



Lattice Incorporated (OTCQB: LTTC)

April 1, 2015
Target Price: \$0.35
Recent Price: \$0.07

[Watch Fox Business Interview with CEO of LTTC](#)

Market Data

| | |
|----------------------------|-------------|
| Fiscal Year | December 31 |
| Industry | Technology |
| Market Cap | \$5.4M |
| Price/Earnings (ttm) | N/A |
| Price/Book (mrq) | N/A |
| Price/Sales (ttm) | 0.4x |
| Insider Ownership | 24.7% |
| Shares Outstanding | 53.9M |
| Float | 36.6M |
| Avg. Daily Vol. (3 mos.) | 44,361 |
| <i>As of April 1, 2015</i> | |

Income Snapshot

| | TTM |
|--------------|----------|
| Revenue | \$8.9M |
| Gross Profit | \$3.6M |
| Gross Margin | 40.3% |
| Net Loss | (\$1.8M) |

Balance Sheet Snapshot

| | MRQ |
|------|--------|
| Cash | \$0.3M |
| Debt | \$1.8M |

Core Revenue Up 24% YoY; Poised for Strong Growth Going Forward

Total FY14 revenue increased 8% YoY; Core revenue increased 24% YoY (Technology revenue and direct service revenue up 52% and 9% YoY, respectively). LTTC's overall FY14 revenue increased 8% YoY to \$8.9 million, with the primary reason for the increase coming from strong technology sales growth (52% YoY). Technology revenue was driven primarily by the late 2013 acquisition of Innovisite, which contributed approximately \$1.7 million to 2014 revenue. Core revenue growth (technology revenue and direct service revenue), increased 24% YoY. Wholesale revenue now makes up only a nominal portion of the Company's overall revenue, and combined with LTTC's growth initiatives, we expect overall revenue growth to accelerate. Recurring revenues continued to increase, and now make up 61% of revenue. Gross margins increased to 40.3%, up from 34.0% in FY13. FY14 net loss was \$1.8 million, as compared to a net loss of \$1.0 million in FY13.

4Q14 revenue was \$2.3 million, representing a 16.2% YoY increase as compared to 4Q13 revenue of \$2.0 million. 4Q14 gross margins were 41.4%, representing strong improvement over 4Q13 gross margins of 29.0%. Net loss in 4Q14 was \$708,173.

Oklahoma expansion strategy to be implemented in eight other states. Over the past few years, LTTC has established a market leading position in the Oklahoma small and mid-size correction facilities market, obtaining over 50% market share (35 out of 69 facilities in the target market). LTTC is taking the expertise that it learned from operating in the Oklahoma market and implementing it in other states. The Company is publishing white papers that detail the benefits and cost savings for correctional facilities, and these studies should help drive adoption in other jurisdictions. We believe that if LTTC executes upon its U.S. growth initiatives, the Company could generate triple digit revenue growth over the next few years.

Additional capital funding expected to be completed by mid 2015. LTTC has improved its capital position through debt reduction, and the Company plans on completing a capital raise by mid-2015 to further fund its business objectives and improve its working capital.

ICON platform continues to provide industry leading technology and customer service. The Company once again mentioned on its earnings call that it has had a nearly 100% retention rate with its customers. Additionally, LTTC is earning 45% higher revenue per inmate on average when compared to competitors. When the Company's kiosk technology is implemented by a facility, the revenue per inmate increases by a further 30%. The Company anticipates adding new services, including tablet technology and a social media portal, in 2015. We believe that improvements



to the ICON platform will help drive correctional facility adoption, along with providing further possible increases to the revenue received per inmate.

Price target of \$0.33, based on projected FY15E revenue of \$10.5 million, an EV/Sales multiple of 2.0x, and year-end 2015 shares outstanding of 63.9 million.



| | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 2013 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 2014 | 1Q15 | 2Q15 | 3Q15 | 4Q15 | 2015 | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 2016 |
|---|------------|------------|------------|------------|-------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|
| Revenue | 21,631,786 | 19,133,108 | 19,961,160 | 19,961,160 | 8,649,834 | 2,333,841 | 2,833,669 | 2,030,989 | 2,333,011 | 8,041,060 | 7,493,162 | 2,261,120 | 2,693,834 | 10,513,091 | 3,247,160 | 3,734,256 | 4,294,366 | 4,398,354 | 16,214,385 | |
| Cost of Revenue | 1,501,983 | 1,258,262 | 1,270,869 | 1,419,719 | 5,440,293 | 1,440,671 | 1,349,818 | 1,182,709 | 1,362,002 | 3,333,958 | 1,407,336 | 1,463,960 | 1,524,473 | 1,368,283 | 5,984,022 | 1,808,279 | 2,020,310 | 2,340,034 | 2,670,956 | 8,993,719 |
| Gross Profit | 68,179,3 | 64,816,1 | 68,921,1 | 68,921,1 | 2,808,361 | 892,970 | 903,391 | 847,802 | 946,009 | 3,006,172 | 1,681,766 | 1,098,159 | 1,164,473 | 1,230,752 | 4,529,069 | 1,439,501 | 1,672,947 | 1,949,301 | 2,261,058 | 7,316,666 |
| Gross Margin | 312% | 337% | 347% | 347% | 32% | 38% | 31% | 41% | 41% | 40% | 42% | 43% | 43% | 43% | 43% | 44% | 46% | 46% | 46% | 46% |
| Operating Expenses | 613,679 | 672,615 | 633,704 | 651,362 | 2,769,176 | 969,002 | 1,046,944 | 1,111,690 | 1,077,885 | 4,204,421 | 1,122,014 | 1,165,309 | 1,210,120 | 1,256,517 | 4,763,970 | 1,396,287 | 1,549,716 | 1,674,814 | 1,651,958 | 6,472,775 |
| Selling, general and administrative | 281,1% | 352% | 292% | 476% | 335% | 415% | 465% | 547% | 464% | 404% | 46% | 46% | 46% | 44% | 45% | 41% | 41% | 30% | 37% | 30% |
| SG&A as % of rev. | 149,805 | 163,577 | 167,839 | 177,857 | 659,178 | 216,782 | 214,455 | 229,839 | 226,335 | 886,410 | 231,720 | 230,501 | 226,550 | 225,891 | 916,692 | 227,303 | 242,727 | 257,664 | 271,620 | 989,313 |
| Research and Development | 69% | 86% | 77% | 77% | 69% | 63% | 95% | 113% | 97% | 9% | 9% | 9% | 8% | 8% | 8% | 7% | 6% | 6% | 5% | 6% |
| R&D as % of rev. | 763,484 | 836,193 | 801,543 | 1,129,319 | 3,428,254 | 1,184,784 | 1,261,400 | 1,340,428 | 1,304,220 | 5,090,831 | 1,353,735 | 1,393,810 | 1,438,709 | 1,482,408 | 5,670,662 | 1,623,590 | 1,762,443 | 1,932,478 | 2,124,378 | 7,472,089 |
| Total operating expenses | (8,169) | (191,377) | 101,268 | (64,987) | (619,393) | (291,814) | (357,699) | (492,626) | (343,611) | (1,485,659) | (321,969) | (299,651) | (274,296) | (245,656) | (1,151,572) | (185,089) | (119,496) | 12,883 | 136,290 | (153,423) |
| Loss from Operations | (6,825) | (7,583) | (21,233) | (29,423) | (65,064) | (13,043) | (290,730) | (311,627) | (83,556) | 506,668 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other income (expense) | (3,267) | 0 | (53,035) | (53,035) | (7,820) | (7,820) | (15,532) | (25,633) | (30,833) | (30,833) | (30,833) | (30,833) | (30,833) | (30,833) | (30,833) | (30,833) | (30,833) | (30,833) | (30,833) | (123,332) |
| Derivative income (expense) | 0 | 0 | 29,658 | 29,658 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing Fees | 0 | 0 | 46,713 | 46,713 | 0 | 0 | 0 | 0 | 2,090 | 2,090 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gain on extinguishment of debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (125,000) | (125,000) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other income | (7,292) | (147,963) | (661,300) | (48,687) | (3,965,915) | (164,115) | (219,982) | (107,659) | (272,783) | (6,919,119) | (32,263) | (37,263) | (42,263) | (47,263) | (59,052) | (52,263) | (57,263) | (62,263) | (67,263) | (69,652) |
