

TERRA TECH CORP.

Transforming the Face of Agriculture

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TERRA TECH CORP. (OTC:BB - TRTC - \$0.345)

Price Target: \$2.00

Rating: Speculative Buy

COMPANY SNAPSHOT

Through its wholly-owned subsidiary GrowOp Technology, Terra Tech Corp. specializes in controlled environment agricultural technologies. The Company integrates best-of-breed hydroponic equipment with proprietary software and hardware to provide sustainable solutions for indoor agriculture enterprises and home practitioners. To further broaden its footprint and position the firm for vertical integration, Terra Tech has also entered into strategic partnerships and prospective acquisitions in the farming, production and distribution of locally-owned produce.

KEY STATISTICS

Price as of 9/28/12	\$0.345
52 Wk High – Low	\$1.15 – 0.21
Est. Shares Outstanding	82.0M
Market Capitalization	\$28.3M
3 Mo Avg Vol	26,700
Exchange	OTC:BB

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

Terra Tech has quietly emerged as one of the country's most important agriculture companies. Management is revolutionizing and helping drive the growth of indoor agriculture cultivation through its proprietary cultivation and production systems, while enhancing distribution of locally-owned produce from specialty stores to mass market retail chains.

The size of Terra Tech's market is in the billions. It is estimated that the total estimated sales through the fragmented specialty hydroponic retailers alone was \$1.2 billion in 2011. We believe that the traditional food retailing market will widely adopt the sale of hydroponically cultivated produce which will substantially drive overall sales.

Terra Tech provides a tremendous advantage to customers that engage in indoor agriculture cultivation. By using the Company's products, farmers can cultivate multiple harvests, use 95% less water and eliminate the need for pesticides and herbicides.

Terra Tech just announced a landmark partnership that will serve as a model for future transactions. The deal with produce firm Edible Farms includes production, brand, and mass market distribution expansion. Plus, it could result in millions in annual revenue and a 51% ownership for Terra Tech.

Management has engaged a vertical integration strategy via M&A and strategic partnerships that could ultimately drive TRTC stock to the \$2.00 level. This strategy should propel revenue from \$3M in 2012 to roughly \$30M in 2 years. With a huge top-line growth rate and a nearly 20% operating margin, we rate TRTC Speculative Buy.

MARKET OVERVIEW

Market Considerations: The Farmer

In our view, Terra Tech is addressing an overlooked, underfollowed and huge market opportunity that could revolutionize how crops are cultivated, produced, and sold. The current system is broken but Terra Tech is poised to revolutionize it through M&A that result in very profitable vertical integration and an industry leadership status.

It is estimated that over 70% of the arable land in the U.S. is planted with subsidized crops such as corn, soybeans and wheat, driving farmers to over-produce calorically-dense, low priced, pesticide-ridden foods. Moreover, less than 3% of U.S. farmland is planted with fruits and vegetables which could reduce the occurrence of diet-related diseases such as cancer, heart diseases and diabetes. To make matters worse, studies suggest that food production will have to increase by 40% in order to feed the global population in 2050. Plus, in the U.S., the percentage of our workforce that farms is 1%, as compared to around 40% a century ago.

With diminishing arable land, the use of pesticides, herbicides, crop vulnerability to weather, and other issues, clearly alternative methods must be used to increase food production. One driver is the increasing use of indoor cultivation using hydroponic and aerologic systems, which is geared for the production of produce, particular leafy greens, herbs, and micro greens. Already, nearly 40% of all fresh tomatoes sold in U.S. retail stores are grown in greenhouses.

By utilizing these indoor methods, farmers can reap multiple harvests in a scalable, controlled environment, eliminate the use of pesticides, substantially reduce water use, and meaningfully increase crop yield.

Market Considerations: The Consumer and The Distribution

The consumer recognizes this problem and with the increased interest in the quality of produce and desire to support local farmers, demand for locally produced products in farmer's markets have increased by 300% in less than a decade to around 7,100 today. Most local farmers manage small operations, while existing food distribution systems, in which these farmers would like to sell into, are huge. Currently there is no cost-effective connection between the two. Logistics, therefore, must change local production to meet buyers' demand.

