

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 September 30, 2022

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

For the transition period from _____ to _____

Commission File Number: 001-31588

PINEAPPLE ENERGY INC.

(Exact name of registrant as specified in its charter)

MINNESOTA

(State or other jurisdiction of

incorporation or organization)

10900 Red Circle Drive, Minnetonka, MN

(Address of principal executive offices)

41-0957999

(Federal Employer

Identification No.)

55343

(Zip Code)

(952) 996-1674

Registrant's telephone number, including area code

Securities Registered Pursuant to Section 12(b) of the Act

Title of Each Class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.05 per share	PEGY	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed 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 a 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 Accelerated Filer Non-accelerated Filer

Smaller Reporting Company Emerging growth company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding at November 11, 2022

9,415,586

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PINEAPPLE ENERGY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

	September 30 2022	December 31 2021
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,658,354	\$ 18,966
Restricted cash and cash equivalents	1,923,716	—
Investments	2,654,383	—
Trade accounts receivable, less allowance for doubtful accounts of \$70,000 and \$0, respectively	3,938,002	—
Inventories, net	1,793,093	—
Prepaid income taxes	14,671	—
Other current assets	1,223,013	—
TOTAL CURRENT ASSETS	17,205,232	18,966
PROPERTY, PLANT AND EQUIPMENT, net	341,518	—
OTHER ASSETS:		
Investments	250,000	—
Goodwill	16,566,853	—
Operating lease right of use asset	63,684	—
Intangible assets, net	16,777,225	2,780,270
Other assets, net	44,843	—
TOTAL OTHER ASSETS	33,702,605	2,780,270
TOTAL ASSETS	\$ 51,249,355	\$ 2,799,236
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,404,964	\$ 2,233,371
Accrued compensation and benefits	458,177	307,828
Operating lease liability	53,879	—
Other accrued liabilities	96,631	—
Working capital note payable	—	350,000
Customer deposits	4,992,632	—
Deferred revenue	663,480	—
TOTAL CURRENT LIABILITIES	8,669,763	2,891,199
LONG-TERM LIABILITIES:		
Loan payable and related interest	1,257,038	6,194,931
Related party payables	—	2,350,000
Operating lease liability	16,632	—
Deferred revenue	327,189	—
Contingent value rights	10,743,224	—
TOTAL LONG-TERM LIABILITIES	12,344,083	8,544,931
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Convertible preferred stock, par value \$1.00 per share; 3,000,000 shares authorized; 32,000 and 0 shares issued and outstanding, respectively	32,000	—
Common stock, par value \$0.05 per share; 37,500,000 shares authorized; 7,435,586 and 3,074,998 shares issued and outstanding, respectively	371,779	153,750
Additional paid-in capital	41,562,362	(53,750)
Accumulated deficit	(11,697,872)	(8,736,894)
Accumulated other comprehensive loss	(32,760)	—
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	30,235,509	(8,636,894)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 51,249,355	\$ 2,799,236

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

PINEAPPLE ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Sales	\$ 7,709,062	\$ 25,417	\$ 13,918,498	\$ 25,417
Cost of sales	5,695,320	—	10,533,362	—
Gross profit	2,013,742	25,417	3,385,136	25,417
Operating expenses:				
Selling, general and administrative expenses	3,122,976	241,728	6,653,796	697,985
Amortization expense	1,026,362	357,324	2,410,045	1,071,971
Transaction costs	265,383	545,934	1,447,284	1,977,436
Total operating expenses	4,414,721	1,144,986	10,511,125	3,747,392
Operating loss	(2,400,979)	(1,119,569)	(7,125,989)	(3,721,975)
Other income (expense):				
Investment and other income	8,215	—	106,974	—
Gain on sale of assets	14,573	—	1,229,133	—
Fair value remeasurement of earnout consideration	13,000	—	4,684,000	—
Fair value remeasurement of contingent value rights	—	—	(1,214,560)	—
Interest and other expense	(154,805)	(275,694)	(640,536)	(1,004,964)
Other income (expense), net	(119,017)	(275,694)	4,165,011	(1,004,964)
Net loss before income taxes	(2,519,996)	(1,395,263)	(2,960,978)	(4,726,939)
Income tax expense	—	—	—	—
Net loss	(2,519,996)	(1,395,263)	(2,960,978)	(4,726,939)
Other comprehensive gain (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	38	—	(32,760)	—
Total other comprehensive gain (loss)	38	—	(32,760)	—
Comprehensive loss	<u>\$ (2,519,958)</u>	<u>\$ (1,395,263)</u>	<u>\$ (2,993,738)</u>	<u>\$ (4,726,939)</u>
Basic net loss per share:	\$ (0.34)	\$ (0.45)	\$ (0.49)	\$ (1.54)
Diluted net loss per share:	\$ (0.34)	\$ (0.45)	\$ (0.49)	\$ (1.54)
Weighted Average Basic Shares Outstanding	7,435,586	3,074,998	6,049,611	3,074,998
Weighted Average Dilutive Shares Outstanding	7,435,586	3,074,998	6,049,611	3,074,998

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

PINEAPPLE ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

For the Nine Months Ended September 30, 2022

	Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
BALANCE AT DECEMBER 31, 2021	—	\$ —	3,074,998	\$ 153,750	\$ (53,750)	\$ (8,736,894)	—	\$ (8,636,894)
Net loss	—	—	—	—	—	(2,960,978)	—	(2,960,978)
Issuance of common stock for professional services	—	—	12,499	625	(625)	—	—	—
Issuance of common stock for conversion of related party payables	—	—	293,750	14,687	2,335,313	—	—	2,350,000
Issuance of common stock for conversion of working capital note payable	—	—	62,500	3,125	496,875	—	—	500,000
Effect of reverse capitalization	—	—	2,429,341	121,467	1,473,312	—	—	1,594,779
Issuance of common stock for HEC Asset Acquisition	—	—	1,562,498	78,125	12,703,109	—	—	12,781,234
Issuance of preferred stock and warrants to PIPE investors, net of issuance costs	32,000	32,000	—	—	29,268,630	—	—	29,300,630
Contingent consideration related to merger transaction	—	—	—	—	(4,684,000)	—	—	(4,684,000)
Share based compensation	—	—	—	—	23,498	—	—	23,498
Other comprehensive loss	—	—	—	—	—	—	(32,760)	(32,760)
BALANCE AT SEPTEMBER 30, 2022	32,000	\$ 32,000	7,435,586	\$ 371,779	\$ 41,562,362	\$ (11,697,872)	\$ (32,760)	\$ 30,235,509

For the Three Months Ended September 30, 2022

	Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
BALANCE AT JUNE 30, 2022	32,000	\$ 32,000	7,435,586	\$ 371,779	\$ 41,538,864	\$ (9,177,876)	\$ (32,798)	\$ 32,731,969
Net loss	—	—	—	—	—	(2,519,996)	—	(2,519,996)
Share based compensation	—	—	—	—	23,498	—	—	23,498
Other comprehensive income	—	—	—	—	—	—	38	38
BALANCE AT SEPTEMBER 30, 2022	32,000	\$ 32,000	7,435,586	\$ 371,779	\$ 41,562,362	\$ (11,697,872)	\$ (32,760)	\$ 30,235,509

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

For the Nine Months Ended September 30, 2021

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
BALANCE AT DECEMBER 31, 2020	3,074,998	\$ 153,750	\$ (153,750)	\$ (2,501,344)	\$ —	\$ (2,501,344)
Net loss	—	—	—	(4,726,939)	—	(4,726,939)
BALANCE AT SEPTEMBER 30, 2021	3,074,998	\$ 153,750	\$ (153,750)	\$ (7,228,283)	\$ —	\$ (7,228,283)

For the Three Months Ended September 30, 2021

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
BALANCE AT JUNE 30, 2021	3,074,998	\$ 153,750	\$ (153,750)	\$ (5,833,020)	\$ —	\$ (5,833,020)
Net loss	—	—	—	(1,395,263)	—	(1,395,263)
BALANCE AT SEPTEMBER 30, 2021	3,074,998	\$ 153,750	\$ (153,750)	\$ (7,228,283)	\$ —	\$ (7,228,283)

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

PINEAPPLE ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,960,978)	\$ (4,726,939)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,483,615	1,071,971
Share based compensation	23,498	—
Fair value remeasurement of earnout consideration	(4,684,000)	—
Fair value remeasurement of contingent value rights	1,214,560	—
Gain on sale of assets	(1,229,133)	—
Interest and accretion expense	618,983	1,004,964
Changes in assets and liabilities:		
Trade accounts receivable	(1,236,634)	—
Inventories	(82,264)	—
Prepaid income taxes	(11,297)	—
Other assets, net	26,113	—
Accounts payable	(3,065,340)	1,819,194
Accrued compensation and benefits	(903,425)	267,451
Customer deposits	4,462,156	—
Other accrued liabilities	59,850	—
Accrued interest	(1,056,876)	—
Net cash used in operating activities	<u>(6,341,172)</u>	<u>(563,359)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(116,307)	—
Acquisition of business, net of cash acquired	(10,199,835)	—
Proceeds from the sale of property, plant and equipment held for sale	6,297,115	479,983
Proceeds from the sale of investments	218,301	—
Proceeds from earnout consideration on sale of assets	1,500,000	—
Net cash (used in) provided by investing activities	<u>(2,300,726)</u>	<u>479,983</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings against working capital note payable	150,000	150,000
Payments against loan payable principal	(4,500,000)	—
Payments related to equity issuance costs	(2,699,370)	—
Proceeds from the issuance of preferred stock upon closing of private placement	32,000,000	—
Payments for contingent value rights distributions	(8,745,628)	—
Net cash provided by financing activities	<u>16,205,002</u>	<u>150,000</u>
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	7,563,104	66,624
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	18,966	—
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	<u>\$ 7,582,070</u>	<u>\$ 66,624</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	\$ 11,297	\$ —
Interest paid	1,070,853	3,097
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Issuance of common stock for conversion of related party payables	2,350,000	—
Issuance of common stock for conversion of working capital note payable	500,000	—
Issuance of common stock for the acquisition of HEC and E-Gear	12,781,234	—
Effect of reverse capitalization	1,594,779	—
Contingent consideration related to merger transaction	(4,684,000)	—
Operating right of use assets obtained in exchange for lease obligations	127,902	—

PINEAPPLE ENERGY INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – NATURE OF OPERATIONS

Description of Business

Pineapple Energy Inc. (formerly Communications Systems, Inc. and Pineapple Holdings, Inc.) (“PEGY”, “we” or the “Company”), was originally organized as a Minnesota corporation in 1969. On March 28, 2022, the Company completed its previously announced merger transaction with Pineapple Energy LLC (“Pineapple Energy”) in accordance with the terms of that certain Agreement and Plan of Merger dated March 1, 2021, as amended by an Amendment No. 1 to Merger Agreement dated December 16, 2021 (collectively the “merger agreement”), by and among the Company, Helios Merger Co., a Delaware corporation and a wholly-owned subsidiary of the Company (the “Merger Sub”), Pineapple Energy LLC, a Delaware limited liability company, Lake Street Solar LLC as the Members’ Representative, and Randall D. Sampson as the Shareholders’ Representative, pursuant to which Merger Sub merged with and into Pineapple Energy, with Pineapple Energy surviving the merger as a wholly-owned subsidiary of the Company (the “merger”). Following the closing of the merger (the “Closing”) the Company changed its name from Communications Systems, Inc. to Pineapple Holdings, Inc. and commenced doing business using the Pineapple name, and subsequently, on April 13, 2022, changed its name to Pineapple Energy Inc.

In addition, on March 28, 2022 and immediately prior to the closing of the merger, Pineapple Energy completed its acquisition (“HEC Asset Acquisition”) of substantially all of the assets of two Hawaii-based solar energy companies, Hawaii Energy Connection, LLC (“HEC”) and E-Gear, LLC (“E-Gear”). Subsequent to these transactions, the Company operates in two distinct business segments – the Solar segment, which consists of the residential and commercial solar businesses of Pineapple Energy, HEC, and E-Gear, and the IT Solutions & Services segment, which consists of the solutions services business of legacy Communications Systems, Inc. (“CSI”).

The Company is a growing domestic operator and consolidator of residential solar, battery storage, and grid service solutions. The Company’s focus is acquiring and growing leading local and regional solar, storage and energy service companies nationwide, which commenced with Pineapple Energy’s acquisitions of certain assets of Horizon Solar Power and Sungevity in December 2020. Through the Company’s HEC business, the Company also operates as a recognized solar integrator, dedicated to providing affordable energy solutions in Hawaii with its offerings of solar panels, communication filters, web monitoring systems, batteries, water heating systems, and other related products that help residential and commercial users reduce electric costs and earn tax credits related to installing renewable energy systems. The Company’s E-Gear business is a renewable energy innovator that offers proprietary patented and patent pending edge-of-grid energy management and storage solutions that offer intelligent and real-time adaptive control, flexibility, visibility, predictability and support to energy consumers, energy service companies, and utilities.

