

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, 2020

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 0-20201

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.)

101 EAST PARK BLVD, SUITE 1300
PLANO, TEXAS
(Address of principal executive offices)

75074
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
N/A	N/A

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.

Yes 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 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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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, 2020: \$14,303,875.

As of February 12, 2021, 17,538,779 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 2021 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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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which statements involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future results of operations or financial condition; business strategy and plans; the expected benefits from the roll out of our new products and solutions to an expanding customer base; are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "will," or "would" or the negative of these words or other similar terms or expressions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about: our future financial performance; our expectations about our new products and solutions; our ability to attract new customers in new and expanded markets and retain existing customers; and our ability to manage and implement our current growth strategies.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and operating results. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled "Risk Factors" and elsewhere in this Annual Report on Form 10-K.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Annual Report on Form 10-K. While we believe that such information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law.

PART I

Item 1. Description of Business.

Our Corporate Information

We were organized in Texas in September 1983 and reincorporated in Delaware in October 1995. Our principal executive offices are located at 101 East Park Boulevard, Suite 1300, Plano, Texas 75074, 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..

Our Business

We develop, sell and support products that protect any-sized company or government organization by fusing advanced threat intelligence with real-time artificial intelligence to neutralize cyberattacks as they occur – including Zero-Day attacks. We market and distribute our solutions through a direct sales force and value-added resellers. Our end-user customers include U.S. federal government entities, state and local government entities, and companies ranging in size from mid-market to large enterprises.

Our Solutions

INTRUSION Shield™

INTRUSION Shield, our cornerstone cybersecurity solution is a comprehensive, real-time AI-based Security-as-a-Service that inspects and kills all dangerous network connections before they can do damage. What makes our approach unique is that it inspects every packet of inbound and outbound traffic and analyzes the reputation of the IP addresses (source and destination), the domain and ports it is communicating on, along with many other fields in the packet to neutralize malicious connections.

Most breaches today are caused by malware free compromises that trigger no alarms in a firewall or endpoint solution. The common denominator is network , which *Shield* monitors and analyses, allowing *Shield* to identify and stop all attacks, even malware-free attacks. *Shield*'s capabilities continuously evolve based on constant machine learning and neural networking technology. Unlike traditional industry approaches that rely heavily on human mitigation and defensive approaches, which malicious actors and nation states have learned to bypass. *Shield*'s proprietary architecture isolates and neutralizes malicious traffic and network flows that existing solutions cannot identify before they harm a corporation or government organization.

Shield is designed as a next generation Network Detection and Response solution. After 30 years of providing research, analysis, tools and services to the federal government and enterprise corporations, Intrusion possesses a comprehensive and proprietary data set of petabytes of Internet traffic, including information about the activities of malicious online actors. *Shield* integrates this rich *TraceCop* data set with artificial intelligence (AI) and *Savant* real-time process flow technology to provide our customers with a unique and affordable tool to detect, identify, and neutralize cyberattacks. In particular, the *Shield* AI has been specifically trained to identify and stop Zero-Day attacks and ransomware, the most prolific and crippling forms of malware today.

INTRUSION TraceCop™

INTRUSION TraceCop is our big data tool with extensive IP intelligence canvassing the entire Internet. It contains largest repository of reputation information on known good and known bad active IP addresses (both IPv4 and IPv6). **TraceCop** contains an inventory of network selectors and enrichments useful to support forensic investigations. The data contains a history of IPv4 and IPv6 block allocations and transfers, historical mappings of IP addresses to Autonomous Systems (ASNs) as observed through BGP, and approximately one billion historically registered domain names and registration context. **TraceCop** contains tens of billions of historic DNS resolutions of Fully Qualified Domain Names (FQDNs or hostnames) on each of these domains. Together, this shows relationships, hosting, and attribution for Internet resources. **TraceCop** also contains web server content surveys of content, such as natural language and topic of the content on hundreds of millions of websites and servers and OS fingerprints of services showing applications running on an IP. This context allows **Shield** to assess the use and purpose of an Internet resource. **TraceCop** also contains a history of threat and reputation for each hostname and IP address over time. All this makes it a very effective network forensics and cybersecurity analysis tool to inform **Shield**.

INTRUSION Savant™

INTRUSION Savant is a network monitoring solution that leverages the rich data available in **TraceCop** to identify suspicious traffic in real-time. **Savant** uses several original patents to uniquely characterize and record all network flows. **Savant** is a network reconnaissance and attack analysis tool used by forensic analysts in the DoD, Federal Government and corporations with in-house threat research teams. For example, **Savant** users can create various automated rules to inspect packets matching (or not) certain criteria such as creating a rule to ensure the Source MAC address field in the Ethernet header and Source IP address from the IP header are always the same, failing which could indicate MAC or IP Spoofing in progress. Similarly, threat investigators can create rules using regular expressions by combining multiple fields in the packet headers. Ultimately, the rich capabilities of **Savant** provides the real-time analysis that **Shield** uses to make decisions on whether or not a packet is malicious.

Our Intellectual Property and Licenses

Our success and our ability to compete are dependent, in part, upon our proprietary technology. We principally rely on a combination of contractual rights, trade secrets and copyright laws to establish and protect our proprietary rights in our solutions. In addition, we have received two patents, and we are in the process of applying for patents for our **Shield** family of solutions. We have also entered into non-disclosure agreements with our suppliers, resellers, and certain customers to limit access to and disclosure of proprietary information. There can be no assurance that the steps taken by us to protect our intellectual property will be adequate to prevent misappropriation of our technology or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology, although it would be extremely difficult to replicate the proprietary and comprehensive internet databases we have developed over the past 24 years.

We have entered into software and solution license agreements with various suppliers. These license agreements provide us with additional software and hardware components that add value to our cybersecurity solutions. These license agreements do not provide proprietary rights that are unique or exclusive to us and are generally available to other parties on the same or similar terms and conditions, subject to payment of applicable license fees and royalties. We do not consider any of the solution license, software or supplier agreements to be material to our business, but rather complementary to our business and offerings.

Our Competition

The market for network and data protection security solutions is intensely competitive and subject to frequent introductions of new technologies, and potentially improved price and performance characteristics. Industry suppliers compete in areas such as conformity to existing and emerging industry standards, interoperability with networking and other cybersecurity solutions, management and security capabilities, performance, price, ease of use, scalability, reliability, flexibility, features and technical support. The market for identity identification and data mining is highly fragmented and thus allows more opportunities for companies to compete.

There are numerous companies competing in various segments of the data security markets. At this time, we have little or no competitors for *TraceCop*; however, we expect competitors could emerge in the future. These competitors currently perform only a portion of the functions that we are able to perform with *TraceCop*. We have been continuously collecting the *TraceCop* data for more than twenty years, and we believe that none of our current or future competitors will have the ability to provide and reference this extremely valuable historical data. In our newest market segment, data mining and advanced persistent threat detection, we compete with several companies including Niksun, NetScout, FireEye, and Darktrace.

We expect that our *Shield* solution, as well as the complementary offerings in the *Shield* family, will be novel and unique in our industry because of its plug-n-play installation, proprietary threat-enriched big data cloud, real-time AI and monthly contract, will complement our customer's existing cybersecurity processes and third-party solutions. When *Shield* receives widespread acceptance in our market, we anticipate that other businesses will seek to compete with *Shield*; however, we believe our existing, mature, and proprietary database which are integral to the operation of *Shield* will be difficult, if not impossible, for other companies in our industry to replicate and will be a significant barrier to entry of competitors in the near- and long-term future of cyber security solutions.

Our Customers: Government Sales

Sales to U.S. government customers accounted for 86.3% of our revenues for the year ended December 31, 2020, compared to 87.4% of our revenue in 2019. Adverse effects from the proliferation of the COVID-19 virus have resulted in decreased demand by some of our customers for our current product offerings and cybersecurity solutions, negatively affecting our 2020 revenue levels. 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.

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 solution sales may include installation and threat data interpretation.

Manufacturing and Supplies

Our internal manufacturing operations consist primarily of software, packaging, testing and quality control of finished units. The hardware we sell are standard off-the-shelf solutions.

Sales, Marketing and Customers

Field Sales Force. Our direct sales organization focuses on major account sales, channel partners including distributors, value added resellers (VARs) and integrators; promotes our solutions to current and potential customers; and monitors evolving customer requirements. The field sales and technical support force provides training and technical support to our resellers and end users and assists our customers in designing cyber secure data networking solutions. We currently conduct sales and marketing efforts from our principal office in Plano (Dallas), Texas. In addition, we have sales personnel, sales engineers or sales representatives located in several other states.

Resellers. Resellers such as domestic and international system integrators and VARs sell our solutions as stand-alone solutions to end users and integrate our solutions with products sold by other vendors into network security systems that are sold to end users. Our field sales force and technical support organization provide support to these resellers. Our agreements with resellers are non-exclusive, and our resellers generally sell other products and solutions that may compete with our solutions. Resellers may place higher priority on products or solutions of other suppliers who are larger and have more name recognition, and there can be no assurance that resellers will continue to sell and support our solutions.

Foreign Sales. Export sales did not account for any revenue in 2020 and 2019.

Marketing. We have implemented several methods to market our solutions, including participation in trade shows and seminars, distribution of sales literature and solution specifications and ongoing communication with our resellers and installed base of end-user customers.

Customers. Our end-user customers include U.S. federal government, state and local government entities, large and diversified conglomerates and manufacturing entities. Sales to certain customers and groups of customers can be impacted by seasonal capital expenditure approval cycles, and sales to customers within certain geographic regions can be subject to seasonal fluctuations in demand.

In 2020, 86.3 % of our revenue was derived from a variety of U.S. government entities through direct sales and indirectly through system integrators and resellers. These sales are attributable to five U.S. Government customers through direct and indirect channels; three exceeded 10% of total revenue individually in 2020. Comparatively, sales to the U.S. Government through direct and indirect channels totaled 87.4% of total revenues for 2019. Those sales were attributable to ten U.S. Government customers through direct and indirect channels; three exceeded 10% of total revenue individually in 2019. A reduction in our sales to U.S. government entities could have a material adverse effect on our business and operating results if not replaced.

Backlog. We believe that only a small portion of our order backlog is non-cancelable, and that the dollar amount associated with the non-cancelable portion is immaterial. We purchase, or contract for the purchase of, our inventory based upon our forecast of customer demand, and we maintain inventories in advance of receiving firm orders from customers. Commercial orders are generally fulfilled within two days to two weeks following receipt of an order. Certain orders may be scheduled over several months, generally not exceeding one year.

Customer Support, Service and Warranty. We service, repair, and provide technical support for our solutions. Our field sales and technical support force works closely with resellers and end-user customers on-site and by telephone to assist with pre- and post- sales support services such as network security design, system installation and technical consulting. By working closely with our customers, our employees increase their understanding of end-user requirements and are then able to provide specific input in our solution development process.

We warrant all of our solutions against defects in materials and workmanship for periods ranging from 90 days to 36 months. Before and after expiration of the solution warranty period, we offer both on-site and factory-based support, parts replacement, and repair services. Extended warranty services are separately invoiced on a time and materials basis or under an annual maintenance contract.

Employees

As of December 31, 2020, we employed a total of 63 full time persons, including 23 in sales, marketing and technical support, 32 in research, development, analysis and engineering, and 8 in administration and finance.

None of our employees are represented by a labor organization, and we are not a party to any collective bargaining agreement. We have not experienced any work stoppages and consider our relations with our employees to be good.

Competition in the recruiting of personnel in the networking and data security industry is intense. We believe that our future success will depend in part on our continued ability to hire, motivate and retain qualified management, sales, marketing, and technical personnel. To date, we have not experienced significant difficulties in attracting or retaining qualified employees.

Item 1A. Risk Factors

We had a net loss of \$6.5 million for the year ended December 31, 2020, and we have an accumulated deficit of \$61.3 million as of December 31, 2020. To improve our financial performance, we must increase revenue levels.

For the year ended December 31, 2020, we had a net loss of \$6.5 million and had an accumulated deficit of approximately \$61.3 million as of December 31, 2020, compared to a net income of \$4.5 million for the year ended December 31, 2019 and an accumulated deficit of approximately \$54.8 million at December 31, 2019. We need to increase current revenue levels from the sales of our solutions if we are to regain profitability. If we are unable to increase revenue levels, losses could continue for the near term and possibly longer, and we may not regain profitability or generate positive cash flow from operations in the future.

We may be unable to successfully market, promote, and sell our new commercial solution, INTRUSION Shield, and market it through new sales channels to a new set of prospective customers.

We anticipate significant resources will be required in order to succeed in launching our new **Shield** solution, including the time, attention, and focus of our senior management and our research and development team, coordination of new marketing strategies highlighting this new offering and promoting it through new and expanded sales channels to a wider audience of prospective customers than we have historically marketed and sold our solutions and services. In addition, significant financial resources will be required to successfully manage the implementation of this new solution. This could result in diversion of those resources from critical areas of our company operations and a potential strain on our liquidity and ability to meet our current and these anticipated increases in our cash-flow needs.

We could experience damage to our reputation in the cybersecurity industry in the event that our Shield solution fails to meet our customers' needs or to achieve market acceptance.

Our reputation in the industry as a provider of entity identification, data mining, and advanced persistent threat detection solutions may be harmed, perhaps significantly, in the event that **Shield** fails to perform as we expect it to. If **Shield** does not perform as we expect, if we experience delivery delays, or if our customers do not perceive the benefits of purchasing and using **Shield** as part of their comprehensive cybersecurity solution, our position as a leader in this technology space may be damaged and could affect the willingness of our customers, as well as potential customers, to purchase our other solutions that function separately from **Shield**. Any reputational damage could result in a decrease in orders for all of our solutions, the loss of current customers, and a decrease in our overall revenues which could in turn have a material adverse effect on our results of operation.

The effect of the coronavirus, particularly in the diversion of time and resources of the federal, state, and local governmental entities which make up a significant concentration of our customer base, have and may continue to cause material adverse effects on our operations and our financial results.

A significant concentration of our federal, state, and local governmental customers have been forced to allocate scarce and competing resources and balance budgetary demands placed upon them as a result of the effects of the coronavirus, mandatory quarantines, decreased travel, interruptions in workforce populations, scarcity of commodities, and similar economic and operational effects of the virus upon their own constituencies. Considerable uncertainties continue with respect to the spread and containment of the pandemic, including, without limitation, the effects of mutations in the virus and the efficacy of vaccination efforts throughout the country and the world. These adverse effects have resulted in decreased demand by some of our customers for our current product offerings and cybersecurity solutions, negatively affecting historic revenue levels for the Company. In turn, we are continuing to adapt our operations and the efficiency of our own staff, employees, and strategic partners, including increased reliance on remote workplace solutions during 2020 and continuing indefinitely into 2021. A continued decrease in orders for our solutions by our government customers and losses of efficiency or diversions of resources in our own operations may continue to cause material adverse effect on our operations and financial results, which may not be offset even with the successful introduction of *Shield* solution into the marketplace.

We must expend time and resources addressing potential cybersecurity risk, and any breach of our information security safeguards could have a material adverse effect on the Company.

The threat of cyber-attacks requires additional time and money to be expended in efforts to prevent any breaches of our information security protocols. However, we can provide no assurances that we can prevent all such attempts from being successful, which could result in expenses to address and remediate such breaches as well as potentially losing the confidence of our customers who depend upon our services to prevent and mitigate such attacks on their respective business. Should a material breach of our information security systems occur, it would likely have a material adverse impact on our business operations, our customer relations, and our current and future sales prospects, resulting in a significant loss of revenue.

Fluctuations in our quarterly revenues may cause the price of our common stock to decline.

Our operating results have varied significantly from quarter to quarter in the past, and we expect our operating results to vary from quarter to quarter in the future due to a variety of factors, many of which are outside of our control. Therefore, if revenues are below our expectations, this shortfall is likely to adversely and disproportionately affect our operating results. Accordingly, we may not attain positive operating margins in future quarters. Any of these factors could cause our operating results to be below the expectations of securities analysts and investors, which likely would negatively affect the price of our common stock.

A large percentage of our current revenues are received from U.S. government entities, and the loss of these customers or our failure to widen the scope of our customer base to include general commercial enterprises could negatively affect our revenues.

A large percentage of our current revenues result from sales to U.S. government entities. If we were to lose one or more of these customers, our revenues could decline and our business and prospects may be materially harmed. Further, sales to the government present risks in addition to those involved in sales to commercial customers, including potential disruption due to appropriation and spending patterns, delays in approving a federal budget and the government's right to cancel contracts and purchase orders for its convenience. While we expect that developing relationships with non-governmental customers will mitigate or eliminate this dependence on, and risk from, serving governmental entities, we can offer no assurances that we will be able to sufficiently diversify our customer portfolio in a time and manner to adequately mitigate this risk.

Almost all of our existing revenues are currently from one family of solutions with a limited number of customers, and the decrease of revenue from sales of this family of solutions could materially harm our business and prospects. Timeliness of orders from customers may cause volatility in growth.

Almost all of our existing revenues result from sales of one cybersecurity solution. **TraceCop** revenues were \$6.2 million for the year ended December 31, 2020, compared to \$13.4 million for the year ended December 31, 2019. While we anticipate the introduction of our new **Shield** solution will reduce our dependence on this single solution, we can offer no assurances as such, and in the absence of a shift in solution mix, we may continue to face risks in the event that sales of this key solution to these limited customers were to decrease.

We are highly dependent on sales of our current solutions through indirect channels, the loss of which would materially adversely affect our operations.

For the years ended December 31, 2019 and 2020, we derived 70.3% and 49.3% of our revenues from sales through indirect sales channels, such as distributors, value-added resellers, system integrators, original equipment manufacturers and managed service providers. We must expand sales of our current solutions as well as any new solutions, such as **Shield**, through these indirect channels in order to increase our revenues. We cannot assure you that our current solutions or future solutions will gain market acceptance in these indirect sales channels or that sales through these indirect sales channels will increase our revenues. Further, many of our competitors are also trying to sell their products and solutions through these indirect sales channels, which could result in lower prices and reduced profit margins for sales of our solutions.

You will experience substantial dilution upon the exercise of certain stock options currently outstanding.

On February 12, 2021, we had 17,538,779 shares of common stock outstanding. Upon the exercising of current options exercisable at or below the exercise price of \$4.75, we would have approximately 18,014,116 shares of common stock outstanding, a 2.71% increase in the number of shares of our common stock outstanding.

We resemble a developmental stage company and our business strategy may not be successful.

We depend exclusively on revenues generated from the sale of our current network security/advanced persistent threat detection solution (**Savant**), which has received limited market acceptance, and our entity identification, data mining and analytic solution (**TraceCop**). We can provide no assurances that these solutions or our newly developed **Shield** solution will ever achieve widespread market acceptance or that an adequate market for these solutions will ever emerge. Consequently, we resemble a developmental stage company and will face the following inherent risks and uncertainties:

- the need for our current and in-development solutions to achieve market acceptance and produce a sustainable revenue stream;
- our ability to manage costs and expenses;
- our dependence on key personnel;
- our ability to obtain financing on acceptable terms; and
- our ability to offer greater value than our competitors.

Our business strategy may not successfully address these risks. If we fail to recognize significant revenues from the sales of our current and in-development solutions, our business, financial condition and operating results would be materially adversely affected.

If we fail to respond to rapid technological changes in the network security industry, we may lose customers or our solutions may become obsolete.

The network security industry is characterized by frequent product and service introductions, rapidly changing technology and continued evolution of new industry standards. We have and must continue to introduce upgrades to our current solutions rapidly in response to customer needs such as new computer viruses or other novel external attacks on computer networks. Further, our new *Shield* solution represents our efforts to continue to provide state-of-the art first-in-time innovation for our customer's cybersecurity solutions. As a result, our success depends upon our ability to develop and introduce timely upgrades, enhancements, and new solutions to meet evolving customer requirements and industry standards. The development of technologically advanced network security products and solutions is a complex and uncertain process requiring high levels of innovation, rapid response, and accurate anticipation of technological and market trends. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced solutions successfully in a timely manner. Further, we or our competitors may introduce new solutions or enhancements that shorten the life cycle of our existing solutions or cause our existing solutions to become obsolete.

