

# Trickle Research

Every raging river, every great lake, every  
deep blue sea starts ... with a trickle



## 3Q-F21 Earnings Update



### COMSovereign Holding Corp.

(NasdaqGS: COMS)

Report Date: 12/06/21

12- 24 month Price Target: \$9.00

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 07/16/21): \$1.92

Closing Stock Price at This Update (Closing Px: 12/03/21): \$.97

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**Disclosure:** Portions of this report are excerpted from COMSovereign's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

## Company Overview

So, that was not what we were looking for. The quarter reminds us of a call we were on a few months ago with another of our coverage companies that had a rough quarter. One of the callers referred to it as a “dog ate my homework” quarter. We think that is probably apropos here as well. In fairness, we were looking for a very big number so the miss is less surprising than the magnitude of the miss. That said, there were some overriding issues that negatively impacted the quarter and we will cover those briefly. However, we would add, despite the revenue shortfall, we thought the call included several constructive items and we will try to summarize some of those bullet points as well.

Inside the revenue numbers, COMS reported revenues of \$4.1 million versus our estimate of \$16.7 million. From our perspective, the quarter was compromised by two primary issues, both of which they discussed. The first was the disruption in the supply chain, which hampered their ability to fill radio orders primarily for a Tier I operator. Any investor who has spent any time on earnings calls over the past few weeks has likely heard this story, because the supply chain issues have been broad and deep, and as such have negatively impacted several of the companies we follow on some level. Here is a bit of that specific discussion from the conference call:

*“...the results are shy of expectations due to ongoing global supply chain disruption, chip shortages, and lingering impact to COVID. These are the same worldwide challenges facing nearly every business today. Additionally, third quarter performance was impacted by the delay on two significant government contract awards, which have shifted to the right, indications are we did not lose those awards. They've simply experienced a short delay... revenue growth has been impacted by several factors in particular, the continued shortage of key components and tight supply chain conditions, especially related to DragonWave”.*

The second big issue that compromised revenue was the delay in drone orders, which we believe was related to issues on the U.S southern border. As noted, those items have “shifted to the right”, which suggests they will be realized in future quarters. To be honest, we are a bit skeptical about that (the southern border), however as we will cover below, they have been demonstrating their drones to various U.S. and foreign government entities, which we think could result in drone sales as we move forward.

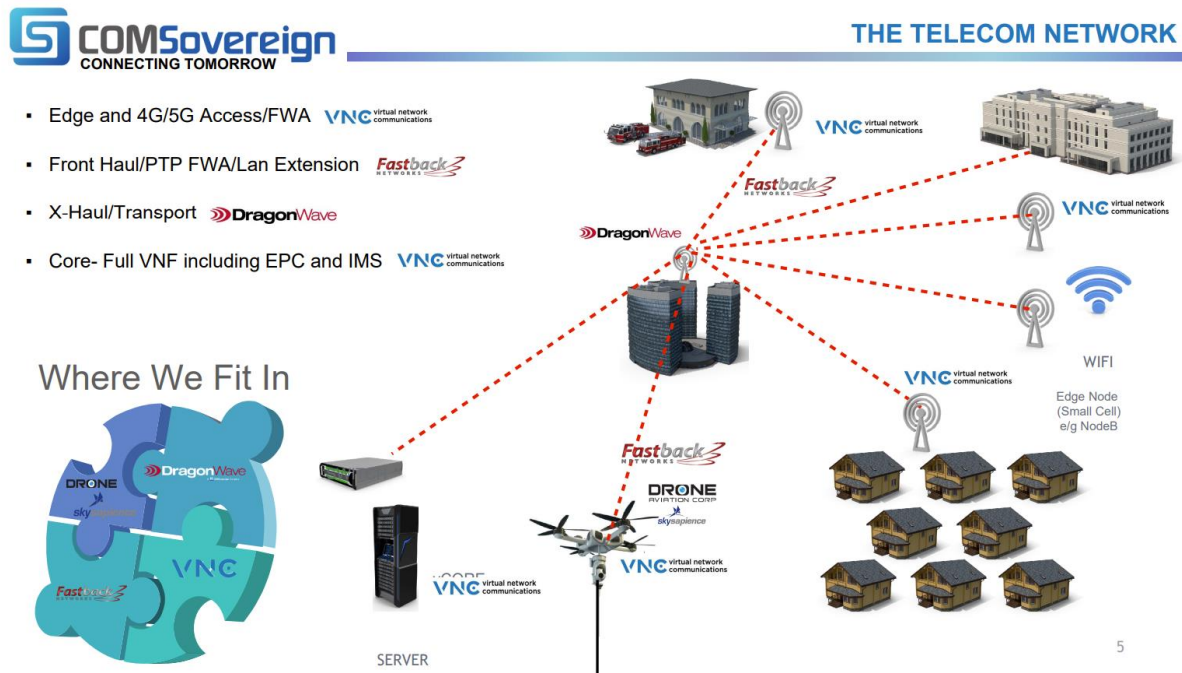
While revenues were well below expectations, one clear bright spot in the numbers were the gross margins. Gross margins for the quarter came in at 55% versus our estimate of just under 53%. Further, the Company noted that they anticipate being able to maintain those margins going forward, which we think is a highly positive data point if it proves to be accurate. The wild card there may also be determined by supply chain issues. For instance, they said on the call that their competitors have increased prices by 20%, so COMS has increased pricing as well. On the other hand, presumably, supply issues may negatively impact their costs as well, but collectively, it sounds like they believe they will be able to maintain margins.