Through the Company’s legacy CSI subsidiaries, JDL Technologies, Inc. (“JDL”) and Ecessa Corporation (“Ecessa”), the Company provides technology solutions, including virtualization, managed services, wired and wireless network design and implementation, and hybrid cloud infrastructure and deployment, and designs, develops and sells SD-WAN (software-designed wide-area network) solutions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company and its wholly owned operating subsidiaries. Any reference in these notes to applicable guidance is meant to refer to the

authoritative GAAP as found in the Accounting Standards Codification (“ASC”) and Accounting Standards Update (“ASU”) of the Financial Accounting Standards Board (“FASB”).

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. The condensed consolidated financial statements and notes thereto should be read in conjunction with Pineapple Energy’s audited financial statements and notes thereto for the year ended December 31, 2021 included on the Company’s Current Report on Form 8-K/A, as filed with the Securities and Exchange Commission (“SEC”) on May 19, 2022. The accompanying condensed balance sheet at December 31, 2021 has been derived from the audited balance sheet at December 31, 2021 contained in the above-referenced Form 8-K/A. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

Impact of the Merger

The Company accounted for the March 28, 2022 merger as a reverse recapitalization whereby it was determined that Pineapple Energy was the accounting acquirer and CSI was the accounting acquiree. This determination was primarily based on:

- Former Pineapple Energy stockholders having the largest voting interest in the Company following the merger;
- The implied enterprise value of Pineapple Energy in the merger was well in excess of the market capitalization of CSI prior to the merger;
- At the Closing, the board of directors of the Company was fixed at seven members, two of which were selected by CSI and five of which were selected by Pineapple Energy;
- Pineapple Energy’s Chief Executive Officer serves as the Chief Executive Officer of the Company subsequent to the merger;
- The post-combination company assumed the “Pineapple Energy” name; and
- The Company disposed of the pre-existing CSI headquarters during the second quarter of 2022 and expects to dispose of its legacy subsidiaries, JDL and Ecessa, and will continue Pineapple Energy operations in Hawaii.

Accordingly, for accounting purposes, the merger was treated as the equivalent of Pineapple Energy issuing stock for the net assets of CSI, accompanied by a recapitalization.

While CSI was the legal acquirer in the merger, because Pineapple Energy was determined to be the accounting acquirer, the historical financial statements of Pineapple Energy became the historical financial statements of the combined company upon the consummation of the merger. As a result, the financial statements included in the accompanying condensed consolidated financial statements reflect (i) the historical operating results of Pineapple Energy prior to the merger; (ii) the consolidated results of legacy CSI, Pineapple Energy, HEC, and E-Gear following the closing of the merger; (iii) the assets and liabilities of Pineapple Energy at their historical cost; (iv) the assets and liabilities of CSI, HEC and E-Gear at fair value as of the merger date in accordance with ASC 805, Business Combinations, and (v) the Company’s equity structure for all periods presented.

In connection with the merger transaction, we have converted the equity structure for the periods prior to the merger to reflect the number of shares of the Company’s common stock issued to Pineapple Energy’s members in connection with the recapitalization transaction. As such, the shares, corresponding capital amounts and earnings per share, as applicable, related to Pineapple Energy member units prior to the merger have been retroactively converted by applying the exchange ratio established in the merger agreement.

PIPE Transaction

On March 28, 2022, following the closing of the merger, the Company closed on a \$32.0 million private investment in public entity (“PIPE”) transaction pursuant to a securities purchase agreement. Under the terms of the securities purchase agreement, for their \$32.0 million investment, the PIPE Investors received shares of newly authorized CSI Series A convertible preferred stock convertible at a price of \$13.60 per share into the Company’s common stock, together with warrants to purchase an additional \$32.0 million of common shares at that same price. The Company used the proceeds from the PIPE to fund the cash portion of the HEC Asset Acquisition, to repay \$4.5 million (\$5.6 million including five-year interest) of Pineapple Energy’s \$7.5 million term loan from Hercules Capital, Inc., to pay for transaction expenses,

and for working capital to support Pineapple Energy's growth strategy of acquiring leading local and regional solar installers around the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and accounts have been eliminated.

Use of Estimates

The presentation of financial statements in conformity with GAAP requires management 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 revenues and expenses during the reporting period. The Company uses estimates based on the best information available in recording transactions and balances resulting from operations. Actual results could materially differ from those estimates. The Company's estimates consist principally of reserves for doubtful accounts, asset impairment evaluations, accruals for compensation plans, lower of cost or market inventory adjustments, the fair value of the term loan payable and related assets at the date of acquisition, the fair value of the contingent value rights and contingent consideration, provisions for income taxes and deferred taxes, depreciable lives of fixed assets, and amortizable lives of intangible assets.

Restricted Cash and Cash Equivalents

For purposes of the condensed consolidated statements of cash flows, the Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. The Company may invest in short-term money market funds that are not considered to be bank deposits and are not insured or guaranteed by the federal deposit insurance company ("FDIC") or other government agency. These money market funds seek to preserve the value of the investment at \$1.00 per share; however, it is possible to lose money investing in these funds. The restricted cash and cash equivalents on the balance sheet as of September 30, 2022 are funds that can only be used to support the legacy CSI business, will be distributed to holders of the Company's contingent value rights ("CVRs") and cannot be used to support the working capital needs of the Pineapple Energy business.

Investments

Investments consist of corporate notes and bonds and commercial paper that are traded on the open market and are classified as available-for-sale and minority investments in strategic technology companies. Available-for-sale investments are reported at fair value with unrealized gains and losses excluded from operations and reported as a separate component of stockholders' equity, net of tax. The investments on the balance sheet as of September 30, 2022 can only be used to support the legacy CSI business, will be distributed to CVR holders and cannot be used to support the working capital needs of the Pineapple Energy business.

Accounts Receivable, Net

Accounts receivable are recorded at their net realizable value and are not collateralized. Accounts receivable include amounts earned less payments received and allowances for doubtful accounts. Management continually monitors and adjusts its allowances associated with the Company's receivables to address any credit risks associated with the accounts receivable and periodically writes off receivables when collection is not considered probable. The Company does not charge interest on past due accounts. When uncertainty exists as to the collection of receivables, the Company records an allowance for doubtful accounts and a corresponding charge to bad debt expense.

Inventories, Net

Inventories, which consist primarily of materials and supplies used in the installation of solar systems, are stated at the lower of cost or net realizable value, with costs computed on a weighted average cost basis. The Company periodically reviews its inventories for excess and obsolete items and adjusts carrying costs to estimated net realizable values when they are determined to be less than cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method. Maintenance and repairs are charged to operations and additions or improvements are capitalized. Items of property sold, retired or otherwise disposed of are removed from the asset and accumulated depreciation accounts and any gains or losses on disposal are reflected in the statements of operations.

Goodwill and Other Intangible Assets

Goodwill represents the amount by which the purchase prices (including liabilities assumed) of acquired businesses exceed the estimated fair value of the net tangible assets and separately identifiable intangible assets of these businesses. Definite lived intangible assets, consisting primarily of trade names, technology, and customer relationships are amortized on a straight-line basis over the estimated useful life of the asset. Goodwill is not amortized but is tested at least annually for impairment. The Company reassesses the value of our reporting units and related goodwill balances annually on October 1 and at other times if events have occurred or circumstances exist that indicate the carrying amount of goodwill may not be recoverable.

Recoverability of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. If indicators of impairment exist, management identifies the asset group that includes the potentially impaired long-lived asset, at the lowest level at which there are separate, identifiable cash flows. If the fair value, determined as the total of the expected undiscounted future net cash flows for the asset group is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying amount of the asset.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax, is comprised of unrealized losses on debt securities.

Revenue Recognition

Within the Company's Solar segment, revenue is recognized when there is a transfer of control of promised goods or services to customers in an amount that reflects the consideration that the Company expects to be entitled to in exchange for those goods or services. The Company sells solar power systems under construction and development agreements to residential and commercial customers. The completed system is sold as a single performance obligation. For residential contracts, revenue is recognized at the point-in-time when the systems are placed into service. Any advance payments received in the form of customer deposits are recorded as contract liabilities. Commercial contracts are generally completed within three to twelve months from commencement of construction. Construction on large projects may be completed within eighteen to twenty-four months, depending on the size and location of the project. Revenue from commercial contracts are recognized as work is performed based on the estimated ratio of costs incurred to date to the total estimated costs at the completion of the performance obligation.

The Company also arranges for solar power systems to be installed for residential customers by a third party, for which it earns a commission upon the end customer's acceptance of the installation. As there are more than two parties involved in the sales transaction, the Company has determined it has an agent relationship in the contracts with these customers, due to the fact that the Company is not primarily responsible for fulfilling the promise to provide the installation of solar

arrays to the customer, the Company does not have inventory risk and has only limited discretion in pricing. Accordingly, the Company has determined that revenue under these arrangements should be recognized on a net basis.

Within the Company's IT Solutions & Services segment, revenue is recognized over time for managed services and professional services (time and materials ("T&M") and fixed price) performance obligations. This segment's managed services performance obligation is a bundled solution, a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer and are recognized evenly over the term of the contract. T&M professional services arrangements are measured over time with an input method based on hours expended towards satisfying this performance obligation. Fixed price professional service arrangements under a relatively longer-term service will also be measured over time with an input method based on hours expended.

The Company has also identified the following performance obligations within its IT Solutions & Services segment that are recognized at a point in time, which include resale of third-party hardware and software, installation services, arranging for another party to transfer services to the customer, and certain professional services. The resale of third-party hardware and software is recognized at a point in time, when the goods are shipped or delivered to the customer's location, in accordance with the agreed upon shipping terms. Installation services are recognized at a point in time when the services are completed. The service the Company provides to arrange for another party to transfer services to the customer is satisfied at a point in time as the Company has transferred control upon the service first being made available to the customer by the third-party vendor, which are required to be presented on a net basis. Depending on the nature of the service, certain professional services transfer control at a point in time. The Company evaluates these circumstances on a case-by-case basis to determine if revenue should be recognized over time or at a point in time. See Note 4, Revenue Recognition, for further discussion regarding revenue recognition.

Gross Excise Tax

The State of Hawaii imposes a gross receipts tax on all business operations done in Hawaii. The Company records the tax revenue and expense on a gross basis.

Employee Retirement Benefits

The Company has an Employee Savings Plan (401(k)) and matches a percentage of employee contributions up to six percent of compensation.

Share Based Compensation

The Company accounts for share-based compensation awards on a fair value basis. The estimated grant date fair value of each stock-based award is recognized in the statement of operations over the requisite service period (generally the vesting period). The estimated fair value of each option is calculated using the Black-Scholes option-pricing model.

Net Loss Per Share

Basic net loss per common share is based on the weighted average number of common shares outstanding during each year. Diluted net loss per common share adjusts for the dilutive effect of potential common shares outstanding. The Company's only potential additional common shares outstanding are common shares that would result from the conversion of the Series A convertible preferred shares, stock options, warrants and shares associated with the long-term incentive compensation plans, which resulted in no dilutive effect for the three and nine-month periods ended September 30, 2022. The Company calculates the dilutive effect of outstanding options, warrants and unvested shares using the treasury stock method and the dilutive effect of outstanding preferred shares using the if-converted method. There were no options or deferred stock awards excluded from the calculation of diluted earnings per share because there were no outstanding options or deferred stock awards as of both September 30, 2022 and 2021. Warrants totaling 2,353,936 would have been excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2022, even if there had not been a net loss in those periods, because the exercise price was greater than the average market price of common stock during the period. For the three and nine months ended September 30, 2021, there were no potentially dilutive securities.

Accounting Standards Issued

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.” The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. This ASU is intended to provide financial statement users with more decision-useful information about expected credit losses and is effective for annual periods and interim periods for those annual periods beginning after December 15, 2022, which for us is the first quarter ending March 31, 2023. Entities may early adopt beginning after December 15, 2018. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

Accounting Standards Adopted

In August 2020, FASB issued ASU 2020-06, “Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity.” The amendments in this update reduce the number of accounting models for convertible debt instruments and convertible preferred stock and amend the guidance for the derivative scope exception for contracts in an entity’s own equity. Convertible instruments that continue to be subject to separation models are a) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and b) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. The reduction of accounting models is intended to simplify the accounting for convertible instruments, reduce complexity for preparers and practitioners, and improve the decision usefulness and relevance of the information provided to financial statement users. The amendments to the derivative scope exception guidance a) removes the following conditions from the settlement guidance: settlement in unregistered shares, collateral, and shareholder rights; b) clarifies that penalty payments do not preclude equity classification within the settlement guidance in the situation where there is a failure to timely file; c) requires instruments that are required to be classified as an asset or liability under ASC 815-40-15-8A to be measured subsequently at fair value, with changes reported in earnings and disclosed in the financial statements; d) clarifies that the scope of the disclosure requirements in ASC 815-40-50 applies only to freestanding instruments, not embedded features; and e) clarifies that the scope of the reassessment guidance in ASC 815-40-35 on subsequent measurement applies to both freestanding instruments and embedded features. The amendment to this guidance is intended to reduce form-over-substance-based accounting conclusions. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. We adopted this update as of January 1, 2022 and have incorporated this guidance in our evaluation of the accounting for our warrants, which are classified as equity in our condensed consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers" ("ASU 2021-08"). The standard requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, "Revenue from Contracts with Customers," as if it had originated the contracts. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted. The Company adopted this ASU during the second quarter of 2022 and has incorporated this guidance in our evaluation of the accounting for the merger and the HEC Asset Acquisition.