We face intense competition from both start-up and established companies that may have significant advantages over us and our solutions.

The market for our solutions is intensely competitive. There are numerous companies competing with us in various segments of the data security markets, and their products or solutions may have advantages over our solutions in areas such as conformity to existing and emerging industry standards, interoperability with networking and other cybersecurity products, management and security capabilities, performance, price, ease of use, scalability, reliability, flexibility, features, and technical support.

Our principal competitors in the data mining and advanced persistent threat market include Niksun, NetScout, FireEye, and Darktrace. Our current and potential competitors may have one or more of the following significant advantages over us:

- greater financial, technical and marketing resources;
- better name recognition;
- more comprehensive security solutions;
- better or more extensive cooperative relationships; and
- larger customer base.

We cannot assure you that we will be able to compete successfully with our existing or new competitors. Some of our competitors may have, in relation to us, one or more of the following:

- longer operating histories;
- longer-standing relationships with OEM and end-user customers; and
- greater customer service, public relations and other resources.

As a result, these competitors may be able to more quickly develop or adapt to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products or solutions. Additionally, it is likely that new competitors or alliances among existing competitors could emerge and rapidly acquire significant market share.

Our management and larger stockholders currently exercise significant control over our Company and such influence may be in conflict to your interests.

As of February 12, 2021, our executive officers and directors beneficially own approximately 8.7% of our voting power. In addition, other related affiliate parties control approximately 47.5% of voting power. As a result, these stockholders have been able to exercise significant control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Although we follow our policies regarding related party transactions, we cannot entirely eliminate the influence of these stockholders as long as they hold such a concentration of the voting power of our common stock.

Our solutions are highly technical and if they contain undetected errors, our business could be adversely affected and we might have to defend lawsuits or pay damages in connection with any alleged or actual failure of our solutions and services.

Our solutions are highly technical and complex, are critical to the operation of many networks and, in the case of ours, provide and monitor network security and may protect valuable information. Our solutions have contained and may contain one or more undetected errors, defects or security vulnerabilities. Some errors in our solutions may only be discovered after a solution has been installed and used by end customers. Any errors or security vulnerabilities discovered in our solutions after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business and results of operations. In addition, we could face claims for product liability, tort, or breach of warranty. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention. In addition, if our business liability insurance coverage is inadequate or future coverage is unavailable on acceptable terms or at all, our financial condition could be harmed.

A breach of network security could harm public perception of our cybersecurity solutions, which could cause us to lose revenues.

If an actual or perceived breach of network security occurs in the network of a customer of our cybersecurity solutions, regardless of whether the breach is attributable to our solutions, the market perception of the effectiveness of our solutions could be harmed. This could cause us to lose current and potential end customers or cause us to lose current and potential value-added resellers and distributors. Because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques.

If our solutions do not interoperate with our customers' networks, installations will be delayed or cancelled and could harm our business.

Our solutions are designed to interface with our customers' existing networks, each of which have different specifications and utilize multiple protocol standards and products or solutions from other vendors. Many of our customers' networks contain multiple generations of products that have been added over time as these networks have grown and evolved. Our solutions will be required to interoperate with many products and solutions within these networks as well as future products or solutions in order to meet our customers' requirements. If we find errors in the existing software or defects in the hardware used in our customers' networks, we may have to modify our software or hardware to fix or overcome these errors so that our solutions will interoperate and scale with the existing software and hardware, which could be costly and negatively impact our operating results. In addition, if our solutions do not interoperate with those of our customers' networks, demand for our solutions could be adversely affected, orders for our solutions could be cancelled, or our solutions could be returned. This could hurt our operating results, damage our reputation and seriously harm our business and prospects.

We must adequately protect our intellectual property in order to prevent loss of valuable proprietary information.

We rely primarily on a combination of patent, copyright, trademark and trade secret laws, confidentiality procedures, and non-disclosure agreements to protect our proprietary technology. However, unauthorized parties may attempt to copy or reverse-engineer aspects of our solutions or to obtain and use information that we regard as proprietary. Policing unauthorized use of our solutions is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of our intellectual property. This is particularly true in foreign countries whose laws may not protect proprietary rights to the same extent as the laws of the United States and may not provide us with an effective remedy against unauthorized use. If protection of our intellectual property proves to be inadequate or unenforceable, others may be able to use our proprietary developments without compensation to us, resulting in potential cost advantages to our competitors.

We may incur substantial expenses defending ourselves against claims of infringement.

There are numerous patents held by many companies relating to the design and manufacture of network security systems. Third parties may claim that our solutions infringe on their intellectual property rights. Any claim, with or without merit, could consume our management's time, result in costly litigation, cause delays in sales or implementations of our solutions or require us to enter into royalty or licensing agreements. Royalty and licensing agreements, if required and available, may be on terms unacceptable to us or detrimental to our business. Moreover, a successful claim of product infringement against us or our failure or inability to license the infringed or similar technology on commercially reasonable terms could seriously harm our business.

The price of our common stock has been volatile in the past and may continue to be volatile in the future due to factors outside of our control.

The market price of our common stock has been highly volatile in the past and may continue to be volatile in the future. Our common stock was traded on the OTCQB until October 9, 2020, when it began trading on the Nasdaq Capital Market. For the twelve months ended December 31, 2020, the market price of our common stock fluctuated between \$2.70 and \$19.09. The market value of our common stock may fluctuate significantly in the future in response to a number of factors, some of which are outside our control, including:

- variations in our quarterly operating results;
- changes in estimates of our financial performance by securities analysts;
- changes in market valuations of our competitors;
- thinly traded common stock;
- our ability to successfully produce, market, and sell our new *Shield* solution through new and broader sales channels to an expanded potential client market;
- announcements by us or our competitors of new products or solutions, significant contracts, acquisitions, strategic relationships, joint ventures or capital commitments;
- product or design flaws, product recalls or similar occurrences;
- additions or departures of key personnel;
- sales of common stock in the future; and
- fluctuations in stock market prices and volume, which are relatively typical for high technology companies.

Item 2. Properties

Our corporate headquarters are currently located in 8,331 square feet of space at 101 East Park Blvd, Suite 1300, Plano Texas. This facility houses our corporate administration, sales and marketing. The lease for this facility extends until September 2023. The Company vacated its previous space in Richardson, Texas beginning in the fourth quarter of 2020. The lease for this 23,000 square foot facility extends through November 2024 and is the subject of a lawsuit the Company filed against the landlord on February 16, 2021. We have charged this landlord with breach of contract, constructive eviction, and we have requested a declaratory judgment relieving us of any further payment obligations under this lease.

For a variety of reasons, the Company encouraged its Texas based engineers and analysts to work remotely beginning in fourth quarter 2020. Approximately 13 percent of our security software research and development and engineering staff are currently working remotely from home offices in California. We have one small facility in San Marcos, California under a lease and expiring in March 2021. We have one engineer working from home in New Mexico.

We believe that the existing facilities will be adequate to meet our operational requirements through 2021, although we periodically review our leased space to in order to ensure such space is secure and suitable for our current and future needs. We believe that all such facilities are adequately covered by appropriate property insurance. See Note 4 to our Consolidated Financial Statements for additional information regarding our obligations under leases.

Item 3. Legal Proceedings.

On February 16, 2021, Intrusion Inc. instituted legal proceedings in the District Court of Dallas County, Texas, 14th Judicial District against Purple Plaza LLC, the landlord for the facilities we previously occupied in Richardson, Texas. This lawsuit claims damages for breach of contract for, among other things, failure to maintain and repair the leased facilities and to provide adequate heating, air conditioning, and ventilation on the premises, resulting in a constructive eviction. Intrusion is seeking damages in excess of \$1,000,000 together with a declaratory judgment that any of Intrusion's remaining obligations under the lease have terminated. The landlord filed a general denial on March 5, 2021.

In addition to this pending litigation, we are subject to various other legal proceedings and claims that may arise in the ordinary course of business. We do not believe that any claims exist where the outcome of such matters would have a material adverse effect on our consolidated financial position, operating results or cash flows. However, there can be no assurance such legal proceedings will not have a material impact on future results.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Business Issuer Purchases of Equity Securities. – Intrusion Equity Accounting

Our common stock trades on the Nasdaq Capital Market, where it is currently listed under the symbol “INTZ.” As of February 12, 2021, there were approximately 105 registered holders of record of our common stock. Quotations on the OTCQB reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

All stock option plans under which our common stock is reserved for issuance have previously been approved by our stockholders. The following table provides summary information as of December 31, 2020 for all of our equity compensation plans (in thousands, except per share data). See **Note 9** to our consolidated financial statements for additional discussion.

	Number of shares of common stock to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	No. of shares of common stock remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders ¹	1,035	2.87	46
Equity compensation plans not approved by security holders	–	–	–
Total	1,035	2.87	46

(1) Included in the outstanding options are 526,000 from the 2005 Stock Incentive Plan and 509,000 from the 2015 Stock Option Plan.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Our Business

We develop, sell and support products that protect any-sized company or government organization by fusing advanced threat intelligence with real-time artificial intelligence to neutralize cyberattacks as they occur – including Zero-Day attacks. We market and distribute our solutions through a direct sales force and value-added resellers. Our end-user customers include U.S. federal government entities, state and local government entities, and companies ranging in size from mid-market to large enterprises.

Our Solutions

INTRUSION Shield

INTRUSION Shield, our cornerstone cybersecurity solution is a comprehensive, real-time AI-based Security-as-a-Service that inspects and kills all dangerous network connections before they can do damage. What makes our approach unique is that it inspects every packet of inbound and outbound traffic and analyzes the reputation of the IP addresses (source and destination), the domain and ports it is communicating on, along with many other fields in the packet to neutralize malicious connections.

Most breaches today are caused by malware free compromises that trigger no alarms in a firewall or endpoint solution. The common denominator is network communications, which *Shield* monitors and analyses, allowing *Shield* to identify and stop all attacks, even malware-free attacks. *Shield's* capabilities continuously evolve based on constant machine learning and neural networking technology. Unlike traditional industry approaches that rely heavily on human mitigation and defensive approaches, which malicious actors and nation states have learned to bypass, *Shield's* proprietary architecture isolates and neutralizes malicious traffic and network flows that existing solutions cannot identify before they harm a corporation or government organization.

Shield is designed as a next generation Network Detection and Response solution. After 30 years of providing research, analysis, tools and services to the federal government and enterprise corporations, Intrusion possesses a comprehensive and proprietary data set of petabytes of Internet traffic, including information about the activities of malicious online actors. *Shield* integrates this rich *TraceCop* data set with artificial intelligence (AI) and *Savant* real-time process flow technology to provide our customers with a unique and affordable tool to detect, identify, and neutralize cyberattacks. In particular, the *Shield* AI has been specifically trained to identify and stop Zero-Day attacks and ransomware, the most prolific and crippling forms of malware today.

INTRUSION TraceCop

INTRUSION TraceCop is our big data tool with extensive IP intelligence canvassing the entire Internet. It contains largest repository of reputation information on known good and known bad active IP addresses (both IPv4 and IPv6). *TraceCop* contains an inventory of network selectors and enrichments useful to support forensic investigations. The data contains a history of IPv4 and IPv6 block allocations and transfers, historical mappings of IP addresses to Autonomous Systems (ASNs) as observed through BGP, and approximately one billion historically registered domain names and registration context. *TraceCop* contains tens of billions of historic DNS resolutions of Fully Qualified Domain Names (FQDNs or hostnames) on each of these domains. Together, this shows relationships, hosting, and attribution for Internet resources. *TraceCop* also contains web server content surveys of content, such as natural language and topic of the content on hundreds of millions of websites and servers and OS fingerprints of services showing applications running on an IP. This context allows *Shield* to assess the use and purpose of an Internet resource. *TraceCop* also contains a history of threat and reputation for each hostname and IP address over time. All this makes it a very effective network forensics and cybersecurity analysis tool to inform *Shield*.

INTRUSION Savant

INTRUSION Savant is a network monitoring solution that leverages the rich data available in *TraceCop* to identify suspicious traffic in real-time. *Savant* uses several original patents to uniquely characterize and record all network flows. *Savant* is a network reconnaissance and attack analysis tool used by forensic analysts in the DoD, Federal Government and corporations with in-house threat research teams. For example, *Savant* users can create various automated rules to inspect packets matching (or not) certain criteria such as creating a rule to ensure the Source MAC address field in the Ethernet header and Source IP address from the IP header are always the same, failing which could indicate MAC or IP Spoofing in progress. Similarly, threat investigators can create rules using regular expressions by combining multiple fields in the packet headers. Ultimately, the rich capabilities of *Savant* provides the real-time analysis that *Shield* uses to make decisions on whether or not a packet is malicious.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to product returns, bad debts, inventories, income taxes, warranty obligations, maintenance contracts and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We generally recognize product revenue upon shipment or after meeting certain performance obligations. These products can include hardware, perpetual software licenses and data sets. Data set updates are the majority of sales. We do not currently offer software on a subscription basis. Warranty costs and sales returns for our current products have not been material.

We recognize sales of our data sets in accordance with FASB ASC Topic 606 whereby revenue from contracts with customers is not recognized until all five of the following have been met:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the separate performance obligations; and
- recognize revenue upon satisfaction of a performance obligation.

Data updates are typically done monthly, and revenue will be matched accordingly. Product sales may include maintenance and customer support allocated revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy using the relative selling price method. All of our solution offering and service offering market values are readily determined based on current and prior stand-alone sales. We may defer and recognize maintenance, updates and support revenue over the term of the contract period, which is generally one year.

Service revenue, primarily including maintenance, training and installation, are recognized upon delivery of the service and typically are unrelated to product sales. To date, maintenance, training and installation revenue has not been material. Our normal payment terms offered to customers, distributors and resellers are net 30 days domestically and net 45 days internationally. We do not offer payment terms that extend beyond one year and rarely do we extend payment terms beyond our normal terms. If certain customers do not meet our credit standards, we do require payment in advance to limit our credit exposure.

Shipping and handling costs are billed to the customer and included in product revenue. Shipping and handling expenses are included in cost of product revenue.

Allowances for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our receivables are uncollateralized, and we expect to continue this policy in the future. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, increased allowances may be required. Historically, our estimates for sales returns and doubtful accounts have not differed materially from actual results.

Fair Value of Financial Instruments

We calculate the fair value of our assets and liabilities which qualify as financial instruments and include additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued expenses, and dividends payable approximate their carrying amounts due to the relatively short maturity of these instruments. Financing leases and PPP loan approximate fair value as they bear market rates of interest.

Results of Operations

The following tables set forth, for the periods indicated, certain financial data as a percentage of net revenue.

	Year Ended December 31,	
	2020	2019
Net product revenue	100.0 %	100.0 %
Total cost of revenue	40.9	39.2
Gross profit	59.1	60.8
Operating expenses:		
Sales and marketing	57.7	9.5
Research and development	57.4	9.6
General and administrative	42.5	8.7
Operating income (loss)	(98.5)	33.0
Interest expense	(0.1)	(0.3)
Interest income	0.1	—
Income (loss) from operations before income taxes	(98.5)	32.7
Income tax provision	—	—
Net income (loss)	(98.5)	32.7
Preferred stock dividends accrued	(1.2)	(1.0)
Net income (loss) attributable to common stockholders	(99.7)%	31.7 %

2020 compared with 2019

Net Revenue

Total revenue decreased 51.5% to \$6.6 million in 2020 from \$13.6 million in 2019. We did not meet sales projections for our *TraceCop* product line. We expect our product revenues to increase in the future if we can increase sales to existing customers and add new customers.

There were no export sales in 2020 and 2019 primarily due to our focus on domestic revenue sales. Sales of our products internationally may be subject to currency exchange risk, which may cause our products to effectively increase in price, if the exchange rate moves significantly and the dollar gains value over the foreign currency.

Historically, due to the timing of our sales cycle, a significant portion of our monthly sales occurs in the second half of the month. Accordingly, our receivables increase at the end of each month, which causes a higher accounts receivable balance at month end. This monthly trend also causes an inflated comparative relationship between revenue and accounts receivable. We believe that this monthly trend will continue because monthly sales forecast and planning meetings are held in the first week of every month, the middle of the month is focused on sales calls to customers and the latter half of the month on closing sales.

Gross Profit

Gross profit decreased 52.9% to \$3.9 million in 2020 from \$8.3 million in 2019. As a percentage of net revenue, gross profit decreased from 60.8% in 2019 to 59.1% in 2020. Gross profit as a percentage of revenue, decreased in 2020 compared to 2019 because of higher labor costs related to certain projects.

Gross profit as a percentage of net revenue is impacted by several factors, including shifts in product mix, changes in channels of distribution, sales volume, fluctuations in manufacturing costs, labor costs, pricing strategies, and fluctuations in sales of integrated third-party products.

Sales and Marketing

Sales and marketing expenses increased to \$3.8 million or 57.7% of net revenue in 2020, compared to \$1.3 million or 9.5% of net revenue in 2019. The increase in sales and marketing expense was primarily two activities: building, training, and preparing a sales department to sell our new commercial product in 2021; and applying a dedicated \$1.2 million marketing and promotion budget. Sales and marketing expenses may vary in the future. We expect sales and marketing expenses to increase if net revenue levels increase in 2021.

Research and Development

Research and development expenses increased to \$3.8 million or 57.4% of net revenue in 2020 compared to \$1.3 million or 9.6% of net revenue in 2019. The increase in research and development expense was due to less labor expense shifted to direct labor costs. Our research and development costs are expensed in the period in which they are incurred. We expect research and development expenses to increase if we are able to increase net revenue levels in 2021. Research and development expense levels may fluctuate due to labor expense shifting to direct labor.

General and Administrative

General and administrative expenses increased to \$2.8 million, or 42.5% of net revenue in 2020 compared to \$1.2 million or 8.7% of net revenue in 2019. This was primarily a result of a non-cash write off for a \$1.1 million abandoned operating lease asset. Other contributing expenses were related to increases in administrative and Human Resources. Excluding the \$1.1 million non-cash write off for the abandonment of prior office lease, we expect general and administration expenses to remain constant but increase if net revenue levels increase in 2021.

Interest Expense

Interest expense decreased to \$6 thousand in 2020, compared to \$46 thousand in 2019. Interest expense decreased due to a combination of a zero balance under an unsecured revolving promissory note to borrow up to \$3,700,000 from G. Ward Paxton, the Company's former Chief Executive Officer (the "CEO Note") and declining balances in financial leases and remained steady for operating leases. Interest expense will vary in the future based on our cash flow and borrowing needs.

Interest Income

Interest income earned on bank deposits was \$11 thousand in 2020 compared to \$4 thousand in 2019.

Income Taxes

Our effective income tax rate was 0% in 2020 and 2019 as valuation allowances have been recorded for the entire amount of the net deferred tax assets due to uncertainty of realization. On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act ("the Tax Act") which significantly changed U.S. tax law. The Tax Act lowered the Company's statutory federal income tax rate from a maximum of 39% to a rate of 21% effective January 1, 2018.

Liquidity and Capital Resources

Our principal source of liquidity at December 31, 2020 was \$16.7 million of cash and cash equivalents. As of December 31, 2020, we did not hold investments with a stated maturity beyond one year. Working capital at December 31, 2020 was \$16.2 million, while at December 31, 2019, it was \$3.1 million.

Net cash used in operations for the twelve months ended December 31, 2020, was \$5.2 million due primarily to a net loss of \$6.5 million and the following uses of cash: a \$339 thousand decrease in deferred revenue, a \$258 thousand increase in prepaid expenses and other assets, and a \$334 thousand decrease in accounts payable and accrued expenses. This was partially offset by these sources of cash and non-cash items: a \$1.1 million non-cash write-off for an abandoned operating lease asset, a \$333 thousand decrease in accounts receivable, \$322 thousand in stock-based compensation, \$231 thousand in depreciation expense and amortization expense, and \$294 thousand in noncash lease costs.

