

Trickle Research

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



Research Update & Price Target Decrease



SideChannel, Inc.

(OTCQB: SDCH)

www.sidechannel.com

Report Date: 2/27/26

12- 24 month Price Target: *\$5.25

Allocation: 6

Closing Stock Price at Initiation (Closing Px: 10/09/23): \$2.34

Closing Stock Price at Allocation and Target Increase (Closing Px: 05/08/24): \$3.12

Closing Stock Price at Allocation Increase (Closing Px: 12/17/24): \$1.98

Closing Stock Price at This Price Target Decrease (Closing Px: 02/26/26): \$2.36

(Closing prices above have been adjusted to reflect the 01/22/26 1:52 reverse stock split)

Prepared By:

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Trickle Research

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

SideChannel reported numbers for Q1F26 (ended December 31, 2025). Succinctly, the Company revenues have been stuck at roughly \$1.8 million for the past three quarters, which compare negatively to our estimates of between \$2 million and \$2.1 million respectively. More specifically, the fiscal 2025 10K (year ended 09/30/25) report that vCISO revenues dropped from \$4.8 million to \$4.1 million (F25 vs. F24), which works out to roughly \$200,000 per quarter, which ties pretty closely with the shortfall in our estimates. Translation: the vCISO business appears to be contracting. While we did not model measurable growth for the segment, we didn't model it contracting either. Following that logic, the Company's Enclave business looks to be tracking relatively closely to our estimates, which given the lack of visibility around what is a comparatively new piece of the business, that is encouraging.

Much like the numbers, we thought the earnings call was a bit of a mixed bag, and there are a few takeaways as we see them, but first some history might help.

Recall, SideChannel essentially went public through a reverse merger, albeit with another internet security business. Briefly, as a result of that transaction, the Company was saddled with a pile of ratcheting warrants that expire in mid-April 2026. The Company tried to restructure the warrants and was successful in getting about 80% of those restructured, but for whatever reason the remaining warrants holders chose not to accept the restructuring, so that potential dilution (which would be triggered by any new financing) has effectively prevented the Company from raising capital to move the business forward, which ostensibly means providing some marketing capital for both their vCISO business and more notably Enclave. In short, nothing sells itself, and we think access to capital for marketing was likely one of the major reasons for their entrée into the public markets, which they have been unable to take advantage of because of the outstanding toxic warrants. Those warrants expire on April 16, 2026.

Again, to recap some prior overviews, in our opinion the Company has done a good job managing cash burn through the lack of capital. Frankly, it has been impressive. However, reducing cash burn is not a good long term strategy for building shareholder value. That is, at some point, companies have to stop burning cash and start creating it in order to support any meaningful valuation. We think some of the narratives on the call expressed some frustration around that sentiment pretty clearly. That's fair. However, we think the balance of the year could be telling in terms of management's ability to move the business to profitability, and there are a few reasons we believe that.

First, as the Company has highlighted both through some recent announcements as well as through discussion on the call, they have recently bolstered the marketing push with some new hires and more resources. Selling and Marketing expenses for Q1F26 (ended 12/31/25) were \$457,000 for the quarter, which is roughly 90% higher than the trailing 12 month average of the line item. To that end, we will reiterate something from above, "nothing sells itself". To be clear, the Company's revenue performance has been disappointing. However, given the lack of available marketing dollars, it is not particularly surprising. Nike started out selling shoes from the trunk of a car because they did not have the capital to do otherwise. We think SideChannel's marketing efforts have been a bit like that. The Company is clearly setting up to be more aggressive with its marketing, which is great, but it begs the question, "where are they going to get the money to do that since not having the money to do that is what has kept them from doing in in the first place?". Good question. Fast forward to April 16, 2026.

Another pointed portion of the discussion on the call centered on whether or not the Company would be trying to raise capital in the near term. Management did its best to tread lightly around the issue since: A) investors are not typically excited about dilution from pending equity raises and B) any plans management might have around the issue are not (as far as we know) public, so they certainly could not talk about them if they did. To *that end*, we would reiterate, the warrants that have put a lid on any financing the Company could have done to help accelerate the business over the past 2+ years expire in 48 days. Moreover, the Company recently reverse split the stock 1 for 52 to "*position SideChannel for growth and to allow a broader range of institutions to invest in our common stock, potentially increasing trading volume and liquidity of our stock*". We have no idea what it might entail (although we attempted to model it to get it into the calculus), but we suspect they have clear plans to raise capital

likely in the near term given the imminent expiration of the warrants. We think, all things considered, that is a good thing. Clearly, inasmuch as we remain constructive on the potential for Enclave as we understand it, their chances for success without a bona fide marketing effort are probably not good. Frankly, we thought some of their success with the DoD might create more organic traction than it appears to have created. Granted that still may happen, and they alluded to that on the call. But, again, we do not see this happening without a more focused and supported marketing effort, but we think that is coming.

