

# SIDCHANNEL, INC.

## FORM 10-Q (Quarterly Report)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **March 31, 2025**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **000-28745**



**SideChannel, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
State or other jurisdiction of  
incorporation or organization

**86-0837077**  
I.R.S. Employer  
Identification No.

**146 Main Street, Suite 405, Worcester, MA 01608**  
(Address of principal executive offices) (Zip Code)

**(508) 925-0114**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, par value \$0.001**  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large, accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large, accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large, accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 7, 2025, the registrant had 231,229,054 shares of common stock outstanding.


**SIDCHANNEL, INC.**  
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**PART I****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**SIDCHANNEL, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

	<u>March 31, 2025</u>	<u>September 30, 2024</u>
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,244	\$ 1,045
Short-term investments	100	250
Accounts receivable, net	808	732
Deferred costs	60	150
Prepaid expenses and other current assets	471	385
Total current assets	<u>2,683</u>	<u>2,562</u>
Fixed assets	25	33
Goodwill	1,356	1,356
Total assets	<u>\$ 4,064</u>	<u>\$ 3,951</u>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 601	\$ 729
Deferred revenue	852	515
Income taxes payable	2	3
Total current liabilities	<u>1,455</u>	<u>1,247</u>
Total liabilities	1,455	1,247
Commitments and contingencies (Note 14)		
Common stock, \$0.001 par value, 681,000,000 shares authorized; 231,229,054 and 225,975,331 shares issued and outstanding as of March 31, 2025, and September 30, 2024	231	226
Additional paid-in capital	22,470	22,321
Accumulated deficit	(20,092)	(19,843)
Total stockholders' equity	<u>2,609</u>	<u>2,704</u>
Total liabilities and stockholders' equity	<u>\$ 4,064</u>	<u>\$ 3,951</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**SIDCHANNEL, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(In thousands, except share and per share data)  
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2025	2024	2025	2024
Revenues	\$ 1,894	\$ 1,927	\$ 3,802	\$ 3,663
Cost of revenues	953	1,059	1,987	1,950
Gross profit	941	868	1,815	1,713
Operating expenses				
General and administrative	655	849	1,315	1,558
Selling and marketing	227	156	494	425
Research and development	120	123	273	249
Total operating expenses	1,002	1,128	2,082	2,232
Operating loss	(61)	(260)	(267)	(519)
Other income, net	9	8	22	21
Net loss before income tax expense	(52)	(252)	(245)	(498)
Income tax expense	2	1	4	1
Net loss	\$ (54)	\$ (253)	\$ (249)	\$ (499)
Net loss per common share – basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average common shares outstanding – basic and diluted	227,909,648	222,773,052	226,955,202	218,653,945

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**SIDETCHANNEL, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(In thousands, except share data)  
(Unaudited)

	<b>Common Shares</b>	<b>Common Par Value</b>	<b>APIC</b>	<b>Accumulated Deficit</b>	<b>Total Equity</b>
<b>Balance at September 30, 2024</b>	225,975,331	\$ 226	\$ 22,321	\$ (19,843)	\$ 2,704
Shares issued for legal settlement	356,400	-	(1)	-	(1)
Stock-based compensation	-	-	112	-	112
Net loss	-	-	-	(195)	(195)
<b>Balance at December 31, 2024</b>	<b>226,331,731</b>	<b>\$ 226</b>	<b>\$ 22,432</b>	<b>\$ (20,038)</b>	<b>\$ 2,620</b>
Stock-based compensation	4,897,323	5	38	-	43
Net loss	-	-	-	(54)	(54)
<b>Balance at March 31, 2025</b>	<b>231,229,054</b>	<b>\$ 231</b>	<b>\$ 22,470</b>	<b>\$ (20,092)</b>	<b>\$ 2,609</b>

	<b>Common Shares</b>	<b>Common Par Value</b>	<b>APIC</b>	<b>Accumulated Deficit</b>	<b>Total Equity</b>
<b>Balance at September 30, 2023</b>	213,854,781	\$ 214	\$ 21,755	\$ (18,939)	\$ 3,030
Shares issued for 2021 Investor Warrants	7,270,958	7	(7)	-	-
Shares issued for services	257,085	-	8	-	8
Stock-based compensation	262,486	1	80	-	81
Net loss	-	-	-	(246)	(246)
<b>Balance at December 31, 2023</b>	<b>221,645,310</b>	<b>\$ 222</b>	<b>\$ 21,836</b>	<b>\$ (19,185)</b>	<b>\$ 2,873</b>
Shares issued for services	180,558	-	12	-	12
Stock-based compensation	2,529,937	2	131	-	133
Net loss	-	-	-	(253)	(253)
<b>Balance at March 31, 2024</b>	<b>224,355,805</b>	<b>\$ 224</b>	<b>\$ 21,979</b>	<b>\$ (19,438)</b>	<b>\$ 2,765</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**SIDCHANNEL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Six Months Ended March 31,</b>	
	<b>2025</b>	<b>2024</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (249)	\$ (499)
Adjustments to reconcile net loss to net cash flows provided by / (used in) operating activities:		
Depreciation and amortization	98	96
Legal Settlement Paid in Stock	(1)	
Stock-based compensation and payments for services, net	155	234
Changes in operating assets and liabilities:		
Accounts receivable, net	(76)	(76)
Prepaid expenses and other assets	(86)	(65)
Accounts payable and accrued liabilities	(128)	(115)
Income taxes payable	(1)	(11)
Deferred revenue	337	284
Net cash provided by / (used in) operating activities	49	(152)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of short-term investments	150	-
Net cash provided by investing activities	150	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payment of note payable	-	(50)
Net cash used in financing activities	-	(50)
<b>INCREASE / (DECREASE) IN CASH</b>	<b>199</b>	<b>(202)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>1,045</b>	<b>1,053</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 1,244</b>	<b>\$ 851</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Shares Issued for Services	\$ -	\$ 20
Purchase of RSUs sold by employees to pay for taxes due on vested RSUs	63	66

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.



**SIDECHANNEL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED March 31, 2025 AND 2024**

**NOTE 1 – DESCRIPTION OF BUSINESS**

Our mission is to make cybersecurity simple and accessible for mid-market and emerging companies, a market that we believe is currently underserved. We believe that our cybersecurity product and service offerings provide cybersecurity and privacy risk management solutions for our customers. We anticipate that our target customers will continue to need cost-effective security solutions. We continue to expand our catalogue of services and solutions to address the cybersecurity needs of our customers, including virtual Chief Information Security Officer (“vCISO”), cyber program strategy, zero trust, third-party risk management, compliance readiness, cloud security services, privacy, threat intelligence, managed end-point security solutions, and cybersecurity awareness.

We are marketing and selling Enclave, a proprietary software product that simplifies important cybersecurity tasks to achieve “microsegmentation.” By combining zero trust network access with certificate management and machine identity, Enclave seamlessly creates a unified security architecture that eliminates traditional network vulnerabilities. This integration enables IT teams to enforce precise access policies based on verified machine identities. Certificate-based identities allow a simplified management for any certificate-based communication, while the zero trust framework continuously validates every connection attempt. This powerful combination delivers robust security without the typical management overhead, allowing organizations to implement sophisticated microsegmentation strategies with remarkable simplicity and minimal resource requirements.