On the expense side, the Company reported operating expenses of \$12.7 million versus our estimate of \$12.3 million. The one line we understated was R&D, and that difference was largely the difference in the miss. That is not surprising given some of the discussion around the Company’s efforts to try to redesign their way around some of the supply chain issues, however, given the continued push to develop new 5G technologies (Saguna and Polaris for instance), we suspect pegging R&D could continue to be difficult. That noted, the Company suggested that they believe the “high water mark” for expenses are behind them, and that they were actively trying to reduce operating overhead. We would caution, that may result in some one-time charges that we have not tried to model.

Beyond the operating numbers, the call provided several things that we think require some unpacking. We have tried to bullet points these items below. To clarify some of the discussion, the Company currently divides its business into three units: Global Telecom, Sky Sovereign and Power Systems.

- Radios

With all the acquisitions/pieces the Company has compiled, it is easy to get distracted by all the moving parts here. Keep in mind, today, and into the foreseeable future, the largest and most consistent piece of COMS business will likely be the sale of radios and from a bit longer term perspective, other emerging portions of the “Global Telecom” division that will involve technologies they integrate into their radios or other form factors and/or technology they license to and or integrate into the products of others. Again, as we sit today, the radio portion of that business largely includes DragonWave and Fastback. More specifically, we think it is helpful to understand the role of these two companies in the existing 4G and emerging 5G infrastructure, and we think the following graphic from the Company may be helpful in that regard:



To reiterate something we noted in the initial coverage, telecom infrastructure is complex and includes a variety of terms that allude most non-industry folks (us included) and in our view even high level discussions about that infrastructure are complex. Therefore, as a matter of disclosure, since we are certainly not telecom infrastructure experts, our attempts to “simplify” the discussion may be inadequate (re: too simple), but we will give it a shot regardless.

Generally speaking, DragonWave radios are deployed closer to the “core” of the infrastructure and it is probably easiest to think of the core as the hardwired cable or fiber portion of the network. To step back, more cable (and better yet fiber) is the backbone of the network but laying hardwires around the country is expensive and takes time. That is typically why there is less fiber in less densely populated (rural) areas because the smaller customer base does not support the cost of adding that hardwired infrastructure. In short, that is the role of wireless radios; to carry the signal from the wired portion of the network out to other radios and ultimately to the end consumers (cell phones, computers etc.) without burying more wires. In essence, wireless radios while more limited in function are a cheaper and more flexible alternative to laying cable or fiber, and they essentially enable the (“wireless”) delivery of signals to places that would otherwise be too costly to deliver service to. In terms of DragonWave, as we understand it, the opportunity is multifaceted.

