

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
SHERMAN DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

INTRUSION INC.,

Defendant.

Civil Action No. 4:23-cv-859

**COMPLAINT**

Plaintiff Securities and Exchange Commission (“SEC”) files this Complaint against Defendant Intrusion Inc. (“Intrusion” or the “Company”), and alleges as follows:

**SUMMARY**

1. Intrusion is a publicly traded cybersecurity company. Beginning in May 2020, the Company—primarily through its president, CEO, and director at the time (“Former CEO”)—began promoting a new cybersecurity product that it called “Intrusion Shield” (“Shield”). From May 2020 through May 2021, in press releases, earnings calls, interviews, and other statements, Intrusion, through the Former CEO, made materially false and misleading statements regarding: (a) the Former CEO’s background and experience; (b) the Company’s success in marketing Shield to participants in its beta testing program; and (c) certain Company contracts, or purported contracts, with prospective customers. Intrusion’s conduct violated the antifraud, current reporting, and disclosure controls and procedures provisions of the federal securities laws.

**JURISDICTION AND VENUE**

2. The Court has jurisdiction over this action under Sections 20(b), 20(d), and 22 of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77t(b), 77t(d), and 77v] and Sections

21(d), 21(e), and 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d), 78u(e), and 78aa]. Intrusion directly or indirectly made use of means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange, in connection with the transactions, acts, practices, and courses of business alleged herein.

3. Venue in this district is proper under Section 22 of the Securities Act [15 U.S.C. § 77v] and Section 27 of the Exchange Act [15 U.S.C. § 78aa] because certain acts, practices, transactions, and courses of business constituting the violations alleged herein occurred within this district.

### **DEFENDANT**

4. **Intrusion** is a Delaware corporation with its principal place of business in Plano, Texas. Intrusion’s common stock trades under the ticker symbol INTZ on the Nasdaq Capital Market and has been registered with the SEC pursuant to Section 12(b) of the Exchange Act since October 8, 2020. Prior to that date, the Company’s common stock was registered with the SEC pursuant to Section 12(g) of the Exchange Act. Intrusion is required to file periodic and current reports with the SEC pursuant to Section 13(a) of the Exchange Act and the related rules thereunder.

### **FACTS**

#### **Intrusion’s Background and its Launch of Shield**

5. Until 2020, Intrusion sold cybersecurity consulting services and two cybersecurity products that detected, analyzed, and reported cyberattacks or misuse of information. Intrusion’s customers during this time included government defense and security agencies and two commercial customers (“Customer A” and “Customer B”). In 2018 and 2019, Intrusion had a small net income because of large, one-time contracts, but operated at a loss the

prior four years. In May 2020, following the death of Intrusion's co-founder and longtime chief executive, the Company appointed the Former CEO.

6. The Former CEO worked with the Company's engineers to develop Shield, which was largely based on Intrusion's existing products with certain additional enhancements and functionality. After commercial launch of Shield in January 2021, Intrusion offered Shield as a software-as-a-service product at \$20 per "seat" (essentially per user), per month with no annual contract requirement.

#### **Intrusion's Former CEO Reshaped the Company's Culture**

7. Upon being appointed to the CEO position in May 2020, the Former CEO changed the Company's previously cautious and fiscally conservative culture. He persuaded Intrusion's board of directors to appoint his longtime friend and former colleague as a director and, shortly thereafter, as chairman, and he essentially forced out or fired some of the Company's senior leadership. Under the Former CEO, Intrusion expanded rapidly, growing from approximately 30 employees to 110.

#### **Intrusion's False and Misleading Statements**

8. Beginning with his appointment in May 2020, the Former CEO used his forceful, assertive style to tout his background and experience and to promote Shield as a cybercrime prevention tool. During these promotional efforts, Intrusion made numerous false and misleading statements (discussed in detail below), which were authored and/or approved by the Former CEO.

#### ***Intrusion Misrepresents the Former CEO's Background***

9. Intrusion made false and misleading statements regarding the Former CEO's cybersecurity and public company experience. The Company issued a press release on May 27, 2020 (and a purportedly corrective press release on May 29, 2020) announcing the appointment

of its new CEO (the Former CEO), which claimed that he had served as a director of five public companies. The May 29, 2020 press release also stated that the Former CEO had served as CIO (chief information officer) of the U.S. Department of Agriculture (“USDA”). Neither statement was true.