Our growth strategy focuses on these three initiatives:

1. Increasing adoption of Enclave,
2. Securing new vCISO Services clients, and
3. Adding new Cybersecurity Software and Services offerings.

Most vCISO Services agreements are in the form of a monthly subscription; some clients select a prepaid block of hours or time and materials engagements. Rates for vCISO Services range from \$350 to \$450 per hour. Each of our vCISOs is generally embedded into the C-suite executive teams of two (2) to four (4) of our clients. We augment our vCISO Services offering with a full range of other cybersecurity products and services, including third-party software and services that we resell and those delivered by our security engineer employees and independent contractors.

Our headquarters are located at 146 Main Street, Suite 405, Worcester, MA, 01608. Our website is [www.sidechannel.com](http://www.sidechannel.com).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation and Use of Estimates**

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information with the instructions to Form 10-Q and Rule 8-01 of Regulation S-X. Accordingly, they do not include all the disclosures required for complete financial statements, and they do include our accounts and those of our wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated upon consolidation. References to fiscal year 2025 and fiscal year 2024 used throughout this report shall mean the current fiscal year ending September 30, 2025, and the prior fiscal year ended September 30, 2024, respectively.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows for the interim periods presented. Certain footnote information has been condensed or omitted from these consolidated financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in our Form 10-K for the fiscal year ended September 30, 2024, filed with the Securities and Exchange Commission on December 13, 2024 (“2024 Form 10-K”). The same accounting policies have been followed in these unaudited interim condensed consolidated financial statements as those applied in the preparation of our consolidated audited financial statements for the year ended September 30, 2024.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain of our accounts, including goodwill and deferred tax assets and liabilities, including related valuation allowances, are based upon estimates.

#### Reclassifications

Certain prior year amounts have been reclassified to be comparable with the current year's presentation. These reclassifications had no effect on the previous operations or financial condition of the Company.

#### Segment Information

We manage our operations as a single operating segment for the purposes of assessing performance and making operating decisions.

#### Cash, Cash Equivalents, and Short-Term Investments

Cash includes funds deposited in banks.

We consider all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Highly liquid investments with original maturities of 91 days or more that will mature less than one year from the balance sheet date are classified as short-term investments. Securities with maturities of more than 360 days, if any, are included in "Long-term investments."

Our cash equivalents and short-term investments are placed primarily in money market funds and time deposits and are classified as held-to-maturity based on our positive intent and ability to hold the securities to maturity. We value cash equivalents at their original purchase prices plus interest that has accrued at the stated rate. We value short-term investments at their original purchase prices. Interest earned on short-term investments is accrued in interest receivable, which is included on our balance sheet in "Accounts receivable, net."

Interest income related to cash equivalents and short-term investments is reported in "Other income, net" on the Condensed Consolidated Statement of Operations.

#### Accounts Receivable

Trade accounts receivable are recorded at the invoiced amounts and do not bear interest. We grant credit to customers and generally require no collateral. To minimize our risk, we perform ongoing credit evaluations of our customers' financial condition. Effective *January 1, 2023*, we follow the guidance in Accounting Standards Codification ("ASC") Topic 326 (Financial Instruments – Credit Losses) in developing our estimate of the allowance for credit losses related to our accounts receivable. The allowance for credit losses is our best estimate of the amount of expected credit losses in our existing accounts receivable. In establishing the amount of allowance for credit losses, we consider all information available as of the reporting date including information related to past events, such as historical loss rates and actual incurred losses, as well as current conditions that may indicate future risk of loss and any other factors of which we are aware, that we believe could impact the ultimate collectability of the related receivables in future periods.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any significant off-balance sheet credit exposure related to our customers. Cash flows from accounts receivable are recorded in operating cash flows.

Our analysis indicated we did require an allowance for credit losses at March 31, 2025; therefore, we reversed the \$30 thousand balance we had previously recorded for an allowance for credit losses.

### Fair Value of Financial Instruments

Our financial instruments consisted primarily of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued expenses. The carrying amounts of such financial instruments approximate their respective estimated fair value due to the short-term maturities and approximate market interest rates of these instruments.

Fair value is focused on an exit price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Within the measurement of fair value, the use of market-based information is prioritized over entity specific information, and a three-level hierarchy for fair value measurements is used based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For more information about the Company's accounting policies surrounding fair value investments, see Note 7.

### Goodwill, Intangible, and Long-Lived Assets

We account for goodwill and intangible assets in accordance with ASC Topic 350 (Intangibles – Goodwill and Other) and ASC Topic 360 (Property, Plant and Equipment). Finite-lived intangible assets are amortized over their estimated useful economic life and are carried at cost less accumulated amortization. Goodwill is assessed for impairment annually at the beginning of the fourth quarter on a reporting unit basis, or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. Goodwill is considered to be impaired if the fair value of a reporting unit is less than its carrying amount.

If the fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Long-lived assets, which consist of finite-lived intangible assets and property and equipment, are assessed for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the estimated undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value. The cash flow estimates used to determine the impairment, if any, contain management's best estimates using appropriate assumptions and projections at that time. There have been no significant events or changes in circumstances during the six-months ended March 31, 2025, that would indicate that the carrying amount of the Company's intangible asset, goodwill, may be impaired as of March 31, 2025.

### Revenue Recognition

We recognize revenue in accordance with the guidance in ASC Topic 606 (Revenue from Contracts with Customers).

### *Nature of Products and Services*

We identify, develop, and deploy cybersecurity and privacy risk management solutions for our clients in North America. We categorize our products and services as either vCISO Services or Cybersecurity Software and Services. Cybersecurity Software and Services includes revenue earned from both Enclave, our proprietary software product, and third-party software and services that we resell.

### *Performance Obligations*

A performance obligation is a promise in a contract to transfer a distinct good or service to the client and is the unit of accounting in Topic 606. A significant portion of our revenue is from clients with whom we have a Master Service Agreement ("MSA"). Each MSA generally contains one or more Statement(s) of Work ("SOW"). Each SOW specifies the products and services and their respective transaction prices. We refer to an MSA and its SOW(s) as a "Contract." Our Contracts generally contain monthly service subscriptions, annual software licenses, time and materials based billing, or fixed fee projects.

A Contract's transaction price is allocated to each distinct performance obligation. For Contracts with multiple performance obligations, we allocate the Contract's transaction price to each performance obligation based on the relative standalone selling price.

Revenue is recognized over a period of time for monthly service subscriptions and software licenses. Revenue is recognized at a point in time when, or as, the performance obligation is satisfied for fixed fee projects and time and materials billing. The assets we create for our clients do not have alternative uses to SideChannel, and our Contracts created a right to payment for work completed. Our determination for point in time revenue recognition is based upon client acceptance of the performance obligation.

We do not have any material variable consideration arrangements, client-specific acceptance criteria, or any material payment terms with our clients other than standard payment terms, which generally range from net 15 to net 45 days.

### *Principal vs Agent*

We resell the software and services provided by third parties. When we have discretion over the pricing used in the Contracts with our clients, we deem ourselves to be the principal for purposes of revenue recognition and record revenue on a gross basis using the price specified in the Contract. This is the case for almost all the third-party software and services we sell. Also consistent with our determination to recognize revenue as the principal is our ability to direct the third-party to provide the service to the client on our behalf.