First, while we have focused much of our COMS research on the emergence of 5G, as we noted in the initiating coverage, 4G LTE continues to grow, and will likely grow for some time into the future. Part of the reason for that is there are still many (less populated) portions of the U.S. that can be (but are not yet) cost effectively reached with even legacy wireless 4G technology, and DragonWave's Harmony products still fit in that box. Recognize, there are rural portions of the U.S. that will not see 5G for a very long time if ever, however, many of those will likely continue to be supported by 4G. In addition, in July (2021) The FCC voted to "*finalize a program subsidizing costs for small telecom firms to rip and replace Huawei and ZTE equipment*". According to industry coverage of that ruling, <https://www.cnbc.com/2021/07/13/fcc-finalizes-program-to-rip-and-replace-huawei-zte-equipment-in-us.html> "*To be eligible for the funds, U.S. telecom firms must serve 10 million or fewer customers. That's a higher threshold than the previous 2 million or fewer figure in an earlier version of the order. Eligible companies that obtained equipment from companies like Huawei or ZTE prior to June 30, 2020 can apply to be reimbursed for their replacement costs*". As we have discussed, in our view, the rip and replace push by the FTC provides a considerable opportunity for COMS even with respect to its legacy DragonWave Harmony line, which they are replacing with the new Polaris line. In that regard, below is some relevant discussion from the call regarding DragonWave:

*"At DragonWave, we announced the North American launch of the Extend multi-gig E-Band solution with our partner Siklu, one of the world's leading providers of E-Band radio hardware. Extend combines DragonWave's Harmony product, the industry's highest power packet microwave technology with a market leading performance of Siklu's EtherHaul E-Band radios. With Extend, we have introduced a single solution designed to deliver long range ultra-high capacity cost-effective and ultra reliable wireless connectivity. This unique solution is ideal for mobile network operators, rural broadband and wireless internet service providers. Public safety organizations, as well as city, state and local municipalities also benefit firsthand. This launch followed a series of customer and distribution channel presentations and webinars conducted earlier this year"*.

However, as we move forward, Polaris will indeed replace Harmony and the functionality of Polaris (Gen 1 is expected Q1-2022, and Gen2 in 2H 2022) should provide comparative advantages to DragonWave in the 5G backhaul space. We think they alluded to that as well:

*"At DragonWave, we are working with numerous new customers, including a new Tier 1 operator who is wrapping up in the field testing of our radios. We're working on initiating POs now with them"*.

Revisiting the illustration above, recall, the advantages of higher frequency bandwidth (5G) are mitigated by limitations such as shorter broadcast distance, line of site and obstruction limitations, and others that ultimately are overcome by increasing the density of radios on the "front haul" (closer to the consumer). Generally speaking, Fastback's radios are part of that portion of the telecom footprint, and that portion of the footprint will require the purchase and installation of *millions of radios* as 5G emerges. However, while the backhaul radio business represented by DragonWave is primarily associated with Tier 1 telecom or other commercial network providers, Fastback's customers will also be Tier 1 and other commercial network customers, but as we noted in the initiating coverage, we think a good portion of the 5G buildout will ultimately involve private networks, so in turn we think a good portion of Fastback's success will be derived from there as well. Here is some of the call discussion regarding Fastback:

*We announced the resumption of volume production at Fastback, as we commenced initial shipments under multi-year Master Supply Agreement with a Tier 1 mobile provider. I'm pleased to note that deliveries under these POs expected to be completed at the end of the year are now proceeding ahead of schedule and we'll ship all of them by the end of this month to that single*

*customer. Our team has been working with various units within the customer to expand purchases under the existing multi-year master vendor agreement in line with increased production capacity we now have in place. In the Global Telecom unit, the Fastback team is finishing up works on the remaining links under that \$8.7 million PO for the Tier 1 and we're focused on securing the next set as I said. We have several large new telecom customers, which demand has been enormous and even some niche ones, including hospitality industry customers like Switzerland".*

Lastly in terms of radios (but in conjunction with the R&D discussion below), they also made the following comment concerning their participation in the development of industry standards. As we touched on in the initiating coverage, we believe the acceleration of standards and interoperability are paramount to the acceleration of 5G. In that regard, "open RAN" is an open-source industry collaboration aimed at addressing the acceleration of 5G via interoperable standards that have proven successful in the development of other major technologies. Recall, we raised the notion of COMS participation in open RAN in conjunction with Radisys Corporation. Also, if we recall correctly, the Polaris Gen2 will be open RAN compliant. We think the following comments are topical with respect to their open RAN progress:

*"We also delivered a 5G open RAN system to the National Institute of Standards and Technology. Engineers in this will work with COMSovereign to evaluate and demonstrate the applicability of converged 5G and next systems and use cases for mission critical public safety and other programs utilizing our standalone 5G system that includes both core and radio technology as well as our **Saguna** advanced mobile components".*

On the R&D portion of the Global Telecom silo, recall in May (2021) the Company's Saguna division announced a collaboration with Hewlett Packard Enterprise ("HPE"), which is part of the latter's efforts to develop enterprise level IoT and edge computing solutions/platforms. They also alluded to HPE's strategic partner StarHub on the call, which is a Singapore based network provider. We thought the Company's comments regarding Saguna were quite encouraging on multiple levels in that not only are their collaborations including major technology players (HPE and Radisys Corporation for instance), which we view as validation of their technology, but they are also apparently beginning to rationalize commercial opportunities.

*"Saguna is already powering the fastest 5G network on the planet and has a series of development deployments underway with major enterprises and operators worldwide. You may have recently seen a press announcement from StarHub and Saguna's strategic partner Hewlett Packard who have launched a new solution called StarHub 5G multi-access edge computing powered by Saguna's vEdge+, Hewlett Packard and StarHub are helping enterprise and government clients move time critical workloads near to the source wherever customers require this ultra-low latency performance".*

Lextrum is an additional R&D phase portion of COMS that we believe holds tremendous potential and is beginning to provide visibility towards commercialization.

*"At Lextrum, we have completed over the air testing of the In-Band Full-Duplex technology. The better than expected results of which you have confirmed that the technology delivers roughly double the efficiency of wireless signals. We are now ready to begin sales and licensing of the first phase of this technology, which is a standalone electronically reconfigurable antenna system. We're excited about this one because it enables some wireless network operators to quickly benefit from Lextrum's IBFD technology with up to 100% increase in simultaneous bandwidth without having to replace the radio hardware.... We expect to announce the introduction of this new product later this month. Additionally, a white paper entitled In-Band Full-Duplex communications using a novel adaptive reconfigurable antenna detailing the over air – over the air testing and the electronically antenna configured technologies it's been submitted to go GumaTech 2022. That's scheduled for March 21st, where we look to have the opportunity of*

*presenting more of this detail and signing up with potential military and government customers. We believe that Lextrum is a uniquely valuable technology, a key differentiator in the marketplace and is an integral part of our product roadmap as we commercialize our next generation of 5G radios, including Polaris G2 scheduled for introduction in the next few quarters”.*

Regarding Lextrum, we think it is worth reiterating something we noted in the initiating coverage: *“approximately three years ago, prior to COMSovereign’s acquisition of Lextrum, a third party valuation of Lextrum conducted by Hilco Valuation Services (<https://www.hilcovaluationservices.com/>) concluded that the “fair value” of the enterprise was between \$440 million and \$675 million. The current market capitalization of COMS is approximately \$180 million. Obviously, we have done our own valuation analysis, but keep in mind, Lextrum is one piece of this puzzle”.*

To edify, we have not modeled measurable contributions from some of the R&D piece like Lextrum, VEO or even Saguna over the next several quarters, but we believe (and are modeling) the R&D portions of the business to be **major revenue drivers** in the future and those assumptions in turn drive a considerable portion of our target assumptions. That is, while we think the next 12-18 months will be more about radios and drones, the assumptions thereafter start to depend more and more on the transition of R&D to commercialization. In some cases, that R&D will be integrated into Company offerings (radios for instance), while we expect other portions to be licensed or otherwise integrated into the products of others (Saguna and HPE for example).

#### - Drones

As we alluded to above, not to minimize the impact of supply chains issues on the quarter, but at least in our modeling, a much bigger portion of the revenue miss was related to our assumptions about the drone business. In short, our expectation was that specifically, the Company had a large order for the placement of drones on the U.S. southern border that got “moved to the right”. To be clear, we are not generally as eager to model orders of that nature (large and imminent) without better specific visibility, especially when they involve the federal government. In retrospect, we addressed this directly in the risk section of the initiating coverage:

*“We have suggested/modeled that a good portion of the Company’s near and intermediate term(s) success will likely come from various government initiatives such as border surveillance/security and others. Government contracts of that nature can provide watershed opportunities for small companies. However, in our experiences, reliance on business of this nature can be precarious as well. Government contracts are often subject to the deployment schedules of the agencies/departments involved, and as such are often unpredictable. Further, they are also dependent on funding and appropriation variables that can be equally unpredictable”.*