Net cash provided by operations for the twelve months ended December 31, 2019, was \$4.3 million due primarily to a net income of \$4.5 million and the following sources of cash and non-cash items: \$232 thousand in noncash lease costs, a \$401 thousand decrease in accounts receivable, \$184 thousand in depreciation expense and amortization expense, \$47 thousand in stock-based compensation, and \$6 thousand in waived penalties on dividends. This was partially offset by a \$496 thousand decrease in accounts payable and accrued expenses, a \$488 thousand decrease in deferred revenue, and a \$61 thousand increase in prepaid expenses and other assets. Future fluctuations in accounts receivable, inventory balances and accounts payable will be dependent upon several factors, including quarterly sales, timely collection of accounts receivable, and the accuracy of our forecasts of product demand and component requirements.

Net cash used in investing activities in 2020 was \$320 thousand for purchases of property and equipment. Net cash used in investing activities in 2019 was \$260 thousand for purchases of property and equipment.

Net cash provided by financing activities in 2020 was \$18.9 million with proceeds of \$18.2 million from a stock offering, \$629 thousand from a PPP loan, and proceeds from exercise of stock options of \$209 thousand. This was directly offset by the following uses of cash: payments for preferred stock dividends of \$99 thousand and payment on principal of finance right-of-use leases of \$43 thousand. Net cash used in financing activities in 2019 was \$2.3 million primarily due to payments on the loan by an officer of \$1.8 million, \$714 thousand payment of dividends on preferred stock, and \$58 thousand payments on principal on financing leases. This was directly offset by a provision of cash of \$239 thousand from the exercise of stock options.

At December 31, 2020, we had a commitment of \$21 thousand for future finance lease liabilities. Operating lease commitments of \$2.6 million are detailed in the Contractual Obligations section below. At December 31, 2019, we had a commitment of \$66 thousand for future finance lease liabilities, while operating lease commitments were \$1.8 million. During 2020, we funded our operations through the use of available cash and cash equivalents.

As of December 31, 2020, we had cash and cash equivalents of approximately \$16.7 million, up from approximately \$3.3 million as of December 31, 2019. We generated a net loss of \$6.5 million for the year ended December 31, 2020 compared to a net income of \$4.5 million for the year ended December 31, 2019.

We expect to fund our operations through anticipated Company profits together with the approximately \$18 million in net proceeds we received from our Secondary Public Offering, which we believe will be sufficient to finance our operations, the additional expenses of marketing, promoting, and selling our new Shield solution and the development of its follow-on solutions, as well as other expected capital expenditures for the next twelve months.

We may explore the possible acquisitions of businesses, products and technologies that are complementary to our existing business. We are continuing to identify and prioritize additional security technologies, which we may wish to develop, either internally or through the licensing, or acquisition of products from third parties. While we may engage from time to time in discussions with respect to potential acquisitions, there can be no assurances that any such acquisitions will be made or that we will be able to successfully integrate any acquired business. In order to finance such acquisitions and working capital it may be necessary for us to raise additional funds through public or private financings. Any equity or debt financings, if available at all, may be on terms, which are not favorable to us and, in the case of equity financings, may result in dilution to our stockholders.

Contractual Obligations

The following table sets forth certain information concerning the future contractual obligations under our leases at December 31, 2020. We had no other significant contractual obligations at December 31, 2020.

Future minimum lease obligations consisted of the following at December 31, 2020 (in thousands):

Period ending December 31,	Operating ROU Leases	Finance ROU Leases	Total
2021	\$ 584	\$ 21	\$ 605
2022	644	–	644
2023	640	–	640
2024	549	–	549
2025	167	–	167
	<u>\$ 2,584</u>	<u>\$ 21</u>	<u>\$ 2,605</u>
Less Interest*	(230)	–	–
	<u>\$ 2,354</u>	<u>\$ 21</u>	

*Interest is imputed for operating ROU leases and classified as lease expense and is included in operating expenses in the accompanying condensed consolidated statement of operations.

Off-Balance Sheet Arrangements

As of December 31, 2020, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Recent Accounting Pronouncements

See Note 2 Consolidated Financial Statements

Item 8. Financial Statements

The information required by this Item 8 begins on page F-1 of this Annual Report on Form 10-K.

Item 9A. Controls and Procedures

Evaluation of Effectiveness of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on criteria established in *2013 Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's evaluation included an assessment of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment. Based on its evaluation, management concluded that the Company's internal control over financial reporting was effective as of the year ended December 31, 2020 to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. The Company reviewed the results of management's assessment with the Audit Committee of the Board of Directors.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report. This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Inherent Limitations on Effectiveness of Controls

The Company's management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that the Company's disclosure controls or internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2020, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Certain information required by Part III is omitted from this Form 10-K because we will file a definitive Proxy Statement for our 2021 annual meeting of stockholders pursuant to Regulation 14A (the "Proxy Statement") no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information to be included therein is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance.

The information called for by this item is incorporated herein by reference to the Proxy Statement.

Item 11. Executive Compensation.

The information called for by this item is incorporated herein by reference to the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information called for by this item is incorporated herein by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information called for by this item is incorporated herein by reference to the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information called for by this item is incorporated herein by reference to the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) 1. Consolidated Financial Statements.

The following consolidated financial statements of Intrusion Inc. and subsidiaries, are submitted as a separate section of this report (See F-pages):

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets at December 31, 2020 and 2019	F-2
Consolidated Statements of Operations for the years ended December 31, 2020 and 2019	F-3
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2020 and 2019	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019	F-5
Notes to Consolidated Financial Statements	F-6

Exhibit Number	Description of Exhibit
3.1(3)	Restated Certificate of Incorporation of the Registrant
3.2(5)	Certificate of Amendment to Certificate of Incorporation of Registrant
3.6(2)	Bylaws of the Registrant
4.1(6)	Specimen Common Stock Certificate
10.1(6)	Lease Agreement between CalWest Industrial Holdings Texas, L.P. and Intrusion Inc.
10.2(13)	Fourth Amendment to Lease, executed on September 27, 2019, by and between Intrusion Inc. and JP-CORPORATE PLACE, LP.
10.3(1)	Sublease Agreement between the Registrant and CliftonLarsonAllen LLP dated September 28, 2020
10.4(1)	Lease between the Registrant and JBA Portfolio, LLC, executed as of February 3, 2021
10.5(2)	Amended and Restated 401(k) Savings Plan of the Registrant
10.6(4)	Intrusion Inc. 401(k) Savings Plan Summary of Material Modifications
10.7(7)	Amended 2005 Stock Incentive Plan of the Registrant
10.8(9)	2015 Stock Incentive Plan of the Registrant
10.9(10)	Form of Notice of Grant of Stock Option
10.10(10)	Form of Stock Option Agreement
10.11(10)	Form of Notice of Grant of Non-Employee Director Automatic Stock Option (Initial Grant)
10.12(10)	Form of Notice of Grant of Non-Employee Director Automatic Stock Option (Annual Grant)
10.13(10)	Form of Automatic Stock Option Agreement
21(8)	List of Subsidiaries of Registrant
23.1(1)	Consent of Whitley Penn LLP, Independent Registered Public Accounting Firm
31.1(1)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act
31.2(1)	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Exchange Act
32.1(1)	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2(1)	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS(1)	XBRL Instance Document.
101.SCH(1)	XBRL Taxonomy Extension Schema Document.
101.CAL(1)	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF(1)	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB(1)	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE(1)	XBRL Taxonomy Extension Presentation Linkbase Document.
(1)	Filed herewith
(2)	Filed as an Exhibit to the Registrant’s Annual Report on Form 10-K, for the fiscal year ended December 31, 2000, which Exhibit is incorporated herein by reference.
(3)	Filed as an Exhibit to the Registrant’s Current Report on Form 8-K dated June 15, 2010, which Exhibit is incorporated herein by reference.
(4)	Filed as an Exhibit to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, which Exhibit is incorporated herein by reference.
(5)	Filed as an Exhibit to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (as amended), which Exhibit is incorporated herein by reference.
(6)	Filed as an Exhibit to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (as amended), which Exhibit is incorporated herein by reference.
(7)	Filed as an Exhibit to the Registrant’s Current Report on Form 8-K dated June 15, 2005, which Exhibit is incorporated herein by reference.
(8)	Filed as an Exhibit to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (as amended), which Exhibit is incorporated herein by reference.
(9)	Filed as an Exhibit to the Registrant’s Definitive Proxy Statement on Schedule 14A in connection with the solicitation of proxies for its Annual Meeting of Stockholders held May 14, 2015, which Exhibit is incorporated herein by reference.
(10)	Filed as an Exhibit to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (as amended), which Exhibit is incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Intrusion Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Intrusion Inc. and subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

We have served as the Company’s auditor since 2009.

/s/ Whitley Penn LLP
Plano, Texas
March 9, 2021

INTRUSION INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value amounts)

	December 31,	
	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 16,704	\$ 3,334
Accounts receivable	1,233	1,566
Prepaid expenses	370	152
Total current assets	18,307	5,052
Property and Equipment:		
Equipment	1,453	1,138
Furniture and fixtures	43	43
Leasehold improvements	67	63
	1,563	1,244
Accumulated depreciation and amortization	(1,097)	(909)
	466	335
Finance leases, right-of-use assets, net	20	62
Operating leases, right-of-use assets, net	1,010	1,348
Other assets	79	38
TOTAL ASSETS	\$ 19,882	\$ 6,835
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, trade	\$ 408	\$ 252
Accrued expenses	628	828
Dividends payable	—	20
Finance leases liabilities, current portion	21	43
Operating leases liabilities, current portion	487	284
PPP loan payable, current portion	421	—
Deferred revenue	177	516
Total current liabilities	2,142	1,943
Finance leases liability, noncurrent portion	—	21
PPP loan payable, noncurrent portion	212	—
Operating leases liability, noncurrent portion	1,867	1,315
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.01 par value:		
Authorized shares — 5,000		
Series 1 shares issued and outstanding — 200 Liquidation preference of \$1,013 in 2019	—	707
Series 2 shares issued and outstanding — 460 Liquidation preference of \$1,155 in 2019	—	724
Series 3 shares issued and outstanding — 289 Liquidation preference of \$634 in 2019	—	412
Common stock, \$0.01 par value:		
Authorized shares — 80,000		
Issued shares — 17,428 in 2020 and 13,552 in 2019		
Outstanding shares — 17,418 in 2020 and 13,542 in 2019	174	136
Common stock held in treasury, at cost—10 shares	(362)	(362)
Additional paid-in-capital	77,187	56,759
Accumulated deficit	(61,295)	(54,777)
Accumulated other comprehensive loss	(43)	(43)
Total stockholders' equity	15,661	3,556
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 19,882	\$ 6,835

See accompanying notes.

INTRUSION INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended December 31,	
	2020	2019
Net product revenue	\$ 6,619	\$ 13,643
Cost of revenue	2,709	5,342
Gross profit	3,910	8,301
Operating expenses:		
Sales and marketing	3,821	1,298
Research and development	3,797	1,314
General and administrative	2,815	1,182
Operating income (loss)	(6,523)	4,507
Interest expense	(6)	(46)
Interest income	11	4
Income (loss) from operations before income taxes	(6,518)	4,465
Income tax provision	-	-
Net income (loss)	(6,518)	4,465
Preferred stock dividends accrued	(79)	(139)
Net income (loss) attributable to common stockholders	\$ (6,597)	\$ 4,326
Net income (loss) per share attributable to common stockholders, basic	\$ (0.45)	\$ 0.32
Net income (loss) per share attributable to common stockholders, diluted	\$ (0.45)	\$ 0.28
Weighted average common shares outstanding:		
Basic	14,678	13,502
Diluted	14,678	15,352

See accompanying notes.

INTRUSION INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Year Ended December 31,	
	2020	2019
NUMBER OF PREFERRED SHARES—ISSUED AND OUTSTANDING		
Balance, beginning of year	949	949
Conversion of preferred shares to common shares	(949)	—
Balance, end of year	—	949
PREFERRED STOCK		
Balance, beginning of year	\$ 1,843	\$ 1,843
Conversion of preferred shares to common shares	(1,843)	—
Balance, end of year	\$ —	\$ 1,843
NUMBER OF COMMON SHARES—ISSUED		
Balance, beginning of year	13,552	13,259
Exercise of stock options	343	293
Conversion of preferred shares to common shares	1,068	—
Public offering	2,465	—
Balance, end of year	17,428	13,552
COMMON STOCK		
Balance, beginning of year	\$ 136	\$ 133
Exercise of stock options	3	3
Conversion of preferred shares to common shares	10	—
Public offering	25	—
Balance, end of year	\$ 174	\$ 136
TREASURY SHARES		
Balance, beginning of year and end of year	\$ (362)	\$ (362)
ADDITIONAL PAID-IN-CAPITAL		
Balance, beginning of year	\$ 56,759	\$ 56,609
Stock-based compensation	322	47
Exercise of stock options	206	236
Conversion of preferred shares to common shares	1,833	—
Public offering	18,146	—
Preferred stock dividends declared, net of waived penalties by shareholders	(79)	(133)
Balance, end of year	\$ 77,187	\$ 56,759
ACCUMULATED DEFICIT		
Balance, beginning of year	\$ (54,777)	\$ (59,242)
Net income (loss)	(6,518)	4,465
Balance, end of year	\$ (61,295)	\$ (54,777)
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year and end of year	\$ (43)	\$ (43)
TOTAL STOCKHOLDERS' EQUITY	\$ 15,661	\$ 3,556

See accompanying notes.

INTRUSION INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,	
	2020	2019
Operating Activities:		
Net income (loss)	\$ (6,518)	\$ 4,465
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	231	184
Noncash lease costs	294	232
Stock-based compensation	322	47
Loss on abandoned real estate operating lease	1,092	–
Penalties and waived penalties on dividends	–	6
Changes in operating assets and liabilities:		
Accounts receivable	333	401
Prepaid expenses and other assets	(258)	(61)
Accounts payable and accrued expenses	(334)	(496)
Deferred revenue	(339)	(488)
Net cash provided by (used in) operating activities	(5,177)	4,290
Investing Activities:		
Purchases of property and equipment	(320)	(260)
Net cash used in investing activities	(320)	(260)
Financing Activities:		
Payments on loan from officer	–	(1,815)
Proceeds from PPP loan payable	629	–
Payments of dividends	(99)	(714)
Principal payments on financing lease equipment	(43)	(58)
Proceeds from public stock offering	18,171	–
Proceeds from stock options exercised	209	239
Net cash provided by (used in) financing activities	18,867	(2,348)
Net increase in cash and cash equivalents	13,370	1,682
Cash and cash equivalents at beginning of year	3,334	1,652
Cash and cash equivalents at end of year	\$ 16,704	\$ 3,334
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid on leased assets	\$ 2	\$ 4
Interest paid on loan from officer	\$ –	\$ 513
Income taxes paid	\$ –	\$ –
SUPPLEMENTAL DISCLOSURE OF NON CASH FINANCING ACTIVITIES:		
Preferred stock dividends accrued	\$ 79	\$ 139
Conversion of preferred shares to common shares	\$ 1,843	\$ –

See accompanying notes.

INTRUSION INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

We develop, sell and support products that protect any-sized company or government organization by fusing advanced threat intelligence with real-time artificial intelligence to kill cyberattacks as they occur – including Zero-Days. We market and distribute our solutions through a direct sales force and value-added resellers. Our end-user customers include U.S. federal government entities, state and local government entities, and companies ranging in size from mid-market to large enterprises.

References to the “Company”, “we”, “us”, “our”, “Intrusion” or “Intrusion Inc.” refer to Intrusion Inc. and its subsidiaries. *Savant*[™] and *TraceCop*[™] are registered trademarks of Intrusion Inc.

As of December 31, 2020, we had cash and cash equivalents of approximately \$16,704,000, up from approximately \$3,334,000 as of December 31, 2019. We generated a net loss of \$6,518,000 for the year ended December 31, 2020 compared to a net income of \$4,465,000 for the year ended December 31, 2019. Based on the current forecast for the year 2021, we believe that we will have sufficient cash resources to finance our operations and expected capital expenditures through March 31, 2022. As of October 24, 2019, our funding available terminated under an unsecured revolving promissory note to borrow up to \$3,700,000 from G. Ward Paxton, the Company’s former Chief Executive Officer (the “CEO Note”). Our management will be assessing whether to replace this borrowing base and assessing what terms may be available to the Company, including whether any such terms available are acceptable to the Company, if at all (the “Potential Replacement Facility”). Any equity or debt financings, if available at all, may be on terms which are not favorable to us and, in the case of equity financings, may result in dilution to our stockholders. We expect to fund our operations through anticipated Company profits, possibly additional investments of private equity and debt, which, if we are able to obtain, will have the effect of diluting our existing common stockholders, perhaps significantly, and a possible Potential Replacement Facility. If our operations do not generate positive cash flow in the upcoming year, or if we are not able to obtain additional debt or equity financing on terms and conditions acceptable to us, if at all, we may be unable to implement our business plan, fund our liquidity needs or even continue our operations.

2. Summary of Significant Accounting Policies

Principles of Consolidation

Our consolidated financial statements include our accounts and those of our wholly owned subsidiaries, and are prepared in accordance with accounting principles generally accepted in the United States of America. Intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and all highly liquid investments purchased with an original maturity of less than three months are considered to be cash and cash equivalents. As of December 31, 2020, the Company had approximately \$16,204,000 of uninsured cash balances in excess of Federal Depository Insurance Company limits.

Risk Concentration

Financial instruments, which potentially subject us to concentrations of credit risk, are primarily cash and cash equivalents, investments and accounts receivable. Cash and cash equivalent deposits are at risk to the extent that they exceed Federal Deposit Insurance Corporation insured amounts. To minimize risk, we place our investments in U.S. government obligations, corporate securities and money market funds. Substantially all of our cash, cash equivalents and investments are maintained with two major U.S. financial institutions. We do not believe that we are subject to any unusual financial risk with our banking arrangements. We have not experienced any significant losses on our cash and cash equivalents.

We sell our products to customers primarily in the United States. In the future, we may sell our products internationally. Fluctuations in currency exchange rates and adverse economic developments in foreign countries could adversely affect the Company's operating results. We perform ongoing credit evaluations of our customers' financial condition and generally require no collateral. We maintain reserves for potential credit losses, and such losses, in the aggregate, have historically been minimal.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at the amount we expect to collect. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial condition of our customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, we provide for estimated uncollectible amounts through a charge to earnings and an increase to a valuation allowance. Balances that remain outstanding after we have used reasonable collection efforts are written off through a charge to the valuation allowance. There was no allowance at December 31, 2020 and 2019.

Property and Equipment

Equipment and furniture and fixtures are stated at cost less accumulated depreciation and depreciated on a straight-line basis over the estimated useful lives of the assets. Such lives vary from 1 to 5 years. Leasehold improvements are stated at cost less accumulated amortization and are amortized on a straight-line basis over the shorter of estimated useful lives of the assets or the remaining terms of the leases. Such lives vary from 2 to 5 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Repair and maintenance costs are expensed as incurred. Depreciation and amortization expense totaled approximately \$231,000 and \$184,000 for the years ended December 31, 2020 and 2019, respectively.

Advertising Expenses

The cost of advertising is expensed as incurred or deferred until first use of advertising and expensed ratably over the applicable periods. Advertising expense was \$1.3 million and \$10,000 for 2020 and 2019, respectively. The increase in 2020 was primarily due to the Company's establishing a Marketing department and allocating a dedicated budget for marketing, advertising, promotion, and public relations.

Long-Lived Assets

We review long-lived assets, including property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows to be generated by the asset. If the carrying value exceeds the future undiscounted cash flows, the assets are written down to fair value. During the years ended December 31, 2020 and 2019, there was no impairment of long-lived assets.