Occasionally, we receive a commission from the sale of third-party software and services, in which case we are an agent and record revenue on a net basis equal to the amount of the commission earned.

### *Contract Balances*

We record accounts receivable at the time of invoicing. To the extent that we do not recognize revenue at the same time as we invoice, we record a liability for deferred revenue. In certain instances, we also receive customer deposits in advance of invoicing and recording of accounts receivable. Deferred revenue and customer deposits are included in current liabilities on our consolidated balance sheets. In these instances, the recognition of revenue is deferred until we have determined that we have satisfied our performance obligations under the Contract.

### *Costs to Obtain a Contract with a Customer*

The costs we incur associated with obtaining contracts with customers are marketing costs incurred with third-party service providers and sales commissions that we pay to our employees, contractors, or third-party sales representatives. Commissions are calculated based on set percentages of the invoice value of each product or service sold. Commissions are considered earned by our internal sales personnel and third-party sales representatives at the time we invoice our customers. We record commission expense in our consolidated statements of operations at the time the commission is earned. Commissions earned but not yet paid are included in current liabilities on our balance sheets. All costs to acquire customers and contracts are reported in operating expenses.

### Leases

We account for leases in accordance with ASC Topic 842 (Leases). We determine if an arrangement is a lease at inception. A lease contract is within scope if the contract has an identified asset (property, plant, or equipment) and grants the lessee the right to control the use of the asset during the lease term. The identified asset may be either explicitly or implicitly specified in the contract. In addition, the supplier must not have any practical ability to substitute a different asset and would not economically benefit from doing so for the lease contract to be in scope. The lessee's right to control the use of the asset during the term of the lease must include the ability to obtain substantially all the economic benefits from the use of the asset as well as decision-making authority over how the asset will be used. Leases are classified as either operating leases or finance leases based on the guidance in ASC Topic 842. Operating leases are included in operating lease ROU assets and operating lease liabilities in our consolidated balance sheets. Finance leases are included in property and equipment and financing lease liabilities. We do not currently have any financing leases.

Operating lease payments are included in cash outflows from operating activities on our consolidated statements of cash flows.

We have made an accounting policy election not to apply the recognition requirements of ASC Topic 842 to short-term leases (leases with a term of one year or less at the commencement date of the lease). Lease expense for short-term lease payments is recognized on a straight-line basis over the lease term.

Following the guidance of ASC Topic 842, we are not required to record ROU assets and operating lease liabilities.

### Stock-Based Compensation

We account for stock-based compensation in accordance with ASC Topic 718 (Compensation – Stock Compensation), which requires that employee share-based equity awards be accounted for under the fair value method and requires the use of an option pricing model for estimating fair value of awards, which is then amortized to expense over the service periods. The Company estimates the fair value of share-based payment awards on the date of grant using an option-pricing mode or the fair value of our stock on the grant date. The value of the portion of the award that is ultimately expected to vest is recognized as stock compensation expense over the requisite service period in the Company's consolidated statements of income. See further disclosures related to our stock-based compensation plans in Note 13.

### Legal

We are subject to legal proceedings, claims, and liabilities that arise in the ordinary course of business, and we accrue for losses associated with legal claims when such losses are probable and can be reasonably estimated. These accruals are adjusted as additional information becomes available or circumstances change. Legal fees are charged to expense as they are incurred.

### Income Taxes

We utilize the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carry forwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that the value of such assets will be realized.

### Net Loss Per Common Share

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the reporting period. The weighted average number of shares is calculated by taking the number of shares outstanding and weighting them by the amount of time that they were outstanding. Diluted earnings per share reflects the potential dilution that could occur if stock options, warrants, and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock that could share in our earnings. Diluted loss per share is the same as basic loss per share during periods where net losses are incurred since the inclusion of the potential common stock equivalents would be anti-dilutive because of the net loss.

### Warrants

We account for warrants in accordance with FASB ASC Topics 480 and 815. The result of this accounting treatment is that the fair value of the embedded derivative, if required to be bifurcated, is marked-to-market at each balance sheet date and recorded as a liability. The change in fair value is recorded in our consolidated statement of operations as a component of other income or expense. Upon exercise of a warrant, it is marked to fair value at the exercise date and then that fair value is reclassified to equity.

### Effect of Recently Issued Amendments to Authoritative Accounting Guidance

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which provides guidance to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the guidance enhances interim disclosure requirements, clarifies circumstances in which an entity can disclose multiple segment measures of profit or loss, provides new segment disclosure requirements for entities with a single reportable segment, and contains other disclosure requirements. The purpose of the guidance is to enable investors to better understand an entity's overall performance and assess potential future cash flows. The guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. For us, annual reporting requirements will be effective for our fiscal year 2025 beginning on October 1, 2024, and interim reporting requirements will be effective beginning with our first quarter of fiscal year 2026. Early adoption is permitted. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," which updates income tax disclosure requirements primarily by requiring specific categories and greater disaggregation within the rate reconciliation table and disaggregation of income taxes paid, net of refunds, by jurisdiction. All entities are required to apply the guidance prospectively, with the option to apply it retrospectively. The guidance is effective for fiscal years beginning after December 15, 2024, which for us is our fiscal year 2026 beginning on October 1, 2025. Early adoption is permitted. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

In November 2024, the FASB issued ASU 2024-03, Disaggregation of Income Statement Expenses, which will require the disclosure of additional information about specific expense categories in the notes to the financial statements. The guidance is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. For us, annual reporting requirements will be effective for our fiscal year 2028 beginning on October 1, 2027, and interim reporting requirements will be effective beginning with our first quarter of fiscal year 2029. Early adoption is permitted. We are currently evaluating the impact of this amended disclosure guidance.

The Company does not believe that any recently issued, but not yet effective accounting standards, when adopted, will have a material effect on the accompanying condensed consolidated financial statements.

### NOTE 3 – LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2025, and September 30, 2024, we had \$1.2 million and \$1.0 million, respectively, of cash and cash equivalents. In addition, we had \$100 thousand in short-term investments as of March 31, 2025, and \$250 thousand at September 30, 2024. We incurred net losses during the six-month periods ended March 31, 2025, and 2024, of \$249 thousand and \$499 thousand, respectively.

Our primary requirements for liquidity and capital are working capital, research and development, sales and marketing activities, and other general corporate needs. Historically, these cash requirements have been met through cash provided by operating activities and cash and cash equivalents. As of March 31, 2025, we are not party to any off-balance sheet arrangements that have had or are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources. Significant cash requirements for the remainder of the fiscal year include our working capital requirement.

We believe that our existing cash, cash equivalents, and our anticipated cash flows from operations will be sufficient to meet our working capital, expenditure, and contractual obligation requirements for the next 12 months. Although we believe we have adequate sources of liquidity for the next 12 months and the foreseeable future, the success of our operations, the global economic outlook, and the pace of sustainable growth in our markets could impact our business and liquidity.

