core strengths and our core technologies. Those are much easier to develop than to reinvent what we already have, which is our core value proposition.

Scott Buck

That's very helpful color. Second one for me, I'm curious, in terms of working with channel partners, how many relationships does the firm have in place currently, do you have in place, that maybe you can introduce INTRUSION to? I guess how should we expect the cadence of that kind of selling channel to work out?

Tony Scott

Yes, let me explain kind of what our strategy here is. You might have seen on our website lots of logos with partners in the past, and those varied all over the map from somebody who just signed a piece of paper with us but there was very little interaction, all the way to channel partners where we had lots of interchange and lots of interaction with.

Going forward, you'll see a smaller number of very heavily engaged partners. These are going to be premium partners and people that we think are worth investing our time. In turn, they believe it's worth their investing their time with us. And so, we'll have a small number of key partners in each of the markets that we want to play in. I think you'll see that list shrink pretty significantly from what had been on the website, but the ones that are there are going to be ones that you can count on to deliver the product and to be very collaborative with us in terms of how we go to the marketplace.

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I'm reluctant to give you a specific number, because that's still a work in progress. But I think the important point is we're thinking about how we do that differently than we had in the past.

Scott Buck

Okay. Great. I appreciate the time today. Thank you.

Tony Scott

Your next question comes from the line of Zach Cummins with B. Riley Securities. Your line is open.

Zach Cummins

Yes. Hi, Tony. Thanks for making time for the call today. I really appreciate the extensive detail around your strategy here.

Just following up on some of Scott's questions. For the Shield product line, do you expect this to really be more of an enterprise-level product that fits within the suite of something that's already established from a cybersecurity perspective? Or do you see any potential use cases for SMB-level type of businesses that maybe don't really have any sort of cybersecurity solution in place at this juncture?

Tony Scott

I think probably more of the former and less the latter, but I'll never turn away a customer who wants to use us in a productive sort of way. But the reality is, I think any organization that's taking a serious look at how it does cybersecurity is going to deploy a variety of different tools, and we expect that we're an essential part of that tool set. I think part of our engineering work, and also part of our messaging, is explaining how the use of INTRUSION makes all of the other tools that one might have better.

For example, better informing your firewall rules, or better informing your endpoint security tools, or what have you. There's a whole wide variety of things that we can help make better through the use of our technology.

Zach Cummins

Understood. Just following up on that, I know you mentioned one of your key selling channels is going to be strategic partners. Can you give us a sense of maybe some partners that could likely be a good match for INTRUSION, whether that be a vertical specific focus, or somebody that has a specific product set that could be well aligned with what INTRUSION brings to the table?

Tony Scott

I'll give you some categories, I won't give you specific vendors. But if you're in the firewall business, you might be very interested in INTRUSION's technology. If you're in web services, you might be very interested in our technology. If you're in endpoint security, you might be very interested in our technology. If you're in the zero-trust game, you might be very, very interested in our technology. Those are some, I know, big categories, but I think it gives you some sense of how our thinking is.

Zach Cummins

Absolutely, it definitely provides a lot of opportunity going forward. But just a final question for me, I know you talked about looking for funding, it's somewhere in the realm of $15 million to $20 million to really execute on this plan. Can you talk about maybe some of the things you have available to you at this

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juncture, and maybe some of the different routes that you might be exploring on that front to really get the necessary funding to execute on your plan?

Tony Scott

Well, we have a bunch of different ways that we can address this. We have an ATM facility in place; we have the ability to, in the market, sell stock, maybe with warrants. We have potential to pursue lines of credit. There's a lot of different things that we can do to raise capital. I'm, again, not ruling out anything or ruling anything in at this point, but we're out exploring all of those options, and we'll let you know as soon as we know what that package looks like.

Zach Cummins

Understood. Well, thanks again for taking my questions. Appreciate the time.

Tony Scott

Thank you.

Operator

Your next question comes from line of Russell Cleveland with Renn Capital. Your line is open.

Russell Cleveland

Thank you, and welcome to the company, Tony. I really liked your strategy. I feel like we're really on our way to something good.