10. First, the Former CEO had served on, at most, four public company boards. One of those four companies was not a U.S. public company, a second never identified him as a director in its public filings, and his tenure on a third company’s board lasted less than four months. In addition to the Company’s May 2020 press releases, Intrusion also included the false and misleading statement regarding the Former CEO’s public company experience in: (a) its Forms S-1 and S-1/A filed with the SEC in August and October 2020, respectively; (b) the prospectus for its October 2020 securities offering; and (c) its April 5, 2021 proxy statement.

11. Second, the Former CEO was never the CIO of the USDA. He did hold the position of director of the Information Technology Services Division within the National Finance Center, a subdivision of the USDA. In that position, he reported to the chief financial officer of the National Finance Center, which primarily provides payroll processing and other financial and personnel services to the USDA and other federal agencies. The Former CEO repeated the false and misleading claim about serving as the CIO of the USDA in an October 2020 public offering roadshow presentation and a January 2021 investor conference presentation; both presentations were attached as exhibits to Forms 8-K filed by the Company with the SEC and signed by the Former CEO. Similarly, in an April 2021 radio interview, the Former CEO falsely and misleadingly stated that “... I was a CIO in the federal government a few years ago, fighting the Russians and Chinese for our entire federal government....” Although the National Finance Center provided payroll services to many federal agencies, the Former CEO was not the CIO of the USDA and did not serve the entire federal government in his USDA position. Intrusion’s

false and misleading statements regarding the Former CEO's background were material because they led investors to believe that the Company's most senior leader was more qualified, experienced, and accomplished than he actually was.

***Intrusion Overstates its Success Marketing Shield to Beta Testers***

12. During the fall of 2020, Intrusion solicited potential customers to evaluate and test Shield, a process referred to as beta testing. Thirteen companies participated in the beta test, including: (a) Intrusion's public relations firm; (b) Intrusion's securities offering underwriter; (c) a company whose CIO was the Former CEO's son-in-law; (d) an investment adviser that invested in Intrusion; and (e) Customer B, whose chairman was an Intrusion board member. Despite Intrusion's ties to several of the participants, only six of the 13 beta testers ultimately purchased Shield. As set forth below, Intrusion made statements over the course of several months that misrepresented the beta testing program.

13. First, Intrusion misrepresented the companies that were beta testing Shield. In a written roadshow presentation to promote the Company's October 2020 public securities offering, which was included as an exhibit to Intrusion's October 5, 2020 Form 8-K filed with the SEC, Intrusion claimed that Shield had "[v]alidation from early adoption by [a] Fortune 100 beta customer." However, none of the beta testers was a Fortune 100 company.

14. Further, Intrusion misrepresented its success in converting beta test participants into paying Shield customers. On January 13, 2021, the Former CEO approved an Intrusion press release, attached as an exhibit to a Form 8-K filed by the Company with the SEC and signed by the Former CEO, stating that "[a]ll of the companies participating in the beta program have made the decision to move forward with Shield in production." The press release also quoted representatives of three of the beta testers, including the CIO of Intrusion's securities underwriter. The same day (January 13, 2021), the Former CEO made a presentation at a

securities conference that included the claim that Shield had “[v]alidation from early adoption by 12 ‘beta’ customers.” The presentation materials were also attached as an exhibit to the Company’s January 13, 2021 Form 8-K filed with the SEC. Intrusion’s stock price closed at \$23.88 per share on January 13, 2021, up more than 18.5% from the prior day’s closing price, and its trading volume increased more than 30% from the day before.

15. The January 13, 2021 press release issued by Intrusion was false and misleading. By that date, *none* of the beta testers had purchased Shield. In fact, when the Company issued the press release, the Former CEO—who received regular updates regarding the beta testing—knew that several participants **had not** moved forward beyond the beta testing stage. For example, just days prior to the press release, the CIO of Intrusion’s underwriter told the Former CEO that the underwriter would continue testing Shield because the product had not yet functioned on the underwriter’s primary network. Moreover, the underwriter’s CIO, who was quoted in the press release, had not given Intrusion approval to be quoted in the Company’s January 13, 2021 press release. Hours after the press release was published, the underwriter objected to Intrusion and the Company’s investor relations firm regarding the unauthorized quotation of its CIO, as well as to the statement that all beta testers were moving forward into production.

16. The next day, January 14, 2021, Intrusion issued a purportedly corrective press release that replaced the quote from the underwriter’s CIO and stated that “[m]ost companies participating in the beta program are migrating to the production phase of Shield.” However, this press release continued to materially overstate and misrepresent Intrusion’s success in marketing Shield to its beta testers, as only one company involved in the beta testing had signed a contract at the time the Company issued the January 14, 2021 press release.