### NOTE 4 – CASH EQUIVALENTS AND INVESTMENTS

We have financial instruments included as cash equivalents and short-term investments on our balance sheets. Money market funds and time deposits with original maturities of less than 90 days are included in “Cash and cash equivalents.” Time deposits with original maturities from 91-360 days are included in “Short-term investments.” As of March 31, 2025, and September 30, 2024, the Company had no long-term investments.

The following table presents the carrying amounts of cash equivalents and short-term investments:

(in thousands)	March 31, 2025	September 30, 2024
Cash equivalents		
Money market funds	\$ 0	\$ 6
Total cash equivalents	<u>\$ 0</u>	<u>\$ 6</u>
Short-term investments		
Time deposits	100	250
Total short-term investments	<u>\$ 100</u>	<u>\$ 250</u>

Short Term Investment	Carrying Amount	Original Maturity Date
Time deposits	\$ 100	August 5, 2025

For more information about the fair value of the Company's financial instruments, see Note 7.

### NOTE 5 – DEFERRED COSTS

On July 23, 2021, Cipherloc Corporation (“Cipherloc”) entered into a financial advisory and consulting agreement with Paulson Investment Company, LLC (“Paulson”). The agreement with Paulson remains in place after the Business Combination. Pursuant to the agreement, Paulson will provide the following services at the Company's request: (a) familiarize itself with the Company's business, assets, and financial condition; (b) assist the Company in developing strategic and financial objectives; (c) assist the Company in increasing its exposure in the software industry; (d) assist the Company in increasing its profile in the investment and financial community through introductions to analysts and potential investors, participation in investment conferences, and exploitation of reasonably available media opportunities; (e) identify potentially attractive merger and acquisition opportunities; (f) review possible innovative financing opportunities; and (g) render other financial advisory services as may be reasonably requested. The term of the agreement is four years from the date of the agreement, unless terminated earlier by either party as provided therein. As compensation for these services, the Company issued to Paulson 4 million shares of the Company's common stock and agreed to reimburse Paulson for all reasonable and documented expenses incurred by Paulson in connection with providing such services. The fair value of the shares issued was \$720 thousand, which Cipherloc recognized as deferred costs which are amortized at a rate of \$45 thousand per quarter. The Company expensed \$90 thousand the six months ended March 31, 2025, and 2024, respectively. The unamortized balance of the deferred costs was \$60 thousand at March 31, 2025.

## NOTE 6 - LEASES

On December 10, 2021, we entered into a lease for approximately 500 square feet of office space at 146 Main Street in Worcester, Massachusetts, with the option to renew annually for three twelve-month periods through December 2025. The annual renewal date is January 1<sup>st</sup>. Our current lease payment is \$986 per month. The lease allows for a 2% increase effective at the beginning of each renewal period.

Operating lease expenses were \$6 thousand and \$6 thousand for both the six months ended March 31, 2025, and 2024, respectively.

We expect to pay approximately \$9 thousand through December 2025, the remaining term of the Worcester lease.

## NOTE 7 – FAIR VALUE MEASUREMENT

ASC Topic 820 “Fair Value Measurement” (“Topic 820”) defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. Topic 820 is applicable whenever assets and liabilities are measured and included in the financial statements at fair value.

The following tables present the carrying amounts, estimated fair values, and valuation input levels of certain financial instruments:

(in thousands)	March 31, 2025				
	Carrying Amount	Fair Value Measured Using			Fair Value
		Level 1	Level 2	Level 3	
Short-term investments					
Time deposits: 91 - 360 days	\$ 100	\$ -	\$ 100	\$ -	\$ 100
Total Short-term investments	\$ 100	\$ -	\$ 100	\$ -	\$ 100

(in thousands)	September 30, 2024				
	Carrying Amount	Fair Value Measured Using			Fair Value
		Level 1	Level 2	Level 3	
Short-term investments					
Time deposits: 91 - 360 days	\$ 250	\$ -	\$ 250	\$ -	\$ 250
Total Short-term investments	\$ 250	\$ -	\$ 250	\$ -	\$ 250

The entire balance of time deposits maturing in 91 to 360 days at March 31, 2025, and September 30, 2024, are certificates of deposit issued by a bank at which total deposits exceed the FDIC limit of \$250 thousand.

## NOTE 8 – DEBT

The Company has no debt.

## NOTE 9 - STOCKHOLDERS' EQUITY

### Common Stock

As of March 31, 2025, we had 231,229,054 shares of common stock outstanding and were authorized to issue 681,000,000 shares of common stock at a par value of \$0.001. We had 225,975,331 shares of common stock outstanding as of September 30, 2024.

### Common Stock Issued Under Equity Incentive Plan

During the six months ended March 31, 2025, 6,398,717 Restricted Stock Units vested for which we issued 4,897,323 shares of common stock and 1,501,394 RSU's were sold by employees to fund payroll taxes.



### *Common Stock Issued for Legal Settlement*

In April 2021, Eric Marquez, the former Secretary/Treasurer and Chief Financial Officer of Cipherloc, and certain other plaintiffs, filed a lawsuit against Cipherloc and Michael De La Garza, Cipherloc's former Chief Executive Officer and President, in the 20<sup>th</sup> Judicial District for Hays County, Texas (Cause No. 20-0818). We executed a settlement agreement with the plaintiffs on December 13, 2024, resulting in the dismissal of the lawsuit with prejudice on January 2, 2025. The settlement agreement required the Company to issue the plaintiffs a combined 356,400 shares of common stock, which was done on December 20, 2024, with a fair market value of \$14 thousand.

### *Common Stock Issued for Cash*

We did not issue shares of common stock for cash during the six months ended March 31, 2025.

### *Common Stock Issued for Business Combinations*

We did not issue shares for mergers or acquisitions related activity during the six months ended March 31, 2025.

### *Common Stock Issued for Services*

We did not issue shares for services during the six months ended March 31, 2025.

### Preferred Stock

As of March 31, 2025, we had zero (0) shares of preferred stock outstanding.

### Warrants

The following table summarizes warrant activity for the six months ended March 31, 2025:

<b>Outstanding Warrants</b> (In thousands, except prices and remaining lives)	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life</b>
Outstanding at September 30, 2024	43,158	\$ 0.33	3.89
Granted	—	—	—
Exercised	—	—	—
Cancelled/Forfeited	—	—	—
Outstanding at March 31, 2025	43,158	\$ 0.33	3.39

## **NOTE 10 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

### Disaggregation of Revenues

We disaggregate our revenue from contracts with customers (clients) by service type. See the below table:

(in thousands)	<b>Six Months Ended March 31,</b>			
	<b>2025</b>		<b>2024</b>	
vCISO Services	\$	2,383	\$	2,492
Cybersecurity Software and Services		1,419		1,171
Total	\$	3,802	\$	3,663

### Deferred Revenue

Deferred revenue is comprised of payments received from our clients for products or services in advance of receiving the product or service and primarily occurs for annual software and service contracts, including Enclave. While software contracts can be initiated at any time of year, most of our annual software agreements renewed in our second fiscal quarter ending March 31, 2025.

The deferred revenue is expected to be earned within 12 months of the balance sheet date.