Foreign Currency

All assets and liabilities in the balance sheets of foreign subsidiaries whose functional currency is other than the U.S. dollar are translated at year-end exchange rates. All revenues and expenses in the statement of operations of these foreign subsidiaries are translated at average exchange rates for the year. Translation gains and losses are not included in determining net income but are shown in accumulated other comprehensive loss in the stockholders' deficit section of the consolidated balance sheet. Foreign currency transaction gains and losses are included in determining net loss and were not significant.

Accounting for Stock Options

We account for stock options using the guidance in Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) Topic 718. FASB ASC Topic 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values.

Stock-based compensation expense recognized in the statements of operations for the years ended 2020 and 2019 is based on awards ultimately expected to vest, reduced by estimated forfeitures. FASB ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Valuation Assumptions

The fair values of option awards were estimated at the date of grant using a Black-Scholes option-pricing model with the following assumptions for fiscal years ended December 31, 2020 and 2019, respectively:

	<u>2020</u>	<u>2019</u>
Weighted average grant date fair value	\$ 3.50	\$ 3.69
Weighted average assumptions used:		
Expected dividend yield	0.00%	0.00%
Risk-free interest rate	0.41%	2.00%
Expected volatility	75.70%	124.58%
Expected life (in years)	5.93	5.00

Expected volatility is based on historical volatility and in part on implied volatility. The expected term considers the contractual term of the option as well as historical exercise and forfeiture behavior. The risk-free interest rate is based on the rates in effect on the grant date for U.S. Treasury instruments with maturities matching the relevant expected term of the award.

Net Income (Loss) Per Share

We report two separate net income (loss) per share numbers, basic and diluted. Basic net income (loss) attributable to common stockholders per share is computed by dividing net income (loss) attributable to common stockholders for the year by the weighted average number of common shares outstanding for the year. Diluted net income (loss) attributable to common stockholders per share is computed by dividing the net income (loss) attributable to common stockholders for the year by the weighted average number of common shares and dilutive common stock equivalents outstanding for the year. Our common stock equivalents include all common stock issuable upon conversion of convertible preferred stock and the exercise of outstanding options. Common stock equivalents are included in the diluted income (loss) per share for the years ended December 31, 2020 and 2019 except in cases where the issuance would be anti-dilutive. The aggregate number of common stock equivalents excluded from the diluted income (loss) per share calculation for the years ended December 31, 2020 and 2019 totaled 976,284 and 30,630 respectively.

Revenue Recognition

We generally recognize product revenue upon shipment or after meeting certain performance obligations. These products can include hardware, perpetual software licenses and data sets. Data set updates are the majority of our sales. We do not currently offer software on a subscription basis. Warranty costs and sales returns have not been material.

We recognize sales of our data sets in accordance with FASB ASC Topic 606 whereby revenue from contracts with customers is not recognized until all five of the following have been met:

- i) identify the contract with a customer;
- ii) identify the performance obligations in the contract;
- iii) determine the transaction price;
- iv) allocate the transaction price to the separate performance obligations; and
- v) recognize revenue upon satisfaction of a performance obligation.

Data updates are typically done monthly and revenue will be matched accordingly. Product sales may include maintenance and customer support allocated revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy using the relative selling price method. All of our product offering and service offering market values are readily determined based on current and prior stand-alone sales. We may defer and recognize maintenance, updates and support revenue over the term of the contract period, which is generally one year.

Service revenue, primarily including maintenance, training and installation are recognized upon delivery of the service and typically are unrelated to product sales. To date, training and installation revenue has not been material. These revenues are included in net customer support and maintenance revenues in the statement of operations.

Our normal payment terms offered to customers, distributors and resellers are net 30 days domestically and net 45 days internationally. We do not offer payment terms that extend beyond one year and rarely do we extend payment terms beyond our normal terms. If certain customers do not meet our credit standards, we do require payment in advance to limit our credit exposure.

Shipping and handling costs are billed to the customer and included in product revenue. Shipping and handling expenses are included in cost of product revenue. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

Research and Development Costs

We incur research and development costs that relate primarily to the development of new security software, appliances and integrated solutions, and major enhancements to existing services and products. Research and development costs are comprised primarily of salaries and related benefits expenses, contract labor and prototype and other related expenses.

Software development costs are included in research and development and are expensed as incurred. FASB ASC Topic 985 *Software* requires that software development costs incurred subsequent to reaching technological feasibility be capitalized, if material. If the process of developing a new product or major enhancement does not include a detailed program design, technological feasibility is determined only after completion of a working model. To date, the period between achieving technological feasibility and the general availability of such software has been short, and the software development costs qualifying for capitalization have been insignificant.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are used for, but not limited to, the accounting for doubtful accounts, sales discounts, sales returns, revenue recognition, warranty costs, inventory obsolescence, depreciation, income taxes and stock based compensation. Actual results could differ from these estimates.

Fair Value of Financial Instruments

We calculate the fair value of our assets and liabilities which qualify as financial instruments and include additional information in the notes to consolidated financial statements when the fair value is different than the carrying value of these financial instruments. The estimated fair value of accounts receivable, accounts payable and accrued expenses, and dividends payable approximate their carrying amounts due to the relatively short maturity of these instruments. Financing leases and PPP loan approximate fair value as they bear market rates of interest. None of these instruments are held for trading purposes.

Income Taxes

Deferred income taxes are determined using the liability method in accordance with FASB ASC 740, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

FASB ASC 740 creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FASB ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. There are no unrecognized tax benefits to disclose in the notes to the consolidated financial statements.

We file income tax returns in the United States federal jurisdiction. At December 31, 2020, tax returns related to fiscal years ended December 31, 2017 through December 31, 2019 remain open to possible examination by the tax authorities. No tax returns are currently under examination by any tax authorities.

Recent Accounting Pronouncements

On January 1, 2019 we adopted ASU No. 2016-02, *Leases (topic 842)*. At the date of adoption there was no impact on the statement of operations, while the balance sheet reflects recording both assets and liabilities applicable to the operating right-of-use asset lease identified. ASU No. 2016-02 did not have a material effect on the Company's results of operations or cash flows for the year ended December 31, 2019.

3. Accrued Expenses (in thousands)

Accrued expenses are made up of the following as of December 31:

	December 31,	
	2020	2019
Accrued payroll	\$ 228	\$ 193
Accrued vacation	278	311
Accrued bonus	—	245
Employee benefits payable	31	—
Other	91	79
	<u>\$ 628</u>	<u>\$ 828</u>

4. Commitments and Contingencies

Right-of-use Asset and Leasing Liabilities

Under the new lease accounting standard, we have determined that we have leases for right-of-use (ROU) assets. We have both finance right-of-use assets and operating right-of-use assets with a related lease liability. Our finance lease right-of-use assets consist of computer hardware and a copying machine. Our operating lease right-of-use assets include our rental agreements for our offices in Plano, TX, Allen, TX and San Marcos, CA. Both types of lease liabilities are determined by the net present value of total payments and are amortized over the life of the lease. Both types of lease obligations are designed to terminate with the last scheduled payment. All of the finance lease right-of-use assets have a three-year life and are in various stages of completion. The Richardson operating lease liability has a life of three years and eleven months as of December 31, 2020. The San Marcos operating lease liability has a life of three months as of December 31, 2020. The adoption of the lease accounting standard resulted in the recognition of an operating ROU asset of \$1,580 thousand and a related lease liability of \$1,771 thousand on January 1, 2019. The Plano operating lease liability has a life of two years and nine months as of December 31, 2020 and had an initial recognition of an operating ROU asset and related lease liability of \$225 thousand during the year ended December 31, 2020. The Allen operating lease liability has a life of four years and ten months as of December 31, 2020 and had an initial recognition of an operating ROU asset and related lease liability of \$824 thousand during the year ended December 31, 2020.

Additional qualitative and quantitative disclosures regarding the Company's leasing arrangements are also required. The Company adopted ASC 842 prospectively and elected the package of transition practical expedients that does not require reassessment of: (1) whether any existing or expired contracts are or contain leases, (2) lease classification and (3) initial direct costs. In addition, the Company has elected other available practical expedients to not separate lease and non-lease components, which consist principally of common area maintenance charges, for all classes of underlying assets and to exclude leases with an initial term of 12 months or less.

As the implicit rate is not readily determinable for the Company's lease agreement, the Company uses an estimated incremental borrowing rate to determine the initial present value of lease payments. This discount rate for the lease approximates SVB's prime rate.

Supplemental cash flow information includes operating cash flows related to operating leases. For the years ended December 31, 2020 and 2019, the Company had approximately \$380,000 and \$294,000, respectively, in operating cash flows related to operating leases.

Lease Abandonment

Because of the breach of contract mentioned in the following Legal Proceedings section, management decided to abandon our offices subject to the Richardson ROU operating lease. The final move out of employees, applicable furnishings and server datacenter was in early December 2020. We have applied the abandonment guidance in ASC 360-10-35. We believe “abandonment” means ceasing to use the underlying asset and lacking either the intent or the ability to sublease the underlying asset. Accordingly, lease abandonment charges incurred for this ROU asset for the year ended December 31, 2020 totaled \$1.1 million.

Schedule of Items Appearing on the Statement of Operations:

	Year Ended	
	December 30, 2020	December 31, 2019
Operating expense:		
Amortization expense – Finance ROU	43	59
Lease expense – Operating ROU	380	433
Other expense:		
Interest expense – Finance ROU	2	4

Future minimum lease obligations consisted of the following at December 31, 2020 (in thousands):

Period ending December 31,	Operating ROU Leases	Finance ROU Leases	Total
2021	\$ 584	\$ 21	\$ 605
2022	644	–	644
2023	640	–	640
2024	549	–	549
2025	167	–	167
	\$ 2,584	\$ 21	\$ 2,605
Less Interest*	(230)	–	
	\$ 2,354	\$ 21	

*Interest is imputed for operating ROU leases and classified as lease expense and is included in operating expenses in the accompanying condensed consolidated statement of operations.

Legal Proceedings

On February 16, 2021, Intrusion Inc. instituted legal proceedings in the District Court of Dallas County, Texas, 14th Judicial District against Purple Plaza LLC, the landlord for the facilities we previously occupied in Richardson, Texas. This lawsuit claims damages for breach of contract for, among other things, failure to maintain and repair the leased facilities and to provide adequate heating, air conditioning, and ventilation on the premises, resulting in a constructive eviction. Intrusion is seeking damages in excess of \$1,000,000 together with a declaratory judgment that any of Intrusion’s remaining obligations under the lease have terminated. The landlord filed a general denial on March 5, 2021.

In addition to this pending litigation, we are subject to various other legal proceedings and claims that may arise in the ordinary course of business. We do not believe that any claims exist where the outcome of such matters would have a material adverse effect on our consolidated financial position, operating results or cash flows. However, there can be no assurance such legal proceedings will not have a material impact on future results.

We are not aware of any material claims outstanding or pending against Intrusion Inc. at December 31, 2020.

5. Employee Benefit Plan

Employee 401(k) Plan

We have a plan known as the Intrusion Inc. 401(k) Savings Plan (the “Plan”) to provide retirement and incidental benefits for our employees. The Plan covers substantially all employees who meet minimum age and service requirements. As allowed under Section 401(k) of the Internal Revenue Code, the Plan provides tax deferred salary deductions for eligible employees.

Employees may contribute from 1% to 25% of their annual compensation to the Plan, limited to a maximum amount as set by the Internal Revenue Service. Participants who are over the age of 50 may contribute an additional amount of their salary per year, as defined annually by the Internal Revenue Service. We match employee contributions at the rate of \$0.25 per each \$1.00 of contribution on the first 4% of compensation. Matching contributions to the Plan were approximately \$36,000 and \$32,000, respectively, for the years ended December 31, 2020 and 2019.

6. PPP Loan

On March 27, 2020, the U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which includes provision for a Paycheck Protection Program (“PPP”) administered by the U.S. Small Business Administration (“SBA”). The PPP allows qualifying businesses to borrow up to \$10 million calculated based on qualifying payroll costs. The loan is guaranteed by the federal government and does not require collateral. On April 30, 2020 we entered into a PPP Loan with Silicon Valley Bank, pursuant to the PPP under CARES for \$629,000. The PPP Loan matures on April 30, 2022 and bears interest at a rate of 1.0% per annum. The PPP Loan funds were received on April 30, 2020. The PPP Loan contains events of default and other provisions customary for a loan of this type. The PPP provides that (1) the use of PPP Loan amount shall be limited to certain qualifying expenses, (2) 100 percent of the principal amount of the loan is guaranteed by the SBA and (3) an amount up to the full principal amount plus accrued interest may qualify for loan forgiveness in accordance with the terms of CARES. As of December 31, 2020, the Company was in full compliance with all covenants with respect to the PPP Loan. The Company expects to use the full proceeds of the PPP loan in accordance with the provisions of CARES. As of December 31, 2020, the balance of the PPP Loan was \$629,000, along with \$4,000 in accrued interest. We have submitted the PPP Loan Forgiveness Application and expect full forgiveness as we have met all stated requirements.

7. Borrowings from Officer

On February 8, 2018, the Company entered into an unsecured revolving promissory note to borrow up to \$3,700,000 from G. Ward Paxton, the Company’s former Chief Executive Officer (the “CEO Note”). Under the terms of the CEO Note, the Company had the ability to borrow, repay and reborrow on the loan as needed up to an outstanding principal balance due of \$3,700,000 at any given time through March 2020.

On February 7, 2019, the Company amended the unsecured revolving promissory note to borrow up to \$2,700,000 from G. Ward Paxton, the Company’s former Chief Executive Officer. Amounts borrowed under the CEO Note accrued interest at a floating rate per annum equal to Silicon Valley Bank’s (“SVB”) prime rate plus 1%. Under the terms of the note, the Company had the ability to borrow, repay and reborrow on the loan as needed up to an outstanding principal balance due of \$2,700,000 at any given time through March 2021. We reduced our borrowing under this note to zero as of May 2019.

As of October 24, 2019, G. Ward Paxton passed away, terminating the CEO Note with the result that future borrowings thereunder will no longer be available to the Company. Our management will be assessing whether to replace this borrowing base and assessing what terms may be available to the Company, including whether any such terms are acceptable to the Company, if at all.

8. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets (liabilities) as of December 31, 2020 and 2019 are as follows (in thousands):

	December 31	
	2020	2019
Net operating loss carryforwards	\$ 19,965	\$ 18,771
Net operating loss carryforwards of foreign subsidiaries	374	374
Depreciation expense	(99)	(77)
Stock-based compensation expense	53	36
Other	304	68
Net deferred tax assets	20,597	19,172
Valuation allowance for net deferred tax assets	(20,597)	(19,172)
Net deferred tax assets, net of allowance	\$ —	\$ —

Deferred tax assets are required to be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization of the future benefits related to the deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the near to medium term. Management has considered these factors in determining the valuation allowance for 2020 and 2019.

The differences between the provision for income taxes and income taxes computed using the federal statutory rate for the years ended December 31, 2020 and 2019 are as follows (in thousands):

	2020	2019
Reconciliation of income tax benefit to statutory rate:		
Income benefit at statutory rate	\$ (1,369)	\$ 938
State income taxes (benefit), net of federal income tax benefit	(121)	1,066
Permanent differences	60	10
Change in valuation allowance	1,425	(2,030)
Other	5	16
	\$ —	\$ —

At December 31, 2020, we had federal net operating loss carryforwards of approximately \$86.9 million for income tax purposes that begin to expire in 2022 and are subject to the ownership change limitations under Internal Revenue Code Section 382.

9. Stock Options

At December 31, 2020, we had two stock-based compensation plans, which are described below. These plans were developed to retain and attract key employees and directors.

On March 17, 2005, the Board approved the 2005 Stock Incentive Plan (the “2005 Plan”), which was approved by the stockholders on June 14, 2005. The 2005 Plan provided for the issuance of up to 750,000 shares of common stock upon exercise of options granted pursuant to the 2005 Plan. On May 30, 2007, the stockholders approved an Amendment to the 2005 Plan that increased this amount by 750,000 for a total of 1,500,000 shares of common stock that may be issued upon the exercise of options granted pursuant to the 2005 Plan. On May 29, 2008 and May 21, 2009, the stockholders approved an increase of 500,000 shares, respectively, of common stock that may be issued pursuant to the 2005 Plan for a total of 2,500,000 shares. On May 20, 2010, the stockholders approved an additional increase of 500,000 shares of common stock that may be issued pursuant to the 2005 Plan for a total of 3,000,000 shares. On May 19, 2011, the stockholders approved an additional increase of 400,000 shares of common stock that may be issued pursuant to the 2005 Plan for a total of 3,400,000 shares. Finally, on May 17, 2012, the stockholders approved an additional increase of 300,000 shares of common stock that may be issued pursuant to the 2005 Plan for a total of 3,700,000 shares. At December 31, 2020, 1,861,335 had been exercised and options to purchase a total of 526,000 shares of common stock were outstanding. A total of 3,892,000 options had been granted under the 2005 Plan, of which 1,504,665 have been cancelled. The 2005 Plan expired on June 14, 2015, and no options remain for grant.

On March 19, 2015, the Board approved the 2015 Stock Incentive Plan (the “2015 Plan”), which was approved by the stockholders on May 14, 2015. The 2015 Plan serves as a replacement for the 2005 Plan which expired by its terms on June 14, 2015. The approval of the 2015 Plan had no effect on the 2005 Plan or any options granted pursuant to the plan. All options will continue with their existing terms and will be subject to the 2005 Plan. Further, the Company will not be able to re-issue any option which is cancelled or terminated under the 2005 Plan. The 2015 Plan provided for the issuance of up to 600,000 shares of common stock upon exercise of options granted pursuant to the 2015 Plan.

The 2015 Plan consists of three separate equity incentive programs: the Discretionary Option Grant Program; the Stock Issuance Program; and the Automatic Option Grant Program for non-employee Board members. Officers and employees, non-employee Board members and independent contractors are eligible to participate in the Discretionary Option Grant and Stock Issuance Programs. Participation in the Automatic Option Grant Program is limited to non-employee members of the Board. Each non-employee Board member will receive an option grant for 10,000 shares of common stock upon initial election or appointment to the Board, provided that such individual has not previously been employed by the Company in the preceding three (3) months. In addition, on the date of each annual stockholders meeting, each Board member will automatically be granted an option to purchase 10,000 shares of common stock, provided he or she has served as a non-employee Board member for at least three months. At December 31, 2020, 45,000 options had been exercised and options to purchase a total of 509,000 shares of common stock were outstanding. A total of 557,000 options had been granted under the 2015 Plan, 3,000 options have been cancelled, and options for 46,000 shares remained available for future grant. No shares have been issued pursuant to the Stock Issuance Program.

Common shares reserved for future issuance, including outstanding options and options available for future grant under all of the stock option plans totaled 1,081,000 shares at December 31, 2020 as follows, in thousands:

(In thousands)	Common Shares Reserved for Future Issuance
2015 Plan	555
2005 Plan	526
Total	1,081

The Compensation Committee of our Board of Directors determines for all employee options, the term of each option, option exercise price within limits set forth in the plans, number of shares for which each option is granted and the rate at which each option is exercisable (generally ratably over one, three or five years from grant date). However, the exercise price of any incentive stock option may not be less than the fair market value of the shares on the date granted (or less than 110% of the fair market value in the case of optionees holding more than 10% of our voting stock of the Company), and the term cannot exceed ten years (five years for incentive stock options granted to holders of more than 10% of our voting stock).