| Write-off of note receivable | (8,3015) | (155,546) | (406,500) | (100,867) | (3,965,915) | (164,115) | (219,982) | (107,659) | (272,783) | (6,919,119) | (32,263) | (37,263) | (42,263) | (47,263) | (59,052) | (52,263) | (57,263) | (62,263) | (67,263) | (69,652) |
| Interest expense | (164,796) | (546,922) | 60,718 | (650,745) | (1,010,338) | (476,792) | (502,283) | (314,791) | (708,173) | (1,802,048) | (485,065) | (467,747) | (447,392) | (423,752) | (1,823,956) | (308,185) | (307,592) | (307,592) | (307,592) | (915,807) |
| Total other income (expense) | 0 | 0 | 0 | 2,000 | 2,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loss before income taxes | (164,796) | (546,922) | 60,718 | (650,745) | (1,010,338) | (476,792) | (502,283) | (314,791) | (708,173) | (1,802,048) | (485,065) | (467,747) | (447,392) | (423,752) | (1,823,956) | (308,185) | (307,592) | (307,592) | (307,592) | (915,807) |
| Income taxes | (164,796) | (546,922) | 60,718 | (650,745) | (1,010,338) | (476,792) | (502,283) | (314,791) | (708,173) | (1,802,048) | (485,065) | (467,747) | (447,392) | (423,752) | (1,823,956) | (308,185) | (307,592) | (307,592) | (307,592) | (915,807) |
| Net loss from continuing operations | 47,860 | 398,083 | (11,273) | (333,359) | 17,710 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net income (loss) from operations of discontinued component | (116,828) | 51,160 | (49,445) | (9,861,04) | (1,002,236) | (476,792) | (502,283) | (314,791) | (708,173) | (1,802,048) | (485,065) | (467,747) | (447,392) | (423,752) | (1,823,956) | (308,185) | (307,592) | (307,592) | (307,592) | (915,807) |
| Net Loss | 0 | 0 | 0 | (25,108) | (25,108) | 0 | 0 | (6,277) | 0 | (25,108) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Preferred Stock Dividend | (116,828) | 51,160 | (49,445) | (9,861,04) | (1,002,236) | (476,792) | (502,283) | (314,791) | (708,173) | (1,802,048) | (485,065) | (467,747) | (447,392) | (423,752) | (1,823,956) | (308,185) | (307,592) | (307,592) | (307,592) | (915,807) |
| Income (Loss) applicable to common shareholders | (0.00) | 0.00 | 0.00 | (0.03) | (0.03) | (0.01) | (0.01) | (0.01) | (0.01) | (0.04) | (0.01) | (0.01) | (0.01) | (0.01) | (0.03) | (0.01) | (0.00) | (0.00) | (0.00) | (0.01) |
| Basic net Loss per common share | (0.00) | 0.00 | 0.00 | (0.03) | (0.03) | (0.01) | (0.01) | (0.01) | (0.01) | (0.04) | (0.01) | (0.01) | (0.01) | (0.01) | (0.03) | (0.01) | (0.00) | (0.00) | (0.00) | (0.01) |
| Diluted net Loss per common share | 32,316,509 | 33,428,434 | 33,902,907 | 281,434 | 33,952,036 | 36,740,854 | 36,740,854 | 36,740,854 | 36,740,854 | 47,632,207 | 48,612,617 | 51,754,102 | 46,068,220 | 53,879,348 | 53,879,348 | 53,879,348 | 53,879,348 | 53,879,348 | 53,879,348 | 63,879,348 |
| Weighted Average Shares - Basic | 32,316,509 | 76,054,064 | 76,067,034 | 281,434 | 33,952,036 | 36,740,854 | 36,740,854 | 36,740,854 | 36,740,854 | 47,632,207 | 48,612,617 | 51,754,102 | 46,068,220 | 53,879,348 | 53,879,348 | 53,879,348 | 53,879,348 | 53,879,348 | 53,879,348 | 63,879,348 |
| Weighted Average Shares - Diluted | | | | | | | | | | | | | | | | | | | | |



Additional Information

Auditor: Rosenberg Rich Baker Berman & Company

Legal Counsel: Becker Meisel LLC

Transfer Agent: Continental Stock Transfer & Trust Company

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