Changes in deferred revenue were as follows:

#### **Deferred Revenue**

(In thousands)

Balance at September 30, 2024	\$	515
Deferral of revenue		1,016
Recognition of revenue		679
<b>Balance at March 31, 2025</b>	<b>\$</b>	<b>852</b>

#### **NOTE 11 – BUSINESS RISK AND CREDIT RISK CONCENTRATION INVOLVING CASH**

No client individually accounted for over 10% of our revenue during the three months or six months ended March 31, 2025, or 2024.

We had three clients with accounts receivable balances together totaling approximately 45% of our accounts receivable balance at March 31, 2025.

We maintain our cash, cash equivalents, and short-term investments in accounts held by a highly reputable financial institution which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC insures these deposits up to \$250 thousand. As of March 31, 2025, approximately \$994 thousand of our cash and cash equivalent balance and \$100 thousand of our short-term investment balance were uninsured. We have not experienced any losses on cash.

#### **NOTE 12 – RELATED PARTY TRANSACTIONS**

Brian Haugli, our Chief Executive Officer and stockholder in the Company, is also a principal shareholder of RealCISO Inc. ("RealCISO"). We are a reseller of RealCISO software. We receive revenue from our customers for the use of RealCISO software and pay licensing fees to RealCISO for such use. For the six months ending March 31, 2025, and 2024, we paid \$41 thousand and \$20 thousand, respectively, to RealCISO.

We also received \$13 thousand and \$77 thousand from RealCISO for software development services that we provided RealCISO during the six months ended March 31, 2025, and 2024, respectively.

On October 13, 2023, the Association of the US Army ("AUSA") signed an agreement for a cybersecurity risk assessment for approximately \$24 thousand. On February 15, 2024, the President of AUSA, Retired U.S. Army General Robert Brown, joined our Board. On July 8, 2024, AUSA signed an agreement for recurring vCISO Services, which generated \$54 thousand of revenue during the six months ended March 31, 2025. SideChannel reserved booth space at the AUSA Global Force Symposium held in March 2025. In the six months ended March 31, 2025, we paid \$15 thousand to AUSA for this event.

No other related party transactions occurred during the six months ended March 31, 2025.

## NOTE 13 – STOCK BASED COMPENSATION

We grant equity compensation awards to directors, employees, and contractors under the 2021 Omnibus Equity Compensation Plan. We have granted restricted stock units (“RSUs”) and stock options with service-based vesting conditions with vesting typically occurring over a 3-year period.

### Restricted Stock Units

The following table summarizes the activity of our RSUs granted under our Equity Incentive Plan during the six months ended March 31, 2025:

	Number of RSUs
Outstanding Grants at September 30, 2024	11,148,270
Granted	11,237,706
Vested	(6,398,717)
Cancelled/Forfeited	(701,852)
Outstanding Grants at March 31, 2025	15,285,407

On December 20, 2024, our Board of Directors authorized awarding 1.1 million RSUs to each of the three independent directors vesting over three years beginning on March 1, 2025, and ending on March 1, 2027. On March 3, 2025 we granted 7,937,706 RSU's to officers and employees. The average grant date fair value of RSUs granted during the six months ended March 31, 2025 was \$0.04. The Company recognizes compensation cost for unvested share-based awards on a straight-line basis over the requisite service period.

Our total stock-based compensation expense for the six months ended March 31, 2025, was \$218 thousand for the amortization of outstanding equity compensation grants. Stock-based compensation of \$185 thousand is included in general and administrative expense, \$9 thousand in selling and marketing expense, and \$24 thousand in research and development expense.

The unamortized stock compensation expense at March 31, 2025, is \$701 thousand, and the remaining weighted average term to vesting is 2.4 years.

### Stock Options

The following table summarizes the activity of our stock options granted under our Equity Incentive Plan during the six months ended March 31, 2025:

	Number of Stock Options
Outstanding at September 30, 2024	3,300,000
Granted	-
Vested	-
Cancelled/Forfeited	(3,300,000)
Outstanding at March 31, 2025	-

On December 20, 2024, our Board of Directors authorized the termination of stock options previously awarded to independent directors.

## NOTE 14 – COMMITMENTS AND CONTINGENCIES

### Litigation

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations.

### *Recently Settled Litigation*

In April 2021, Eric Marquez, the former Secretary/Treasurer and Chief Financial Officer of Cipherloc Corporation, and certain other plaintiffs, filed a lawsuit against Cipherloc Corporation and Michael De La Garza, Cipherloc's former Chief Executive Officer and President, in the 20<sup>th</sup> Judicial District for Hays County, Texas (Cause No. 20-0818). We executed a settlement agreement with the plaintiffs on December 13, 2024, resulting in the dismissal of the lawsuit with prejudice on January 2, 2025. The settlement agreement requires the Company to issue the plaintiffs a combined 356,400 shares of common stock and pay a total of \$95 thousand in cash in six equal, quarterly instalments of approximately \$16 thousand each, beginning by January 1, 2025, and ending by April 1, 2026. The expenses associated with this settlement were included in our results for the fiscal year ended September 30, 2024. Two payments totaling approximately \$32 thousand have been made as of March 31, 2025.

### **NOTE 15 – SUBSEQUENT EVENTS**

We have assessed our operations through the filing date of this Quarterly Report on Form 10-Q and determined that there were no material subsequent events requiring adjustment to, or disclosure in, our condensed consolidated financial statements for the six months ended March 31, 2025.

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Certain statements in our Management's Discussion and Analysis of Financial Condition and Results of Operations, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" in 2024 Form 10-K, and elsewhere in this Form 10-Q. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

This information should be read in conjunction with the interim unaudited financial statements and the notes thereto included in this Report, and the audited financial statements and notes thereto and "Part II. Other Information - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in our 2024 Form 10-K.

Our logo and some of our trademarks and tradenames are used in this Report. Solely for convenience, trademarks, tradenames, and service marks referred to in this Report may appear without the ®, ™ and SM symbols. References to our trademarks, tradenames and service marks herein are not intended to indicate in any way that we will not assert to the fullest extent under applicable law our rights or the rights of the applicable licensors if any, nor that respective owners of other intellectual property rights will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend the use or display of other companies' trademarks and trade names herein to imply a relationship with, or endorsement or sponsorship of us by, any other persons, firm or entity, except as otherwise so expressly indicated.

The market data and certain other statistical information used throughout this Report are based on independent industry publications, reports by market research firms or other independent sources that we believe to be reliable sources. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. We are responsible for all the disclosures contained in this Report, and we believe these industry publications and third-party research, surveys and studies are reliable. We are not aware of any misstatements regarding any third-party information presented in this Report; however, their estimates, in particular, as they relate to projections, involve numerous assumptions, are subject to risks and uncertainties, and are subject to change based on various factors, including those discussed under, and incorporated by reference in, the section entitled "Item 1A. Risk Factors" of this Report. These and other factors could cause our future performance to differ materially from our assumptions and estimates. Some market and other data included herein, as well as the data of competitors as they relate to SideChannel (as defined herein), is also based on our good faith estimates.

Unless the context requires otherwise, references to the “Company,” “we,” “us,” “our,” “SideChannel,” and “SideChannel, Inc.” refer specifically to SideChannel, Inc. and its consolidated subsidiaries.

In addition, unless the context otherwise requires and for the purposes of this report only:

- “Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
- “SEC” or the “Commission” refers to the United States Securities and Exchange Commission; and
- “Securities Act” refers to the Securities Act of 1933, as amended.