The present solution for above is to use aggregators for local products to sell to distributors which may not be feasible due to the high costs. By making *local* producers *larger* producers, and operational year round, distribution to both specialty stores and mass market chains is a real possibility. After all, 50% of the world's populations live in major cities, and the proliferation of urban farming has taken hold. Since nutrients degrade in shipping and storage, the desire by consumers in stores and restaurants to purchase local produce is also helping drive demand.

Enter Terra Tech Corp.

Company Report

COMPANY OVERVIEW

Tracing its roots through its wholly-owned subsidiary GrowOp Technology, Terra Tech Corp. specializes in controlled environment agricultural technologies. The Company integrates best-of-breed hydroponic equipment with proprietary software and hardware to provide sustainable solutions for indoor agriculture enterprises and home practitioners. To further broaden its footprint and position the firm for vertical integration, Terra Tech has also entered into strategic partnerships and prospective acquisitions in the farming, production and distribution of locally-owned produce.

The Company sells its small scale products and systems to the “small fry” and assists larger, commercial firms in engaging in indoor agriculture as a complement to their primary, traditional farming methods.



Image I. Basil Cultivation
Source: Terra Tech Corp.



Image II. Terra Tech Equipment
Source: Terra Tech Corp.

The current, highly fragmented market consists of smaller scale inefficient manufacturers and distribution companies. In addition to its product and design revenue, management offers a unique opportunity to its customers. By partnering with TRTC, customers can reach the customer more quickly by removing 2 steps out of the supply chain that tends to be somewhat dominated by a small number of distributors to specialty hydroponics stores.

In addition to the hydroponics produce farmer TRTC's retail line of indoor agricultural equipment is sold to specialty retailers throughout the country primarily used in the cultivation of medical Cannabis. Currently, the Company distributes over 80 SKU's. Medical Marijuana is legal in 17 states and DC with 11 additional states with pending legislation. With so many governments strapped for cash, State and County tax authorities are seeking new revenue streams. According to a 2007 George Mason University report, the estimated retail value of the U.S. marijuana market is \$113 Billion. At present, much of the Company's sales are generated in this segment. However, we believe the mix will be dramatically skewed toward traditional produce manufacturers, beginning in 2013.

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Targeted Markets: Hydroponics & Indoor Agriculture

- Expanding Retail Footprint: Management has identified over 2,400 Brick and Mortar retailers throughout the U.S.
- Historical Revenue Comps: The 3 main distributors realize over \$400 million in annual sales
- Online Sales Increasing: E-Commerce in indoor cultivation equipment is increasing
- Grow Your Own: Medical Marijuana patients are shifting to growing small amounts at home
- Expanding International Market: Europe, Canada as well as the Middle East are expanding markets for indoor agriculture.
- Total estimated retail sales through specialty hydroponic retailers in the U.S. is \$1.2 billion

Edible Farms Deal

Terra Tech just announced a landmark partnership that will serve as a model for future transactions as management seeks to build a company that represents a soup-to-nuts, complete vertical integration that includes equipment, design, food production, and distribution.

The agreement between Edible Farms and Terra Tech is to identify opportunities that exist in the production of locally grown produce as well as brand expansion throughout the Northeast. Together they will work to develop marketing collateral, invest in increased automation, develop a marketing and branding strategy, design and source LED lighting technologies, secure exclusive contracts with major retail chains, brand a specialized nutrient line and plan the construction of an additional 2.5 acres of hydroponic greenhouse to complement the existing operation on their 116 acre family farm in Belvidere, New Jersey.

The agreement is effective for 100 days, after which Terra Tech and the family will assess their continued joint efforts.

Edible Farms currently sells their line of living basil and other fresh locally grown herbs to major retailers throughout the Northeast such as Shoprite, Fairway, Foodtown, The Food Emporium and more. With current annual revenue in excess of \$2,000,000, Edible Farms is looking to Terra Tech to expand their production capacity. Based upon their current gross revenue per square foot the new 2.5 acre facility should produce close to \$7,000,000 in additional annual revenue. Several of their current retail customers have indicated a desire to purchase a greater degree of product as their production increases.