17. After the January 2021 press releases, the Former CEO continued to misrepresent—both to investors and to Intrusion’s board—the Company’s success in marketing

Shield to the beta testers. Despite receiving a number of contemporaneous updates showing that only three of the beta testers had signed contracts, the Former CEO told the Company's board on February 4, 2021 that "[m]ost Beta Customers have converted to paying customers." Later that month, the Former CEO, referencing the January 2021 press releases, told an investor in an email that *all* beta testers other than the underwriter were "now under 1 or 3 year contracts." And during the Company's February 25, 2021 earnings call, Intrusion's CEO stated that "90% of our beta customers became paying subscribers on the Shield."

18. The day after the earnings call Intrusion's stock price closed at \$24.38, up almost 30% from the prior day's close, and its trading volume increased approximately 629% from the day before. However, all of these claims regarding Shield's beta testing success were false and misleading. As of February 25, 2021, only three of the 13 beta testers had signed contracts for Shield, while three of the beta testers had indicated they would not purchase it. Finally, despite an April 2021 update to the Former CEO showing that only five beta testers had been "won," Intrusion's presentation materials displayed at the Company's May 18, 2021 shareholder meeting falsely stated that "[m]ost Beta Customers have converted to paying customers." Intrusion's false and misleading statements regarding the beta testing program were material because they misstated and/or overstated the Company's success in marketing Shield, a product that was crucial to both the Company's near-term and long-term financial condition.

***Intrusion Misleads Investors about its Contract with Customer A***

19. In early 2021, the Former CEO began to prime the market to expect one or more major Shield contracts. For example, during the February 25, 2021 earnings call, the Former CEO touted interest in Shield from large corporations, referencing Fortune 100 and 500 companies that were evaluating or testing Shield. Then, on March 31, 2021, Intrusion issued a press release announcing that Customer A had signed an agreement to protect its network using

Shield. However, the actual terms of that agreement provided for a renewal of an existing contract with Customer A for other Intrusion services (not including Shield), for three years at the same price, as well as for Intrusion to provide Shield for free for three years, with an option for Customer A to renew Shield for another three years at a 93 percent discount. The press release, which referenced Customer A's 46,000 employees worldwide, did not include any information regarding the specific terms of the contract.

20. The March 31, 2021 press release was materially misleading because it omitted that Customer A did not pay for Shield (and had no obligation to ever pay for or use this product). Intrusion's stock price closed approximately 19% higher than the prior trading day after the Company issued the March 31, 2021 press release, and its trading volume increased approximately 113% from the day before. Two industry analysts who followed Intrusion's stock issued positive reports shortly thereafter, estimating, based on Intrusion's publicized seat pricing for Shield, over \$5 million in potential annual revenues from the Customer A contract—an amount greater than 75% of Intrusion's total 2020 revenues of \$6.6 million.

21. Thereafter, Intrusion, through statements made and/or approved by the Former CEO, frequently and prominently referenced the Customer A contract as a Shield-adoption success story. Intrusion not only remained silent regarding the fact that Customer A received Shield for free, but in some instances the Company implied, or even stated, that Customer A was paying for Shield:

- In an April 13, 2021 press release, Intrusion announced that Shield was “protecting over 50,000 seats,” and referenced Customer A signing on as a Shield customer. On April 13, 2021, Intrusion's stock price closed at \$28.25, up more than 19% from the prior day. Yet, at the time of this press release, Intrusion only had signed contracts for 550 paid seats.



- In an April 20, 2021 email, the Former CEO told a YouTube finance and technology commentator that all 50,000 seats referenced in the April 13 press release were paid.
- In an April 22, 2021 press release refuting a negative research report about Intrusion and Shield, Intrusion again referenced its multi-year agreement with Customer A without disclosing that Customer A was not paying for Shield.
- During the Company's May 4, 2021 earnings call, the Former CEO specifically referenced Customer A when lauding what he described as the Company's "extraordinary success" in licensing over 50,000 seats for Shield. He went on to explain Intrusion's lack of first quarter revenues attributable to Shield by pointing to Intrusion's new contract with Customer A to illustrate that Intrusion only received revenue as seats were implemented, saying "[s]o the revenues will come in as they bring on a territory or region and then the revenue start paying." In truth, however, Customer A was not obligated to pay for Shield.
- In a May 10, 2021 YouTube interview with a financial newsletter publisher, the Former CEO discussed the Company's seat pricing for Shield, stating: "So, we are very profitable at \$20.00 per seat. It obviously adds up. If you're a Fortune 500 with [Customer A], you know, with thousands and thousands of end users, that becomes a pretty big number pretty fast." However, Customer A was not, in fact, paying for Shield (nor was it obligated to), so its contract would not add "a pretty big number" to Intrusion's sales or income.