All references to years relate to the fiscal year ended September 30 of the particular year.

## **Overview**

### *Our Business*

Our mission is to make cybersecurity simple and accessible for mid-market and emerging companies, a market that we believe is currently underserved. We believe that our cybersecurity offerings will identify and develop cybersecurity, privacy, and risk management solutions for our customers. We anticipate that our target customers will continue to need cost-effective security solutions. We continue to expand our catalogue of services and solutions to address the cybersecurity needs of our customers, including virtual Chief Information Security Officer (“vCISO” or “vCISOs”), cyber program strategy, zero trust, third-party risk management, compliance readiness, cloud security services, privacy, threat intelligence, managed end-point security solutions, and cybersecurity awareness.

We are marketing and selling Enclave, a proprietary software product that simplifies important cybersecurity tasks to achieve “microsegmentation.” By combining zero trust network access with certificate management and machine identity, Enclave seamlessly creates a unified security architecture that eliminates traditional network vulnerabilities. This integration enables IT teams to enforce precise access policies based on verified machine identities. Certificate-based identities allow a simplified management for any certificate-based communication, while the zero trust framework continuously validates every connection attempt. This powerful combination delivers robust security without the typical management overhead, allowing organizations to implement sophisticated microsegmentation strategies with remarkable simplicity and minimal resource requirements.

Our growth strategy focuses on these three initiatives:

1. Increasing adoption of Enclave,
2. Securing new vCISO Services clients, and
3. Adding new Cybersecurity Software and Services offerings.

We internally report our revenue using two categories. The first, “vCISO Services,” captures the revenue generated by outsourcing fractional, vCISOs to our clients on an ongoing basis. Services delivered by SideChannel through our team of vCISOs include assessing the cybersecurity risk profile, implementing policies and programs to mitigate risks, and managing the day-to-day tasks to ensure compliance with the adopted cybersecurity framework. Most of our clients use our vCISO Services.

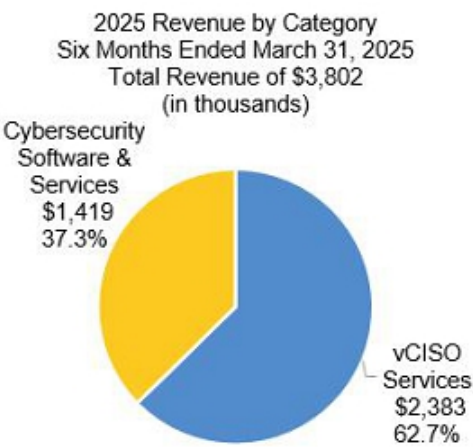
vCISO Services engagements typically include a fixed monthly subscription fee for durations longer than twelve (12) months. Hourly rates for vCISO Services time and material projects range from \$350 to \$450. Each of our vCISOs is generally embedded into the C-suite executive teams of two (2) to four (4) of our clients.

Our second revenue category encompasses an array of Cybersecurity Software and Services that our clients deem necessary to protect their digital assets. These augment our vCISO Services offering and include a full range of other cybersecurity products and services delivered on an ongoing or project basis through our team of cybersecurity professionals along with a network of third-party service providers and value-added resellers (“VARs”). Commercial relationships with third-party service providers and VARs provide SideChannel with additional internal capabilities to mitigate cybersecurity risks. This revenue category includes both licensing revenue from software contracts and commissions from third-party service provider partnerships and sales of our proprietary software, Enclave.

Revenue

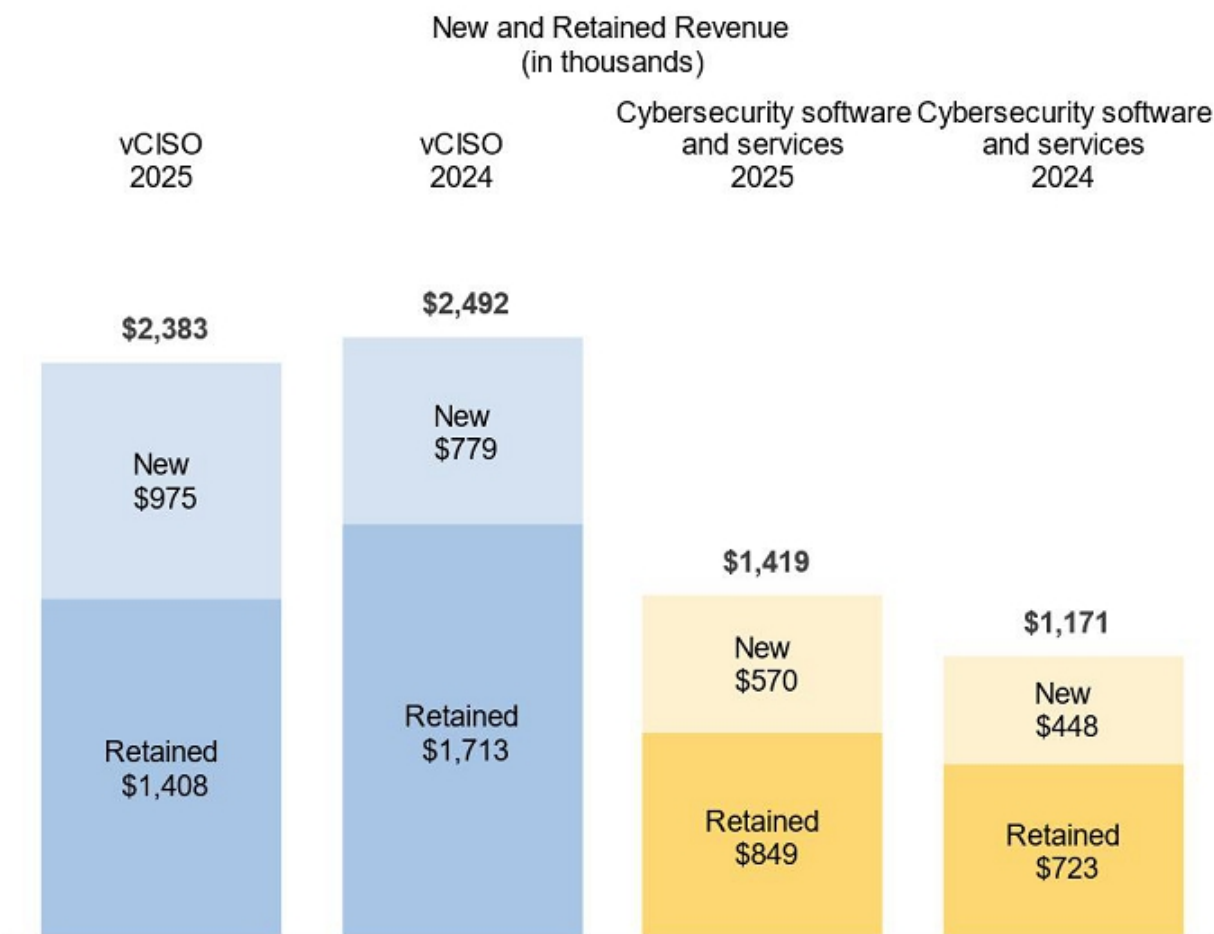
The following revenue metrics are for the six months ended March 31, 2025, compared to the six months ended March 31, 2024:

- Total revenue grew by \$139 thousand or 3.8%.
- vCISO Services revenue decreased by \$109 thousand or 4.4%.
- Cybersecurity Software and Services category revenue grew by \$248 thousand or 21.2%



The year-over-year decline in vCISO Services revenue reflects the loss of clients with a higher than average annual contract value and the transitioning of vCISO Services clients into lower revenue generating Cybersecurity Software and Services. Cybersecurity Software & Services revenue benefited from these transitions along with the expansion of the software and services offered.

