



Lattice Incorporated (OTCQB: LTTC)

May 26, 2015
Target Price: \$0.28
Recent Price: \$0.04

[Watch Interview with CEO of LTTC](#)

Market Data

Fiscal Year	December 31
Industry	Technology
Market Cap	\$2.2M
Price/Earnings (ttm)	N/A
Price/Book (mrq)	N/A
Price/Sales (ttm)	0.3x
Insider Ownership	24.7%
Shares Outstanding	55.6M
Float	40.9M
Avg. Daily Vol. (3 mos.)	93,448
<i>As of May 22, 2015</i>	

Income Snapshot

	TTM
Revenue	\$8.1M
Gross Profit	\$3.2M
Gross Margin	39.9%
Net Loss	(\$2.8M)

Balance Sheet Snapshot

	MRQ
Cash	\$0.3M
Debt	\$2.3M

Poised for Strong Growth as Geographic and Product Line Expansions Unfold

Total 1Q15 revenue decreased 35% YoY; Direct call provisioning revenue increased 13% YoY; \$1.0 million software license contract to be recognized in future quarters. LTTC's overall 1Q15 revenue decreased 35% YoY to \$1.5 million, with the primary reason for the decrease coming from the introduction of a new perpetual licensing agreement, which should lead to greater long-term market penetration while smoothing out quarter to quarter sales volatility. Perpetual licensing agreements are recognized under deferred payment arrangements, meaning revenue is recognized in multiple quarters in the future rather than as a one-time upfront sale. We believe that this new arrangement will lead to higher long-term revenue, but will likely lower quarterly revenue in the short-term. Recurring revenues accounted for 79% of revenue in 1Q15, indicating that recurring revenue continues to become a larger portion of the Company's total revenue. Gross margins decreased to 34.7%, down from 38.3% in 1Q14. The decrease in gross margins is tied to the timing of revenue from technology shipments. 1Q15 net loss, adjusted for derivative income (expense), was \$(1.1 million), as compared to a net loss of \$(0.5 million) in 1Q14.

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 majority of the states that LTTC is entering have larger correction facility markets than Oklahoma, and ultimately many of these states could generate larger amounts of revenue than Oklahoma within a few years. We believe that if LTTC executes upon its U.S. growth initiatives, the Company could generate revenue multiple times larger than its current run rate revenue within the next few years.

Technological development continues with 2015 launch of new eMate platform.

The Company's eMate platform will give inmates a wireless communications device that includes the latest communications and media tools to keep in contact with friends and family, along with a variety of self-improvement tools designed to improve inmate morale, ultimately providing value to both the inmate and the correctional facility. Additionally, due to the wide variety of tools offered by the eMate platform, LTTC can offer these services while a correctional facility still has a phone contract with a competitor, allowing them to ramp revenue more quickly and beginning relationships with new correctional facilities that could lead to full services contracts in the future.

Additionally, revenue from video visitation has been increasing, and we expect this trend to continue as other correctional facilities are introduced to this technology.



Price target of \$0.28, based on projected FY16E revenue of \$11.8 million, an EV/Sales multiple of 1.5x, and year-end 2016 shares outstanding of 63.9 million.