In retrospect, we should have paid more attention to our own caveats. That said, (also in retrospect) when we considered what we thought was the acuity of the situation at the U.S. southern border, it seemed to us that more surveillance was more likely than less, and sooner was more likely than later. Without wading into the political weeds, we are beginning to think that our assessment about the “acuity” of the situation is not shared with the current administration, which makes us wonder whether or not the drone orders we thought would come actually “shifted to the right” or went away for good? The Company indicated the following on the call:

*“...At Drone, we’re working on a number of additional programs for our WASP tethered aerostat system with both military and Homeland agencies. We’re optimistic about the closing of those two delayed awards I mentioned earlier, and I believe that will happen very soon. ... we are waiting on acceptance of a proposal for significant multi-year service agreements...”*

Obviously, we have reconfigured our modeling around these two “delayed awards”, although we are not constructive on the visibility. We are optimistic they did in fact just shift to the right as it still seems to us like the

need is obvious. We would add, notice in the discussion (which they covered additionally further in the call) they reference “multi-year” *service agreements*. That sounds to us like discussions around drone deployment are centering on more of a leasing arrangement. We need more information on that because it would impact revenue recognition and more importantly cash flow since for example their aerostat drones are expensive (\$1 million+). Getting paid \$1.5 million over a 3-year lease versus \$1 million upfront may look good on the face, but it may be problematic for a company struggling with working capital. Again, we need to gather more information on that issue. On the other hand, the Company also provided some good color on other possible government related drone business, as well as some emerging opportunities in commercial telecom. First on the government side:

*“In our Drone business Sky Sovereign, we held a series of 10 live flight demonstrations of the HoverMast tethered drone system for members of state and federal government, national security, law enforcement and first responders throughout late summer and into October. These demos occurred both at the Tucson facility and in the field along the Southern border and in the D.C. capital area. Response to these demos was stunning highlighting the unique capabilities of the HoverMast to those in attendance. We have 15 plus follow-up demos back in the capital area in the very near future... The highlights (also) include work on several domestic and international sales opportunities, including foreign programs in Israel, Eastern Europe and in Asia...”*

On the commercial drone side, they noted the following:

*“...on telecom, yes, absolutely, we're working with a single (drone) customer right now. It's advanced and we actually have a boot on it, our new upgraded, I guess you could say FeatherLite radio system. The FeatherLite is a 4G and 5G system that if you look on the website, you can see that it is made by VNC. We can mount that up top. If it's a 4G, we mounted at the base, if it's 5G and use an antenna, and we do have fiber optic in that tether, so it is immune to RF interference. We have a GPS denied environment capability up at the radio airborne unit, so it's a very unique capability that you don't see much from others”*.

We thought this comment was telling not just because it suggests they are gaining traction on the commercial side of the drone business, but also because it represents another example of the Company developing offerings that leverage/integrate various COMS products and/or technologies. We expect to see more of that as we move forward, and in fact, we view that as one of the strengths of the Company.

#### **- The Balance Sheet, Cash Flow and Further Dilution**

The Company ended Q3-F21 with “\$2.9 million in cash and approximately \$10.8 million invested in inventory and \$6.7 million in prepaid expenses”. If our math is correct, the Company used approximately \$6.8 million cash for operating activities in Q3. As they noted on the call, from a cash perspective, they built inventory (used cash) in anticipation of filling orders that they ultimately were not able to fill because of the supply chain issues, and we would assume the (postponed) drone orders likely impacted that as well. Presumably, that inventory will convert to cash as they move through the balance of the year and into Q1-F22. That said, the revenue shortfall clearly impacted cash.