Part of my question was just answered. I think the only thing about the call here that concerns us investors: the stock has been down under a lot of pressure and doing a major offering is certainly not something that we want to see. I understand we need to raise money. Can you comment on that a little bit further, you just talked about this, but something about how we can protect our common (phon) stock price?

Tony Scott

Well, I think the best way for us to protect the stock price in the long run is to show in the marketplace that we can generate revenue through sales, and we fully intend to do that. I know that the various investors have been super patient, this has been a difficult time over the last year or so, but all of this strategy is aimed at improving our sales situation and taking to the market this technology that I'm pretty excited about in all of its various forms. I think that's the best way for us to improve the value of the stock.

Obviously, we need a little more money to do it, and we'll need to take the appropriate measures in the next several months to make sure we get there. But if we don't do it, what we know is the value of the stock goes to zero. That's not a good outcome at all, and I think this is a much better alternative if we do what we are capable of doing.

Russell Cleveland

Thanks. That's all I have.

Tony Scott

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Thank you.

Operator

Your final question comes from line of (Inaudible), a Private Investor. Your line is open.

Male Speaker

Hi, Tony, thanks for taking my questions.

First question is, you joined INTRUSION roughly two months ago, and I'd be interested to hear your due diligence. Obviously, you were doing due diligence before that, I don't know if it was weeks before that, months before that. Can you just walk me and us through why you made—it seems like a pretty big life decision here to take on this project. Judging by your resume, it doesn't appear that you have to do this. Help me understand what convinced you that not only is the technology good but, for lack of a better word phrase, that the product works?

Tony Scott

Sure. Well, let me take you through a couple of things that were heavy on my mind. After doing the Federal CIO job, first thing I did was take a month or two off, because that was a pretty intense job. I made a couple of decisions right then at the end of that period of time.

One was that I only wanted to work on things that I was, A, interested in and, B, that I felt I could make some significant contribution to. The third one was I didn't want to work with any jerks. I'd worked with a number of jerks in my life. That's just not a rewarding experience, and it may sound a little silly, but it weighs heavy on my criteria in terms of who I work with. Then that led to doing the consulting work and the venture capital investing that I mentioned earlier.

Meanwhile, I continued to play a role in the background in Washington, D.C., to try to improve Federal Information Systems. I had introduced a number of initiatives and programs to try to dramatically improve the effectiveness and the cybersecurity of Federal Information Systems. There's a lot of work that goes on in the background in terms of shaping policy and talking to the staff of the people in Congress about good IT practices, and so on. I'd been very engaged in those activities over the course of four years.

Along the way, as I mentioned, I realized that there was a lot of what I'll call me too (phon) kind of technology and things that were 5% or 10% better than the thing that preceded it, but I just didn't see all that much in terms of really novel, effective approaches to cybersecurity.

I became aware of INTRUSION after the stock dropped, and one of the people on my team brought it to my attention and said, “Do you know anything about this company?” And I said, “Nope, don't know anything about them. But let's go have a look and see what's there. There might be something interesting.” Initially, it was the thought that maybe there's some IP that could be combined with another company, or maybe it's a merger acquisition candidate, we didn't know.

As I got exposed to it, I became aware of what INTRUSION’s core technology was and the really novel approach that it has been taking historically, and that impressed me. The more I learned about it, the more impressed I became. Then I read all of the reports and the filings and all that sort of stuff to make sure I fully understood where the Company found itself and how it got where it is, and all of those kinds of things.

Finally, I began to meet with some of the Board and the staff here, and not only did they impress me with their capabilities and knowledge and what have you, but there were no jerks. That was important to me in

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terms of how to go forward. Then that led to a discussion about my becoming CEO. I felt strongly as a result of those conversations that, A, I could be interested in this, B, that I could really help the Company in a number of different ways, and that it was a potentially good combination.

That's kind of the due diligence process, and I feel even better about the decision today than I did a couple of months ago as I've gotten to know people better and as we've begun to have conversations about where we could actually take this.

I hope that answers your question, but that's (multiple speakers).

Male Speaker

If you can sort of—again, it may sound like a dumb question, but what has convinced you that the product works, that it does what the market may need to be done getting to market, meeting (phon) its customers?