NOTE 3 – BUSINESS COMBINATIONS

CSI Merger

On March 28, 2022, the Company and Pineapple Energy consummated the transactions contemplated by the merger agreement. At the Closing, each member unit of Pineapple Energy that was issued and outstanding immediately prior to the effective time of the merger was cancelled and converted into the right to receive the Company’s common stock. The Company issued an aggregate of 5,006,245 shares of its common stock, which is inclusive of common shares issued to HEC and E-Gear owners as discussed further below and conversion of certain related party payables and debt outstanding prior to the merger transaction, discussed in Note 8, Commitments and Contingencies. The purpose of the merger was to provide a path to allow the Company to deliver value to its legacy shareholders through a combination of (i) the opportunity for the legacy CSI shareholders to receive an attractive return from dividends or distributions of the net

proceeds from the divestiture of the Company's pre-merger operating and non-operating assets and properties, and (ii) the opportunity for the legacy CSI shareholders, through ownership of the Company's common stock following the merger, to participate in the potential growth of the combined company's residential solar, battery storage, and grid services solutions business.

The Company accounted for the merger as a reverse recapitalization whereby it was determined that Pineapple Energy was the accounting acquirer and CSI was the accounting acquiree. Refer to Note 2, Summary of Significant Accounting Policies, for further details. The accompanying condensed consolidated financial statements and related notes reflect the historical results of Pineapple Energy prior to the merger and do not include the historical results of CSI prior to the consummation of the merger.

As a result of the reverse merger, the acquired assets and assumed liabilities of CSI were remeasured and recognized at fair value as of the acquisition date. The total purchase price represents the fair value of the Company common stock held by legacy CSI shareholders at the time of the merger (2,429,341 shares of common stock). The fair value of this purchase consideration was \$19,872,009 using the publicly traded Company stock price at the merger date, which is allocated at the merger date between the liability associated with the Company's obligation to pay legacy CSI shareholders cash as part of the CVRs discussed below and equity based on their respective fair values (Level 3 fair values).

The merger agreement also included the execution of CVR agreements with holders of record of CSI stock at the close of business on March 25, 2022. Each shareholder of record received one contractual non-transferable CVR per share of common stock held, which entitles the holders of the CVRs to receive a portion of the cash, cash equivalents, investments and net proceeds of any divestiture, assignment, or other disposition of all legacy assets of CSI and/or its legacy subsidiaries, JDL and Ecessa, that are related to CSI's pre-merger business, assets, and properties, including the sale of JDL and Ecessa, that occur during the 24-month period following the closing of the merger. As of the merger date, the fair value of the CVR liability was estimated at \$18,277,230, a Level 3 fair value, which was determined based on the provisional fair value of the tangible and definite-lived intangibles assets of CSI discussed below. The CVR liability is adjusted to fair value each reporting period. The Company is required to review the availability of funds for disbursement to CVR holders on a quarterly basis, starting on June 30, 2022. If the funds available are less than \$200,000, then the amount gets aggregated with the next payment. The assets and liabilities of CSI were recorded within the IT Solutions & Services segment and reporting unit as of the merger date at their respective fair value. During the third quarter of 2022, the Company distributed \$3.60 per CVR, or \$8,745,628 in total. Remaining legacy assets to be sold include JDL and Ecessa, the Company's IT Solutions & Services operating segment.

The purchase price allocation for the merger is based on the estimated fair value of assets acquired and liabilities assumed and has been provisionally allocated as follows:

Cash and cash equivalents	\$	1,919,593
Investments		3,155,443
Accounts receivable		1,821,199
Inventory		138,767
Other assets		1,316,813
Property, plant, and equipment		117,774
Current assets held for sale		6,566,855
Intangible assets		2,607,000
Goodwill		6,764,300
Total assets		<u>24,407,744</u>
Accounts payable		2,562,346
Accrued expenses		1,013,004
Deferred revenue		960,385
Total liabilities		<u>4,535,735</u>
Net assets acquired	\$	<u>19,872,009</u>

The identifiable intangible assets from the merger are definite-lived assets. These assets include trade names, developed technology, and customer relationships and have a provisional weighted average amortization period of four years. Goodwill recorded as part of the purchase price allocation is not tax deductible. The trade name preliminary fair values were determined using the relief-from-royalty method, an income approach, which included the following significant assumptions: projected revenue by business, royalty rate, income tax rate, and discount rate. The preliminary fair values of the developed technology associated with the Ecessa business and customer relationships associated with the JDL business were determined using the multiple period excess-earnings method, an income approach, which included the following significant assumptions: projected Ecessa revenues, obsolescence factor, margins, depreciation, contributory asset charges, discount rates, and income tax rates. The preliminary fair value of the customer relationships associated with the Ecessa business was determined using the distributor method, an income approach, which included the following significant assumptions: projected Ecessa revenue, customer attrition, margins, contributory asset charges, discount rates, and income tax rates.

The initial accounting for the acquired assets and liabilities is incomplete and is expected to be finalized during the twelve-month post-closing measurement period. The areas of the purchase price allocation that are not yet finalized for the merger include the valuation of intangible assets and income tax related matters. The Company will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

The merger included the acquisition of current assets held for sale related to CSI's company headquarters building located in Minnetonka, Minnesota, pursuant to a purchase agreement entered into with Buhl Investors LLC on November 18, 2021. The agreement was further amended on February 15, 2022, April 11, 2022 and April 26, 2022, to allow for additional time to complete due diligence. The assets were recorded at the purchase price of \$6,800,000 less the costs to sell the building as of March 31, 2022. On May 26, 2022, the purchase agreement was amended to reduce the purchase price to \$6,500,000 and the building sale closed on June 10, 2022. The Company received net proceeds of \$6,281,000 and recorded a loss on the sale of \$285,000 during the second quarter of 2022.

The condensed consolidated financial statements include results of operations of CSI following the consummation of the merger for the three and nine months ended September 30, 2022, which included \$1,860,111 and \$3,679,990 of revenue (including \$39,211 and \$99,975 in intercompany revenue), respectively, and a net loss of \$116,668 and \$618,626, respectively.

HEC Asset Acquisition

On March 28, 2022, immediately prior to the closing of the merger, Pineapple Energy completed its acquisition of substantially all of the assets of HEC and E-Gear and assumed certain liabilities of HEC and E-Gear pursuant to the Asset Purchase Agreement dated March 1, 2021, as amended by Amendment No. 1 to Asset Purchase Agreement dated December 16, 2021, by and among Pineapple Energy as Buyer, HEC and E-Gear as Sellers, and Steve P. Godmere, as representative for the Sellers. This acquisition was an expansion in the residential solar market and is a strategic start to the Company's overall acquisition growth plan as it looks to expand further through the acquisition of regional residential solar companies and energy technology solution providers. At the closing of this acquisition, Pineapple Energy issued 6,250,000 Class B units, which upon the closing of the merger were converted into 1,562,498 shares of the Company's common stock, with a fair value of \$12,781,234 using the publicly traded stock price at the merger date. The sellers received \$12,500,000 in initial cash consideration, less \$164,888 in working capital adjustments, bringing the aggregate purchase price to \$25,116,346, with cash acquired totaling \$215,684.

The assets and liabilities of HEC and E-Gear were recorded within the Solar segment as of the merger date at their respective fair values. The purchase price allocation is based on the estimated fair value of assets acquired and liabilities assumed and has been provisionally allocated as follows:

Cash and cash equivalents	\$	215,684
Accounts receivable		880,169
Inventory		1,572,062
Other assets		108,432
Property, plant, and equipment		182,135
Intangible assets		13,800,000
Goodwill		9,802,552
Total assets		<u>26,561,034</u>
Total liabilities		<u>(1,444,688)</u>
Net assets acquired	\$	<u>25,116,346</u>

The identifiable intangible assets from the HEC Asset Acquisition are definite-lived assets. These assets include a trade name and developed technology and have a weighted average amortization period of seven years. Goodwill recorded as part of the purchase price allocation is tax deductible. The fair value of the acquired identifiable intangible assets is provisional depending on the final valuation of those assets. The developed technology preliminary fair values were determined using the relief-from-royalty method, an income approach, which included the following significant assumptions: projected revenue, obsolescence, royalty rate, income tax rate, and discount rate. The preliminary fair values of the trade names were determined using the multiple period excess-earnings method, an income approach, which included the following significant assumptions: projected revenues, estimated probability of continued used of tradenames, margins, depreciation, contributory asset charges, discount rates, and income tax rates.

The initial accounting for the acquired assets and liabilities is incomplete and is expected to be finalized during the twelve-month post-closing measurement period. The areas of the purchase price allocation that are not yet finalized for the HEC Asset Acquisition include the valuation of intangible assets and income tax related matters. The Company will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

The condensed consolidated financial statements include results of operations of HEC and E-Gear following the consummation of the HEC Asset Acquisition for the three and nine months ended September 30, 2022, which included \$5,873,707 and \$10,289,655 of revenue, respectively and a net loss of \$305,482 and \$816,180, respectively.

Transaction costs related to the merger and HEC Asset Acquisition totaled \$0 and \$545,934 incurred by Pineapple Energy during the three months ended September 30, 2022 and 2021, respectively and \$968,505 and \$1,977,436 incurred during the nine months ended September 30, 2022 and 2021, respectively, and were recorded in operating expenses within the condensed consolidated statements of operations and comprehensive loss.

Pro Forma Information

The following unaudited pro forma information represents the results of operations as if the Company had completed the merger and HEC Asset Acquisition as of January 1, 2021. The unaudited pro forma financial information below includes adjustments to amortization expense for intangible assets totaling \$0 and \$548,726 and excludes transaction costs totaling \$265,383 and \$1,088,444 for the three months ended September 30, 2022 and 2021, respectively. The unaudited pro forma financial information below includes adjustments to amortization expense for intangible assets totaling \$539,389 and \$1,647,709 and excludes transaction costs totaling \$3,177,327 and \$3,831,818 for the nine months ended September 30, 2022 and 2021, respectively. The unaudited pro forma financial information below is not necessarily indicative of consolidated results of operations of the combined business had the acquisition occurred at the beginning of the respective period, nor is it necessarily indicative of future results of operations of the combined company.

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net revenue	\$ 7,709,062	\$ 6,072,680	\$ 19,124,301	\$ 16,025,351
Net loss	(2,257,309)	(2,386,451)	(3,162,376)	(8,701,410)

Earnout Shares

As part of the merger, the Company agreed to issue up to 3.25 million shares of the Company common stock to the holders of pre-merger Pineapple Energy units, subject to meeting certain milestone events (collectively, the “Merger Earnout Shares”). The Merger Earnout Shares are issuable in three tranches. The milestone for the issuance of the first tranche of the Merger Earnout Shares involves repayment of certain of pre-merger Pineapple Energy’s debt obligations within three months of the merger closing, which would result in the issuance of 750,000 shares of the Company’s common stock. This milestone was met at the merger closing and the 750,000 shares of the Company’s common stock were issued and are reflected in the Company’s condensed consolidated statement of stockholders’ equity as of September 30, 2022.

The milestone for the second tranche of the Merger Earnout Shares is triggered upon the volume weighted average price (“VWAP”) of the Company’s common stock equaling or exceeding \$24.00 for 30 consecutive trading days within 24-months of the merger closing. The milestone for the third tranche of the Merger Earnout Shares is triggered upon the VWAP of the Company’s common stock equaling or exceeding \$32.00 for 30 consecutive trading days within 24-months of the merger closing. Under the second or third tranches, the number of shares of Company common stock to be issued is also affected by whether the Company has disposed or sold certain assets of its business within 24 months of the merger closing date, which could ultimately impact whether 1.0 million or 1.25 million shares of the Company’s common stock are issued under each tranche.