With over 12,000 grocery retailers within a 6 hour drive of the farm, the opportunity is huge. The estimated local market opportunity could be in excess of \$500 Million and the appetite for locally grown sustainable produce to be enormous. The relationship with Terra Tech gives Edible Farms a technological advantage over our competition, allowing it to expand quicker and become more efficient in cultivation.

If successful, this project will be 51% owned by Terra Tech with the intent of promoting the Edible Farm brand throughout the country. The technologies available to indoor greenhouse farmers allow the brand to implement a unique array of sustainable and responsible agricultural practices. Water and lighting can be controlled for maximum efficiency, the need for chemical pesticides and herbicides is eliminated, and the products are protected from the risk of cross-contamination with GMO's or other environmental pollutants. Locally grown produce also eliminates excessive "food miles" and optimizes nutrient content for the end consumer.

Company Report

We believe that this model can be replicated with other farms and enable TRTC to generate total company EBITDA margins approaching 20%. Moreover, with existing specialty hydroponic distribution relationships already in place, TRTC is uniquely positioned to be a force in the industry.

EXECUTIVE MANAGEMENT

In our view, the management team at Terra Tech is first rate and with very deep histories of success and experience. Moreover, the team complements one another extremely well for a young company, as the C-level member have unusually deep experience in sourcing, designing, and executing transactions, operations, finance, technology, and sales/marketing.

Derek Peterson, President and Chief Executive Officer

Derek began his career in finance with Crowell, Weedon & Co, the largest independent broker- dealer on the West Coast. In his 6 years there, Derek became a partner and Branch supervisor where he was responsible for sales of over \$10 Million. Derek was offered an opportunity to build a southern Orange County presence for Wachovia Securities, where he became a 1st Vice President and Branch Manager for their Mission Viejo Location. He was instrumental in growing that office from the ground up, into the \$15 million dollar office it is today. After his term at Wachovia, Derek accepted an opportunity for a Senior Vice President position with Morgan Stanley Smith Barney, where he and his team oversaw combined assets of close to \$100 Million. In addition, he has also been involved in several public and private equity financings, where he has personally funded several projects from Angel to Mezzanine levels. Derek is a CFP® Professional and holds his Series 7, General Securities Sales Supervisor Series 9 and 10, National Commodity Futures Series 3, Series 65 and California Insurance License. Derek holds a degree in Business Management from Pepperdine University.

Russ Winnett, Chief Operating Officer

Russell has extensive experience with electrical controls, automation and robotics. He received training from on-the-job roles encompassing over 30 years. He has held positions as an electrician, robotic service technician, PLC programmer, maintenance supervisor, automation engineer and most recently product engineer.

Russell has spent the last 15 years working in the agricultural / hydroponics industry and he holds patents on some of his designs. He has created some of the most popular lights, timers, CO2 and environmental controllers for companies such as CAP, GPS, NGW and Hydrofarm. All of his real-world experience enables him to find simple and effective solutions, for complicated problems.

Michael James, Chief Financial Officer

In addition to his role at Terra Tech, Michael James became CFO of Inergetics, Inc (OTC: NRTI) on July 1, 2010 and has served as a member of the Company's Board of Directors since September 2009. Previously, Mike served as CEO of Nestor, Inc. where he successfully completed a financial restructuring of the Company prior to its sale in September 2009 from the Receiver's Estate in Superior Court of the State of Rhode Island. He also served on Nestor's Board of Directors from 2006 to 2009 and has been the Managing Partner of Kuekenhof Capital Management, LLC, a private investment management company, for the past ten years

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where he serves as Managing Director of Kuekenhof Equity Fund, L.P. and Kuekenhof Partners. Michael is also a director of Guided Therapeutics, Inc. where he serves as Chairman of the Compensation Committee and serves on the Audit Committee. During his career, Michael James has served as a Partner at Moore Capital Management, Inc., a premiere private investment management company as well as Chief Financial and Administrative Officer at Buffalo Partners, L.P., a private investment management company and Treasurer and CFO of National Discount Brokers. Mr. James began his career in 1980 as a staff accountant with Eisner, LLP.

