

CEO CFO

Lattice Incorporated
7150 North Park Drive, Suite 500
Pennsauken, NJ 08109
Phone: 856-910-1166

Issue:
October 7, 2011

All rights reserved!
ceocfointerviews.com

The Most Powerful Name In Corporate News and Information



The Fabric of Secure Communications

Technology
Networking & Communication De-
vices
(LTTTC-OTC: BB)

Paul Burgess
President and CEO

BIO:

Paul Burgess has held the posts of President, CEO and Director since February 2005. He joined Lattice predecessor, Science Dynamics, in March 2003 as COO.

Previously Paul was president and CFO of Plan B Communications and prior to that he was responsible for the coast to coast development of networks for MetroNet Communications. In addition Paul oversaw development and deployment of the distributed computing strategy for ISM, later acquired by IBM Global Services.

Company Profile:

Lattice Incorporated provides secure communications and advanced information technology to the US government and commercial markets. Incorporated in 1973, Lattice has been in continuous operation for over three decades. When Lattice entered spe-

cialized commercial markets, it focused on secure communications solutions for the telecom industry. Responding to the converged communications industry of today, Lattice now provides secure communications solutions to targeted vertical markets, deploying system and applications software based on Lattice core platform technology.

The company currently derives the majority of its revenue from its Government Solutions division. The company's Communication Solutions division expanded in 2009 from a wholesale business model to offering its products and services directly to end-user facilities.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Burgess, what was your vision when you took over as CEO of Lattice?

Mr. Burgess: When I took over as CEO of Lattice, the company was in a bit of a turnaround situation. It had fallen on tough times with the tech bubble and had really started to see revenues deteriorate. Therefore, what I looked to doing was, first of all, stabilize the core business. Then the next step was setting the strategy moving forward for a larger growth trajectory for the company, going out for five to ten years. We wanted to specifically focus on sectors that we thought were probably going to grow in that time frame.

CEOCFO: What does Lattice do today?

Mr. Burgess: We focus on two sectors. One is secure telecommunications and the other is secure IT and communications within the federal

government space. Therefore, we have one division that focuses specifically on the federal government with the focus on secure IT and communications. The other division focuses on secure communications technology that we sell, with services provided, into correctional facilities, not just within the United States, but in Canada and Europe as well.

CEOCFO: Is it the security level that Lattice is providing or is it the whole IT package with a focus on heavy-duty security?

Mr. Burgess: In the communications side it is a core technology and service, encompassing all telecommunications. On the IT side, it is focused specifically on areas that are a little broader within the federal government. The federal government space is really dictated more by where the federal government wants to go as opposed to the communications technology we have. However, we can become an industry leader and start to introduce new technology into that space.

CEOCFO: What about the correctional facility and the market itself, how does Lattice approach its various clients and what are you doing for them?

Mr. Burgess: We focus within Canada and Europe, and we just entered into the United States this year. We have been providing technology in the area since 1986, however 2010 was the first year we went in and provided a complete turnkey solution for the correctional facility. The model works very well for correctional facilities because it becomes a revenue sharing model. It is not a cost item for them in their budget, so they actually generate revenue for the facility, which obviously helps state and county budgets

going forward. Therefore, our model is two-fold; we provide a secure very reliable technology and service platform and we provide a revenue stream for the counties.

CEO CFO: How does the revenue stream work?

Mr. Burgess: The revenue stream is based on any communication to and from inmates. Any technology services that encompass the inmates are actually paid for by the friends and families of the inmates. The revenue generated from that is split between our company as we provide the service and the correctional facility. Therefore, it becomes a revenue stream for the correctional facility and it enables them to help with their budget.

CEO CFO: Is that a concept typical in the industry or something new that facilities are looking to implement?

Mr. Burgess: It is a fairly standard model within the industry, but then there are things that the technology can do to help facilitate growth in that area as well. In other words, the facility may say give us 50% of the revenue, but as we start to add different technology rather than them going out and buying that technology from us, they just cut down on the percentage of revenue they would get. For example, if they got 50%, they may go down to 40% if we implement the new technology that helps them in other areas, rather than them having to go out and actually purchase this upgrade

CEO CFO: With the growing prison population Lattice would appear to have excellent opportunity for growth?

Mr. Burgess: What we are seeing is it is fairly steady and has been growing, but we are also seeing an opportunity outside of the United States, because technology used outside of the United States is not the same as it is in the States. This is because the United States was further ahead on communications technology they put

in and understanding how friends and family can help the inmates with their phone calls. Allowing friends and family to deposit money on the account of an inmate is fairly unique to the United States. However, I would say that in Europe and Canada some of the developing technologies take it a step beyond that where they will be able to share things like video and pictures with friends and family. Therefore, we are working with a company outside the United States to develop that technology and we anticipate once that is in place the United States will start developing that technology.

CEO CFO: How do you reach potential customers; is it direct or through partners and why are they choosing Lattice?