22. Similarly, Intrusion also made false and misleading statements about the status of Customer A's adoption of Shield. In an April 8, 2021 radio interview, the Former CEO said that the Company had installed Shield worldwide for Customer A. And during Intrusion's May 4,

2021 earnings call, the Former CEO claimed that Customer A already had Shield seats implemented by the time of the Company's March 31, 2021 press release. When the Former CEO made these statements, however, Customer A had *no* Shield appliances on its network. Rather, Customer A's cyber defense officer was testing Shield at his residence on his *home* network.

23. During the Company's May 4, 2021 earnings call, the Former CEO also referred to the work that Customer A had conducted to evaluate Shield, stating that it was a major enterprise decision and that "this is as good of a rubber stamp as you can get that says certified, ready for production." But, as the Former CEO knew, Customer A did not test or evaluate any Shield appliance prior to entering into the contract. In fact, in late March 2021, Customer A's cyber defense officer told the Former CEO that Customer A had not run Shield on its network.

24. The Former CEO understood the importance of the fact that Intrusion had given Shield to Customer A for free, as demonstrated by the numerous steps he took to conceal the contract's actual terms from the public (as described above) and from Intrusion's board and executives. For example, the Former CEO refused to tell Intrusion's chief sales officer the pricing terms of the Customer A deal. Additionally, the Former CEO told the Company's then CFO that the details of the Customer A contract should not be shared with anyone, saying: "I mean nobody. You, me and the board. That's it." Despite this statement, the Former CEO also kept the board in the dark. He falsely told Intrusion's chairman and another director that the Customer A Shield contract provided additional revenue to Intrusion, when, in fact, it did not. The Former CEO also resisted repeated requests from directors to see the Customer A contract until June 2021, when he finally allowed the chairman to see the Customer A contract. Intrusion's false and misleading statements regarding the Customer A contract were material

because they misstated and/or overstated the Company's success in marketing Shield, a product that was crucial to both the Company's near-term and long-term financial condition.

***Intrusion Misrepresents Two More Customer Relationships***

25. Intrusion also made false and misleading statements about the Company's arrangements with two other businesses. On April 6, 2021, Intrusion issued a press release announcing that Customer B had "signed an agreement" for Shield, which quoted a Customer B executive. Intrusion made nearly identical claims about Customer B in an April 13, 2021 press release (referenced above in paragraph 21 in connection with the Company's Customer A contract misrepresentations) and in an April 22, 2021 press release issued to refute a negative research report (also referenced above in paragraph 21).

26. Although Customer B had indicated an interest in purchasing Shield in March 2021, it did not sign a contract until early May 2021, after it negotiated a larger discount for the product. The Former CEO led Intrusion's negotiations with Customer B until mid-April 2021 and knew that Customer B objected to Intrusion's proposed pricing. He also knew that Intrusion had not received a signed agreement from Customer B. Nonetheless, the Former CEO authorized the April 6, 2021 press release.

27. Intrusion also made misleading statements about the Company's relationship with a New Orleans-based government contractor ("Customer C"). In the April 13, 2021 press release, Intrusion claimed that it had finished the first quarter "with several key wins" and referenced customers, including Customer C, adopting Shield to protect their networks. Later, during the Company's May 4, 2021 earnings call, the Former CEO emphasized the rapid evaluation and implementation of Shield by telling a story about a demonstration he did for a New Orleans contractor. The Former CEO stated that he demonstrated Shield and the contractor "bought the product the same day." The Former CEO also claimed that when he jokingly said he could take

Shield back with him, the customer's CIO said, "you're never getting that appliance out of my network" and that he would sign the contract that day.

28. The Former CEO admitted under oath that the firm referenced during the May 4, 2021 earnings call was Customer C. However, Customer C did not sign a contract for Shield. In fact, when the Former CEO offered Shield for testing to Customer C's CEO (who was a friend) in late March 2021, the Former CEO actually told him, "[y]ou don't have to sign a contract." And after he was fired by Intrusion in July 2021, the Former CEO told his friend that he was the only one at the Company who knew that Customer C was testing Shield and suggested that Customer C return Shield to avoid being charged. Intrusion's false and misleading statements regarding the purported contracts with Customer B and Customer C were material because they misstated and/or overstated the Company's success in marketing Shield, a new product that was crucial to both the Company's near-term and long-term financial condition.