Stock Incentive Plan Summary

A summary of our stock option activity and related information for the years ended December 31, 2020 and 2019 is as follows:

	2020		2019	
	Number of Options (in thousands)	Weighted Average Exercise Price	Number of Options (in thousands)	Weighted Average Exercise Price
Outstanding at beginning of year	975	\$ 0.96	1,235	\$ 0.83
Granted at price = market value	403	5.56	34	4.40
Granted at price > market value	–	–	–	–
Exercised	(343)	0.61	(294)	0.81
Forfeited	–	–	–	–
Expired	–	–	–	–
Outstanding at end of year	1,035	\$ 2.87	975	\$ 0.96
Options exercisable at end of year	601	\$ 1.03	917	\$ 0.84

Stock Options Outstanding and Exercisable

Information related to stock options outstanding at December 31, 2020, is summarized below:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at 12/31/20 (in thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable at 12/31/20 (in thousands)	Weighted Average Exercise Price
\$0.40 - \$1.00	411	1.66	\$ 0.58	411	\$ 0.58
\$1.01 - 2.00	140	3.83	1.69	132	1.72
\$2.01 - 4.25	71	5.54	2.89	55	2.50
\$4.26 - \$8.72	413	9.46	5.54	3	4.75
	1,035	5.33	\$ 2.87	601	\$ 1.03

Summarized information about outstanding stock options as of December 31, 2020, that are fully vested and those that are expected to vest in the future as well as stock options that are fully vested and currently exercisable, are as follows:

	Outstanding Stock Options (Fully Vested and Expected to Vest)*	Options that are Exercisable
As of December 31, 2020		
Number of outstanding options (in thousands)	987	601
Weighted average remaining contractual life	5.14	2.41
Weighted average exercise price per share	\$ 2.76	\$1.03
Intrinsic value (in thousands)	\$ 14,670	\$9,976

* Includes effects of expected forfeitures

As of December 31, 2020, the total unrecognized compensation cost related to non-vested options not yet recognized in the statement of operations totaled approximately \$1,023 thousand (including expected forfeitures) and the weighted average period over which these awards are expected to vest was 2.30 years.

10. Secondary Public Offering of Common Stock

In October of 2020, the Company completed a secondary public offering of 3,565,000 shares of common stock at a price to the public of \$8.00 per share, including 2,000,000 shares of common stock to be issued and sold by Intrusion and 1,100,000 shares of common stock to be offered by the group of selling shareholders, together with 465,000 shares purchased when the underwriter exercised its option to purchase all of the available shares under the underwriter's overallotment option (the "Secondary Public Offering"). Gross proceeds of the offering to the company, before deducting underwriting discounts, commissions and estimated offering expenses, were approximately \$19,720,000. Net proceeds to Intrusion of approximately \$18,171,000 are intended to fund several growth initiatives, including the commercialization of its new Intrusion Shield solutions designed for the enterprise market.

On October 9, 2020 and in connection with the closing of our Secondary Public Offering, our stock began trading on the Nasdaq Capital Market ("Nasdaq") under the symbol "INTZ".

11. Preferred Stock

In August 2020, all current shares of issued and outstanding preferred stock were voluntarily converted, resulting in the issuance of a total of 1,004,249 newly issued shares of the Company's common stock. The addition of these newly issued shares has resulted in the dilution of each share of issued and outstanding common stock by a factor of 7.28% at that date.

Dividends Payable

During the year ended December 31, 2020, we accrued \$30,000 in dividends to the holders of our 5% Preferred Stock, \$32,000 in dividends to the holders of our Series 2 5% Preferred Stock and \$17,000 in dividends to the holders of our Series 3 5% Preferred Stock. We paid these in full in August 2020, at the same time as the voluntary conversion of all preferred stocks.

As of December 31, 2019, we had \$20,000 in accrued and unpaid dividends included in other current liabilities. We paid these in full during the year ended December 31, 2020.

12. Concentrations

Our operations are concentrated in one area—security software/entity identification. Sales to the U.S. Government through direct and indirect channels totaled 86.3% of total revenues for 2020 and 87.4% of total revenues for 2019. During 2020 approximately 76.5% of total revenues were attributable to three government customers. During 2019 approximately 68.1% of total revenues are attributable to three government customers. One individual government customer at December 31, 2020 and three at December 31, 2019 exceeded 10% of total accounts receivable balance at respective year ends, comprising 52.8% and 78.8% of the respective total accounts receivable balance. During 2020 no commercial customer exceeded 10.0% of total revenues, and during 2019, 10.4% of total revenues were attributable to one commercial customer. Only one individual commercial customer at December 31, 2020 and 2019 exceeded 10% of total accounts receivable balance. Our similar product and service offerings are not viewed as individual segments, as our management analyzes the business as a whole and expenses are not allocated to each product offering.

13. Contract Assets and Contract Liabilities

Contract assets represent contract billings for sales per contracts with customers and are classified as current. Our contract assets include our accounts receivables. For the year ended December 31, 2020, the Company had contract assets balance of \$1,233,000, a decrease of \$333,000 from the prior year due to cash receipts exceeding new contract assets. For the year ended December 31, 2019, the Company had contract assets balance of \$1,566,000.

Contract liabilities consist of cash payments in advance of the Company satisfying performance obligations and recognizing revenue. The Company currently classifies deferred revenue as a contract liability. For the year ended December 31, 2020, the Company had contract liabilities balance of \$177,000. For the year ended December 31, 2019, the Company had contract liabilities balance of \$516,000.

14. Coronavirus Outbreak in the United States

A significant concentration of our federal, state, and local governmental customers were forced to allocate scarce and competing resources and balance budgetary demands placed upon them as a result of the effects of the coronavirus, mandatory quarantines, decreased travel, interruptions in workforce populations, scarcity of commodities, and similar economic and operational effects of the virus upon their own constituencies. These adverse effects resulted in decreased demand by many of our customers for our product offerings and cybersecurity solutions, negatively affecting historic revenue levels for the Company.

SUBLEASE AGREEMENT

THIS SUBLEASE AGREEMENT (this "Sublease") is made and entered into as of this ____ day of September 2020, by and between CliftonLarsonAllen LLP, a Minnesota limited liability partnership (the "Sublessor") and Intrusion, Inc., a _____ corporation (the "Sublessee").

RECITALS

WHEREAS, Sublessor (successor in interest to M. White & Associates, LLC, as successor in interest to Rogers & White, LLC) as tenant, and JBA Portfolio, LLC (successor in interest to Boxer F2, LP, as successor in interest to Parameter 101 E. Park Boulevard LP), as landlord ("Landlord"), entered into that certain Lease Agreement dated April 16, 2008 (the "Original Lease"), and amended by that First Amendment to Lease dated March 8, 2010 (the "First Amendment"), as amended by that Second Amendment to Lease dated on or about October 18, 2013 (the "Second Amendment"), as amended by that Third Amendment to Office Lease dated November 25, 2015 (the "Third Amendment"), as amended by that Fourth Amendment to Office Lease dated October 7, 2016 (the "Fourth Amendment"), as amended by that Fifth Amendment to Lease dated on or about October 19, 2018 (the "Fifth Amendment").

WHEREAS, the Original Lease, First Amendment, Second Amendment, Third Amendment, Fourth Amendment, and Fifth Amendment may be collectively referred to as the Lease. A copy of the Lease is attached hereto as Exhibit A and incorporated herein by this reference.

WHEREAS, the Lease provides, among other things, that Landlord lease to Sublessor approximately 17,250 rentable square feet of space commonly known as Suite 1200 (the "1200 Premises") and 7,646 rentable square feet of space commonly known as Suite 1300 (the "Sublease Premises") in a building whose street address is 101 East Park Blvd., Plano, Texas 75074 (the "Building").

WHEREAS, all defined terms used herein and not otherwise defined herein, shall have the meanings ascribed to them in the Lease.

WHEREAS, subject to the terms and conditions contained herein, Sublessor desires to sublease the Sublease Premises to Sublessee and Sublessee desires to accept the sublease of the Sublease Premises from Sublessor.

AGREEMENTS

NOW THEREFORE, for and in consideration of the above recitals (which are hereby incorporated into this Agreement) and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublessor and Sublessee agree as follows:

1. **SUBLEASE PREMISES: USE**

(a) Sublessor hereby subleases and demises to Sublessee, and Sublessee hereby agrees to sublease the Sublease Premises. Sublessee shall use the Sublease Premises for general office use consistent with that of similar office buildings of similar quality in the East Plano/Richardson Submarket.

(b) Sublessee shall comply at all times with all rules and regulations promulgated from time to time in connection with the Lease. Sublessee shall comply, at Sublessee's own expense, with all laws and regulations of any municipal, county, state, federal or public authority respecting the use of the Sublease Premises. Sublessee shall not, without the prior consent of Sublessor and Landlord, knowingly do or permit anything to be done which may result in a violation of the terms of this Sublease or the Lease or which may make Sublessor or Landlord liable for any damages, claims, fines, penalties, costs or expenses.

(c) Notwithstanding anything to the contrary herein, Sublessee shall have no rights to use or access the 1200 Premises. Sublessee agrees, covenants, and warrants that it will not take any action to disrupt Sublessor's use of the 1200 Premises, and that it will not take any action or omission that would be considered a nuisance to the 1200 Premises.

2. TERM

(a) The term of this Sublease (the "Term") shall commence on the later to occur of (i) October 1, 2020 and (ii) the day after the date Master Landlord consents to a fully executed copy of this Sublease (the "Commencement Date") and shall terminate on September 30, 2023 (the "Expiration Date") unless sooner terminated pursuant to the terms of this Sublease.

(b) If the term of the Lease is terminated for any reason prior to the Expiration Date, this Sublease shall thereupon be terminated by that event without any liability of Sublessor to Sublessee by reason of such early termination. Any liability of Sublessee to make any payment under this Sublease, whether of Rent (as defined below) or otherwise, which shall have accrued prior to the Expiration Date or sooner termination of this Sublease, shall survive the expiration or sooner termination of this Sublease.

(c) In the event that Sublessee remains in possession of the Sublease Premises after the Expiration Date, Sublessee shall be deemed to be a monthly tenant only at the holdover percentage equal to the holdover rate provided in Section 22 of the Original Lease, payable monthly in advance to Sublessor upon and subject to the same terms and conditions as described herein and in the Lease.

3. RENT

(a) Sublessee hereby agrees to pay to Sublessor rent as follows (the "Rent"):

Time	Rent Per Rentable Square Foot	Annual Rent	Monthly Installment of Rent
Commencement Date through Month 2 of the Term	\$0.00/RSF	\$0.00	\$0.00
Month 3 of the Term through Month 14	\$11.00/RSF	\$84,106.00	\$7,008.83
Month 15 of the Term through Month 26	\$11.33/RSF	\$86,629.18	\$7,219.10
Month 27 of the Term through Expiration Date	\$11.67/RSF	\$89,228.82	\$7,435.74

(b) Rent shall be payable monthly in advance on the first day of each calendar month included in the Term by Sublessee to Sublessor at the office of Sublessor set forth in Section 16(b) (or such other place as Sublessor may designate in writing), without prior notice or demand therefor without any abatement, deduction or setoff. Rent for any partial month at the beginning or end of the Term shall be prorated based upon the actual number of days of such month included in the Term, unless otherwise provided in this Sublease. Notwithstanding the foregoing, the payment of Rent for the first month of the Term shall be due upon Sublessee's execution of this Sublease.

(c) Sublessee shall pay all Rent when due, in lawful money of the United States which shall be legal tender for the payment of all debts, public and private, at the time of payment. All sums due and payable as Rent shall from and after the date which is ten (10) days after the due date bear interest at 10%, but in no event in excess of the maximum rate, if any, allowed by law. All interest accrued under this subsection as hereinabove provided shall be deemed to be additional rent payable hereunder and due at such time or times as the Rent with respect to which such interest shall have accrued shall be payable under this Sublease.

(e) Sublessee shall pay \$8,920.33 as security deposit, which shall be held by Sublessor as security for the full and punctual performance by Sublessee of all of the terms of this Sublease. In the event Sublessee defaults in the performance of any of the terms of this Sublease, Sublessor may apply the whole or any part of the security deposit to the extent required for the payment of (i) any Rent or (ii) any sum which Sublessor may expend or may be required to expend by reason of Sublessee's default, including without limitation, any damages or deficiency in the reletting of the Sublease Premises. Upon each such application, Sublessee will, on demand, pay to Sublessor the sum so applied, which shall be added to the security deposit so that the same shall be restored to the amount first deposited with Sublessor. If Sublessee shall fully and punctually comply with all of the terms of this Sublease, the amount of the security deposit, without interest, shall be returned to Sublessee within 30 days after the termination of this Sublease, delivery of exclusive possession of the Sublease Premises to Sublessor and the payment to Sublessor of any Rent owed hereunder.

(f) Notwithstanding the foregoing, in the event Sublessee requests any extra or additional services from Landlord or Sublessor, Sublessee shall be solely responsible for the cost of any such extra or additional services.

4. UTILITIES

Sublessee agrees that Sublessor shall not be held liable for: (a) any failure of water supply, electric current or any services by any utility; (b) injury to person (including death) or damage to property resulting from steam, gas, electricity, water, rain or snow which may flow or leak from any part of the Sublease Premises or from any pipes, appliances, plumbing works from the street or subsurface or from any other place; and (c) temporary interference with lights or other easements, unless such failures, injuries or interferences are caused by the intentional act or gross negligence of Sublessor.

5. CONDITION OF SUBLEASE PREMISES

(a) Sublessor shall deliver the Sublease Premises to Sublessee in its current "as is" condition, and Sublessee expressly accepts the Sublease Premises "as-is" and "where-is." Sublessor hereby expressly disclaims any and all warranties or representations made to Sublessee concerning the condition of the Sublease Premises, whether same were made by any officer, director or employee of Sublessor or any other agent of same, such as a broker.

(b) Sublessee shall make no additions, alterations or improvements to the Sublease Premises, without the prior written approval of Landlord and Sublessor in each instance. Permitted improvements and alterations shall be in compliance with the Lease, all applicable Building codes and government regulations, and said improvements and alterations shall further be constructed in a good and workmanlike manner as is customary in the construction industry.

(c) Sublessor shall provide Sublessee with use of all fixtures, furniture, and equipment currently in the Sublease Premises which belong to Sublessor (the "FF&E") during the Term at no additional cost to Sublessee. Sublessee shall be solely responsible for maintaining the FF&E in good condition and proper working order during the Term, reasonable wear and tear excepted. Provided that Sublessee has fully performed its obligations under this Sublease by the Expiration Date, Sublessor shall transfer ownership of all FF&E to Sublessee on the Expiration Date for the price of \$10.00.

(d) Sublessee shall maintain the Sublease Premises in good order and repair throughout the Term, and shall perform such maintenance and repair to the Sublease Premises as is necessary to keep the Sublease Premises in such good order. Sublessee shall promptly repair any damages caused by Sublessee, and its employees, contractors and invitees to the Sublease Premises, which is in excess of normal wear and tear. In the event Sublessee fails to repair or restore any portion of the Sublease Premises, Sublessor may undertake such restoration or repair at Sublessee's sole expense.

(e) Upon the Expiration Date, Sublessee shall be responsible for timely vacating the Sublease Premises, cleaning the Sublease Premises to broom clean condition, and removing all of Sublessee's personal property (including without limitation, the FF&E) from the Sublease Premises, provided however, in no event shall Sublessee remove any personal property and/or trade fixtures owned by Landlord, Sublessor, or another third party. Sublessee shall be solely responsible for repairing any damage caused by or related to Sublessee's vacation of the Sublease Premises.

6. SIGNAGE AND PARKING

(a) Any signs in the Building and/or Sublease Premises shall be subject to the approval of the Landlord and shall be in compliance with the requirements of the Lease. Sublessee shall apply for and obtain all permits required for the installation or maintenance of any sign or window display. All approved signage shall be installed by Sublessee at Sublessee's sole cost and expense.

(b) Sublessee shall sublease those parking spaces which Sublessor is entitled to use for the Sublease Premises pursuant to the Lease (i.e., 4 unreserved surface spaces per 1,000 rentable square feet of the Sublease Premises). Sublessee shall be responsible for all rent, charges and fees for such parking spaces and shall pay such amounts to Landlord (or to Sublessor if Landlord will not accept direct payment from Sublessee) before they are due.

7. LANDLORD'S SERVICES

Sublessor shall use reasonable efforts to ensure that Landlord provides services to the Sublease Premises as set forth in the Lease, but shall have no obligation to request any additional services from Landlord on Sublessee's behalf. Notwithstanding any such discontinuance of any service to be provided by Landlord pursuant to the Lease, this Sublease shall otherwise remain in full force and effect and such discontinuance shall not constitute an actual or constructive eviction, in whole or in part, or entitle Sublessee to any abatement or diminution in the Rent.

8. SUPERIORITY OF LEASE; SUBJECT TO LANDLORD CONSENT

(a) This Sublease is subject and subordinate to the Lease. Except as may be inconsistent with the terms and provisions hereof, the terms and provisions of the Lease shall be applicable to this Sublease and shall be incorporated into this Sublease, as if Sublessor was the landlord under the Lease and Sublessee was the tenant under the Master Lease. In the event of a conflict between the terms of the Lease and this Sublease, the terms of the Lease shall govern. Sublessee shall in no case have any rights under this Sublease greater than Sublessor's rights as tenant under the Lease.

(b) Sublessee acknowledges that in the event of a (i) termination of the Lease, or (ii) re-entry or dispossession by Landlord, then Landlord may, at its option, take over all of the right, title and interest of Sublessor hereunder and Sublessee agrees that it shall, at Landlord's option, attorn to Landlord, subject to the terms and conditions provided in Section 10(e) of the Original Lease.

(c) Sublessee shall observe and perform for the benefit of Landlord and Sublessor, each and every term, covenant, condition and agreement of the Lease which Sublessor is required to observe or perform with respect to the Sublease Premises as tenant under the Lease. Except as otherwise specifically provided in this Sublease, all of the terms, covenants, conditions and agreements which Landlord or Sublessor are required to observe or perform with respect to the Sublease Premises as parties to the Lease are hereby incorporated herein by reference and deemed to constitute terms, covenants, conditions and agreements which Sublessor and Sublessee are required to observe or perform under this Sublease as if set forth herein at length, *mutatis mutandis*.

(d) The time limits contained in the Master Lease for the giving of notices, making of demands or performing any act, condition or covenant on the part of the tenant thereunder, or for the exercise by the tenant thereunder of any right, remedy or option, are changed for the purposes of incorporation herein by reference by shortening the same in each instance by one (1) day so that in, each instance Sublessee shall have one (1) day less time to observe or perform hereunder than Sublessor has as the tenant under the Master Lease; this provision shall not be applicable to any time limit contained in the Master Lease which is less than three (3) days.

(e) Notwithstanding all of the other terms and provisions of this Sublease, this Sublease is conditioned upon and shall not be effective until Landlord approves this Sublease in writing.

9. MUTUAL INDEMNITY

(a) Sublessee agrees to indemnify, hold harmless and shall forever defend Sublessor from and against any and all damages, claims, costs, suits, proceedings, losses and liabilities (to persons or property) which result or arise from or in connection with (i) the use, occupancy, management, repair, maintenance or control of the Sublease Premises by Sublessee or Sublessee's agents, employees, contractors, licensees or invitees, (ii) Sublessee's breach of this Sublease, or (iii) the misconduct or gross negligence of Sublessee. Sublessee shall assume all of the reasonable costs associated with defending against any claims, suits, proceedings or actions brought against Sublessor in respect of the foregoing, including without limitation, attorney's fees and expenses.

(b) Sublessor agrees to indemnify, hold harmless and shall forever defend Sublessee from and against any and all damages, claims, costs, suits, proceedings, losses and liabilities (to persons or property) which result or arise from or in connection with (i) Sublessor's breach of this Sublease, or (ii) Sublessor's misconduct or gross negligence. Sublessor shall assume all of the reasonable costs associated with defending against any claims, suits, proceedings or actions brought against Sublessee in respect of the foregoing, including without limitation, attorneys' fees and expenses.

10. INSURANCE; SUBROGATION

(a) During the Term, Sublessee shall maintain all insurance required of Sublessor as tenant under the Lease, and all liability policies and property coverages shall name both Landlord and Sublessor as additional insureds thereunder. Sublessee shall provide Sublessor copies of its certificates of insurance evidencing compliance with this section prior to Sublessee's entry into the Sublease Premises.