	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15	4Q15	2015	1Q16E	2Q16E	3Q16E	4Q16E	2016E
Revenue	2,333,841	2,253,609	2,030,599	2,323,011	8,941,060	1,509,671	1,585,155	1,664,412	1,747,633	6,506,871	2,097,459	2,516,591	3,145,339	4,089,461	11,848,951
Cost of Revenue	1,440,871	1,349,818	1,182,797	1,362,402	5,335,888	985,102	1,027,180	1,070,217	1,114,900	4,197,489	1,327,902	1,580,419	1,959,796	2,527,287	7,395,004
Gross Profit	892,970	903,791	847,802	960,609	3,605,172	524,569	557,974	594,195	632,733	2,309,382	769,556	936,172	1,185,544	1,562,174	4,453,947
<i>Gross Margin</i>	38.3%	40.1%	41.5%	41.4%	40.3%	34.7%	35.2%	35.7%	36.2%	35.5%	36.7%	37.2%	37.7%	38.2%	37.6%
Operating Expenses	918,002	1,046,944	1,111,590	1,077,885	4,204,421	1,079,409	1,117,534	1,156,767	1,197,129	4,550,838	1,268,781	1,321,210	1,368,397	1,451,759	5,410,147
Selling, general and administrative	39.3%	46.5%	54.7%	46.4%	47.0%	71.5%	70.5%	69.5%	68.5%	69.9%	60.5%	52.5%	43.5%	35.5%	45.7%
SG&A as % of rev	266,782	214,455	228,638	226,335	886,410	309,239	308,105	307,916	305,836	1,232,096	335,546	352,323	377,489	408,946	1,474,303
Research and Development	11.4%	9.5%	11.3%	9.7%	9.9%	20.5%	19.5%	18.5%	17.5%	18.9%	16.0%	14.0%	12.0%	10.0%	12.4%
R&D as % of rev	1,184,784	1,261,400	1,340,428	1,304,220	5,090,831	1,388,648	1,426,639	1,464,683	1,502,964	5,782,934	1,604,327	1,673,533	1,745,885	1,860,705	6,884,450
Total operating expenses	(291,814)	(357,609)	(492,626)	(343,611)	(1,485,659)	(864,079)	(868,665)	(870,488)	(870,321)	(3,475,552)	(834,669)	(737,361)	(659,942)	(298,631)	(2,430,503)
Loss from Operations	(13,043)	280,730	311,527	(83,556)	505,658	346,409	0	0	0	346,409	0	0	0	0	0
Other Income (expense)	(7,820)	(15,532)	(25,833)	(30,833)	(80,018)	(25,833)	(25,833)	(25,833)	(25,833)	(103,332)	(25,833)	(25,833)	(25,833)	(25,833)	(103,332)
Derivative income (expense)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing Fees	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gain on extinguishment of debt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Income	0	0	0	2,090	2,090	0	0	0	0	0	0	0	0	0	0
Write-off of note receivable	0	0	0	(125,000)	(125,000)	(37,250)	0	0	0	0	0	0	0	0	0
Interest expense	(164,115)	(219,882)	(107,259)	(127,263)	(619,119)	(125,506)	(130,506)	(135,506)	(140,506)	(532,024)	(145,506)	(150,506)	(155,506)	(160,506)	(612,024)
Total other income (expense)	(184,978)	55,316	177,835	(364,562)	(316,389)	157,820	(156,339)	(161,339)	(166,339)	(288,947)	(171,339)	(176,339)	(181,339)	(186,339)	(715,356)
Loss before income taxes	(476,792)	(302,293)	(314,791)	(708,173)	(1,802,048)	(706,259)	(1,025,004)	(1,031,827)	(1,036,660)	(3,762,499)	(1,006,008)	(913,700)	(741,261)	(484,870)	(3,145,859)
Income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net loss from continuing operations	(476,792)	(302,293)	(314,791)	(708,173)	(1,802,048)	(706,259)	(1,025,004)	(1,031,827)	(1,036,660)	(3,762,499)	(1,006,008)	(913,700)	(741,261)	(484,870)	(3,145,859)
Net Income (loss) from operations of discontinued component	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Loss	(476,792)	(302,293)	(314,791)	(708,173)	(1,802,048)	(706,259)	(1,025,004)	(1,031,827)	(1,036,660)	(3,762,499)	(1,006,008)	(913,700)	(741,261)	(484,870)	(3,145,859)
Preferred Stock Dividend	(6,277)	0	(6,277)	0	(25,108)	(6,277)	0	(6,277)	0	(12,554)	(6,277)	0	(6,277)	0	(12,554)
Income (Loss) applicable to common shareholders	(483,069)	(302,293)	(321,068)	(708,173)	(1,827,156)	(712,536)	(1,025,004)	(1,038,104)	(1,036,660)	(3,775,053)	(1,012,285)	(913,700)	(747,538)	(484,870)	(3,158,413)
Basic net Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)	(0.02)	(0.02)	(0.02)	(0.06)	(0.02)	(0.01)	(0.01)	(0.01)	(0.05)
Diluted net Loss per common share	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)	(0.02)	(0.02)	(0.02)	(0.06)	(0.02)	(0.01)	(0.01)	(0.01)	(0.05)
Weighted Average Shares - Basic	36,740,854	47,632,207	48,612,617	51,754,102	46,068,220	53,911,094	54,752,361	63,911,094	63,911,094	59,121,411	63,911,094	63,911,094	63,911,094	63,911,094	63,911,094
Weighted Average Shares - Diluted	36,740,854	47,632,207	48,612,617	51,754,102	46,068,220	53,911,094	54,752,361	63,911,094	63,911,094	59,121,411	63,911,094	63,911,094	63,911,094	63,911,094	63,911,094



Additional Information

Auditor: Rosenberg Rich Baker Berman & Company

Legal Counsel: Becker Meisel LLC

Transfer Agent: Continental Stock Transfer & Trust Company

[Company Information](#)

[Company Website](#)

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