Tony Scott

Sure.

Male Speaker

Have you given the device to folks you've worked with before to test it? I assume that you dug into this in ways that most people can't, given your background.

Tony Scott

Yes, we are doing all of that, and I would say where I really became impressed with the product—and you'll see this as a part of our messaging, but our products help CISOs and CIOs and those that are responsible for this see things that they don't see using other technologies. We get to see things that were unseen before, and we get to know things that were unknown to us before. Increasingly, those are things that are the root of somebody causing us harm. It's not just things coming into our networks, it's things leaving our networks as well, so it's connections that happen from places inside our networks to places outside our networks that probably shouldn't be happening. And INTRUSION's technology helps identify those things that just shouldn't probably be happening, that you don't get with any other technology that I'm aware of. I think that's the compelling value that we can bring and why we add value to all the other security products that are out there.

Male Speaker

Okay, and if I may, a different question on—again, your resume is quite impressive. As you've pointed out, your former companies or folks you've been working with have been venture capitalists. Have you been involved in deals before in investing in technology of size? Can you offer us any background on that? And I'm not trying to be sneaky here, certainly in my mind, I would wonder would those parties potentially be interested in participating in an equity raise or capital raise? To the degree you can answer those questions it would be welcomed.

Tony Scott

Yes, I've not been in this role before where I'm the CEO of a company raising funds. I've been involved in other financing events with organizations. And yes, we will certainly tap into the network of people that know me and know my track record and know the things that I've been involved with; so, we have a rather

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complete list, I would say, of people that we'll talk to in that regard. I'm not at all worried about that part of it.

Operator

Your next question comes from line of Wally Wadman with Constitution Research. Your line is open.

Wally Wadman

Just had a couple of specific questions, and one had to do with the business model for each of your cloud product, and pricing is what I'm getting at, and whether you changed for the Shield product itself, and then a new endpoint, what does that look like? And then my second question has to do with—as a follow on to somebody who talked about how unique your technology is, but what the competitive landscape looks like.

Tony Scott

Sure, so we have not done final pricing on any of the derivative products. What I will tell you is that when we're talking about software only, it's likely to be a recurring revenue model, a subscription model. The problem with the current appliance, even though a piece of it as recurring revenue, hardware means capital investment means lower margins, it means maintenance of hardware and a whole bunch of other things that in today's world are somewhat undesirable.

Our model going forward would be to shift as much of that as we can, even in the cases where we have hardware, to an annual recurring revenue, or recurring revenue sort of model. Pricing will be competitive with other similar kinds of offerings in the marketplace. But I can't give you a price today specifically.

And I'm sorry, what was the second question?

Wally Wadman

It had to do with the competitive advantages you have in the marketplace with who you run into.

Tony Scott

Well, I think this has been part of the messaging problem in the past. I think everyone in the marketplace wanted to put us into a bucket that we don't actually belong in; so, they would compare us to a firewall, but we're not really a firewall in many respects. Although, we offer some of the same benefits. Some people wanted to put us in an intrusion prevention bucket, and we do a piece of that as well, but there's a bunch of other things that we do on top of that. At this point, I would say we're kind of our own bucket, and we don't run into competitors who do what we do.

But what we do run into is confusion about who we are, what we do, and why we're different than some of those other kinds of products that I just mentioned. It's our job to explain those differences, but also to point out the added value you get when you have those other products and you combine it with Shield. That's on us to make that explanation and make it clear what the added value is.

Wally Wadman

Okay. Thank you.

Operator

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There are no further questions at this time. I will turn the call back over to the CEO, Mr. Tony Scott, for closing remarks.

Tony Scott

Well, thank you, and I appreciate the opportunity to talk to you today. One of the things that I hope you'll find is that this gave a little more clarity about what we're trying to do and in kind of what time frame and provide some background for the raise that we'll pursue over the next several months. You can also count on me to be as communicative as I can possibly be in terms of our progress towards these goals over the next several months to several years.

I appreciate your time today and welcome any feedback you'd like to provide us. Thank you so much.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference call.

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