(b) Anything in this Sublease to the contrary notwithstanding, Sublessor and Sublessee each waives any and all rights of recovery, claim, action, or cause-of-action, against the other, its agents (including without limitation, partners (both general and limited), officers, directors, shareholders, customers, invitees, or employees), for any loss or damage that may occur to the Sublease Premises, or any improvements thereto, or any improvements thereon, or any personal property of such party therein, by reason of fire, the elements or any other cause which is actually insured against by Sublessor or Sublessee or which could be insured against under the coverage of a special perils form or all-risk policy of property insurance, regardless of cause or origin, including without limitation, negligence of the other party, its agents, partners, shareholders, officers, directors, partners, customers, invitees or employees. Each party covenants that no insurer shall hold any right of subrogation against such other party with respect to any claim for property damage.

11. ASSIGNMENT; SUBLETTING; ACCESS TO SUBLEASE PREMISES

(a) Sublessee shall not, by operation of law or otherwise, assign, sell, mortgage, pledge or in any manner transfer this Sublease or any interest therein, or sublet the Sublease Premises or any part or parts thereof, or grant any concession or license or otherwise permit occupancy of all or any part of the Sublease Premises by any person, without (i) the prior written consent of Sublessor, which consent shall not be unreasonably withheld, conditioned, or delayed, (ii) the prior written consent of Landlord, and (iii) satisfying all the terms and conditions for an assignment, transfer, or sublease as specified in the Lease. Notwithstanding Sublessor's and Landlord's consent to any such assignment or subletting, Sublessee shall not be released from any of its obligations or liabilities hereunder.

(b) Except for Sublessee's employees and invitees, Sublessee shall not permit any person, except for Sublessee's employees, guests, invitees and clients, to enter into, use or occupy the Sublease Premises for any reason, without in each case the prior written consent of Sublessor. Sublessee shall be solely responsible for the employees, clients, guests and invitees of Sublessee throughout the Term.

12. SUBLESSEEE DEFAULT: REMEDIES

(a) The term "Default" as used herein shall mean: (i) any failure by Sublessee to pay or perform, as the case may be, any of its obligations hereunder (including Sublessee's failure to pay Rent when due hereunder); (ii) an assignment by Sublessee for the benefit of its creditors or the appointment of a receiver for Sublessee's asset or the filing by Sublessee of a voluntary or involuntary petition in any bankruptcy or insolvency proceeding, or the adjudication of Sublessee as bankrupt under any applicable bankruptcy or insolvency statute, or the general inability of Sublessee to pay its debts when due; (iii) any violation of Sublessee of any of the other terms of this Sublease or the Lease: or (iv) any event or circumstance that would be a default under the Lease if Sublessee was the tenant thereunder, with respect to the Sublease Premises.

(b) In the case of any Default, Sublessor, in its sole reasonable discretion, shall have and may exercise any one or more of the following rights and remedies (in addition to all rights and remedies available to Sublessor at law and equity and under the Lease as if Sublessor was the Landlord thereunder, but subject to Landlord's rights, rules and regulations):

(i) To terminate the Sublease, at which time Sublessee shall immediately vacate the Sublease Premises, and pay all Rent due hereunder for the remaining Term of the Sublease.

(ii) To enter and take possession of the Sublease Premises, and occupy, relet, and/or assign the same (provided that Sublessor shall have no obligation to let or relet the Sublease Premises).

(iii) Make repairs as Sublessor deems appropriate (at the cost of Sublessee) and perform any and all acts in connection with the leasing, management and operation of the Sublease Premises as Sublessor, in its sole discretion, may deem proper.

(iv) To the full extent permitted by any applicable statute or rule of law, to maintain any and all actions at law, suits in equity, or any other appropriate proceeding, to seek the cure or remedy of such Default.

(c) The exercise by Sublessor of one or more of any or all of its remedies in the case of Default shall not in any manner release Sublessee from its liability for Rent and its other obligations to Sublessor pursuant to this Sublease, but any amounts recovered by Sublessor as a result of its exercise of one or more of any such remedies shall be applied toward Sublessee's liability to Sublessor after deducting any reasonable costs of recovery or collection.

(d) The receipt by Sublessor of any Rent with knowledge of the breach of any covenant of this Sublease by Sublessee shall not be deemed a waiver of such breach or any subsequent breach of this Sublease by Sublessee. No provision of this Sublease shall be deemed to have been waived by Sublessor unless such waiver be in writing signed by Sublessor.

13. DEFAULT BY SUBLESSOR

(a) If Sublessor should fail to observe, perform or comply with any term provision or condition of this Sublease to be performed by Sublessor, and if such failure continues for 30 days following Sublessor's receipt of notice thereof from Sublessee, Sublessor shall be in default under this Sublease; provided however, that if such failure is of such a character as to require more than 30 days to cure, Sublessor shall not be in default unless Sublessor does not commence such cure within 30 days and thereafter diligently proceed curing such failure. Upon the occurrence of any uncured default by Sublessor, Sublessee shall have all rights, powers and privileges as are had by Sublessor as tenant under the Lease and are otherwise available under law or equity.

(b) Neither Landlord nor Sublessor shall be liable in any manner for any damages, expenses, losses, costs or liabilities (to person or property) resulting from, or relating to, a breach, default or the acts or omissions of other tenants or subtenants of the Building. Sublessee hereby releases Landlord and Sublessor and its partners, shareholders, owners, employees, agents, and representatives from any and all such liabilities.

(c) Sublessee understands and agrees that all of Sublessee's property is kept in the Sublease Premises at Sublessee's sole risk.

14. CASUALTY AND CONDEMNATION.

In the event of damage to the Sublease Premises by fire or other casualty or if a condemnation occurs, Sublessor shall use reasonable efforts to encourage Landlord to promptly restore the Sublease Premises and the Building in accordance with the Lease. If the Sublease Premises is damaged by a fire or other casualty or if a condemnation occurs, and if Sublessor is entitled to abatement of Rent under the Lease, then the Rent due hereunder shall also be abated proportionately.

15. REPRESENTATIONS AND WARRANTIES

(a) Sublessor represents and warrants that: (i) Sublessor is the tenant under the Lease and has the unrestricted right and authority to execute this Sublease and to grant Sublessee the rights granted hereunder, and (ii) Sublessor is not the subject of any bankruptcy, insolvency or probate proceeding.

(b) Sublessee represents and warrants that: (i) Sublessee has the unrestricted right and authority to execute this Sublease and to enter into a lease for the Sublease Premises as described herein; (ii) Sublessee is not the subject of any bankruptcy, insolvency or probate proceeding, (iii) Sublessee is not subject to any pending lawsuit, arbitration, or legal proceeding that would reasonably be expected to affect Sublessee's ability to perform its obligations under this Sublease, (iv) Sublessee satisfies the conditions of a proposed transferee as provided in Section 10(b) of the Original Lease, and (v) Sublessee is currently in compliance with, and shall at all times during the Term remain in compliance with, the regulations of the Office of Foreign Asset Control ("OFAC") of the Department of the Treasury (including those relating to persons named on OFAC's Specially Designated Nationals and Blocked Persons List) and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism), or other governmental action relating thereto.

16. MISCELLANEOUS

(a) Time is of the essence with respect to this Sublease.

(b) Any notice required or permitted to be given under this Sublease shall be deemed to have been sufficiently given if personally delivered or mailed by registered or certified mail, postage prepaid, or overnight courier addressed to the party to be notified at the following addresses:

IF TO SUBLESSOR: CliftonLarsonAllen LLP
Attn: Beth Peterson
220 South Sixth Street, Suite 300
Minneapolis, Minnesota 55402

With a copy to:
Newmark Knight Frank
Global Corporate Services
5201 Tennyson Parkway, Suite 200
Plano, Texas 75024

IF TO SUBLESSEE: Intrusion, Inc.

or at such other address as may be furnished by notice pursuant to this paragraph.

(c) This Sublease shall be binding upon Sublessor and Sublessee and inure to the benefit of the successors and assigns of Sublessor.

(d) This Sublease shall be governed by the laws of the State of Texas. Sublessee consents to Landlord's and/or Sublessor's choice of venue for any legal proceeding brought by Landlord, Sublessor or Sublessee to enforce the terms of this Sublease. All rights and remedies of Sublessor under this Sublease shall be cumulative and none shall exclude any other rights or remedies allowed by law. Each party hereto waives the right to a jury in any litigation arising under or with respect to this Sublease.

(e) The non-prevailing party shall pay to the prevailing party all costs and expenses, including, without limitation, court costs and reasonable attorneys' fees, incurred by the prevailing party (i) in enforcing any of the covenants and provisions of this Sublease, or (ii) in any action brought by the non-prevailing party against the prevailing party, if the non-prevailing party fails to obtain a final unappealable judgment against the prevailing party.

(f) Sublessor and Sublessee acknowledge that they are not partners or joint ventures (and that Sublessee is not an employee of Sublessor). Sublessee agrees not to hold itself out as an employee or agent of Sublessor for any reason.

(g) This Sublease constitutes the full and complete understanding between the parties regarding the subject matter hereof and all prior agreements, either oral or written, are hereby superseded. This Sublease may only be amended by an instrument in writing signed by the parties hereto and approved by Landlord.

(h) At any time and from time to time within 10 days after a written request from Sublessor or Landlord, Sublessee shall execute, acknowledge and deliver to the Sublessor or Landlord a written statement certifying (i) that this Sublease has not been modified and is in full force and effect or, if there has been a modification of this Sublease, that this Sublease is in full force and effect as modified, and stating such modifications, (ii) the dates to which the Rent hereunder have been paid, (iii) that to the best of Sublessee's knowledge, no defaults exist under this Sublease or, if any defaults do exist, specifying the nature of each such default and (iv) as to such other matters pertaining to the terms of this Sublease as Sublessor or Landlord may reasonably request.

(i) Sublessee shall, and may peacefully have, hold and enjoy the Sublease Premises, subject to the other terms hereof, so long as a default by Sublessee under this Sublease has not occurred.

(j) Sublessor warrants and represents that it has not dealt with any real estate broker or agent in connection with this Sublease or its negotiation except for Andrew Blaustein of Newmark Knight Frank (the "Sublessor Broker"). Sublessee warrants and represents that it has not dealt with any real estate broker or agent in connection with this Sublease except for **STREAM REALTY PARTNERS – DFW, L.P.** (the "Sublessee Broker"). Sublessor agrees to indemnify, defend and hold harmless, Sublessee from and against any claims made by any broker or other person other than Sublessor Broker for a brokerage commission, finder's fee, or similar compensation, by reason of or in connection with this Sublease, and any loss, liability, damage, cost and expense (including without limitation, reasonable attorneys' fees). Sublessee agrees to indemnify, defend and hold harmless, Sublessor from and against any claims made by any broker or other person other than Sublessee Broker for a brokerage commission, finder's fee, or similar compensation, by reason of or in connection with this Sublease, and any loss, liability, damage, cost and expense (including without limitation, reasonable attorneys' fees). Sublessor shall pay Sublessee Broker a market commission pursuant to a separate agreement.

(k) This Sublease may be executed in counterparts, and all counterparts so executed shall constitute one Sublease, binding upon both parties, notwithstanding that both parties are not signatories to the original or the same counterpart. This Sublease may be executed and delivered by facsimile or electronic transmission, in one or more counterparts, and such transmission or counterpart shall be deemed to have the same effect as an originally signed copy of this Sublease

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Sublease effective as of the day and year first above written.

SUBLESSOR:

CliftonLarsonAllen LLP,
a Minnesota Liability Limited Partnership

By: /s/ G. Scott Engelbrecht
G. Scott Engelbrecht, Chief Operating Officer

SUBLESEE:

Intrusion, Inc.,
a _____ corporation

By: _____
Name: _____
Title: _____

The Sublease is hereby approved and consented to by Landlord.

LANDLORD: JBA PORTFOLIO, LLC

By: _____

Name: _____

Title: _____

EXHIBIT A

Lease

LEASE



DEFINITION OF LEASE TERMS

LANDLORD: <<Landlord Legal Name>>

TENANT: Intrusion, Inc., a Delaware corporation **SUITE:** 1340, 1360

BUILDING: Plano Tower **ADDRESS:** 101 E Park Blvd, Plano, TX 7507

TERM: 2 years and 8 months

COMMENCEMENT DATE: February 1, 2021

BASIC RENT (monthly): \$1,027.50 >> **SECURITY DEPOSIT:** \$0.00

TENANT ADDRESS (not in building): <<Customer Address>> **Driver's License #:**

PHONE #: <<Contact Phone>> **State:**

FAX #: <<Contact Fax>> **EIN #:**

EMAIL: <<Contact Email Address>> (Tenant shall notify Landlord of any changes to its address or email account)

Leasing Representative for Landlord: Gloria Medlock

LANDLORD ADDRESS **JBA Portfolio, LLC** (FOR ALL OTHER PURPOSES):
 (FOR RENT PAYMENTS): **PO Box 4737**
Houston, 77210-4737 **720 N. POST OAK RD., SUITE 500**
HOUSTON, TEXAS 77024

SPECIAL PROVISIONS:
Tenant agrees to the following rent schedule:
 From February 1, 2021 to September 30, 2023 rent shall be \$1,027.50 per month.
 Tenant shall have the right to occupy the Premises from January 11, 2021 through January 31, 2021 at no additional charge.
All rates subject to CPI clause in this Lease. See Exhibit "G".

Attested by: _____ Attested by: _____

TENANT (signature)

LANDLORD: JBA Portfolio, LLC

TENANT (print name)

By: Boxer Property Management Corp A Texas Corporation
 (Management Company for Landlord)

 (signature)

Date: _____

Date: _____



LEASE PROVISIONS

THIS LEASE ("Lease") is made by and between LANDLORD and TENANT. In consideration of the mutual covenants and agreements herein set forth, and any other consideration, Landlord leases to Tenant and Tenant leases from Landlord the area generally outlined on the floor plan attached hereto as "Exhibit A", including the space and improvements described in "Exhibit B" attached hereto, and hereinafter referred to as the "Premises" which is part of the Building (hereinafter referred to as the "Building"), on the following terms and conditions:

1. **TERM.** The Term of this Lease shall continue, unless sooner terminated as provided hereinafter. In the event Tenant occupies the Premises prior to the Commencement Date, all terms and conditions of the Lease shall apply to the period of occupancy.
2. **BASIC RENT AND SECURITY DEPOSIT.** Except as provided for in this Lease, Tenant will pay to Landlord without deduction or setoff, Rent for each month of the Lease Term. "Rent" means Basic Rent plus all other amounts payable by Tenant under this Lease, including any charges and late fees. The Security Deposit shall be held by Landlord, without interest, as security for Tenant's performance under this Lease, and not as an advance payment of rent or a measure of Landlord's damages. Upon an Event of Default (defined below) or any damage to the Building or Premises caused by Tenant, its employees or invitees, Landlord may, without prejudice to any other remedy, use the Security Deposit to cure such Event of Default or repair any damage. Following any application of the Security Deposit, Tenant shall, on demand, restore the Security Deposit to its original amount. If Tenant is not in default hereunder, any remaining balance of the Security Deposit shall be returned to Tenant upon termination of this Lease. If Landlord transfers its interest in the Premises, Landlord may assign the Security Deposit to the transferee and thereafter shall have no further liability for the Security Deposit. Rent is due, and must be received by Landlord, by the **first** day of every month, at address specified by Landlord. Landlord and its manager will not accept cash payments. Tenant agrees to pay by check, EFT, cashier's check, or certified funds, only.
3. **LANDLORD'S OBLIGATIONS.**
 - (a) Landlord will furnish to Tenant at Landlord's expense:
 - (1) water at those points of supply provided for the general use of tenants of the Building;
 - (2) heated and refrigerated air conditioning in season, at such times as Landlord determines, and at such temperatures and in such amounts as reasonably considered necessary by Landlord; service on Sundays, Saturdays, and holidays are optional on the part of the Landlord;
 - (3) janitorial services to the Premises on weekdays other than holidays and window washing as may, in Landlord's judgment, be reasonably required;
 - (4) passenger elevators (if applicable) for ingress to and egress from the Premises, in common with other tenants;
 - (5) replacement of Building standard light fixtures; and
 - (6) electric lighting for public areas and special service areas of the Building to the extent deemed by the Landlord to be reasonable.
 - (b) Landlord shall furnish electrical current required for normal office use of the Premises. Upon the Commencement Date of the Lease, and thereafter, Tenant shall pay its estimated prorata share, using the rentable square footage of the Premises and the total rentable square footage of the Building, of the actual cost incurred by Landlord of providing electricity to the Premises, the common areas of the Building and the Building ("Electricity Cost"). Tenant shall pay such estimated amount to Landlord in equal monthly installments, in advance on the first day of each month. Landlord shall have the right from time to time during any such calendar year of the Lease Term (as extended herein) to revise the written estimate of Tenant's share of the projected Electricity Cost and Tenant shall pay such revised estimated amount to Landlord in equal monthly installments, in advance on the first day of each month. Within a reasonable period after the end of each calendar year, Landlord shall furnish Tenant a statement indicating in reasonable detail the Electricity Cost for the preceding year and the parties shall, within thirty (30) days thereafter, make any payment or allowance necessary to adjust Tenant's estimated payments to Tenant's actual share of Electricity Cost as indicated by such annual statement. Any payment due to Landlord shall be payable by Tenant on demand from Landlord. Any amount due Tenant shall be credited against installments next becoming due.
 - (c) Failure to furnish, stoppage, or interruption of these services resulting from any cause shall not render Landlord liable in any respect for damages to either person, property or business, or be construed as an eviction of Tenant, work an abatement of rent, or relieve Tenant from performance of its obligations. Should any equipment furnished by Landlord cease to function properly, Landlord shall use reasonable diligence to repair the same promptly.

4. **IMPROVEMENTS.** Landlord leases to Tenant the space and improvements constituting the Premises. All other improvements to the Premises shall be installed at Tenant's expense only in accordance with plans and specifications and by contractors approved, in writing, by Landlord.

5. **RELOCATION.** Intentionally Deleted.

6. **USE.** Tenant will use the Premises for office purposes only. Tenant shall not: permit more than five (5) persons per 1,000 square feet to occupy the premises at any time; use or occupy the Building for any purpose which is unlawful or dangerous; permit the maintenance of any nuisance, disturb the quiet enjoyment for all of the Building, emit offensive odors or conditions into other portions of the Building; sell, purchase, or give away, or permit the sale, purchase or gift of food in the Building, or use any apparatus which might create undue noise or vibrations. Tenant shall not permit anything to be done which would increase any insurance rates on the Building or its contents, and if there is any increase, then Tenant agrees to pay such increase promptly upon demand therefor by Landlord; however, any such payment shall not waive Tenant's duty to comply with this Lease. Landlord and any agent thereof does not represent or warrant that the Premises or Building conforms to applicable restrictions, ordinances, requirements, or other matters that specifically relate to Tenant's intended use, or with respect to the presence on, in or near the Premises or Building of hazardous substances, biological matter (including, but not limited to, mold, mildew and fungi) or materials which are categorized as hazardous or toxic. Tenant accepts the Premises "as is" in its current size and configuration and agrees that the Rent is not for a specific amount of or per square feet. *Landlord does not make any representations as to the suitability, condition, layout, square footage, expenses or operation of the Premises and Building, except as specifically set forth herein, and tenant expressly acknowledges that no such representations have been made. Landlord makes no other warranties, express or implied, or merchantability, marketability, or fitness, and any implied warranties are hereby expressly disclaimed.* Tenant must satisfy itself that the Premises may be used as Tenant intends by independently investigating all matters related to its intended use. Tenant agrees that the Landlord, its subsidiaries, and its agents may publicize and use Tenant's image, likeness, name, as well as the terms of the Lease, for any press releases, industry publications, advertising, social media, and promotion purposes in any type of marketing including its websites.