#### ***Intrusion Terminates the Former CEO***

29. As described in paragraph 24 above, the Company's chairman learned in early June 2021 that, contrary to the Former CEO's prior representations to him, Intrusion had actually provided Shield to Customer A for free. Around that time, the chairman also learned that Intrusion's beta tester conversion rate was much lower than the Former CEO had claimed and that the Company had far exceeded its budgeted hiring. On July 19, 2021, Intrusion's board terminated the Former CEO's employment.

#### **Intrusion Lacked Disclosure Controls and Procedures**

30. From at least May 2020 through July 2021, Intrusion had minimal and ineffective disclosure controls and procedures. For example, Intrusion lacked procedures to ensure that information was communicated to management to allow timely decisions regarding required and

accurate disclosures. Additionally, the controls or procedures that Intrusion had for its press releases and other current reports were informal, unwritten, and not consistently implemented.

### **Intrusion Offered and Sold Securities**

31. On August 25, 2020, Intrusion filed an offering registration statement with the SEC on Form S-1 seeking to register the sale of up to 3,565,000 shares of its common stock. An amended Form S-1 was declared effective on October 8, 2020, and thereafter Intrusion sold stock to the public. Intrusion also registered the offer and sale of common stock pursuant to an employee compensation plan on Form S-8 on May 7, 2018. The Company's false and misleading statements (described above in paragraphs 9 through 28) occurred during Intrusion's offer and sale of its common stock to the public and/or its employees.

### **FIRST CLAIM FOR RELIEF**

#### **Intrusion Violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5]**

32. The SEC realleges and incorporates by reference each and every allegation contained in the paragraphs above.

33. By engaging in the acts and conduct alleged herein, Intrusion, directly or indirectly, in connection with the purchase or sale of a security, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange, knowingly or with severe recklessness:

- (a) employed a device, scheme, or artifice to defraud; and/or
- (b) made an untrue statement of material fact, or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or

- (c) engaged in an act, practice, or course of business which operated or would operate as a fraud or deceit upon any person.

34. By reason of the foregoing, Intrusion violated, and unless enjoined will continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

### **SECOND CLAIM FOR RELIEF**

#### **Intrusion Violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)]**

35. The SEC realleges and incorporates by reference each and every allegation contained in the paragraphs above.

36. By engaging in the acts and conduct alleged herein, Intrusion, directly or indirectly, in the offer or sale of a security, by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, has:

- (a) knowingly or with severe recklessness employed a device, scheme, or artifice to defraud; and/or
- (b) knowingly, recklessly, or negligently obtained money or property by means of an untrue statement of a material fact or an omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or
- (c) knowingly, recklessly, or negligently engaged in a transaction, practice, or course of business which operated or would operate as a fraud or deceit upon the purchaser.

37. By reason of the foregoing, Intrusion violated, and unless enjoined will continue to violate, Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

**THIRD CLAIM FOR RELIEF**

**Intrusion Violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)]  
and Exchange Act Rules 13a-11 and 13a-15(a)  
[17 C.F.R. §§ 240.13a-11 and 240.13a-15(a)]**

38. The SEC realleges and incorporates by reference each and every allegation contained in the paragraphs above.

39. Intrusion is an issuer of securities registered under Section 12 of the Exchange Act that filed required reports with the SEC under Section 13(a) of the Exchange Act and related rules and regulations.

40. By engaging in the conduct described above, Intrusion failed to file current reports with the SEC that were true and correct, and failed to maintain disclosure controls and procedures.

41. By reason of the foregoing, Intrusion violated, and unless enjoined will continue to violate, Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 13a-11 and 13a-15(a) [17 C.F.R. §§ 240.13a-11 and 240.13a-15(a)].

**PRAYER FOR RELIEF**

THEREFORE, the SEC respectfully requests that the Court enter a Final Judgment that:

A. Permanently enjoins Defendant Intrusion from violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5];

B. Permanently enjoins Defendant Intrusion from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)];

C. Permanently enjoins Defendant Intrusion from violating Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 13a-11 and 13a-15(a) [17 C.F.R. §§ 240.13a-11 and 240.13a-15(a)]; and

D. Grants such further relief as the Court deems just and proper.

Date: September 26, 2023

Respectfully submitted,

/s/ Jason J. Rose

JASON J. ROSE

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