The first tranche of 750,000 shares issued of the Company’s common stock is accounted for as permanent equity in accordance with ASC 815-40, and no subsequent remeasurement is required as long as the shares continue to be classified in equity. The shares of the Company’s common stock contingently issuable under the second and third tranches, up to an additional 2.5 million shares of the Company’s common stock are classified as a liability, similar to the accounting for written equity options, which requires an initial measurement of the liability at fair value with subsequent remeasurements to fair value at each reporting date and changes in the fair value recognized in the condensed consolidated statement of operations. As of March 28, 2022, the fair value of the Merger Earnout Shares for the second and third tranches was approximately \$4.7 million. The Company utilized a Monte Carlo simulation to determine the fair value of the liability, which included the following significant assumptions: the expected probability and timing of achievement of milestone events. As of September 30, 2022, the fair value of the Merger Earnout Shares was \$0, resulting in a gain on the fair value remeasurement of the earnout consideration totaling \$4,684,000 during the nine months ended September 30, 2022, which was recorded in other income (expense) within the condensed consolidated statements of operations.

NOTE 4 – REVENUE RECOGNITION

Disaggregation of revenue

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that best reflects the consideration we expect to receive in exchange for those goods or services. In accordance with ASC 606-10-50-5, the following tables present how we disaggregated our revenues for the three and nine months ended September 30, 2022. There was \$25,417 in commission revenue during each of the three and nine months ended September 30, 2021.

The Solar segment classifies its revenue by type as follows:

	Solar Revenue by Type	
	Three Months Ended September 30 2022	Nine Months Ended September 30 2022
Residential contracts	\$ 5,800,813	\$ 10,180,214
Commercial contracts	72,894	109,441
Commission revenue	14,455	48,828
	<u>\$ 5,888,162</u>	<u>\$ 10,338,483</u>

The IT Solutions & Services segment classifies its revenue (including \$39,211 and \$99,975 of intercompany revenue for the three and nine months ended September 30, 2022, respectively) by customer group and type as follows:

	IT Solutions & Services Revenue by Customer Group			
	Three Months Ended September 30		Nine Months Ended September 30	
	2022		2022	
Financial & Legal	\$	577,145	\$	1,122,624
Healthcare		242,638		488,574
Education		57,476		115,171
Other commercial clients		982,852		1,953,621
	\$	1,860,111	\$	3,679,990

	IT Solutions & Services Revenue by Type			
	Three Months Ended September 30		Nine Months Ended September 30	
	2022		2022	
Project & product revenue	\$	209,127	\$	468,145
Services & support revenue		1,650,984		3,211,845
	\$	1,860,111	\$	3,679,990

NOTE 5 – RESTRICTED CASH EQUIVALENTS AND INVESTMENTS

The following tables show the Company's restricted cash equivalents and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as restricted cash and cash equivalents or short- and long-term investments as of September 30, 2022. There were no restricted cash equivalents or investments as of December 31, 2021.

September 30, 2022							
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market Funds	\$ 959,541	\$ —	\$ —	\$ 959,541	\$ 959,541	\$ —	\$ —
Subtotal	959,541	—	—	959,541	959,541	—	—
Investments:							
Corporate Notes/Bonds	2,725,561	—	(71,178)	2,654,383	—	2,654,383	—
Subtotal	2,725,561	—	(71,178)	2,654,383	—	2,654,383	—
Total	\$ 3,685,102	\$ —	\$ (71,178)	\$ 3,613,924	\$ 959,541	\$ 2,654,383	\$ —

The Company tests for other-than-temporary losses on a quarterly basis and has considered the unrealized losses indicated above to be temporary in nature. The Company intends to hold the investments until it can recover the full principal amount and has the ability to do so based on other sources of liquidity. The Company expects such recoveries to occur prior to the contractual maturities.

The following table summarizes the estimated fair value of our investments, designated as available-for-sale and classified by the contractual maturity date of the securities as of September 30, 2022:

	Amortized Cost	Estimated Market Value
Due within one year	\$ 2,725,561	\$ 2,654,383
Due after one year through five years	—	—
	<u>\$ 2,725,561</u>	<u>\$ 2,654,383</u>

As part of the merger, the Company acquired an investment totaling \$250,000 in preferred shares of Kogniz, Inc., a privately owned artificial intelligence company based in Silicon Valley, CA. The Company's investment represented less than 10% of the outstanding equity of Kogniz. The Company uses the cost method to account for investments in common stock of entities such as Kogniz if the Company does not have the ability to exercise significant influence over the operating and financial matters of the entity. The Company also uses the cost method to account for its investments that are not in the form of common stock or in-substance common stock in entities if the Company does not have the ability to exercise significant influence over the entity's operating and financial matters.

NOTE 6 – INVENTORIES

Inventories are summarized below. There were no inventories as of December 31, 2021.

	September 30, 2022
Finished goods	\$ 14,207
Raw materials	1,778,886
	<u>\$ 1,793,093</u>

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

The Company recorded a provisional goodwill balance totaling \$16,567,000 as of September 30, 2022. See further discussion within Note 3, Business Combinations. As noted in Note 2, Summary of Significant Accounting Policies, goodwill is tested annually for impairment on October 1st and at other times if events have occurred or circumstances exist that indicate the carrying amount of goodwill may not be recoverable. As a result of the Company's declining stock price during the third quarter of 2022, the Company performed an interim qualitative impairment assessment. Based on this assessment, the Company concluded that it was more likely than not that our goodwill and long-lived assets were not impaired.

Including the provisional intangible assets totaling \$16,407,000 as of September 30, 2022 discussed within Note 3, Business Combinations, the Company's identifiable intangible assets with finite lives are being amortized over their estimated useful lives and were as follows:

September 30, 2022

	Gross Carrying Amount	Accumulated Amortization	Net
Tradenames & trademarks	\$ 15,988,882	\$ (3,322,182)	\$ 12,666,700
Developed technology	3,397,000	(466,500)	2,930,500
Customer relationships	1,309,000	(128,975)	1,180,025
	<u>\$ 20,694,882</u>	<u>\$ (3,917,657)</u>	<u>\$ 16,777,225</u>

December 31, 2021

	Gross Carrying Amount	Accumulated Amortization	Net
Tradename & trademark	\$ 4,287,882	\$ (1,507,612)	\$ 2,780,270
	<u>\$ 4,287,882</u>	<u>\$ (1,507,612)</u>	<u>\$ 2,780,270</u>

Amortization expense on these identifiable intangible assets was \$1,026,362 and \$357,324 during the three months ended September 30, 2022 and 2021, respectively and \$2,410,045 and \$1,071,971 during the nine months ended September 30, 2022 and 2021, respectively. The estimated future amortization expense for identifiable intangible assets during the next fiscal years is as follows:

Year Ending December 31:

Q4 2022	\$ 1,034,449
2023	4,037,896
2024	2,686,933
2025	2,437,683
2026	1,876,100
Thereafter	4,704,164

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Loan Payable

As of September 30, 2022 and December 31, 2021, Pineapple Energy had \$3,000,000 and \$7,500,000, respectively, in a loan payable to Hercules Capital, Inc. (“Hercules”) under a loan and security agreement (the “Term Loan Agreement”). This loan accrues interest at 10%, payable-in-kind and was initially due and payable on December 10, 2023. There are no financial covenants associated with this loan. This loan was used to acquire fixed assets, inventory, and intangible assets of Sungevity in an asset acquisition in December 2020. As the transaction did not involve the exchange of monetary consideration, the assets were valued at the Company’s most reliable indication of fair value, which was debt issued in consideration for the assets. Accordingly, Pineapple Energy assessed the fair market value of the debt instrument at \$4,768,000 at the asset acquisition date (a non-recurring Level 3 fair value input). The Company initially accreted the value of the debt over its life at a discount rate of approximately 25%.

On December 16, 2021, the Term Loan Agreement was amended, whereby the maturity date was extended to December 31, 2024, subject to various prepayment criteria. In addition, the amendment provided that \$4,500,000 plus all accrued and unpaid interest and expenses were to be repaid upon closing of the merger and receipt of the PIPE funds, with the remaining principal to be paid upon the loan maturity date.

The amendment represented a modification to the loan agreement with the existing lender as both the original loan agreement and the amendment allow for immediate prepayment and the Company passed the cash flow test. At December 31, 2021, the combined loan and accrued interest balance was \$6,194,931. The balance at September 30, 2022, after giving effect to the \$5,557,000 payment of principal and accrued interest on March 29, 2022, was \$1,257,038. A new

effective interest rate of approximately 52.9% was established during the first quarter of 2022 based on the carrying value of the revised cash flows.

Interest and accretion expense was \$151,024 and \$618,983 for three and nine months ended September 30, 2022, respectively, and \$266,473 and \$995,743 for the three and nine months ended September 30, 2021, respectively. The loan is collateralized by all of Pineapple Energy's personal property and assets.

Working Capital Note

On January 8, 2021, Pineapple Energy and Hercules, as agent for itself and the lenders, entered into a Working Capital Loan and Security Agreement (the "Working Capital Agreement") for a working capital loan in the maximum principal amount of \$500,000. The lenders, Hercules and Northern Pacific Growth Investment Advisors, LLC, made working capital loan commitments of \$400,000 and \$100,000, respectively. Northern Pacific Growth Investment Advisors, LLC is an affiliate of Northern Pacific Group, which controls Lake Street Solar, LLC, a then-member of Pineapple Energy. Borrowings under the Working Capital Agreement bore interest at 10.00% per annum with interest compounded daily and payable monthly. At December 31, 2021, the balance outstanding on the working capital loan was \$350,000. The working capital loan had an initial maturity date of January 7, 2022 and was collateralized by all of Pineapple Energy's assets. The Working Capital Agreement included provisions relating to the mandatory and optional conversion of the underlying loan amount into equity of the Company under certain circumstances. In the case of either a mandatory or optional conversion of the Hercules working capital loan, the working capital loan of Northern Pacific Growth Investment Advisors, LLC, including all accrued and unpaid interest, would be immediately due and payable. On December 16, 2021, an amendment to the Working Capital Agreement was executed that extended the maturity date to December 31, 2022 and added an additional mandatory conversion provision. In the event that, on or before the maturity date, Pineapple Energy consummated the merger, then immediately prior to the consummation of the merger, the working capital loan and all accrued and unpaid interest and expenses thereon would automatically convert into Class C Units of Pineapple Energy calculated based on one Class C Unit being issued for every \$2.00 to be converted. The conversion option under the amendment was considered clearly and closely related to the host contract. During the first three months of 2022, Pineapple Energy borrowed an additional \$150,000 and had \$500,000 outstanding prior to the merger on March 28, 2022. Immediately prior to the merger on March 28, 2022, the \$500,000 outstanding loan balance was converted to 250,000 Class C Units, which upon close of the merger were converted into 62,500 shares of Company common stock.

Interest expense was \$0 and \$13,977 for the three and nine months ended September 30, 2022, respectively, and was \$7,402 and \$9,221 for the three and nine months ended September 30, 2021, respectively.

Related Party Payables

During December 2020, Pineapple Energy incurred acquisition-related costs and accrued a payable totaling \$2,350,000, with \$2,000,000 due to one then-member and \$350,000 to another then-member. Under the Term Loan Agreement, this \$2,350,000 in related party payables was subordinate to the payment to Hercules of the amounts due under the Term Loan Agreement and could only be repaid under certain conditions, including the requirement that no obligations were outstanding under the Term Loan Agreement and Pineapple Energy or its subsidiaries had closed on an equity transaction generating at least \$30 million in proceeds.

On December 16, 2021, the then-members signed subscription agreements where the then-members agreed, in consideration for the full cancellation of the accrued payables, to convert the accrued payables into convertible promissory notes of Pineapple Energy, effective immediately prior to the consummation of the merger. The convertible promissory notes automatically converted into 1,175,000 Class C Units of Pineapple Energy after issuance of the convertible note to the then-members and immediately prior to the consummation of the merger. This conversion option was considered clearly and closely related to the host contract and the payables were converted to 1,175,000 Class C Units of Pineapple Energy immediately prior to the merger, which upon close of the merger were converted into 293,750 shares of the Company's common stock.

Other Contingencies

During the first quarter of 2022, the two lawsuits that were filed on behalf of purported CSI shareholders relating to the Registration Statement on S-4 that we filed on November 12, 2021 (the “Registration Statement”) in connection with the merger, among other matters, were voluntarily dismissed. The first complaint was filed on December 13, 2021 by Bashir Rivera in the United States District Court for the Southern District of New York and is captioned *Rivera v. Communications Systems, Inc., et al.*, No. 1:21-cv-10637-NRB. The second complaint was filed on December 28, 2021 by Allen Chaidez in the United States District Court for the Eastern District of New York and is captioned *Chaidez v. Communications Systems, Inc., et al.*, No. 1:21-cv-07155-MKB-VMS. The *Rivera* action was voluntarily dismissed on February 24, 2022. The *Chaidez* action was voluntarily dismissed on March 24, 2022. As of September 30, 2022, there were no material legal proceedings pending relating to the Registration Statement.

In the ordinary course of business, the Company is exposed to legal actions and claims and incurs costs to defend against these actions and claims. Company management is not aware of any outstanding or pending legal actions or claims that could materially affect the Company’s financial position or results of operations.