Two years ago the federal government was 95% of our business, now it is probably 65% to 70% of our business. My anticipation is we will probably see the correctional piece over the next five years outpace the federal government piece, but we do expect both of them to grow. The correctional business in the United States alone is about a \$2 billion market, so our goal is to get a decent size of that market share. If we could get 10% that becomes a \$200 million revenue stream. Even though you are seeing budget cuts in things like secure communications and IT, you are actually going to see the spending within the federal government grow in the next few years. - Paul Burgess

Mr. Burgess: We have been selling through partners. We have some companies that actually sell our services to correctional facilities. We do this in a fairly limited basis, as we are pretty particular about our partners. We started in 2010 to sell directly to facilities and that is our biggest growth area right now. The primary reason that they choose Lattice is two-fold. Technology does not necessarily win you contracts, but it could lose you contracts and we have a great reputation as a solid technology and engineering company. The other thing we have a good reputation for is reliability. This is important because when a phone system goes down in a prison it is not the same as when a phone system goes down in a busi-

ness. In a prison, you have a big security risk and you could have riots from inmates. In addition, you also start to lose revenue stream. Lattice has a reputation for having a very reliable stable technology that does not fail, and when we do have issues, they are resolved very quickly.

CEO CFO: How does your business break down between the government and correctional, and would you like to see the mix changing?

Mr. Burgess: Two years ago the federal government was 95% of our business, now it is probably 65% to 70% of our business. My anticipation is we will probably see the correctional piece over the next five years outpace the federal government piece, but we do expect both of them to grow. The correctional business in the United States alone is about a \$2 billion market, so our goal is to get a decent size of that market share. If we could get 10% that becomes a \$200 million revenue stream. Even though you are seeing budget cuts in things like secure communications and IT, you are actually going to see the spending within the federal government grow in the next few years. We recently hired a C-Level executive to come and help us expand the federal government business and he has been doing quite well. He has only

been here three weeks, so we are looking forward to what he can deliver to the company.

CEO CFO: Does Lattice provide custom solutions to the government?

Mr. Burgess: It is more engineering services, professional services. We do not sell them a product per se; we sell them a service. If the government, for example, wants to secure network solutions via our engineers, we will help implement that. What that is really doing is leveraging two pieces: it is leveraging the experience, secure communications that we built for correctional facilities as well. We have a real strong engineering background; the company we founded

in 1973 and have always been known as a high end engineering company.

CEO CFO: For the government contracts, does it typically come down to price?

Mr. Burgess: It usually comes down to qualifications and then price. When you are dealing with higher level engineering and professional services the government has to see a certain amount of qualification, quality and service they are going to get. Once they have looked at that, then obviously it goes to who's the best, not who's the cheapest first. Each contract will have its own matrix based on things such as past performance and qualifications of the people that are bidding.

CEO CFO: Has the competitive landscape changed much over the last couple of years for Lattice?

Mr. Burgess: The federal government market is usually fairly stable, so the competitive landscape has not changed much over the last couple of years. The correctional facilities on the telecommunications side, has changed a bit and that has a lot to do with not necessarily the economy per se, but is has more to do with some consolidation in the industry. However, that has not worked out so well for some of the correctional facilities, so that creates an opportunity for a company like us to come in with a reliable stable solution, which is really what they want to see.

CEO CFO: What is the financial picture like for Lattice today?

Mr. Burgess: We expect strong growth. We did a small acquisition of a federal contract company in May. That business did about just under \$10 million last year and we expect

that to grow this year. The communications business was very small in 2010, because we just started this initiative. It was about \$3.5 million and we expect to more than double that in capacity going in 2011.

CEO CFO: Do you do much investor outreach?

Mr. Burgess: We just started. About three years ago, we made a conscious decision not to do a lot of work on the investor side and really focus more on getting a strong stable business with a good growth model behind us. In February, we raised an additional \$1.7 million in equity and now we are starting to do a little more on investor outreach as we start to expand the company and now that we have a strong growth strategy and a good story to tell The Street.

CEO CFO: What should people expect in the next year or two from Lattice?

Mr. Burgess: What they are going to see is momentum building in the company. We should be announcing new contracts fairly steadily, as we have a strong sales pipeline. In addition, the communication business will continue to grow, which is a nice strong recurring revenue stream and probably entering into year 2, 3, and 4, you are going to see the same thing in the federal government business. We retrenched our federal business and now relaunched it with this new acquisition, so we should start to see some momentum on that side. Therefore, they will see steady growth going forward on the revenue side of the company.

CEO CFO: Do you anticipate additional acquisitions; is that part of your strategy?

Mr. Burgess: Yes, but we are very selective because we had done some in the past that I would say were difficult to manage. Therefore, what we tend to do is when we look at acquisitions, it is with companies and management that we already know. We are not going in and looking at a new company that has a different culture or management. For example, we look at a partner whom we have worked with before; that is really how our acquisition strategy works. We do plan on doing some acquisitions, especially in the federal government space.

CEO CFO: In closing, why should investors pay attention and what might be overlooked when considering Lattice?

Mr. Burgess: What is really starting to attract investors to the company now is the solid growth path in front of us and a lot of it is the recurring revenue. Secondly, because of the telecommunications model that we have put in place, we are not susceptible to cuts in states or county budgets. We are actually a revenue stream for them; it actually works in our favor with the government cutbacks. In addition, the model on the communications side is a little different from what a lot of people have seen. So I think it is a new business model to The Street, although it is nothing new to the industry. Our model is one I think a lot of investors can take a look at and say that makes a lot of sense, especially in these uncertain economic times.



Lattice Incorporated
7150 North Park Drive, Suite 500
Pennsauken, NJ 08109
Phone: 856-910-1166