

INTRUSION INC
Form 10-K
March 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark
One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

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

For the transition period from to

COMMISSION FILE NUMBER 0-20191

Intrusion Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

75-1911917

(I.R.S. Employer
Identification No.)

**1101 EAST ARAPAHO ROAD, SUITE 200
RICHARDSON, TEXAS**

(Address of principal executive offices)

75081

(Zip Code)

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

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

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

Common Stock, \$0.01 par value

(Title of class)

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2018: \$15,043,000.

As of February 28, 2019, 13,515,236 shares of the issuer's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement filed in connection with the Registrant's 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

INTRUSION INC.

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PART I

Item 1. Description of Business.

In addition to the historical information contained herein, the discussion in this Annual Report on Form 10-K contains certain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties, such as statements concerning:

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

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

General

We develop, market and support a family of entity identification, high speed data mining, cybercrime and advanced persistent threat detection products.

Our product families include:

- TraceCop for entity identification, cybercrime detection and disclosure, and;
- Savant for high speed data mining and analytics, and advanced persistent threat detection.

Intrusion's products help protect critical information assets by quickly detecting, protecting, analyzing and reporting attacks or misuse of classified, private and regulated information for government and enterprise networks.

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

end-users, and
value-added resellers.

Our end-user customers include:

U.S. federal government entities,
state and local government entities,
large and diverse conglomerates,
manufacturing entities, and
other customers.

We were organized in Texas in September 1983 and reincorporated in Delaware in October 1995. Our principal executive offices are located at 1101 East Arapaho Road, Suite 200, Richardson, Texas 75081, and our telephone number is (972) 234-6400. Our website URL is www.intrusion.com. References to the "Company", "we", "us", "our", "Intrusion" or "Intrusion Inc." refer to Intrusion Inc. and its subsidiaries. TraceCop and Savant are trademarks of Intrusion Inc.

Government Sales

Sales to U.S. government customers accounted for 83.9% of our revenues for the year ended December 31, 2018, compared to 81.6% of our revenue in 2017. We expect to continue to derive a substantial portion of our revenues from sales to governmental entities in the future as we continue to market our entity identification products and data mining products to the government. Sales to the government present risks in addition to those involved in sales to commercial customers that could adversely affect our revenues, including potential disruption due to irregularities in or interruptions to appropriation and spending patterns, delays in approving a federal budget and the government's reservation of the right to cancel contracts and purchase orders for its convenience.

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

Industry Background

We develop, market and support a family of entity identification, data mining and advanced persistent threat detection products. Our product families include:

The TraceCop™ product line, which includes a number of our proprietary supporting tools, allows our customers and in-house cyber analysts to accurately discover and help identify 'bad actors' associated with cybercrime.

The Savant™ product is a 'purpose-built', very high-speed network data mining and analytics software package that is easily installed on commercial off the shelf platforms.

Our customers use our products as an integral part of protecting their critical infrastructure and data information assets. By quickly detecting, protecting, analyzing and reporting attacks, along with the potential misuse of classified information, we have become a key component to the daily challenges of cyber security for both government and large enterprises.

Products

TraceCop

Our TraceCop product family includes a database of worldwide IP addresses, registrant information and their associations, along with a plurality of related IP information, some dating back nearly two decades. When combined with Intrusion's multitude of cyber security 'global threat feeds', along with our TraceCop family of proprietary supporting tools, this vast and ever expanding capability is used in conjunction with our customer's data to help identify areas of vulnerability and potential cyber security threats. In addition to its extensive capability, the TraceCop family includes analytical software with a GUI interface to assist the analysts in locating cybercriminals and other potential 'bad actors' or network anomalies. We offer our customers a daily, weekly or monthly enrichment service to assist them in the culling of 'good' data traffic from potential threats.

Intrusion licenses TraceCop to our customers for a yearly fee and offers scheduled updates. Intrusion will either install and update the database at the Intrusion facility or install TraceCop on a customer server onsite. Updates are delivered via secure Internet feed or removable storage devices.

Savant

Savant is a high speed network data mining and analysis product which organizes the data into networks of relationships and associations. Its patented design exceeds performance expectations and ensures 'deep dives' into data-in-motion in order to quickly and accurately detect advanced persistent threats. Savant can operate on networks with data flows of over 20 gigabits per second, and still maintain a 100% inspection rate of all packets.

The Savant solution provides real-time access and insight into a company's own indisputable and quantifiable network data for more effective, unbiased examination of their flows. Uses of the Savant product include data mining, data loss prevention, advanced persistent threat detection and identification of Internet habits of network users. Savant is a software product which we license to our customers for which we sell data updates. We also offer the option to fully implement a server and re-sell to the customer as a turn-key solution.

Third-Party Products

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

Customer Services

Our product sales may include installation and threat data interpretation.

Product Development

The network security industry is characterized by rapidly changing technology standards and customer demands all shaped by the current sta