7. **TENANT'S OBLIGATIONS.** Tenant will not damage the Building and will pay the cost of repairing any damage done to the Building by Tenant or Tenant's agents, employees, or invitees. Tenant shall take good care of the Premises and keep them free of waste and nuisance. Tenant must immediately notify Landlord in writing of any water leaks, mold, electrical problems, malfunctioning lights, broken or missing locks, or any other condition that might pose a hazard to property, health, or safety. Tenant will keep the Premises and all fixtures in good condition and repair. If Tenant fails to make necessary repairs within fifteen (15) days after notice from Landlord, Landlord may, at its option, make such repairs and Tenant shall, upon demand, pay Landlord the cost thereof. At the end of the Term, Tenant shall deliver to Landlord the Premises and all improvements in good repair and condition, and all keys to the Premises in Tenant's possession. Tenant will not make or allow to be made any alterations or physical additions in or to the Premises without prior written consent of Landlord unless the cost of such alteration or physical addition is less than \$5,000. At the end of the Term, Tenant shall, if Landlord requires, remove all alterations, physical additions or improvements as directed by Landlord and restore the Premises to substantially the same condition as on the Commencement Date. All of Tenant's fixtures, and any personal property not removed from the Premises at the end of the Term, shall be presumed to have been abandoned by Tenant and shall become the property of the Landlord.

8. **INDEMNITY.** Landlord shall not be liable for and Tenant will defend, indemnify and hold harmless Landlord from all fines, suits, claims, demands, losses, and actions, including attorney's fees, for any injury to persons or damage to or loss of property on or about the Premises or in or about the Building caused by the Tenant, its employees, invitees, licensees, or by another person entering the Premises or the Building under express or implied invitation of the Tenant, or arising out of Tenant's use of Premises or Landlord's maintenance of the Premises, and waive any claims for damage caused by fire, flood, water leaks, wind, ice, snow, hail, explosion, smoke, riot, strike, interruption of utilities, theft, burglary, robbery, assault, vandalism, other persons, environmental contaminants, or other occurrences or casualty losses. This waiver and indemnity obligation shall survive the termination or expiration of the Lease.

9. **MORTGAGES.** Tenant accepts this Lease subordinate to any deeds of trust, mortgages or other security interests which might now or hereafter constitute a lien upon the Building or the Premises, and shall attorn to the lender thereunder, with such attornment to be effective upon lender's acquisition of the Building. Furthermore, such lender, as successor landlord, shall not be liable for any act, omission or obligation of any prior Landlord and lender shall have the option to reject such attornment. Tenant shall, immediately upon request but in no event more than 7 days after requested, execute such documents, including estoppel letters, as may be required for the purposes of subordinating or verifying this Lease.

10. **ASSIGNMENT; SUBLEASING.** Tenant shall not assign this Lease by operation of law or otherwise (including without limitation by transfer of stock, merger, or dissolution), mortgage or pledge the same, or sublet the Premises or any part thereof, without prior written consent of Landlord, which Landlord may not unreasonably withhold, condition or delay. Landlord's consent to an assignment or subletting shall not release Tenant from any obligation hereunder, and Landlord's consent shall be required for any subsequent assignment or subletting. If Tenant desires to assign or sublet the Premises, it shall so notify Landlord at least thirty (30) days in advance, and shall provide Landlord with a copy of the proposed assignment or sublease and any additional information, including financial information, requested by Landlord to allow Landlord to make informed judgments as to the proposed transferee. After receipt of notice, Landlord may elect to: (i) Cancel the Lease as to the Premises or portion thereof proposed to be assigned or sublet; or (ii) Consent to the proposed assignment or sublease; and if the Rent and other consideration payable in respect thereof exceeds the Rent payable hereunder, Tenant shall pay to Landlord half of such excess within ten (10) days following receipt thereof by Tenant; or (iii) Withhold its consent.

11. **EMINENT DOMAIN.** If the Premises are taken or condemned in whole or in part for public purposes or are sold under threat of condemnation, Landlord may terminate this Lease. Landlord shall be entitled to receive the entire award of any condemnation or the proceeds of any sale in lieu thereof.

12. **ACCESS.** Landlord and its agents may, at any time, enter the Premises to: inspect, supply janitorial or other services; show the Premises to prospective lenders, purchasers or tenants; alter, improve, or repair the Premises or the Building (including erecting scaffolding and other necessary structures where reasonably required by the character of the work to be performed, provided the business of Tenant shall be interfered with as little as is reasonably practicable). Landlord shall provide reasonable notice to Tenant before entering the Premises except in cases of emergency or providing building standard services Tenant waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, or any other loss occasioned by Landlord's entry into the Premises in accordance with this Section 12, except due to Landlord's gross negligence or willful misconduct. Landlord shall at all times have a key to the Premises. Landlord may use any means which it deems proper to open any door in an emergency without liability therefor. Landlord reserves the right to prevent access to or close the Building as determined by Landlord for the protection of the Building, its tenants, and visitors.

13. **CASUALTY.** If the Building should be totally destroyed by casualty or if the Premises or the Building be so damaged that Landlord determines that repairs cannot be completed within one hundred twenty (120) days after the date of such damage, Landlord may terminate this Lease. Landlord shall not be required to rebuild, repair, or replace any part of the furniture, equipment, fixtures, and other improvements which may have been placed by Tenant in the Premises. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or the Premises shall be for the sole benefit of the party carrying such insurance.

14. **WAIVER OF SUBROGATION.** Tenant waives every claim that arises or may arise in its favor against the Landlord or any other tenant of the Building during the Term, for any injury to or death of any person or any loss of or damage to any of Tenant's property located within or upon or constituting a part of the Premises, to the extent such injury, death, loss or damage is or could be covered by any insurance policies, whether or not such loss or damage is recoverable thereunder. This waiver shall be in addition to, and not in limitation of, any other waiver or release contained in this Lease. Tenant shall give to each insurance company, which has issued to it any insurance policy covering the Premises or Tenant's operations, written notice of this waiver and have its insurance policies endorsed, if necessary, to prevent their invalidation by reason of this waiver. This waiver obligation shall survive the termination or expiration of the Lease.

15. **HOLDING OVER.** If Tenant fails to vacate at the end of the Term, then Tenant shall be a tenant at will and subject to all terms and conditions of the Lease, and, in addition to all other damages and remedies to which Landlord may be entitled, Tenant shall pay, in addition to the other Rent, a daily Basic Rent, payable in full in advance each month, equal to the greater of: (a) twice the Basic Rent payable during the last month of the Term, or (b) the prevailing rental rate in the Building for similar space.

16. **TAXES ON TENANT'S PROPERTY.** Tenant shall be liable for all taxes levied or assessed against personal property or fixtures placed by Tenant in the Premises. If any such taxes are assessed against Landlord or Landlord's property, Landlord may pay the same, and Tenant shall upon demand, reimburse Landlord therefor. Any claim arising against Tenant by Landlord under this provision shall be assessed interest at fifteen percent (15%) per year until satisfied.

17. **LANDLORDS LIEN.** In addition to any statutory Landlord's lien, Tenant grants to Landlord a security interest to secure payment of all Rent and performance of all of Tenant's other obligations hereunder, in all equipment, furniture, fixtures, improvements and other personal property located in or on the Premises, and all proceeds therefrom. Such property shall not be removed from the Premises without Landlord's written consent until all Rent due and all Tenant's other obligations have been performed. In addition to any other remedies, upon an Event of Default, Landlord may, but is not obligated to, exercise the rights afforded a secured party under the Uniform Commercial Code Secured Transactions for the state in which the Building is located. Tenant grants to Landlord a power of attorney to execute and file financing statements and continuation statements necessary to perfect Landlord's security interest, which power is coupled with an interest and shall be irrevocable during the Term. Any property left in the Premises at the time of a default, or termination of the Lease for whatever reason, shall be deemed abandoned, and after thirty (30) days from default or termination, the Landlord and its representative may dispose of it by any means they deem appropriate without notice to Tenant.

18. **MECHANIC'S LIENS.** Tenant shall not permit any mechanic's or other liens to be filed against the Premises or the Building for any work performed, materials furnished or obligation incurred by or at the request of Tenant, or Tenant's agents or employees. Tenant shall, within ten (10) days following the imposition of any such lien, cause it to be released of record by payment or posting of a proper bond, failing which Landlord may cause it to be released, and Tenant shall immediately reimburse Landlord for all costs incurred in connection therewith. The Tenant's obligations under this section shall survive any termination of or default under the Lease.

19. **EVENTS OF DEFAULT.** Any of the following shall constitute an event of default ("Event of Default") hereunder:

- (a) Any failure by Tenant to pay the Rent when due. Landlord shall not be required to provide Tenant with notice of failure to pay Rent more than twice in any twelve (12) month period.
- (b) Any failure by Tenant to observe and perform any provision of this Lease, other than the payment of Rent, that continues for five (5) days after notice to Tenant; however, an Event of Default shall occur hereunder without any obligation of Landlord to give any notice if Landlord has given Tenant notice under this Section 19(b) on at least one occasion during the twelve (12) month interval preceding such failure by Tenant.
- (c) Tenant or any guarantor of Tenant's obligations hereunder: (1) being unable to meet its obligations as they become due, or being declared insolvent according to any law, (2) having its property assigned for the benefit of its creditors, (3) having a receiver or trustee appointed for itself or its property, (4) having its interest under this Lease levied on under legal process, (5) having any petition filed or other action taken to reorganize or modify its debts or obligations, or (6) having any petition filed or other action taken to reorganize or modify its capital structure if either Tenant or such guarantor is a corporation or other entity.
- (d) The abandonment of the Premises by Tenant (which shall be conclusively presumed if Tenant is absent from the Premises for ten (10) consecutive days and is late on any payment due Landlord).

20. **REMEDIES.** Upon any Event of Default, Landlord may, in addition to all other rights and remedies afforded Landlord hereunder or by law or equity, take any of the following actions:

- (a) Terminate this Lease by written notice to Tenant, in which event Tenant shall immediately surrender the Premises. If Tenant fails to surrender the Premises, Landlord may, without prejudice to any other remedy, enter and take possession of the Premises or any part thereof by changing the door locks or by any other means necessary in Landlord's sole judgment without being liable for prosecution or any claim for damages. If this Lease is terminated hereunder, Tenant shall pay to Landlord: (1) all Rent accrued through the date of termination, (2) all amounts due under Section 21, (3) any unamortized commission paid by Landlord in connection with the Lease, and (4) an amount equal to: (A) the total Rent that Tenant would have been required to pay for the remainder of the Term discounted to present value at a per annum rate equal to the interest rate on one-year Treasury bills as published on the nearest the date this lease is terminated at www.treasury.gov, minus (B) the then present fair rental value of the Premises for such period, similarly discounted; provided, however, that in no event shall the result of the calculation in this subsection (4) result in an amount less than fifty percent (50%) of the total Rent that Tenant would have been required to pay for the remainder of the Term discounted to present value at a per annum rate equal to the interest rate on one-year Treasury bills as published on the nearest the date this lease is terminated by the Wall Street Journal, Southwest Edition.

- (b) Terminate Tenant's right to possession of the Premises without terminating this Lease by written notice to Tenant, in which event Tenant shall immediately surrender the Premises. If Tenant fails to surrender the Premises, Landlord may, without prejudice to any other remedy, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof by changing the door locks or by any other means necessary in Landlord's sole judgment without being liable for prosecution or any claim for damages. If Tenant's right to possession of the Premises is so terminated, Tenant shall pay to Landlord: (1) all Rent to the date of termination of possession, (2) all amounts due from time to time under Section 21, (3) any unamortized commission paid by Landlord in connection with the Lease, and (4) all Rent required hereunder to be paid by Tenant during the remainder of the Term, minus any net sums thereafter received by Landlord through reletting the Premises during such period. Landlord shall use reasonable efforts to relet the Premises on such terms and conditions as Landlord, in its sole discretion, may determine (including a term different from the Term, rental concessions, and alterations to, and improvement of, the Premises); however, Landlord shall not be obligated to relet the Premises before leasing other portions of the Building. Landlord shall not be liable for, nor shall Tenant's obligations be diminished because of, Landlord's failure to relet the Premises or to collect rent due for such reletting. Tenant shall not be entitled to any excess obtained by reletting over the Rent due hereunder. Reentry by Landlord shall not affect Tenant's obligations for the unexpired Term; rather, Landlord may, from time to time, bring action against Tenant to collect amounts due by Tenant, without the necessity of Landlord's waiting until the expiration of the Term. Unless Landlord delivers written notice to Tenant expressly stating that it has elected to terminate this Lease, all actions taken by Landlord to exclude or dispossess Tenant of the Premises shall be deemed to be taken under this Section 20.(b). If Landlord elects to proceed under this Section 20.(b), it may at any time elect to terminate this Lease under Section 20.(a).
- (c) Change the door locks and deny Tenant access to the Premises until such Event of Default is cured.
- (d) Enter the Premises without being liable for prosecution or any claim for damages and do whatever Tenant is obligated to do under the terms of this Lease. Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in so doing. Tenant further agrees that Landlord shall not be liable for any damages resulting to the Tenant from such action.
- (e) Tenant expressly waives notice as to the disposal of any property in the Premises as of default, lockout or termination, which has not claimed or redeemed within thirty (30) days.

21. **PAYMENT BY TENANT.** Upon any Event of Default, Tenant shall pay to Landlord all costs incurred by Landlord (including court costs, expenses, and reasonable attorneys' fees) in (a) obtaining possession of the Premises, (b) removing and storing Tenant's or any other occupants' property, (c) repairing, restoring, altering, remodeling or otherwise putting the Premises into condition acceptable to a new tenant, (d) if Tenant is dispossessed of the Premises and this Lease is not terminated, reletting all or any part of the Premises (including brokerage commissions, costs of tenant finish work, and all other costs incidental to such reletting), (e) performing Tenant's obligations which Tenant failed to perform, and (f) enforcing, or advising Landlord of its rights, remedies, and recourses arising out of the Event of Default. After any two (2) defaults in payment by Tenant within any twelve (12) month period (i.e. late payment or a returned check), the Landlord may require that Tenant make future payments by certified check, cashier's check, or money order, for up to twelve (12) months after the last date of such payment default..

22. **LANDLORD'S LIABILITY.** The liability of Landlord and its agents to Tenant for any default by Landlord under the terms of this Lease shall be limited to Tenant's actual direct, but not consequential, damages therefor and shall be recoverable from the interest of Landlord in the Building, and Landlord shall not be personally liable for any deficiency. Landlord's reservation of rights under this Lease, such as to enter upon or maintain the Premises, shall not be deemed to create any duty on the part of Landlord to exercise any such right. Landlord expressly advises Tenant that Landlord's intention is that Tenant shall have full responsibility for, and shall assume all risk to, persons and property while in, on or about the Premises.

23. **SURRENDER OF PREMISES.** No act of Landlord or its agents during the Term shall be deemed as acceptance of surrender of the Premises. No agreement to accept surrender of the Premises shall be valid unless the same is in writing and signed by the Landlord.

24. **ATTORNEYS FEES.** If Landlord employs an attorney to interpret, enforce or defend any of its rights or remedies hereunder, Tenant shall pay Landlord's reasonable attorney's fees, court costs and expenses incurred in such dispute.

25. **FORCE MAJEURE.** Whenever a period of time is prescribed for action to be taken by Landlord, Landlord shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations, or restrictions, or any other causes of any kind whatsoever which are beyond the control of the Landlord.

26. **GOVERNMENTAL REGULATIONS.** Tenant will comply with all laws, ordinances, orders, rules and regulations of all governmental agencies having jurisdiction over the Premises with reference to the use, construction, condition or occupancy of the Premises, which includes Tenant's obligation to secure a certificate of occupancy for the Premises. Tenant agrees that any cabling installed by or for its use during its occupancy shall meet the requirements of all applicable national and local fire and safety codes.
27. **APPLICABLE LAW.** This Lease shall be governed by and construed pursuant to the laws of the state in which the Building is located.
28. **SUCCESSORS AND ASSIGNS.** Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, successors, and assigns.
29. **SEVERABILITY.** If any provision of this Lease or the application thereof to any person or circumstances shall be invalid or unenforceable to any extent, the remainder of this Lease and the application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.
30. **NAME.** Tenant shall not, without the written consent of Landlord, use the name of the Building for any purpose other than as the address of the business to be conducted by Tenant in the Premises, and in no event shall Tenant acquire any rights in or to such names.
31. **NOTICES.** Any notice or document required to be delivered hereunder shall be deemed to be delivered whether or not actually received, when deposited in the United States mail, postage prepaid, certified or registered mail, addressed to the parties hereto at their respective addresses set forth above, or when sent by facsimile transmission to the respective numbers set forth above, or delivered to Tenant's place of business in the Building, and when sent or delivered by Landlord or his representative, including its Management company for the Building.
32. **DEFINED TERMS AND MARGINAL HEADINGS.** The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. If more than one person is named as Tenant, the obligations of such persons are joint and several. The headings and titles to the sections of this Lease are not part of this Lease and shall have no effect upon the construction or interpretation of any part thereof. Captions contained herein are for the convenience of reference only and in no way limit or enlarge the terms or conditions of this Lease.
33. **AUTHORITY; EXECUTION; ELECTRONIC FILES.** If Tenant executes this Lease as a corporation or other entity, each of the persons executing this Lease on behalf of Tenant personally covenants and warrants that Tenant is duly authorized and validly existing, that Tenant is qualified to do business in the state in which the Building is located, that Tenant has full right and authority to enter into this Lease, and that each person signing on behalf of Tenant is authorized to do so. In the event Tenant provides an email address to Landlord, Tenant agrees that Landlord, its representative and agents may contact Tenant via the address, and deliver marketing information and other announcements to such address(es). The Lease may be executed by the parties in multiple counterparts, which together shall have the full force and effect of a fully executed agreement between the parties. Electronic signatures by either party are valid, and Tenant agrees that the Lease and related documents and records may be created, kept and transmitted as electronic files only.
34. **LIQUIDATED DAMAGES.** If the Premises are not ready for occupancy by the Commencement Date, unless delayed by Tenant for any reason, the Basic Rent shall not commence until the Premises are ready for occupancy by Tenant. Such allowance for Basic Rent shall be in full settlement for any claim which Tenant might otherwise have by reason of the Premises not being ready for occupancy.
35. **INTEGRATED AGREEMENT.** This Lease contains the entire agreement of the parties with respect to any matter covered or mentioned in this Lease. No prior agreement, understanding or representation pertaining to any such matter shall be effective for any purpose, and Tenant expressly warrants and represents that no promise or agreement which is not herein expressed has been made to it in executing this Lease, and it is not relying upon any statement or representation of Landlord or its agent and Tenant is relying on its own judgment in executing this Lease. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties or their respective successors in interest.

36. **LATE FEE.** If Rent is not received by Landlord on or before the fifth (5th) day of any month, Tenant shall pay immediately upon written notice from Landlord a late fee equal to fifteen percent (15%) of the cumulative amount of Rent due, including Basic Rent and all other amounts payable by Tenant under this Lease, including any charges and previously assessed late fees. Failure by Tenant to make immediate payment of the delinquent Rent plus the late fee shall constitute an Event of Default. This provision, expressly, does not relieve the Tenant's obligation to pay Rent on the first of each month and is not a waiver by the Landlord to require payment on the **first** day of each month.

37. **INTEREST ON SUMS EXPENDED BY LANDLORD.** All sums paid and all expenses incurred by Landlord in performing Tenant's duties hereunder or curing Events of Default shall accrue interest at the rate of fifteen percent (15%) per annum from the date of payment of such amount by Landlord. In no event, however, shall the charges permitted under this Section 37 or elsewhere in this Lease, to the extent the same are considered to be interest under applicable law, exceed the maximum lawful rate of interest.

38. **INSURANCE.** In support of its obligations hereunder, including those of indemnity, Tenant agrees to maintain, at Tenant's sole cost and expense, insurance policies covering Tenant's aforesaid indemnity with respect to Tenant's use and occupancy of the Premises, as well as coverage for theft and damage. Such policies shall be issued in the name of Tenant and Landlord as their interest may appear, or shall contain an "additional insured" endorsement in favor of Landlord, and with limits of liability of at least ONE MILLION DOLLARS (\$1,000,000.00) per occurrence for bodily injury and TWO HUNDRED THOUSAND DOLLARS (\$200,000.00) per occurrence for property damage. Duplicate originals of such policies and endorsements shall be delivered to Landlord within thirty (30) days from the execution date hereof. This indemnity and waiver obligation shall survive the termination or expiration of the Lease.