NOTE 9 – STOCK-BASED COMPENSATION

2022 Equity Incentive Plan

On January 24, 2022 the CSI board of directors adopted, and on March 16, 2022 the Company’s shareholders approved, the Company’s 2022 Equity Incentive Plan (“2022 Plan”), which became effective on March 28, 2022. The 2022 Plan authorizes incentive awards to officers, key employees, non-employee directors, and consultants in the form of options (incentive and non-qualified), stock appreciation rights, restricted stock awards, stock unit awards, and other stock-based awards. The 2022 Plan authorizes the issuance of up to 750,000 shares of common stock. At September 30, 2022, no shares had been issued under the 2022 Plan, 470,888 shares were subject to currently outstanding unvested restricted stock units (“RSUs”), and 279,112 shares were available for grant under future awards.

Changes in Restricted Stock Units Outstanding

The following table summarizes the changes in the number of RSUs under the 2022 Plan over the period December 31, 2021 to September 30, 2022:

	RSUs	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2021	—	\$ —
Granted	470,888	2.00
Issued	—	—
Forfeited	—	—
Outstanding – September 30, 2022	<u>470,888</u>	<u>\$ 2.00</u>

Compensation Expense

Share-based compensation expense recognized for each of the three and the nine months ended September 30, 2022 was \$23,498. There was no share-based compensation expense for the three and nine months ended September 30, 2021. Unrecognized compensation expense related to outstanding RSUs was \$918,278 at September 30, 2022 and is expected to be recognized over a weighted-average period of 2.2 years. Share-based compensation expense is recorded as a part of selling, general and administrative expenses.

NOTE 10 – EQUITY

Convertible Preferred Stock and Warrants

On June 28, 2021, the Company entered into a securities purchase agreement (“SPA”) in which, subsequent to the closing of the merger, the Company would authorize the issuance and sale of 25,000 restricted shares of Series A Preferred Stock, par value \$1.00 per share (“Convertible Preferred Stock”), to certain investors in a private offering (“PIPE Investors”). On September 15, 2021, the Company amended the SPA to issue 32,000 restricted shares of Convertible Preferred Stock, to the PIPE Investors for \$32.0 million in cash. This Convertible Preferred Stock is convertible into underlying shares of the Company’s common stock at any time after the issuance date at the option of the PIPE Investors, subject to certain restrictions, and has a liquidation preference over the Company’s common stock. The Convertible Preferred Stock may be converted by the Company to common stock upon meeting certain market conditions, of which none had been met as of September 30, 2022, and may be redeemed by the Company for cash upon delivery of written notice for a redemption price as defined in the SPA. The PIPE investors in the Convertible Preferred Stock were granted certain registration rights as set forth in the SPA. Holders of the Convertible Preferred Stock have no voting rights and no dividend preference over common stock.

Concurrent with the amendment, the Company entered into warrant agreements with the PIPE Investors to purchase common stock (the “Warrant Agreement”), whereby the Company would issue 2,352,936 warrants (“PIPE Warrants”) to purchase restricted shares of the Company’s common stock for cash or in a cashless exercise. These PIPE Warrants have an exercise price of \$13.60 with a five-year term, commencing on the date of issuance.

These Convertible Preferred Stock and PIPE Warrants were issued on March 28, 2022 upon the consummation of the merger. As of September 30, 2022, there were 3,000,000 shares of Convertible Preferred Stock authorized and 32,000 shares of Convertible Preferred Stock issued and outstanding. No PIPE Warrants were exercised prior to September 30, 2022. All 2,352,936 PIPE Warrants remain outstanding as of September 30, 2022.

The proceeds from the issuance of Convertible Preferred Stock were allocated between the Convertible Preferred Stock and PIPE Warrants using a relative fair value method. As of March 28, 2022, the fair value of the Convertible Preferred Stock was estimated at \$756.06 per share with a total fair value recognized in the condensed consolidated financial statements of approximately \$24.2 million. The fair value of the PIPE Warrants was estimated at \$3.32 per share with a total fair value of approximately \$7.8 million. The Company utilized a Monte Carlo simulation to determine the fair value of these instruments, which included the following significant assumptions: the expected volatility, risk-free rate, expected annual dividend yield, and expected conversion dates. The Convertible Preferred Stock is reported as part of permanent equity in the condensed consolidated balance sheet and condensed consolidated statement of stockholders’ equity as of September 30, 2022. The PIPE Warrants were determined to be equity-classified and the fair value of \$7.8 million was recognized in additional paid-in capital as of September 30, 2022. In addition, approximately \$2.0 million and \$0.7 million of offering costs were recorded as a reduction to the carrying values of the Convertible Preferred Stock and PIPE Warrants, respectively.

NOTE 11 – INCOME TAXES

In the preparation of the Company’s condensed consolidated financial statements, management calculates income taxes based upon the estimated effective rate applicable to operating results for the full fiscal year. This includes estimating the current tax liability as well as assessing differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. Management analyzes these assets and liabilities regularly and assesses the likelihood that deferred tax assets will be recovered from future taxable income.

The Company’s effective income tax rate was 0% for the three and nine months ended September 30, 2022. The effective tax rate differs from the federal tax rate of 21% due to state income taxes and changes in valuation allowances related to deferred tax assets. The Company was a pass through entity in 2021.

NOTE 12 – SEGMENT INFORMATION

The Company classifies its business operations into two segments as follows:

Solar: generates revenue through the sale and installation of residential and commercial solar systems, battery storage, and grid service solutions.
IT Solutions & Services: provides technology solutions that address prevalent IT challenges, including network resiliency, security products and services, network virtualization, and cloud migrations, IT managed services, wired and wireless network design and implementation, and converged infrastructure configuration, deployment and management.

Our chief operating decision maker evaluates segment financial performance based on segment revenues and segment operating income and allocates resources to achieve our operating profit goals through these two operating segments. Management has chosen to organize the Company and disclose reportable segments based on our products and services. Intercompany revenues are eliminated upon consolidation. “Other” includes corporate costs that are not allocated to the segments.

Information concerning the Company’s operations in its segments for the three- and nine-month periods ended September 30, 2022 and 2021 are as follows:

	Solar	IT Solutions & Services	Other	Intercompany Eliminations	Total
Three Months Ended September 30, 2022					
Sales	\$ 5,888,162	\$ 1,860,111	\$ —	\$ (39,211)	\$ 7,709,062
Cost of sales	4,483,989	1,211,331	—	—	5,695,320
Gross profit	1,404,173	648,780	—	(39,211)	2,013,742
Selling, general and administrative expenses	1,250,734	620,471	1,290,982	(39,211)	3,122,976
Amortization expense	863,574	162,788	—	—	1,026,362
Transaction costs	—	3,018	262,365	—	265,383
Operating loss	(710,135)	(137,497)	(1,553,347)	—	(2,400,979)
Other income (expense)	(149,065)	20,829	9,219	—	(119,017)
Loss before income tax	<u>\$ (859,200)</u>	<u>\$ (116,668)</u>	<u>\$ (1,544,128)</u>	<u>\$ —</u>	<u>\$ (2,519,996)</u>
Depreciation and amortization	<u>\$ 878,853</u>	<u>\$ 184,204</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,063,057</u>
Capital expenditures	<u>\$ 101,456</u>	<u>\$ 3,736</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 105,192</u>
Assets	<u>\$ 41,572,863</u>	<u>\$ 9,676,492</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 51,249,355</u>

	Solar	IT Solutions & Services	Other	Intercompany Eliminations	Total
Three Months Ended September 30, 2021					
Sales	\$ 25,417	\$ —	\$ —	\$ —	\$ 25,417
Cost of sales	—	—	—	—	—
Gross profit	25,417	—	—	—	25,417
Selling, general and administrative expenses	241,728	—	—	—	241,728
Amortization expense	357,324	—	—	—	357,324
Transaction costs	545,934	—	—	—	545,934
Operating loss	(1,119,569)	—	—	—	(1,119,569)
Other expense	(275,694)	—	—	—	(275,694)
Loss before income tax	<u>\$ (1,395,263)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1,395,263)</u>
Depreciation and amortization	<u>\$ 357,324</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 357,324</u>
Assets	<u>\$ 3,205,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,205,000</u>

	Solar	IT Solutions & Services	Other	Intercompany Eliminations	Total
Nine Months Ended September 30, 2022					
Sales	\$ 10,338,483	\$ 3,679,990	\$ —	\$ (99,975)	\$ 13,918,498
Cost of sales	7,966,159	2,567,203	—	—	10,533,362
Gross profit	2,372,324	1,112,787	—	(99,975)	3,385,136
Selling, general and administrative expenses	2,683,953	1,442,286	2,627,532	(99,975)	6,653,796
Amortization expense	2,084,470	325,575	—	—	2,410,045
Transaction costs	949,330	80,501	417,453	—	1,447,284
Operating loss	(3,345,429)	(735,575)	(3,044,985)	—	(7,125,989)
Other income (expense)	(628,376)	116,949	4,676,438	—	4,165,011
Income (loss) before income tax	<u>\$ (3,973,805)</u>	<u>\$ (618,626)</u>	<u>\$ 1,631,453</u>	<u>\$ —</u>	<u>\$ (2,960,978)</u>
Depreciation and amortization	<u>\$ 2,108,901</u>	<u>\$ 374,714</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,483,615</u>
Capital expenditures	<u>\$ 106,421</u>	<u>\$ 9,886</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 116,307</u>

	Solar	IT Solutions & Services	Other	Intercompany Eliminations	Total
Nine Months Ended September 30, 2021					
Sales	\$ 25,417	\$ —	\$ —	\$ —	\$ 25,417
Cost of sales	—	—	—	—	—
Gross profit	25,417	—	—	—	25,417
Selling, general and administrative expenses	697,985	—	—	—	697,985
Amortization expense	1,071,971	—	—	—	1,071,971
Transaction costs	1,977,436	—	—	—	1,977,436
Operating loss	(3,721,975)	—	—	—	(3,721,975)
Other expense	(1,004,964)	—	—	—	(1,004,964)
Loss before income tax	<u>\$ (4,726,939)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (4,726,939)</u>
Depreciation and amortization	<u>\$ 1,071,971</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,071,971</u>

NOTE 13 – FAIR VALUE MEASUREMENTS

The accounting guidance establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 – Observable inputs such as quoted prices for similar instruments and quoted prices in markets that are not active, and inputs that are directly observable or can be corroborated by observable market data. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

Level 3 – Significant inputs to pricing that have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of financial instruments.

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2022 are summarized below. There were no assets or liabilities measured at fair value on a recurring basis as of December 31, 2021.

	September 30, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	\$ 959,541	\$ —	\$ —	\$ 959,541
Subtotal	<u>959,541</u>	<u>—</u>	<u>—</u>	<u>959,541</u>
Short-term investments:				
Corporate notes/bonds	—	2,654,383	—	2,654,383
Subtotal	<u>—</u>	<u>2,654,383</u>	<u>—</u>	<u>2,654,383</u>
Liabilities:				
Contingent value rights	—	—	(10,743,224)	(10,743,224)
Earnout consideration	—	—	—	—
Subtotal	<u>—</u>	<u>—</u>	<u>(10,743,224)</u>	<u>(10,743,224)</u>
Total	<u>\$ 959,541</u>	<u>\$ 2,654,383</u>	<u>\$ (10,743,224)</u>	<u>\$ (7,129,300)</u>

The estimated fair value of the CVRs as of September 30, 2022 was \$10,743,224, as noted above. The Company recorded a \$1,214,560 loss on the fair value remeasurement of the CVRs during the second quarter of 2022 related to a \$1,500,000 gain on an earnout payment realized in the second quarter of 2022 related to legacy CSI's sale of its Electronics and Software segment in 2021 offset with a \$285,440 loss on held for sale assets. The Company paid \$8,745,628 in CVR distributions during the third quarter of 2022.

The estimated fair value of the earnout consideration as of September 30, 2022 was \$0. As noted in Note 3, Business Combinations, the estimated fair value is considered a Level 3 measurement. In order to update the fair value at September 30, 2022, the Company utilized a Monte Carlo simulation, which included the following significant assumptions: the expected probability and timing of achievement of milestone events. As a result of the fair value remeasurement, the Company recorded a total gain of \$4,684,000 during the nine months ended September 30, 2022 related to the earnout consideration.

The fair value remeasurements noted above were both recorded within other income (expense) in the condensed consolidated statements of operations.

We record transfers between levels of the fair value hierarchy, if necessary, at the end of the reporting period. There were no transfers between levels during the three months ended September 30, 2022.