We also monitor new and retained revenue. The revenue earned from clients during our first twelve months of working with them is classified as new, while the revenue earned with clients after our first twelve months of working with them is classified as retained. The following chart provides details on our new and retained revenue for the six months ended March 31, 2025, and 2024:



Further, we consider revenue retention a key performance indicator. Revenue retention is calculated by dividing retained revenue by the prior year total revenue. The following table shows the revenue retention for the trailing twelve months ended March 31, 2025, and September 30, 2024, by revenue category:

	Trailing Twelve Months Ended	
	March 31, 2025	September 30, 2024
vCISO Services	57.5%	67.7%
Cybersecurity Software & Services	73.7%	72.2%
Total	62.4%	69.2%

### Results of Operations

*Three Months Ended March 31, 2025, Compared to Three Months Ended March 31, 2024*

(in thousands)	Three Months Ended March 31,	
	2025	2024
Revenues	\$ 1,894	\$ 1,927
Cost of revenues	953	1,059
Gross profit	941	868
Gross margin	49.7%	45.0%
Operating expenses		
General and administrative	655	849
Selling and marketing	227	156
Research and development	120	123
Total operating expenses	1,002	1,128
Operating loss	(61)	(260)
Other income, net	9	8

Net loss before income tax expense	(52)	(252)
Income tax expense	2	1
Net loss	<u>\$ (54)</u>	<u>\$ (253)</u>



**Revenue.** Our revenue was \$1.9 million for the quarter ended March 31, 2025, compared to \$1.9 million for the quarter ended March 31, 2024, a decrease of \$33 thousand or 1.7%. This decrease is primarily due to the loss of clients with higher than average contract value during the second half of fiscal year 2024 and the first half of fiscal year 2025.

**Gross Profit.** Our gross profit was \$941 thousand and gross margin was 49.7% for the quarter ended March 31, 2025, compared to \$868 thousand or 45.0% for the quarter ended March 31, 2024. The increase in our gross margin was the result of lower bonus expense accrued in the current fiscal year than what was accrued in the prior fiscal year. Another factor contributing to our gross margin improvement was that Enclave had positive gross margin in the three months ended March 31, 2025, on higher sales volume versus a negative gross for the three months ended March 31, 2024, on a lower amount of revenue.

**Operating Expenses.** Operating expenses decreased \$126 thousand or 11.2% for the three months ended March 31, 2025, compared to the three months ended March 31, 2024. The changes for each operating expense area are discussed below.

**General and Administrative Expenses.** Our general and administrative expense was \$655 thousand for the three months ended March 31, 2025, compared to \$849 thousand for the three months ended March 31, 2024, a decrease of \$194 thousand or 22.9%. The decrease was achieved by reducing costs related to being a publicly traded company combined with a decrease in stock-based compensation expenses as well as adjusting our allowance for doubtful accounts to zero.

**Selling and Marketing Expenses.** Our sales and marketing expense was \$227 thousand for the three months ended March 31, 2025, compared to \$156 thousand for the three months ended March 31, 2024, an increase of \$71 thousand or 45.5% due to an increase in employees and compensation.

**Research and Development Expenses.** Our research and development expense was \$120 thousand for the three months ended March 31, 2025, compared to \$123 thousand for the three months ended March 31, 2024, a decrease of \$3 thousand or 2.4%. Lower stock-based compensation was partially offset by an increase in salaries.

*Six Months Ended March 31, 2025, Compared to Six Months Ended March 31, 2024*

(in thousands)	Six Months Ended March 31,	
	2025	2024
Revenues	\$ 3,802	\$ 3,663
Cost of revenues	1,987	1,950
Gross profit	1,815	1,713
Gross margin	47.7%	46.8%
Operating expenses		
General and administrative	1,315	1,558
Selling and marketing	494	425
Research and development	273	249
Total operating expenses	2,082	2,232
Operating loss	(267)	(519)
Other income, net	22	21
Net loss before income tax expense	(245)	(498)
Income tax expense	4	1
Net loss	\$ (249)	\$ (499)

**Revenue.** Our revenue was \$3.8 million for the six months ended March 31, 2025, compared to \$3.7 million for the six-month ended March 31, 2024, an increase of \$139 thousand or 3.8%. This revenue increase is driven by growth in Cybersecurity Services and Software by our new and existing clients, offset by a decrease in vCISO Services revenue.

**Gross Profit.** Our gross profit was \$1.8 million and gross margin was 47.7% for the six months ended March 31, 2025, compared to \$1.7 million or 46.8% for the six months ended March 31, 2024. The increase in our gross margin was the result of an increase in margin on Cybersecurity Software and Services, largely driven by increased Enclave sales and the elimination of certain fixed costs related to the delivery of Enclave.

**Operating Expenses.** Operating expenses decreased \$150 thousand or 6.7% for the six months ended March 31, 2025, compared to the six months ended March 31, 2024. The changes for each operating expense area are discussed below.

**General and Administrative Expenses.** Our general and administrative expense was \$1.3 million for the six months ended March 31, 2025, compared to \$1.6 million for the six months ended March 31, 2024, a decrease of \$243 thousand or 15.6%. The decrease was achieved by reducing costs related to being a publicly traded company combined with a decrease in consulting costs, travel costs, stock-based compensation expense, and our allowance for doubtful accounts, which have been partially offset by an increase in accounting professional fees.

**Selling and Marketing Expenses.** Our sales and marketing expense was \$494 thousand for the six months ended March 31, 2025, compared to \$425 thousand for the six months ended March 31, 2024, an increase of \$69 thousand or 16.2%. An increase in employees and compensation was partially offset by a decrease in consultant-related costs and a decrease in stock-based compensation expense.

**Research and Development Expenses.** Our research and development expense was \$273 thousand for the six months ended March 31, 2025, compared to \$249 thousand for the six months ended March 31, 2024, an increase of \$24 thousand or 9.6%. The increase is the result of higher personnel costs.

### Liquidity and Capital Resources

During the six months ended March 31, 2025, we incurred a net loss of \$249 thousand, and we had \$199 thousand of cash provided by operations and investing activities. Our primary source of liquidity and capital resources has been the \$1.0 million of cash and cash equivalents at the beginning of fiscal year 2025 supplemented with the cash provided by operations during the fiscal year. We had an accumulated deficit of \$20.0 million as of March 31, 2025, comprised primarily of three (3) non-operational expenses totaling \$16.8 million: \$6.2 million for the contingent consideration and business combination related costs, \$5.7 million for the impairment of goodwill, and \$4.9 million for the impairment of intangible assets.