We submit, we have fielded inquiries from shareholders and/or others following COMS who have expressed concern over working capital, which largely translates into concerns about future dilution. To that end, in October the Company completed an offering of 9.25% Series A Preferred Stock raising \$8 million in gross proceeds, \$2.75 million of which they used to retire outstanding debt. That said, given some of our adjustments to the model we anticipate that they will require additional capital, and they provided some topical guidance on the call to that end that requires some review:

*Our integration activities combined with our ability to maintain industry-leading gross margins and supported by increasing revenue levels, such as those now occurring in the fourth quarter are critical factors in our ability to get the business to a positive EBITDA level during the first quarter of 2022. In terms of generating additional cash for operations, we plan to monetize several of our assets in the near-term to meaningfully bolster our cash reserves without having to issue common shares. I expect to give you all more detail on these efforts in the days ahead and I think the market will be very pleased to start seeing the positive effects of our discipline strategy that we've maintained to this day.*

Unpacking the above (but not in the same order they addressed them), monetizing assets is something they have allude to in the past, and that could mean any one of a handful or more of things that we will not specifically speculate on here. However, they did provide some specific color:

*“I can only comment there are several assets in the business, some inventory and some others, we believe we can monetize in the near-future and by the near-future, I mean immediately. There are – the potential of spinning out a couple of the units we acquired to fill strategic holes, if you will. And again, you've heard me say in the past, do we want to do this organically or do we do it via acquisition? Well, some of these via acquisition that we've done might not have an otherwise direct impact on telecom. We believe that there were certain aspects of those units that did. So probably we'll see in the coming six months a couple of the units that we're going to spin out or let go of, but we keep the exclusivity of those components that we acquire them for in the first place”.*

Clearly, the Company includes some assets that we think complement the core assets but are not core assets per se. Those are easy enough to identify, but again we will wait to see what that entails. Further, we think there are likely other ways to skin the non-dilutive cat with existing assets, but again, we will see what they come up with because we do think they have options in that regard, and at least some of those that come to mind seem doable and probably optimal to issuing more shares. We also think an approach of that nature would be viewed favorably by the street, which we think is building in more dilution. That said, it remains to be seen if they can do a transaction of that nature *and still* avoid further dilution. That brings us to the other piece of guidance they provided above (which we highlighted in bold letters), which is that they would like to *“get the business to a positive EBITDA level during the first quarter of 2022”*. We are not sure if that is guidance or just a goal, and our model does not reflect that, however, if they get close to that goal, we think dilution (at least for the sake of funding burn) should be limited. That by the way (EBITDA positive) would be a milestone in our view.

If our assessments of the macro and micro issues are in the ballpark, we think COMS has a considerable emerging opportunity if the Company can pull it all together in reasonable proximity to our estimates (including the dilution risks we addressed). However, we also acknowledge that those assessments include many moving parts and associated complexities, which suggests plenty of volatility around the timing and magnitude of those assessments. Further, risks/events that we cannot foresee (supply chain disruptions for instance) will also complicate those assessments, and those risk/events are likely to occur on both micro and macro levels.

Lastly, the stock has not performed well since our initiation, and we think that is more a function of expectations than the reality of their actual fundamental performance. As we alluded to, we think it is also related to assumptions about additional capital requirements and associated added dilution. To be clear, dilution is always a important valuation data point when assessing small emerging companies trying to achieve profitability, so we are not surprised that the specter of and lack of visibility around additional dilution are providing headwinds for the stock. None of that is lost on us or our analysis but for now we will stand by our price target, which is admittedly robust given the current price of the shares, and our logic therein is based on our continued view that we believe COMS could grow revenues to annualized run rates approaching the \$200 million range over the next 2 or 3 years, which would place our target in the range, which we believe is consistent with relevant multiples in



the telecom equipment group, and also happens to be congruent with the valuations we derive from our own DCF methodologies. Obviously, if they fail to reach those levels of revenues over that period, our targets could prove to be overstated. We would add, in conjunction with the Company's discussion regarding *multi-year service agreements* around the drone business, we have recast our model to largely reflect the leasing (as opposed to the purchase) of drones. That has resulted in the spreading of those projected revenues over multiple year leases as opposed to single sales and has elongated our revenue projections for those line items, which represented a meaningful portion of our overall assumed product mix for 2022 and 2023. Also in conjunction with the call discussion, we have shifted several other revenue lines items "to the right" reflecting some of the ongoing supply chain issues. Again, Q3-F21 results did not move us off our view that the Company will grow revenues significantly in the coming quarters, but we will certainly reassess our targets as new data points emerge. In addition, while again, we understand the compression in the stock around results that were well below expectations, *our inclination* is to raise our allocation purely in response to the compression because our general thesis has not changed. On the other hand, we would also like to see some resolution around the capital scenarios they alluded to, so will keep that powder dry as we wait and see how that issue plays out.