NOTE 14 – SUBSEQUENT EVENTS

SUNation Acquisition

On November 9, 2022, the Company entered into a Transaction Agreement (the “Transaction Agreement”) with Solar Merger Sub, LLC, a New York limited liability company and wholly owned subsidiary of the Company (“Merger Sub”), Scott Maskin, James Brennan, Scott Sousa and Brian Karp (collectively, the “Sellers”), and Scott Maskin as representative of each seller, pursuant to which the Company directly or indirectly acquired all of the issued and outstanding equity of SUNation Solar Systems, Inc. and five of its affiliated entities: SUNation Commercial, Inc., SUNation Service, Inc., SUNation Electric, Inc., SUNation Energy, LLC, and SUNation Roofing, LLC (collectively, the “Acquired Companies”). Each of SUNation Service, Inc. and SUNation Electric, Inc. were acquired through a merger with and into Merger Sub, with Merger Sub surviving each merger, pursuant to a Plan of Merger, dated as of November 9, 2022 (the “Plan of Merger”). The mergers closed contemporaneously with signing the Transaction Agreement. This acquisition was a further expansion in the residential and commercial solar markets and fits into the Company’s overall acquisition growth plan as it looks to expand further through the acquisition of regional residential solar companies and energy technology solution providers.

The Company acquired the equity of the Acquired Companies from Sellers for an aggregate purchase price of approximately \$21.9 million, comprised of (a) \$2.39 million in cash consideration paid at closing, (b) the issuance at closing of a \$5.0 million Short-Term Limited Recourse Secured Promissory Note (the “Short-Term Note”), (c) the issuance at closing of a \$5,486,000 Long-Term Promissory Note (the “Long-Term Note”), (d) the issuance at closing of an aggregate of 1,480,000 shares (the “Shares”) of Company common stock pursuant to the Plan of Merger, and (e) potential earn-out payments of up to \$2.5 million for each of fiscal years 2023 and 2024, based on the percentage of year-over-year EBITDA growth of the Acquired Companies, as set forth in the Transaction Agreement (the “Earnout”).

The Short-Term Note is secured as described below and matures on August 9, 2023. It carries an annual interest rate of 4% until the three-month anniversary of issuance, 8% thereafter until the six-month anniversary of issuance, then 12% thereafter until the Short-Term Note is paid in full. The Long-Term Note is unsecured and matures on November 9, 2025. It carries an annual interest rate of 4% until the first anniversary of issuance, then 8% thereafter until the Long-Term Note is paid in full. The Company will be required to make a principal payment of \$2.5 million on the second anniversary of the Long-Term Note. Both the Short-Term Note and Long-Term Note may be prepaid at the Company’s option at any time without penalty.

Pursuant to a Limited Pledge and Security Agreement among the Company and Sellers, dated November 9, 2022 (the “Pledge Agreement”), the Short-Term Note is secured by a pledge by the Company and Merger Sub of the equity of the Acquired Companies purchased under the Transaction Agreement. While the Short-Term Note remains outstanding, the Company also agrees to certain negative covenants with respect to the operation of the Acquired Companies, including limits on distributions, the incurrence of indebtedness, imposition of liens, and sales of assets outside the ordinary course of business. If Sellers exercise their remedies under the Pledge Agreement (due to an event of default by the Company under the Short-Term Note or the Pledge Agreement), Sellers would be able recover the pledged equity of the Acquired Companies and the Company’s remaining obligations under the Short-Term Note and the Long-Term Note would be cancelled in their entirety and would be of no further force and effect. The Company’s obligations to make any Earnout payment under the Transaction Agreement would also be terminated. The Pledge Agreement will automatically terminate upon the payment of all amounts due under the Short-Term Note.

As a result of the timing of the acquisition in proximity to the filing date, not all disclosures as required under ASC 805 are presented herein (including a preliminary purchase price allocation and certain pro-forma information) as the initial accounting for the business combination is incomplete at the time the financial statements were issued.

PIPE Investment Reset

Following market close on November 9, 2022, the Company also entered into a separate Consent, Waiver and Amendment with each of the Company's existing PIPE Investors whereby these investors provided certain waivers to the anti-dilution protections that reset the conversion price of the Convertible Preferred Stock to \$4.00 and reset the strike price on certain of the PIPE Warrants to \$4.00 from \$13.60. Following the adjustments, the Company's \$32 million of Convertible Preferred Stock preference is currently convertible into approximately 8.0 million shares of common stock at \$4.00 per share and the PIPE Investors hold PIPE Warrants to purchase approximately 4.0 million shares of common stock at \$4.00 per share and PIPE Warrants to purchase approximately 1.2 million shares of common stock at \$13.60 per share. The conversion price of the Convertible Preferred Stock and the conversion price of the PIPE Warrants and the number of shares issuable upon exercise of the PIPE Warrants continue to be subject to further adjustment in accordance with their terms.

NOTE 15 – GOING CONCERN

The Company's financial statements as of September 30, 2022 have been prepared in accordance with GAAP applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As noted in Note 14, the Company entered into a \$5.0 million Short-Term Note that is due on August 9, 2023. Based on the Company's current financial position, which includes approximately \$4.6 million of restricted cash, cash equivalents and investments that are restricted under the CVR agreement and cannot be used by the Company for its own working capital needs, the Company's forecasted future cash flows for twelve months beyond the date of issuance of these financial statements indicate that the Company will not have sufficient cash to repay the Short-Term Note obligation, a factor which raises substantial doubt about the ability of the Company to continue as a going concern for a reasonable period of time.

In order to continue as a going concern, the Company will need additional capital resources. Management plans to raise capital through sources that may include public or private equity offerings, debt financings and/or strategic alliances. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. These financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our interim unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q (“Quarterly Report”) and the audited financial statements and notes thereto as of and for the years ended December 31, 2021 and 2020, which are contained in our amended Current Report on Form 8-K/A filed with the Securities and Exchange Commission (“SEC”) on May 19, 2022.

Forward-Looking Statements

This quarterly report and, from time to time, reports filed with the Securities and Exchange Commission (“SEC”), in press releases, and in other communications to shareholders or the investing public, may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Words such as “may,” “will,” “can,” “should,” “would,” “could,” “anticipate,” “expect,” “plan,” “seek,” “believe,” “are confident that,” “look forward to,” “predict,” “estimate,” “potential,” “project,” “target,” “forecast,” “see,” “intend,” “design,” “strive,” “strategy,” “future,” “opportunity,” “assume,” “guide,” “position,” “continue” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current beliefs, expectations and assumptions that are subject to significant risks, uncertainties and changes in circumstances that could cause actual results to differ materially from such forward-looking statements. These risks, uncertainties and changes in circumstances include, but are not limited to:

Solar Segment Risks and Uncertainties:

- our growth strategy depends on the continued origination of solar service agreements;
- if sufficient additional demand for residential solar power systems does not develop or takes longer to develop than we anticipate, our ability to originate solar service agreements may decrease;
- a material reduction in the retail price of electricity charged by electric utilities or other retail electricity providers could harm our business, financial condition and results of operations;
- we need to obtain substantial additional financing arrangements to continue as a going concern and provide working capital and growth capital;
- our business prospects are dependent in part on a continuing decline in the cost of solar energy system components;
- we face competition from centralized electric utilities, retail electric providers, independent power producers and renewable energy companies;
- developments in technology or improvements in distributed solar energy generation and related technologies or components may materially adversely affect demand for our offerings;
- we depend on a limited number of suppliers of solar energy system components;
- increases in the cost of our solar power systems due to tariffs imposed by the U.S. government could have a material adverse effect on our business, financial condition and results of operations;
- our operating results may fluctuate from quarter to quarter and year to year;
- if we are unable to make acquisitions on economically acceptable terms, our future growth would be limited, and any acquisitions we may make could reduce, rather than increase, our cash flows;
- the installation and operation of solar power systems depends heavily on suitable solar and meteorological conditions;
- the loss of one or more members of our senior management or key employees may adversely affect our ability to implement our strategy;
- our inability to protect our intellectual property could adversely affect our business;
- we may be subject to interruptions, failures or breaches in our information technology systems;
- we may be subject to regulation as an electric utility in the future;
- electric utility policies and regulations, including those affecting electric rates, may present regulatory and economic barriers to the purchase and use of solar power systems;
- we rely on net metering and related policies for competitive pricing to our customers;
- our business depends in part on the availability of financial incentives;

limitations regarding the interconnection of solar power systems to the electrical grid may significantly reduce our ability to sell electricity from our solar power systems; and
compliance with occupational safety and health requirements and best practices can be costly.

IT Solutions & Services Segment Risks and Uncertainties:

our ability to profitably increase our business serving small and mid-size businesses (“SMB”) commercial businesses as well as any decreased spending by our existing SMB customers due to uncertainty or lower customer demand due to the COVID-19 pandemic;
our ability to successfully and profitably manage a large number of small accounts;
our ability to establish and maintain a productive and efficient workforce;
our ability to compete in a fast growing and large field of SD-WAN competitors, some of which have more features than our current product offering;
and
our ability to successfully sell the legacy CSI businesses at a value close to their fair market value.

Other risks and uncertainties are discussed more fully under the caption “Risk Factors” in our filings with the SEC, including in Part II, Item 1A. “Risk Factors” of this Quarterly Report on Form 10-Q. Accordingly, you should not place undue reliance on forward-looking statements. To the extent permitted by applicable law, we expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Overview

Pineapple Energy Inc. (formerly Communications Systems, Inc. (“CSI”) and Pineapple Holdings, Inc.) (“PEGY,” “we” or the “Company”) was originally organized as a Minnesota corporation in 1969. On March 28, 2022, the Company completed its previously announced merger transaction with Pineapple Energy LLC (“Pineapple Energy”) in accordance with the terms of a merger agreement, pursuant to which a subsidiary of the Company merged with and into Pineapple Energy, with Pineapple Energy surviving the merger as a wholly owned subsidiary of the Company (the “merger”). Following the closing of the merger (the “Closing”) the Company changed its name from Communications Systems, Inc. to Pineapple Holdings, Inc. and subsequently, on April 13, 2022, changed its name to Pineapple Energy Inc.

In addition, on March 28, 2022 and immediately prior to the closing of the merger, the Company completed its acquisition (“HEC Asset Acquisition”) of substantially all of the assets of two Hawaii-based solar energy companies, Hawaii Energy Connection, LLC (“HEC”) and E-Gear, LLC (“E-Gear”).

The Company is a growing domestic operator and consolidator of residential solar, battery storage, and grid service solutions. The Company’s focus is acquiring and growing leading local and regional solar, storage and energy service companies nationwide. Through the Company’s HEC business, the Company also operates as a recognized solar integrator, dedicated to providing affordable energy solutions in Hawaii with its offerings of solar panels, communication filters, web monitoring systems, batteries, water heating systems, and other related products that help residential and commercial users reduce electric costs and earn tax credits related to installing renewable energy systems. The Company’s E-Gear business is a renewable energy innovator that offers proprietary patented and patent pending edge-of-grid energy management and storage solutions that offer intelligent and real-time adaptive control, flexibility, visibility, predictability and support to energy consumers, energy service companies, and utilities.

Through the Company’s legacy CSI subsidiaries, JDL Technologies, Inc. (“JDL”) and Ecessa Corporation (“Ecessa”), the Company provides technology solutions, including virtualization, managed services, wired and wireless network design and implementation, and hybrid cloud infrastructure and deployment, and designs, develops and sells SD-WAN (software-designed wide-area network) solutions.

While CSI was the legal acquirer in the merger, because Pineapple Energy was determined to be the accounting acquirer, the historical financial statements of Pineapple Energy became the historical financial statements of the combined company upon the consummation of the merger. As a result, the financial statements included in the accompanying condensed consolidated financial statements, and the discussion in this Management’s Discussion and Analysis of Financial Condition and Results of Operations, reflect the historical operating results of Pineapple Energy prior to the merger, the consolidated results of CSI, Pineapple Energy, HEC, and E-Gear following the closing of the

merger, and the Company's equity structure for all periods presented. Accordingly, references to "the Company" herein are to the applicable entity at the date or during the time period in the applicable discussion.

Following the merger, the Company operates in two distinct business segments as follows:

Solar Segment

Through the Company's Pineapple Energy, HEC and E-Gear businesses, the Company operates as follows:

As a recognized solar integrator, dedicated to providing affordable energy solutions in Hawaii with its offerings of solar panels, communication filters, web monitoring systems, batteries, water heating systems, and other related products that help residential and commercial users reduce electric costs and earn tax credits related to installing renewable energy systems.

As a renewable energy innovator that offers proprietary patented and patent pending edge-of-grid energy management and storage solutions that offer intelligent and real-time adaptive control, flexibility, visibility, predictability and support to energy consumers, energy service companies, and utilities.

IT Solutions & Services Segment

Through the Company's legacy subsidiaries, JDL and Ecessa, the Company provides technology solutions, including virtualization, managed services, wired and wireless network design and implementation, and hybrid cloud infrastructure and deployment, and designs, develops and sells SD-WAN (software-designed wide-area network) solutions. As previously disclosed, the Company expects to dispose of JDL and Ecessa.

