

**LATTICE INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
	<b>(Unaudited)</b>	
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 215,019	\$ 255,954
Accounts receivable	2,321,456	2,248,931
Inventories	50,711	1,531
Note receivable	-	90,000
Costs and gross profit in excess of billings	344,011	449,129
Other current assets	387,662	465,654
Total current assets	3,318,859	3,511,199
Property and equipment, net	515,668	692,198
Other intangibles, net	520,020	650,012
Note receivable	482,185	485,000
Other assets	57,812	76,071
Total assets	\$ 4,894,544	\$ 5,414,480
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 2,237,831	\$ 1,377,187
Accrued expenses	1,156,673	2,475,140
Customer advances	447,891	1,187,225
Notes payable, net of debt discount	3,406,287	1,418,067
Derivative liability	30,154	69,765
Deferred revenue	82,244	82,628
Capital lease obligation	11,793	-
Total current liabilities	7,372,873	6,610,012
Long term liabilities:		
Derivative liability	-	771,198
Convertible notes payable, net of debt discount	1,358,577	378,364
Notes payable	1,315,422	-
Total long term liabilities	2,673,999	1,149,562
Total liabilities	10,046,872	7,759,574
Shareholders' deficit		
Preferred stock - \$.01 par value		
Series A 9,000,000 shares authorized	-	54,058
Series B 1,000,000 shares authorized 1,000,000 issued and outstanding	10,000	10,000
Series C 520,000 shares authorized	-	5,200
Series D 590,910 shares authorized	-	5,909
Common stock - \$.01 par value, 200,000,000 authorized, 63,964,057 and 53,879,348 issued and outstanding, respectively	1,121,202	543,794
Common stock subscribed - 500,000 shares	5,000	-
Additional paid-in capital	45,457,034	45,485,245
Accumulated deficit	(51,187,433)	(47,893,655)
Accumulated other comprehensive income (loss)	(35)	2,451
	(4,594,232)	(1,786,998)
Stock held in treasury, at cost	(558,096)	(558,096)
Total shareholders' deficit	(5,152,328)	(2,345,094)
Total liabilities and shareholders' deficit	\$ 4,894,544	\$ 5,414,480

**LATTICE INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
	Unaudited	
Revenue	\$ 7,769,520	\$ 8,941,060
Cost of revenue	4,701,161	5,335,888
Gross profit	3,068,359	3,605,172
Operating expenses:		
Selling, general and administrative	4,412,998	4,204,421
Research and development	1,159,632	886,410
Total operating expenses	5,572,630	5,090,831
Loss from operations	(2,504,271)	(1,485,659)
Other income (expense):		
Derivative income (expense)	597,107	505,658
Amortization of deferred financing fees	(254,381)	(80,018)
Other income (expense)	(328,094)	2,090
Write-off of note receivable	-	(125,000)
Interest expense	(764,608)	(619,119)
Total other income (expense)	(749,975)	(316,389)
Loss before taxes	(3,254,247)	(1,802,048)
Income taxes	-	-
Net loss	(3,254,247)	(1,802,048)
Preferred stock dividend	(25,108)	(25,108)
Net loss available to common shareholders	(3,279,355)	(1,827,156)
Loss per common share		
Basic	\$ (0.06)	\$ (0.04)
Diluted	\$ (0.06)	\$ (0.04)
Weighted average shares:		
Basic	58,927,533	46,068,220
Diluted	58,927,533	46,068,220
Comprehensive Loss		
Net loss	(3,254,247)	(1,802,048)
Foreign currency translation gain (loss)	35	2,451
Comprehensive Loss	(3,254,212)	(1,799,597)