### Projected Operating Model

COM Sovereign Holding Corp.						
Projected Operating Overview						
By: Trickle Research						
	Actual	Actual	Actual	Estimate	Estimate	Estimate
	3/31/2021	6/30/2021	9/30/2021	12/31/2021	Fiscal 2021	Fiscal 2022
Revenue	\$ 2,086,452	\$ 3,611,000	\$ 4,115,000	\$ 6,540,000	\$ 16,352,452	\$ 76,793,667
Cost of Goods Sold	\$ 1,073,990	\$ 1,813,000	\$ 1,819,050	\$ 1,546,522	\$ 6,252,562	\$ 38,282,167
Gross Profit	\$ 1,012,462	\$ 1,798,000	\$ 2,295,950	\$ 4,993,478	\$ 10,099,890	\$ 38,511,500
<b>Operating Expenses</b>					\$ -	\$ -
Research and development	\$ 547,556	\$ 1,199,000	\$ 2,061,000	\$ 1,205,750	\$ 5,013,306	\$ 7,008,969
Sales and marketing	\$ 48,123	\$ 109,000	\$ 247,000	\$ 600,000	\$ 1,004,123	\$ 2,205,382
General and administrative	\$ 7,135,126	\$ 6,976,000	\$ 6,464,000	\$ 6,163,500	\$ 26,738,626	\$ 25,919,842
Depreciation and amortization	\$ 3,660,811	\$ 3,617,000	\$ 3,834,000	\$ 3,521,416	\$ 14,633,227	\$ 14,085,663
Gain on the sale of assets	\$ (83,000)	\$ -	\$ 48,000	\$ -	\$ (35,000)	\$ -
Gain on the sale of assets		\$ 281,000	\$ -	\$ -	\$ 281,000	\$ -
Total Operating Expenses	\$ 11,308,616	\$ 12,182,000	\$ 12,654,000	\$ 11,490,666	\$ 47,635,282	\$ 49,219,856
Net Operating Loss	\$ (10,296,154)	\$ (10,384,000)	\$ (10,358,050)	\$ (6,497,188)	\$ (37,535,392)	\$ (10,708,356)
<b>Other Income (Expense)</b>					\$ -	\$ -
Interest expense	\$ (468,534)	\$ (547,000)	\$ (724,000)	\$ (763,325)	\$ (2,502,859)	\$ (3,053,300)
Other income (expense)	\$ (13,042)	\$ 13,000	\$ 1,000	\$ -	\$ 958	\$ -
Loss on extinguishment of debt	\$ (5,348,469)	\$ 323,000	\$ 298,000	\$ -	\$ (4,727,469)	\$ -
Loss on conversion of debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign currency transaction gain (loss)	\$ (80,234)	\$ 18,000	\$ 94,000	\$ -	\$ 31,766	\$ -
Interest income	\$ 4	\$ -	\$ -	\$ -	\$ 4	\$ -
Gain on the sale of assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Impairment Expense	\$ (5,910,275)					
Total Other Expenses	\$ (5,910,275)	\$ (193,000)	\$ (331,000)	\$ (763,325)	\$ (7,197,600)	\$ (3,053,300)
Net Loss Before Income Taxes	\$ (16,206,429)	\$ (10,577,000)	\$ (10,689,050)	\$ (7,260,513)	\$ (44,732,992)	\$ (13,761,656)
Deferred Tax Benefit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income (Loss)	\$ (16,206,429)	\$ (10,577,000)	\$ (10,689,050)	\$ (7,260,513)	\$ (44,732,992)	\$ (13,761,656)
<b>Loss per common share:</b>						
Basic	\$ (0.25)	\$ (0.15)	\$ (0.15)	\$ (0.10)	\$ (0.65)	\$ (0.18)
Diluted	\$ (0.25)	\$ (0.15)	\$ (0.15)	\$ (0.10)	\$ (0.65)	\$ (0.18)
<b>Weighted-average shares outstanding:</b>						
Basic	65,941,513	68,770,644	71,994,529	72,533,850	69,810,134	77,783,850
Diluted	65,941,513	68,770,644	71,994,529	72,533,850	69,810,134	79,133,249

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## Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ( $\$250 * 4$ ). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

**For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.**

**A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.**

**A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.**

**A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.**