SUNation Acquisition

On November 9, 2022, we entered into a Transaction Agreement (the "Transaction Agreement") with Solar Merger Sub, LLC, a New York limited liability company and wholly owned subsidiary of the Company ("Merger Sub"), Scott Maskin, James Brennan, Scott Sousa and Brian Karp (collectively, the "Sellers"), and Scott Maskin as representative of each seller, pursuant to which we directly or indirectly acquired all of the issued and outstanding equity of SUNation Solar Systems, Inc. and five of its affiliated entities: SUNation Commercial, Inc., SUNation Service, Inc., SUNation Electric, Inc., SUNation Energy, LLC, and SUNation Roofing, LLC (collectively, the "Acquired Companies"). This acquisition was a further expansion in the residential and commercial solar markets and fits into our overall acquisition growth plan as we look to expand further through the acquisition of regional residential solar companies and energy technology solution providers.

We acquired the equity of the Acquired Companies from Sellers for an aggregate purchase price of approximately \$21.9 million, comprised of (a) \$2.39 million in cash consideration paid at closing, (b) the issuance at closing of a \$5.0 million Short-Term Limited Recourse Secured Promissory Note (the "Short-Term Note"), (c) the issuance at closing of a \$5,486,000 Long-Term Promissory Note (the "Long-Term Note"), (d) the issuance at closing of an aggregate of 1,480,000 shares (the "Shares") of Company common stock, and (e) potential earn-out payments of up to \$2.5 million for each of fiscal years 2023 and 2024, based on the percentage of year-over-year EBITDA growth of the Acquired Companies, as set forth in the Transaction Agreement (the "Earnout").

The Short-Term Note is secured as described below and matures on August 9, 2023. It carries an annual interest rate of 4% until the three-month anniversary of issuance, 8% thereafter until the six-month anniversary of issuance, then 12% thereafter until the Short-Term Note is paid in full. The Long-Term Note is unsecured and matures on November 9, 2025. It carries an annual interest rate of 4% until the first anniversary of issuance, then 8% thereafter until the Long-Term Note is paid in full. We will be required to make a principal payment of \$2.5 million on the second anniversary of the Long-Term Note. Both the Short-Term Note and Long-Term Note may be prepaid at our option at any time without penalty.

Pursuant to a Limited Pledge and Security Agreement among the Company and Sellers, dated November 9, 2022 (the "Pledge Agreement"), the Short-Term Note is secured by a pledge by us and Merger Sub of the equity of the Acquired Companies. While the Short-Term Note remains outstanding, we also agree to certain negative covenants with respect to

the operation of the Acquired Companies, including limits on distributions, the incurrence of indebtedness, imposition of liens, and sales of assets outside the ordinary course of business. If Sellers exercise their remedies under the Pledge Agreement (due to an event of default by us under the Short-Term Note or the Pledge Agreement), Sellers would be able to recover the pledged equity of the Acquired Companies and our remaining obligations under the Short-Term Note and the Long-Term Note would be cancelled in their entirety and would be of no further force and effect. Our obligations to make any Earnout payment under the Transaction Agreement would also be terminated. The Pledge Agreement will automatically terminate upon the payment of all amounts due under the Short-Term Note.

Results of Operations

Comparison of the Three Months Ended September 30, 2022 and 2021

The consolidated results herein reflect the historical operating results of Pineapple Energy prior to the merger and the consolidated results of CSI, Pineapple Energy, HEC and E-Gear following the closing of the merger on March 28, 2022.

Consolidated sales were \$7,709,062 in the third quarter of 2022 and \$25,417 in the third quarter of 2021. Sales in the third quarter of 2022 consisted of \$5,888,162 from the Solar segment (primarily from residential solar sales by HEC), \$1,860,111 from the IT Solutions & Services segment, and \$(39,211) in intercompany eliminations. Sales in the third quarter of 2021 were related to commissions revenue on third-party installations.

Consolidated gross profit was \$2,013,742 in the third quarter of 2022, with \$1,404,173 generated from the Solar segment, \$648,780 from the IT Solutions & Services segment, and \$(39,211) in intercompany eliminations. Consolidated gross profit was \$25,417 in the third quarter of 2021.

Consolidated operating expenses included selling, general and administrative expenses, amortization expense and transaction costs and increased 285.6% to \$4,414,721 in the third quarter of 2022 as compared to \$1,144,986 in the third quarter of 2021. Consolidated selling, general and administrative expenses increased to \$3,122,976 in the third quarter of 2022 from \$241,728 in the third quarter of 2021 due primarily to \$1,811,471 in selling, general and administrative costs of the acquired businesses and \$1,290,982 in corporate overhead costs in the third quarter of 2022. Amortization expense increased \$669,038 to \$1,026,362 in the third quarter of 2022 due to amortization of intangible assets acquired through the merger and HEC Asset Acquisition. Transaction costs decreased \$280,551 to \$265,383 in the third quarter of 2022, since the merger and HEC Asset Acquisition were consummated in the first quarter of 2022.

Consolidated other expense was \$119,017 in the third quarter of 2022 as compared to \$275,694 in the third quarter of 2021. The decrease is primarily related to a decrease in interest and accretion expense.

Consolidated operating loss in the third quarter of 2022 increased to \$2,400,979 from an operating loss of \$1,119,569 in the third quarter of 2021. Net loss in the third quarter of 2022 was \$2,519,996, or \$(0.34) per diluted share, compared to net loss of \$1,395,263, or \$(0.45) per diluted share, in the third quarter of 2021.

Comparison of the Nine Months Ended September 30, 2022 and 2021

Consolidated sales were \$13,918,498 in the first nine months of 2022 and \$25,417 in the first nine months of 2021. Sales in the first nine months of 2022 consisted of \$10,338,483 from the Solar segment (primarily from residential solar sales by HEC), \$3,679,990 from the IT Solutions & Services segment, and \$(99,975) in intercompany eliminations.

Consolidated gross profit was \$3,385,136 in the first nine months of 2022, with \$2,372,324 generated from the Solar segment, \$1,112,787 from the IT Solutions & Services segment, and \$(99,975) in intercompany eliminations. Consolidated gross profit was \$25,417 in the first nine months of 2021.

Consolidated operating expenses included selling, general and administrative expenses, amortization expense and transaction costs increased 180.5% to \$10,511,125 in the first nine months of 2022 as compared to \$3,747,392 in the first nine months of 2021. Consolidated selling, general and administrative expenses increased to \$6,653,796 in the first nine months of 2022 from \$697,985 in the first nine months of 2021 due primarily to \$3,574,286 in selling, general and administrative costs of the acquired businesses and \$2,627,532 in corporate overhead costs in the first nine months of

2022. Amortization expense increased \$1,338,074 to \$2,410,045 in the first nine months of 2022 due to intangible assets acquired through the merger and HEC Asset Acquisition. Transaction costs decreased \$530,152 to \$1,447,284 in the first nine months of 2022, due to the consummation of the merger and HEC Asset Acquisition in the first quarter of 2022.

Consolidated other income was \$4,165,011 in the first nine months of 2022 as compared to \$1,004,964 in consolidated other expense in the first nine months of 2021. The current year period included a \$4,684,000 gain on the fair value remeasurement of the Company's earnout consideration and a \$1,229,133 gain on sale of assets, partially offset by a \$1,214,560 loss on the fair value remeasurement of the CVRs, as discussed further in Note 13, Fair Value Measurements.

Consolidated operating loss in the first nine months of 2022 increased to \$7,125,989 from an operating loss of \$3,721,975 in the first nine months of 2021. Net loss in the first nine months of 2022 was \$2,960,978, or \$(0.49) per diluted share, compared to net loss of \$4,726,939, or \$(1.54) per diluted share, in the first nine months of 2021.

Liquidity and Capital Resources

As of September 30, 2022, the Company had \$10,236,453 in cash, restricted cash and cash equivalents, and liquid investments. Of this amount, \$959,541 was invested in short-term money market funds that are not considered to be bank deposits and are not insured or guaranteed by the FDIC or other government agency. These money market funds seek to preserve the value of the investment at \$1.00 per share; however, it is possible to lose money investing in these funds. The remainder in cash and cash equivalents is operating cash. The Company also had \$2,654,383 in investments consisting of corporate notes and bonds that are traded on the open market and are classified as available-for-sale at September 30, 2022.

Of the amounts of cash, restricted cash, cash equivalents and investments on the balance sheet at September 30, 2022, \$4,578,099 consist of funds that can only be used to support the legacy CSI business, will be distributed to CVR holders and cannot be used to support the working capital needs of the Pineapple Energy business.

The Company had working capital of \$8,535,469 at September 30, 2022, consisting of current assets of \$17,205,232 and current liabilities of \$8,669,763, compared to working capital of \$(2,872,233) at December 31, 2021 consisting of current assets of \$18,966 and current liabilities of \$2,891,199.

Cash flow used in operating activities was \$6,341,172 in the first nine months of 2022 as compared to \$563,359 in the same period of 2021. Significant working capital changes from December 31, 2021 to September 30, 2022 included an increase in customer deposits of \$4,462,156, a decrease in accounts payable of \$3,065,340 and an increase in accounts receivable of \$1,236,634.

Net cash used in investing activities was \$2,300,726 in the first nine months of 2022 compared to net cash provided by investing activities of \$479,983 in the same period of 2021. Net cash used in the 2022 period was primarily related to \$10,199,835 in net cash paid for the HEC Asset Acquisition and the merger, partially offset by \$6,297,115 in proceeds from the sale of assets previously classified as held for sale and \$1,500,000 in earnout consideration payments related to legacy CSI's sale of its Electronics and Software segment in 2021.

Net cash provided by financing activities was \$16,205,002 in the first nine months of 2022 compared to \$150,000 in the same period of 2021. In the first quarter of 2022, the Company received \$32,000,000 in proceeds from the issuance of preferred stock and warrants to PIPE Investors and paid \$2,699,370 in related issuance costs. The Company also paid \$4,500,000 in principal against the Hercules term loan in the first quarter of 2022, as discussed further in Note 8, Commitments and Contingencies. During the third quarter of 2022, the Company paid \$8,745,628 in CVR distributions.

As discussed above and in Note 14, Subsequent Events, on November 9, 2022, the Company, in connection with the SUNation acquisition, paid \$2.39 million in cash and entered into the Short-Term Note and the Long-Term Note. The Short-Term Note matures on August 9, 2023. Also as discussed above, of the amounts of cash, restricted cash, cash equivalents and investments on the balance sheet at September 30, 2022, \$4,578,099 consist of funds that can only be used to support the legacy CSI business, are restricted under the CVR agreement and cannot be used to support the working capital needs of the Pineapple Energy business.

Based on the Company's current financial position, the Company's forecasted future cash flows for twelve months beyond the date of issuance of the financial statements in this report indicate that the Company will not have sufficient cash to repay the Short-Term Note obligation, a factor which raises substantial doubt about the Company's ability to continue as a going concern.

As a result, the Company requires additional funding and seeks to raise capital through sources that may include public or private equity offerings, debt financings and/or strategic alliances. However, additional funding may not be available on terms acceptable to the Company, or at all. If the Company is unable to raise additional funds, it would have a negative impact on the Company's business, results of operations and financial condition. To the extent that additional funds are raised through the sale of equity or securities convertible into or exercisable for equity securities, the issuance of securities will result in dilution to the Company's shareholders. Further, certain transactions could trigger an adjustment to the exercise price of the Convertible Preferred Stock and PIPE Warrants, which would lead to a corresponding increase in the number of shares of common stock issuable upon exercise of the PIPE Warrants, further diluting the Company's shareholders.

Contingent Value Rights and Impact on Cash

As discussed in Note 3, Business Combinations, the Company issued CVRs prior to the closing of the merger to CSI shareholders of record on the close of business on March 25, 2022. The CVR entitles the holder to a portion of the cash, cash equivalents, investments and net proceeds of any divestiture, assignment, or other disposition of all legacy assets of CSI and/or its legacy subsidiaries, JDL and Ecessa, that are related to CSI's pre-merger business, assets, and properties that occur during the 24-month period following the closing of the merger. The CVR liability as of September 30, 2022 was estimated at \$10,743,224 and represented the estimated fair value as of that date of the legacy CSI assets to be distributed to CVR holders as of that date. This amount is recorded as a long-term liability that includes the remaining restricted cash and cash equivalents, investments, along with the other tangible and intangible assets related to the legacy CSI business. The proceeds from CSI's pre-merger business working capital and related long term-assets and liabilities are not available to fund the working capital needs of the post-merger company.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and judgments 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 amount of revenues and expenses during the reporting period. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates and such differences could be material to our financial position and results of operations. Critical accounting estimates are those that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition and results of operations.