We had working capital of \$1.2 million as of March 31, 2025, compared to working capital of \$1.3 million as of September 30, 2024. The decline in working capital is primarily due to a seasonal increase in deferred revenue.

### Cash Flows

The following table summarizes selected items in our Condensed Consolidated Statements of Cash Flows for the six months ended March 31:

<i>(In thousands)</i>	<b>2025</b>		<b>2024</b>	
Net cash provided by (used in):				
Operating activities	\$	49	\$	(152)
Investing activities		150		-
Financing activities		-		(50)

### *Operating Activities*

We receive cash each month from revenue generated from our clients. We use this cash and a portion of our cash reserves to pay for our monthly expenses. Material cash requirements include personnel costs and the expenses associated with being a public reporting company.

Cash provided by operating activities was \$49 thousand during the six months ended March 31, 2025, and we recorded a net loss of \$249 thousand. During the same period, our non-cash charges totaled \$252 thousand, comprised of \$155 thousand in stock-based compensation expense net of RSUs sold by employees and \$98 thousand in amortization and depreciation, offset by a \$1 thousand adjustment to the legal settlement paid in stock. We typically invoice clients annually for third-party service contracts and software licenses during our second fiscal quarter. The volume of annual billing is higher this year compared to the prior year, resulting in an increase in deferred revenue of \$337 thousand partially offset by increases in accounts receivable and prepaid expenses along with the \$128 thousand use of cash for the payment of accounts payable and accrued liabilities.

### *Investing Activities*

A \$250 thousand certificate of deposit matured on February 5, 2025; \$100 thousand was reinvested in a certificate of deposit maturing on August 5, 2025, resulting in \$150 thousand provided by the sale of short-term investments.

### *Financing Activities*

There were no financing activities for this reporting period.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1) of the SEC.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this quarterly report, at the reasonable assurance level.

The material weaknesses identified, and the related remediation plan are more fully described in our 2024 Form 10-K and Form 10-K/A for the fiscal year ended 2024, filed with the SEC on March 13, 2025. The material weaknesses, summarized in the bullet points below, relate to the fact that we did not design and maintain accounting policies, procedures and controls to ensure complete, accurate and timely financial reporting in accordance with U.S. GAAP. Specifically, the material weaknesses identified included the following:

- We did not design and maintain formal accounting policies, procedures and controls to achieve complete, accurate and timely financial accounting, reporting and disclosures, including controls over the preparation and review of account reconciliations, journal entries and classification of certain costs;

- We had not developed and effectively communicated to our employees our accounting policies and procedures, which resulted in inconsistent practices. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute a material weakness;
- We do not have sufficient, qualified finance and accounting staff with the appropriate U.S. GAAP technical accounting expertise to identify, evaluate and account for accounting and financial reporting, and effectively design and implement systems and processes that allow for the timely production of accurate financial information in accordance with internal financial reporting timelines. As a result, we did not design and maintain formal accounting policies, processes and controls related to complex transactions necessary for an effective financial reporting process; and
- As a high-growth, smaller reporting company that became responsible for listed financial reporting, we have a limited staff and budget available to adequately test and monitor the effectiveness of certain internal controls.

### **Management's Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

The information set forth under "—Material Weaknesses" above is incorporated herein by reference.

Management, under the supervision of our principal executive officer and our principal financial officer, conducted an evaluation of the effectiveness of internal controls over financial reporting based on the framework in 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was not effective as of the period covered by this quarterly report.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the six months ended March 31, 2025, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting, including any corrective actions regarding significant deficiencies and material weaknesses.

### **Limitations on Effectiveness of Controls and Procedures**

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business.

Such current litigation or other legal proceedings are described in and incorporated by reference in this "Part II - Item 1. Legal Proceedings" of this Form 10-Q from, "Part I - Item 1. Financial Statements" in the notes to financial statements in "Litigation" in Note 14 - Commitments and Contingencies. We believe that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations. Our assessment of current litigation or other legal claims could change considering the discovery of facts not presently known to us, or by decisions of judges, juries, or other finders of fact, that are not in accord with management's evaluation of the possible liability or outcome of such litigation or claims.

Additionally, the outcome of litigation is inherently uncertain. If one or more legal matters are resolved against us in a reporting period for amounts more than management's expectations, our financial condition and operating results for that reporting period could be materially adversely affected.

### **ITEM 1A. RISK FACTORS**

There have been no further material changes from the risk factors previously disclosed in Part I, Item 1A "Risk Factors" of our 2024 Form 10-K.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Sales of Securities

There were no sales of unregistered securities during the six months ended March 31, 2025, or from the period beginning April 1, 2025, through the filing date of this Report.

On December 20, 2024, the Company issued 356,400 shares of common stock as stated in a legal settlement.

On March 3, 2025, we issued 4,897,323 shares of common stock for 6,398,717 Restricted Stock Units ("RSUs") that vested during the six months ended March 31, 2025. The number of RSUs sold by these employees to fund payroll taxes for the six months ended March 31, 2025, was 1,501,394.

### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no purchases of equity securities by the issuer or affiliated purchasers during the six months ended March 31, 2025, and from the period from April 1, 2025, to the filing date of this Report.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors since the Company last provided disclosure in response to the requirements of Item 407(c)(3) of Regulation S-K.

(c) During the quarter ended March 31, 2025, no director or officer of the Company adopted or terminated a contract, instruction or written plan for the purchase or sale of securities of the Company intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) and/or a non-Rule 10b5-1 trading arrangement.

**ITEM 6. EXHIBITS**

<b><i>Exhibit No.</i></b>	<b><i>Description</i></b>
31.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to the Securities Exchange Act of 1934, Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1**	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2**	<a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document XBRL Taxonomy Extension Label Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Presentation Linkbase Document XBRL Taxonomy Extension Presentation Linkbase Document
104*	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set

\* Filed electronically herewith.

\*\* Furnished electronically herewith, not filed.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

*SIDECHANNEL, INC.*

Date: May 7, 2025

By: /s/ Brian Haugli

Brian Haugli  
Chief Executive Officer  
(Principal Executive Officer)

*SIDECHANNEL, INC.*

Date: May 7, 2025

By: /s/ Ryan Polk

Ryan Polk  
Chief Financial Officer  
(Principal Accounting/Financial Officer)

**Certification Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002**

I, Brian Haugli, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SIDECHANNEL, INC.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, considering the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2025

By: /s/ Brian Haugli

Name: Brian Haugli

Title: Chief Executive Officer  
(Principal Executive Officer)

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**Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002**

I, Ryan Polk, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SIDECHANNEL, INC.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, considering the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2025

By: /s/ Ryan Polk

Name: Ryan Polk

Title: Chief Financial Officer

(Principal Financial/Accounting Officer)

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**CERTIFICATIONS****Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Brian Haugli, Principal Executive Officer of SideChannel, Inc., a Delaware corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2025, (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: May 7, 2025

By: /s/ Brian Haugli

Name: Brian Haugli

Title: Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**CERTIFICATIONS****Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Ryan Polk, Principal Financial Officer of SideChannel, Inc., a Delaware corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2025, (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

Date: May 7, 2025

By: /s/ Ryan Polk

Name: Ryan Polk

Title: Chief Financial Officer  
(Principal Financial/Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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