To summarize, we have been quite bullish on SideChannel for some time now, but we have to admit the progress has been disappointing, or at least less robust than anticipated. Judging from the overall ambiance of the call, we do not think we are the only ones harboring that sentiment, and while we certainly cannot (should not) speak for them, our guess is, that may include management as well. However, in our view, April 17th, 2026 is game day. We think the warrant expiration will lead to a financing, which will provide the marketing capital that will help answer questions about whether or not Enclave is as good as they, we and most importantly potential customers, think it is.

As a result of the “less robust” revenue traction noted above, as well as what we view as imminent pending dilution from some sort of equity raise, we have recast our model assumptions to reflect more modest results especially (given the assumed dilution) on an eps basis. However, to that end, while we have modeled a relatively modest linear growth path that provides the basis for our new price targets, in part because that’s what we microcap analysts sometimes do to try to make sure we do not stray too far out of the lines of reality. Specifically, we are modeling YoY revenue growth in the 15% to 20% over the next few years. That said, we do not think that is how this will actually work. We are more inclined to believe that over the next 12-36 months, this will either work (greater than the growth rates we are assuming), which could result in considerably better valuation than those implied by our new targets, or it will not, in which case our targets will likely be aggressive.

Consequently, we are maintaining our allocation of 6 and establishing a new (lower) 12-24 month Price Target of *\$5.25 (\$.10 per-split), which we will revisit when we get some added clarity around some of the issues we have raised above.

Projected Operating Model

SideChannel, Inc.						
Projected operating Model						
Prepared By: Trickle Research						
	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<u>12/31/2025</u>	<u>3/31/2026</u>	<u>6/30/2026</u>	<u>9/30/2026</u>	<u>Fiscal 2026</u>	<u>Fiscal 2027</u>
Income Statement						
Revenues	\$ 1,774,011	\$ 1,806,114	\$ 1,848,736	\$ 1,916,809	\$ 7,345,670	\$ 8,925,121
Cost of revenues	\$ 865,000	\$ 934,882	\$ 955,122	\$ 983,746	\$ 3,738,750	\$ 4,398,180
Gross profit	\$ 909,011	\$ 871,232	\$ 893,614	\$ 933,063	\$ 3,606,920	\$ 4,526,941
Operating expenses						
General and administrative	\$ 677,000	\$ 686,428	\$ 689,412	\$ 794,177	\$ 2,847,016	\$ 2,964,758
Selling and marketing	\$ 457,000	\$ 456,672	\$ 459,882	\$ 468,086	\$ 1,841,641	\$ 1,916,580
Research and development	\$ 175,000	\$ 160,000	\$ 160,000	\$ 165,000	\$ 660,000	\$ 660,000
Acquisition costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Goodwill impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total operating expenses	\$ 1,309,000	\$ 1,303,100	\$ 1,309,294	\$ 1,427,263	\$ 5,348,657	\$ 5,541,339
Operating income (loss)	\$ (399,989)	\$ (431,868)	\$ (415,680)	\$ (494,200)	\$ (1,741,737)	\$ (1,014,398)
Other income:						
Other Income	\$ 7,000	\$ -	\$ -	\$ -	\$ 7,000	\$ -
Miscellaneous income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Income (Expense)	\$ 7,000	\$ -	\$ -	\$ -	\$ 7,000	\$ -
Net income (loss) Before Tax	\$ (392,989)	\$ (431,868)	\$ (415,680)	\$ (494,200)	\$ (1,734,737)	\$ (1,014,398)
Income Tax Expense	\$ 3,000	\$ -	\$ 13,000	\$ -	\$ 16,000	\$ -
Net Income	\$ (395,989)	\$ (431,868)	\$ (428,680)	\$ (494,200)	\$ (1,750,737)	\$ (1,014,398)
Net income (loss) per common share – basic	\$ (0.09)	\$ (0.10)	\$ (0.08)	\$ (0.10)	\$ (0.36)	\$ (0.20)
Net income (loss) per common share – Diluted	\$ (0.09)	\$ (0.10)	\$ (0.08)	\$ (0.10)	\$ (0.36)	\$ (0.20)
Weighted average common shares outstanding – basic	4,446,713	4,446,713	5,196,713	5,196,713	4,821,713	5,196,713
Weighted average common shares outstanding – diluted	4,446,713	4,446,713	5,196,713	5,196,713	4,821,713	5,196,713

Proprietary

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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 "Hold" 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.