39. **RENTAL ADJUSTMENT.** If the Term exceeds one (1) year, one (1) year after the commencement of this Lease and each one (1) year anniversary thereafter, the Basic Rent shall be increased in accordance with the cost of living changes in the "Consumer Price Index" for all Urban Consumers- U. S. City Average as published by the Bureau of Labor Statistics, United States Department of Labor, ("BLS Consumer Price Index"). The BLS Consumer Price Index figure for the month and year in which this Lease commences is the "base" figure in the computation of adjustment of Basic Rent. At the beginning of each one (1) year period as provided herein, the BLS Consumer Price Index for the then-current month shall be determined and the rent commencing with the start of each such one (1) year period shall be adjusted by increasing the Basic Rent proportionately, as the said BLS Consumer Price Index for the month has increased as compared with the base BLS Consumer Price Index provided above. If the BLS Consumer Price Index decreases, Basic Rent shall not decrease.

40. **RULES.** Tenant shall abide by attached Building Rules and Regulations "Rules-1", which are incorporated herein by reference, and which may be reasonably changed or amended, at any time, by Landlord to promote a safe, orderly and professional Building environment.

41. **PARKING.** Tenant and all Tenants' employees shall comply with all municipal, subdivisional or other restrictive covenants imposed on Landlord. Vehicles shall be towed at owner's expense for any of the following violations: (a) parking in any area other than as specifically designated by Landlord; or (b) lack of a properly displayed parking permit, if issued by Landlord; or (c) parking across stripes marking the parking spaces. Landlord, at its sole discretion, may designate the specific space or area in which vehicles shall be parked and may change the same from time to time. Landlord may make, modify, or enforce rules and regulations relating to the parking of vehicles, and Tenant hereby agrees to obey such rules and regulations. Tenant shall only use a prorata share of parking spaces as designated by Landlord. In the event the Building does not possess parking, Landlord shall not be responsible for providing parking.

BUILDING RULES AND REGULATIONS

1. No sign, picture, advertisement, name or notice shall be inscribed, displayed or affixed on or to any part of the inside of the Building or the Premises without the prior written consent of Landlord and Landlord shall have the right to remove any such item at the expense of Tenant. All approved signs or lettering on doors and the building directory shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved by Landlord. Tenant shall not place anything in the Premises which is viewable from the common area or from outside the Building that is deemed unsightly by the Landlord; provided, however, that Landlord may furnish and install a Building standard window covering at all exterior windows. Tenant shall not, without written consent of Landlord, cover or otherwise sunscreen any window.

2. Landlord shall approve in writing, prior to installation, any attachment of any object affixed to walls, ceilings, or doors other than pictures and similar items.
3. The directory of the Building will be provided exclusively for the display of the name and location of Tenant only, and Landlord reserves the right to exclude any other names therefrom.
4. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by Tenant or used by Tenant for any purpose other than ingress to and egress from the Premises. The halls, passages, exits, entrances, elevators, stairways, balconies and roof are not for the use of the general public and the Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom the Tenant normally deals in the ordinary course of Tenant's business, unless such persons are engaged in illegal activities. No tenant and no employees or invitees of any tenant shall go upon the roof of the Building. Tenant shall not prop open the entry doors to Building or Premises.
5. No additional locks or bolts of any kind shall be placed upon any of the doors or windows of the Premises or the Building by Tenant, nor shall any changes be made in existing locks or the mechanisms thereof without the prior written consent of the Landlord. Tenant must, upon the termination of its tenancy, return to Landlord all keys to the Premises. If Tenant fails to return any such key, Tenant shall pay to Landlord the cost of changing the locks to the Premises if Landlord deems it necessary to change such locks.
6. The toilet rooms, urinals, wash bowls and other apparatus in the Premises or Building shall not be used for any purpose other than that of which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant.
7. Tenant shall not overload the floor of the Premises, mark on, or drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises or any part thereof. No boring, cutting or stringing of wires shall be permitted except with the prior written consent of and as the Landlord may direct.
8. No furniture, freight or equipment of any kind shall be brought into the Building without the consent of Landlord and all moving of same into or out of the Building shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into the Building and also the times and manner of moving the same in and out of the Building and any damage caused by moving or maintaining such safe or other property shall be repaired at the expense of Tenant. There shall not be used in any space, or in the public halls, of the Building, either by any tenant or others, any hand trucks except those equipped with rubber tires and side guards.
9. Tenant shall not employ any person or persons for the purpose of cleaning the Premises without the consent of Landlord. Landlord shall be in no way responsible to Tenant for any loss of property from the Premises or other damage caused by Landlord's janitorial service or any other person. Janitorial service will not include the cleaning of carpets and rugs, other than vacuuming. If the Premises requires more than building standard janitorial service, such excess service shall be at Tenant's cost.
10. No Tenant shall place anything in the hallways of the Building. No trash shall be placed in the common area.
11. Tenant shall only be permitted use as general office space. No tenant shall occupy or permit any portion of the Premises to be occupied for lodging or sleeping or for any illegal purposes or permit any pet within the Premises or Building.
12. Tenant shall not use or keep in the Premises or the Building any combustible fluid or material, including the use of space heaters, and shall not permit any open flame, including candles, incense, etc.

13. Landlord will direct electricians as to where and how telephone wiring shall be located. No boring or cutting for wires will be allowed without the written consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.

14. No Tenant shall lay linoleum or other similar floor covering so that same shall be affixed to the floor of the Premises in any way except by a paste, or other material, which may easily be removed with water, the use of cement or other similar adhesive materials being expressly prohibited. The method of affixing any such linoleum or other similar floor covering to the floor, as well as the method of affixing carpets or rugs to the Premises, shall be subject to approval by Landlord. The expense of repairing any damage resulting from a violation of this rule shall be borne by the tenant by whom, or by whose agents, employees, or invitees, the damage shall have been caused.

15. Tenant shall provide and use chair pads and carpet protectors at all desk and furniture locations.

16. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours and in such elevators as shall be designated by Landlord.

17. On Saturdays, Sundays and legal holidays and on any other days between the hours of 6:00 p.m. and 6:30 a.m., Landlord reserves the right to keep all doors to the Building locked, and access to the Building, or to the halls, corridors, elevators or stairways in the Building or to the Premises may be refused unless the person seeking access is an employee of the Building or is properly identified as a tenant of the Building. The Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of natural disaster, hurricane, tornado, evacuation, invasion, mob, riot, public excitement, or other commotion, the Landlord reserves the right to prevent access to the Building during the continuance of the same by closing the doors or closure of the Building for the safety of the tenants and protection of property in the Building.

18. Access to the Building and parking may be controlled by the use of electronic card key or by other method deemed necessary by Landlord. Tenant shall be issued card keys or other ingress/egress devices and a deposit for each card or device shall be paid upon issuance of the cards. In the event that Tenant shall damage or lose the card key(s) or device(s), then Tenant's deposit for such card or device will be forfeited, and Tenant will be required to pay another equal deposit.

19. Smoking is prohibited in the Premises and common areas of the Building at all times.

20. In order to receive a refund of its security deposit, if any, Tenant agrees to provide a forwarding address to Landlord, in writing, on or before the termination date of the Lease. Tenant agrees that it waives any rights and remedies with regard to the security deposit if it fails to provide such forwarding address to Landlord, in writing, on or before the termination date of the Lease, including waiver of the right to receive a refund and to receive a description of damages and charges. Landlord shall have sixty (60) days from the date Tenant surrenders the premises and Landlord's receipt of Tenant's forwarding address, to refund the security deposit and/or provide a written description of damages and charges.

21. Landlord reserves the right to charge Tenant, and require payment in advance, for services and/or expenses not required of Landlord under this Lease, or incurred in relation to the Lease. Such charges include, but are not limited to, processing "bounced" checks, changing locks, reviewing and signing lien waivers, lease assignments, sublet documents, providing after hours HVAC rates, etc. A list of charges can be obtained from the Landlord's representative. The charges are based on the cost to the Landlord or its management company to provide the service which is charged for, and are subject to change at anytime without notice.

22. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the Rules and Regulations of the Building.

Rules - 1

EXHIBIT "A"

101 E Park, Plano, TX 75075 (Address)

12th (Floor)

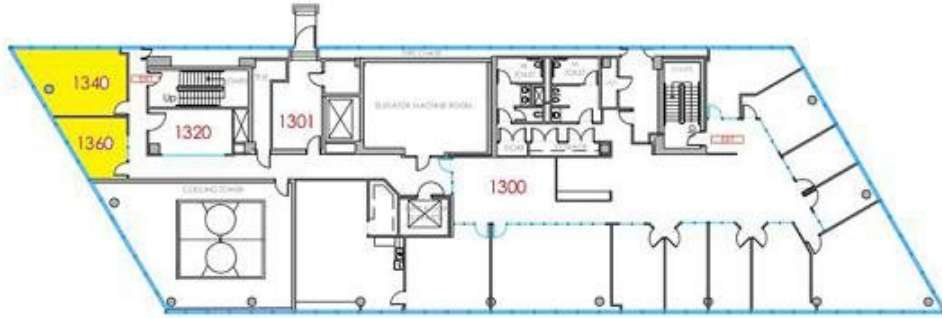


EXHIBIT "B"

101 E Park, Plano, TX 75075 (Address)
1340, 1360 (Suite)

Approximately 685 rentable square feet

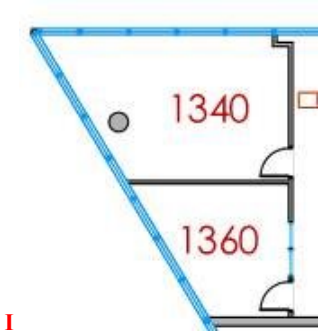


EXHIBIT "G" – GUARANTY

Landlord: JBA Portfolio, LLC

Tenant: <<Customer Entity Name>>

Premises: 101 E Park Blvd, Plano, TX 75075 (**Address**)

Commencement Date: February 1, 2021

Name of guarantor: <<Guarantor>>

Guarantor's Address: <<Guarantor Address>>

<<Guarantor City>>, <<Guarantor State>> <<Guarantor Zip>>

To induce Landlord to enter into the Lease and for other consideration, Guarantor agrees that:

1. Guarantor guarantees the performance of Tenant's obligations under the Lease, and any renewal(s) and extension(s) thereof, including any increased amounts of rent.
2. This is a primary, irrevocable, and unconditional guaranty of payment and performance and not of collection and is independent of Tenant's obligations under the Lease.
3. Guarantor will make all payments to Landlord at Landlord's address set forth in the Lease.
4. This guaranty will remain in effect regardless of any modification or extension of the Lease.
5. Guarantor's obligations will not be diminished by any compromise or release agreed on by Tenant and Landlord or by discharge, limitation, or modification of Tenant's obligations in any bankruptcy or other debtor relief proceeding. Guarantor waives any right to require that Landlord bring any legal action against Tenant before, simultaneously with, or after enforcing its rights and remedies hereunder against Guarantor. Landlord shall not be required to make any demand on Tenant, apply any security deposit being held by Landlord on behalf of Tenant or any other credit in favor of Tenant, or otherwise pursue or exhaust its remedies against Tenant before, simultaneously with, or after enforcing its rights and remedies hereunder against Guarantor.
6. If there is more than one guarantor, the obligations of each guarantor will be joint and several.
7. Texas (State) law applies to the guaranty.

Guarantor waives its rights

1. To notices of acceptance, modification, renewal, extension, and default and any other notice.
2. To claim any defense arising out of lack of diligence, any failure to pursue Tenant, loss of impairment of any right of subrogation or reimbursement, release of any other guarantor or collateral, death, insolvency, or lack of corporate authority of Tenant, and waiver, release, or election, based on Landlord's or Tenant's rights and obligations under the Lease and the enforcement of its terms.

The prevailing party in any dispute arising out of this guaranty will be entitled to recover reasonable attorney's fees.

Guarantor Signature

Guarantor Printed Name

Date



ACCEPTANCE OF PREMISES

BUILDING NAME: Plano Tower

ADDRESS: 101 E Park Blvd, Plano, TX 75075 (Address)

As the tenant of suite #**1340, 1360**, I hereby certify that I have accepted the premises, and all tenant improvements as set forth in the Lease agreement have been completed in a manner satisfactory and acceptable to me.

TENANT (signature and title)

TENANT (print name)

Date

Tenant Representation Letter

Information about Brokerage Services

Before working with a real estate broker, you should know that the duties of a broker depend on whom the broker represents. If you are a prospective seller or landlord (owner) or a prospective buyer or tenant (buyer), you should know that the broker who lists the property for sale or lease is the owner's agent. A broker who acts as a subagent represents the owner in cooperation with the listing broker. A broker who acts as a buyer's agent represents the buyer. A broker may act as an intermediary between the parties if the parties consent in writing. A broker can assist you in locating a property, preparing a contract or lease, or obtaining financing without representing you. A broker is obligated by law to treat you honestly.

IF THE BROKER REPRESENTS THE OWNER:

The broker becomes the owner's agent by entering into an agreement with the owner, usually through a written listing agreement, or by agreeing to act as a subagent by accepting an offer of sub agency from the listing broker. A subagent may work in a different real estate office. A listing broker or subagent can assist the buyer but does not represent the buyer and must place the interests of the owner first. The buyer should not tell the owner's agent anything the buyer would not want the owner to know because an owner's agent must disclose to the owner any material information known to the agent.

IF THE BROKER REPRESENTS THE BUYER:

The broker becomes the buyer's agent by entering into an agreement to represent the buyer, usually through a written buyer representation agreement. A buyer's agent can assist the owner but does not represent the owner and must place the interests of the buyer first. The owner should not tell a buyer's agent anything the owner would not want the buyer to know because a buyer's agent must disclose to the buyer any material information known to the agent.

IF THE BROKER ACTS AS AN INTERMEDIARY:

A broker may act as an intermediary between the parties if the broker complies with The Texas Real Estate License Act. The broker must obtain the written consent of each party to the transaction to act as an intermediary. The written consent must state who will pay the broker and, in conspicuous bold or underlined print, set forth the broker's obligations as an intermediary. The broker is required to treat each party honestly and fairly and to comply with The Texas Real Estate License Act. A broker who acts as an intermediary in a transaction: (1) shall treat all parties honestly; (2) may not disclose that the owner will accept a price less than the asking price unless authorized in writing to do so by the owner; (3) may not disclose that the buyer will pay a price greater than the price submitted in a written offer unless authorized in writing to do so by the buyer; and (4) may not disclose any confidential information or any information that a party specifically instructs the broker in writing not to disclose unless authorized in writing to disclose the information or required to do so by The Texas Real Estate License Act or a court order or if the information materially relates to the condition of the property. With the parties' consent, a broker acting as an intermediary between the parties may appoint a person who is licensed under The Texas Real Estate License Act and associated with the broker to communicate with and carry out instructions of one party and another person who is licensed under that Act and associated with the broker to communicate with and carry out instructions of the other party. If you choose to have a broker represent you, you should enter into a written agreement with the broker that clearly establishes the broker's obligations and your obligations. The agreement should state how and by whom the broker will be paid. You have the right to choose the type of representation, if any, you wish to receive. Your payment of a fee to a broker does not necessarily establish that the broker represents you. If you have any questions regarding the duties and responsibilities of the broker, you should resolve those questions before proceeding.

TENANT REPRESENTATION

Tenant certifies that Stream Realty Partners (broker) represents Tenant in the negotiation and/or site selection of commercial space for lease.

TENANT (signature and title)

TENANT (print name)

Date

NEW TENANT SIGN INFORMATION

BUILDING NAME and ADDRESS: Plano Tower, 101 E Park Blvd, Plano, TX 75075 (Address)

Please fill out the space below in the manner you would like the door sign to read.

DOOR SIGN: _____ SUITE #: 1340, 1360 <<Unit Number On Lease>>

<<Customer Entity Name>>

LOBBY DIRECTORY:

SUITE #: 1340, 1360 <<Customer Entity Name>>

Tenants Signature and Authorization

Date

Do not write below the line – to be filled out by management

Please return collateral to the following address:

Attn: _____

Authorized Signature & Printed Name

JANITORIAL AUTHORIZATION

BUILDING NAME and ADDRESS: **Plano Tower, 101 E Park Blvd, Plano, TX 75075 <<Customer_Entity_Name>>, Suite # 1340, 1360**
ALARM COMPANY and CODE (if applicable):

Tenant Initials:

_____ Please DO NOT clean any portion of the suite.

_____ Please clean the entire suite - no special instructions.

_____ Please clean all areas of the suite with the exception of:

Special Instructions:

Tenant Signature and Authorization

Date

TENANT CONTACT INFORMATION AND AUTHORIZED SIGNATURES

Building Name: Plano Tower
Tenant Name: <<Customer Entity Name>>
Address: 101 E Park Blvd, Plano, TX 75075 Suite #: 1340, 1360
Phone No: <<Contact Phone>> Fax No: <<Contact Fax>>
E-mail Address: <<Contact Email Address>>

Please list below persons to be contacted in case of an emergency. Emergency numbers will remain confidential and are used only in the event of an emergency involving the Premises.

- 1. Name: Residence Phone:
Mobile Phone:
2. Name: Residence Phone:
Mobile Phone:
3. Name: Residence Phone:
Mobile Phone:

CORPORATE OFFICE:

ACCOUNTING

Contact: Contact:
Address: Address:
Phone: Phone:

PERSON(S) AUTHORIZED TO APPROVE BILLABLE SERVICES (locks, keys and other billable services):

Name: Phone:
Name: Phone:
Name: Phone:

Building management is often asked to grant access to the Premises by one of your employees when they have locked themselves out of their office or when they have left their keys at home, etc. Please list the names of those who management is allowed to let into the Premises upon presenting proper identification. If you choose not to list anyone then building management will not be allowed to open the door to the Premises unless it is for the owners of the business who are personally known by building management.

Name ID #/State:
Name ID #/State:
Name ID #/State:
Name ID #/State:

MARKETING RELEASE:

In the event Tenant permits photo(s) to be taken of Tenant by Landlord or its representative, Tenant grants Landlord and its management company a non-exclusive, transferable, royalty free, worldwide license to the use thereof.

Authorized Signature and Printed Name:

Date

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Forms S-8 (File No. 333-125816, File No. 333-167577, and File No. 333-224810) of Intrusion Inc. and subsidiaries of our report dated March 9, 2021, relating to the consolidated financial statements appearing in this Annual Report on Form 10-K of Intrusion Inc. and subsidiaries for the year ended December 31, 2020.

Plano, Texas
March 9, 2021

I, Jack B. Blount, Chief Executive Officer of Intrusion Inc., certify that:

- (1) I have reviewed this annual report on Form 10-K of Intrusion Inc.:
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2021

/s/ Jack B. Blount

Jack B. Blount
Chief Executive Officer

I, B. Franklin Byrd, Chief Financial Officer of Intrusion Inc., certify that:

- (1) I have reviewed this annual report on Form 10-K of Intrusion Inc.:
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or cause such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2021

/s/ B. Franklin Byrd

B. Franklin Byrd
Chief Financial Officer

CERTIFICATION PURSUANT TO RULE 13a-14(b) OF THE EXCHANGE ACT AND 18 U.S.C. SECTION 1350, AS ENACTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Intrusion Inc. (the "Company") on Form 10-K for the fiscal year ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jack B. Blount, Chief Executive Officer of the Company certify, pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 9, 2021

/s/ Jack B. Blount

Jack B. Blount
Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(b) OF THE EXCHANGE ACT AND 18 U.S.C. SECTION 1350, AS ENACTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Intrusion Inc. (the "Company") on Form 10-K for the fiscal year ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, B. Franklin Byrd, Chief Financial Officer of the Company certify, pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 9, 2021

/s/ B. Franklin Byrd
B. Franklin Byrd
Chief Financial Officer