Edward Piatt, Director of Design

Edward Piatt is an experienced, LEED Accredited Architect. He received his Bachelors of Science in Design (2002) and his Masters of Architecture (2004) from the University of Nebraska, Lincoln. Edward has worked in Los Angeles, New York and San Francisco where he has been involved in a variety of projects requiring him to work closely with engineers and contractors as well as independently. He has gained knowledge of design and construction by working on projects from the beginning conceptual design phase through to construction documentation and administration. Current and recent projects include Yahoo! (NASDAQ – YHOO) Corporate Headquarters, Lawrence Berkeley National Laboratory-New General Purpose Lab, Princeton University Campus Masterplan and Creative Performing Arts Initiative, Kaohsiung International Competition, and many other notable projects in commercial, retail, higher education, and industrial/product design.

Kim Winnett, Controller

Kimberly Winnett has vast experience in wholesale and manufacturing, with over 10 years working within the “hydroponic” industry. She has held the positions of Lead Purchaser, Engineering Assistant, Sales Project Coordinator, Accounts and Office Manager, during which time she worked directly with Sanyo, Samsung, Apple (NASDAQ – AAPL), Freeport-McMoran (NYSE – FCX) and many other companies. She has also been instrumental in the start-up of several companies such as GLS, and the rejuvenation of several more, such as Tri Valley Fitness. With a background in drafting and graphic arts, she has designed several websites and ads for companies such as Sentinel and TVF. Kimberly graduated on the Dean’s List from Central Arizona College with an A.A.S. She participates actively with several animal shelters and organizations.

Amy Almsteier, Accounts

Amy Almsteier's experience in running and managing small businesses for others led her to start her own interior design firm at a young age. She quickly gained recognition for her unique approach to design and has won several awards for high end projects throughout Southern California. Amy's desire to branch out led her to GrowOp where she brings expertise in project management, business administration, and bookkeeping. Amy graduated with a Bachelors of Science in Design from the University of Nebraska Lincoln's College of Architecture.

Lindsay Wiemer, Director of Operations

Lindsay Wiemer is an experienced LEED Accredited Designer. For the past several years, she has been working as an interior designer at a commercial architectural firm in San Francisco. Over this period of time, she has played a key role in a wide array of architectural practices, including space planning, custom design, the production of construction documents, construction administration, project management and 3D modeling, rendering and graphic work. While remaining engaged in her career, she has always maintained an interest in philanthropies and has made an effort to volunteer for organizations such as the Boys and Girls Club of San Francisco and LEAP. Lindsay graduated with a Bachelor's of Science in Design from the University of Nebraska Lincoln's College of Architecture.

Company Report**RISK FACTORS**

In our view, the biggest risk to the TRTC model is the timing of signing deals or closing acquisitions and partnerships. A secondary concern would be the typical cyclical changes in the economy and the order of magnitude in which the major food retail chains procure and sell locally grown produce that are cultivated via indoor hydroponic and aeroponic methods. Execution risks, large deals such as with the major firms, could push meaningful revenue generation out to a later date, or in a smaller ramp, thus impacting the Company's revenue ramp or time to significant profitability. Competition from larger firms or even from newer entrants is a typical concern and is also consistent with firms of TRTC's size and standing.

CONCLUSION

Management has engaged a vertical integration strategy via M&A and strategic partnerships that could ultimately drive TRTC's stock to the \$2.00 level. The Edible Farms deal alone could serve as precursor to substantial growth and profitability. This strategy should propel revenue from \$3M in 2012 to roughly \$30M in 2 years and generate a nearly 20% operating margin.

With additional M&A and milestones ahead, TRTC could even be an M&A target, due to the depth and efficiency of its technology and its ability to be replicated across the U.S. and abroad. We rate TRTC Speculative Buy.

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Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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