While our significant accounting policies are more fully described in Note 2, Summary of Significant Accounting Policies, to the Condensed Consolidated Financial Statements included elsewhere in this report, we believe the following discussion addresses our most critical accounting estimates, which involve significant subjectivity and judgment, and changes to such estimates or assumptions could have a material impact on our financial condition or operating results. Therefore, we consider an understanding of the variability and judgment required in making these estimates and assumptions to be critical in fully understanding and evaluating our reported financial results.

Income Taxes: In the preparation of the Company's consolidated financial statements, management calculates income taxes. This includes estimating the Company's current tax liability as well as assessing temporary differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. These assets and liabilities are analyzed regularly and management assesses the likelihood it will realize these deferred assets from future taxable income. We determine the valuation allowance for deferred income tax benefits based upon the expectation of whether the benefits are more likely than not to

be realized. The Company records interest and penalties related to income taxes as income tax expense in the consolidated statements loss and comprehensive loss.

Accounting for Business Combinations: We record all acquired assets and liabilities, including goodwill, other identifiable intangible assets, contingent value rights and contingent consideration at fair value. The initial recording of goodwill, other identifiable intangible assets, contingent value rights and contingent consideration, requires certain estimates and assumptions concerning the determination of the fair values and useful lives. The judgments made in the context of the purchase price allocation can materially affect our future results of operations. The valuations calculated from estimates are based on information available at the acquisition date. Goodwill is not amortized, but is subject to annual tests for impairment or more frequent tests if events or circumstances indicate it may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The contingent consideration and contingent value rights liability are adjusted to fair value each reporting period with any adjustments recorded within the statement of operations. For additional details, see Note 3, Business Combinations and Note 7, Goodwill and Intangible Assets.

Revenue Recognition: The Company recognizes revenue when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration that the Company expects to receive in exchange for these goods or services.

Within the Company's Solar segment, revenue is recognized when there is a transfer of control of promised goods or services to customers in an amount that reflects the consideration that the Company expects to be entitled to in exchange for those goods or services. The Company sells solar power systems under construction and development agreements to residential and commercial customers. The completed system is sold as a single performance obligation. For residential contracts, revenue is recognized at the point-in-time when the systems are placed into service. Any advance payments received in the form of customer deposits are recorded as contract liabilities. Commercial contracts are generally completed within three to twelve months from commencement of construction. Construction on large projects may be completed within eighteen to twenty-four months, depending on the size and location of the project. Revenue from commercial contracts is recognized as work is performed based on the estimated ratio of costs incurred to date to the total estimated costs at the completion of the performance obligation.

The Company also arranges for solar power systems to be installed for residential customers by a third party, for which it earns a commission upon the end customer's acceptance of the installation. As there are more than two parties involved in the sales transaction, the Company has determined it has an agent relationship in the contracts with these customers, due to the fact that the Company is not primarily responsible for fulfilling the promise to provide the installation of solar arrays to the Customer, the Company does not have inventory risk and has only limited discretion in pricing. Accordingly, the Company has determined that revenue under these arrangements should be recognized on a net basis.

Within the Company's IT Solutions & Services segment, revenue is recognized over time for managed services and professional services (time and materials ("T&M") and fixed price) performance obligations. This segment's managed services performance obligation is a bundled solution, a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer and are recognized evenly over the term of the contract. T&M professional services arrangements are measured over time with an input method based on hours expended towards satisfying this performance obligation. Fixed price professional service arrangements under a relatively longer-term service will also be measured over time with an input method based on hours expended.

The Company has also identified the following performance obligations within its IT Solutions & Services segment that are recognized at a point in time which include resale of third-party hardware and software, installation, arranging for another party to transfer services to the customer, and certain professional services. The resale of third-party hardware and software is recognized at a point in time, when the goods are shipped or delivered to the customer's location, in accordance with the agreed upon shipping terms. Installation services are recognized at a point in time when the services are completed. The service the Company provides to arrange for another party to transfer services to the customer is satisfied at a point in time as the Company has transferred control upon the service first being made available to the customer by the third-party vendor, which are required to be presented on a net basis. Depending on the nature of the service, certain professional services transfer control at a point in time. The Company evaluates these circumstances on a

case-by-case basis to determine if revenue should be recognized over time or at a point in time. See Note 4, Revenue Recognition, for further discussion regarding revenue recognition.

Recently Issued Accounting Pronouncements

Recently issued accounting standards and their estimated effect on the Company's condensed consolidated financial statements are also described in Note 2, Summary of Significant Accounting Policies, to the Condensed Consolidated Financial Statements included in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) under the Exchange Act, as of the end of the period covered by this report. Based on that evaluation, management concluded that the Company's disclosure controls and procedures are effective.

(b) Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the three months ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 (the “Form 10-K”), which could materially affect our business, financial condition or future results. That “Risk Factors” discussion was divided into two parts: (1) “Risks Related to the Combined Company Following Consummation of the Merger” applicable if the merger was consummated (the “Combined Company Risks”), and (2) “Risks Related to CSI Following Termination of the Merger” applicable if the merger was not consummated. Since the merger was consummated, the Combined Company Risks apply.

There have been no material changes in the risk factors from the Combined Company Risks section disclosed in the Form 10-K, except the following two new risk factors are added:

The Company needs to raise additional capital to fund its operations and repay its obligations, which funding may not be available on favorable terms or at all and may lead to substantial dilution to the Company’s existing shareholders. Further, there is substantial doubt about the Company’s ability to continue as a going concern, which conditions may adversely affect the Company’s stock price and its ability to raise capital.

Based on the Company’s current financial position, including the approximately \$4.6 million of cash, restricted cash, cash equivalents and investments that are restricted under the CVR agreement and cannot be used by the Company for its own working capital needs, the Company’s forecasted future cash flows for twelve months beyond the date of issuance of the financial statements in this report indicate that the Company will not have sufficient cash to repay the Short-Term Note obligation. As a result, the Company requires additional funding and seeks to raise capital through sources that may include public or private equity offerings, debt financings and/or strategic alliances. However, additional funding may not be available on terms acceptable to the Company, or at all. If the Company is unable to raise additional funds, it would have a negative impact on the Company’s business, results of operations and financial condition.

Raising additional capital may be costly or difficult to obtain and could significantly dilute the Company’s shareholders’ ownership interests or inhibit the Company’s ability to achieve its business objectives. If the Company raises additional funds through public or private equity offerings or convertible debt or other exchangeable securities, the terms of these securities may include liquidation or other preferences that adversely affect the rights of the Company’s common shareholders. To the extent that the Company raises additional capital through the sale of common stock or securities convertible or exchangeable into common stock, the Company’s existing shareholders will be diluted. In addition, any debt financing may subject the Company to fixed payment obligations and covenants limiting or restricting its ability to take specific actions, such as incurring additional debt or making capital expenditures. Further, certain transactions could trigger a reset of the exercise price of the Convertible Preferred Stock and PIPE Warrants, which would lead to a corresponding increase in the number of shares of common stock issuable upon exercise of the PIPE Warrants, further diluting the Company’s shareholders.

In addition, the fact that there is substantial doubt about the Company’s ability to continue as a going concern and that the Company is operating under these conditions may adversely affect the Company’s stock price and its ability to raise capital.

The Company may have difficulty integrating the businesses from the SUNation transaction with its existing operations or otherwise obtaining the strategic benefits of the acquisition.

The impact of the SUNation acquisition on the Company’s business, operating results and financial condition is uncertain. The Company may have difficulty assimilating the Acquired Companies’ businesses and their products, services,

technologies and personnel into the Company's existing operations. These difficulties could disrupt the Company's ongoing business, distract its management and workforce, increase the Company's expenses and materially adversely affect the Company's operating results and financial condition.

The acquisition involves other potential risks, including:

- the failure to successfully integrate personnel, departments and systems, including IT and accounting systems, technologies, books and records, and procedures;
- the need for additional investments post-acquisition that could be greater than anticipated;
- the assumption of liabilities of the Acquired Companies that could be greater than anticipated;
- incorrect estimates made in the accounting for acquisitions, incurrence of non-recurring charges, and write-off of significant amounts of goodwill or other assets that could adversely affect the Company's operating results;
- unforeseen difficulties related to entering geographic regions or industries in which it does not have prior experience; and
- the potential loss of key employees or existing customers or adverse effects on existing business relationships with suppliers and customers.

Additionally, the Company cannot ensure that the expected benefits of SUNation acquisition will be realized or will be realized within the time frames it expects. Unforeseen issues could arise which adversely affect the anticipated returns or which are otherwise not recoverable through indemnification or as an adjustment to the purchase price. The price the Company paid for the Acquired Companies may exceed the value it realizes, the Company cannot provide assurance that it will obtain the expected revenues, anticipated synergies and strategic benefits of the SUNation acquisition within the time it expects or at all.

In connection with the SUNation acquisition, the Company incurred additional indebtedness with the issuance of the Short-Term Note and the Long-Term Note. While the Short-Term Note remains outstanding, the Company is subject to certain negative covenants with respect to the operation of the Acquired Companies, including limits on distributions, the incurrence of indebtedness, imposition of liens, and sales of assets outside the ordinary course of business.

Further, although the Company looks to expand further through the acquisition of regional residential solar companies and energy technology solution providers, there can be no assurance that the Company will be able to find appropriate candidates for acquisitions, reach agreement to acquire them, have sufficient capital or funding to acquire them, or obtain any required shareholder or regulatory approvals needed, despite the effort and management attention invested.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

The following exhibits are included herewith:

2.1	Transaction Agreement, dated November 9, 2022, by and among Pineapple Energy Inc., Solar Merger Sub, LLC, Scott Maskin, James Brennan, Scott Sousa, Brian Karp and Scott Maskin as representative of each seller, including the forms of the Plan of Merger, the Pledge and Security Agreement, the Short-Term Limited Recourse Secured Promissory Note and the Long-Term Promissory Note (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 10, 2022)
3.1	Second Amended and Restated Articles of Incorporation of Pineapple Energy Inc. (effective as of April 13, 2022) (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 13, 2022)
3.2	Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock of Communications Systems, Inc. (n/k/a Pineapple Energy Inc.) filed on March 25, 2022 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on March 29, 2022)
3.3	Restated Bylaws of Pineapple Energy Inc., as amended (effective as of April 13, 2022) (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on April 13, 2022)
4.1	Form of Senior Indenture (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3 filed on August 25, 2022)
4.2	Form of Subordinated Indenture (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-3 filed on August 25, 2022)
10.1	Form of Restricted Stock Unit Award Agreement under the 2022 Equity Incentive Plan
10.2	Form of Performance Stock Unit Award Agreement under the 2022 Equity Incentive Plan
10.3	Form of Incentive Stock Option Award Agreement under the 2022 Equity Incentive Plan
10.4	Form of Non-Qualified Stock Option Award Agreement under the 2022 Equity Incentive Plan
10.5	Offer Letter, dated September 16, 2022, by and between Pineapple Energy Inc. and Eric Ingvaldson (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 22, 2022)
10.6	Restricted Stock Unit Award Agreement (Inducement Grant) between Eric Ingvaldson and Pineapple Energy Inc., dated as of October 11, 2022 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 filed on October 11, 2022)
10.7	Form of Consent, Waiver and Amendment among Pineapple Energy Inc. and each of its Series A Preferred Stock and warrant holders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 10, 2022)
10.8	Employment Agreement, dated November 9, 2022, between Pineapple Energy Inc. and Scott Maskin (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 10, 2022)
10.9	Subscription Agreement between Pineapple Energy Inc. and James Brennan dated November 9, 2022 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 10, 2022)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
32	Certifications pursuant Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350)
99.1	Press Release dated November 14, 2022 Announcing Third Quarter Results
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)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document

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 thereto duly authorized.

Pineapple Energy Inc.

Date: November 14, 2022

By /s/ Kyle Udseth
Kyle Udseth
Chief Executive Officer

Date: November 14, 2022

By /s/ Eric Ingvaldson
Eric Ingvaldson
Chief Financial Officer

**PINEAPPLE ENERGY INC.
2022 EQUITY INCENTIVE PLAN**

Restricted Stock Unit Award Agreement

Pineapple Energy Inc. (the “Company”), pursuant to its 2022 Equity Incentive Plan (the “Plan”), hereby grants an award of Restricted Stock Units to you, the Participant named below. The terms and conditions of this Award are set forth in this Restricted Stock Unit Award Agreement (the “Agreement”), consisting of this cover page and the Terms and Conditions on the following pages, and in the Plan document, a copy of which has been provided to you. Any capitalized term that is used but not defined in this Agreement shall have the meaning assigned to it in the Plan as it currently exists or as it is amended in the future.

Name of Participant: [_____]	
Number of Restricted Stock Units: [_____]	Grant Date: [_____, 20__]
Vesting Schedule: <div style="display: flex; justify-content: space-around;"> <u>Scheduled Vesting Dates</u> <u>Number of Restricted Stock Units that Vest</u> </div>	

By signing below or otherwise evidencing your acceptance of this Agreement in a manner approved by the Company, you agree to all of the terms and conditions contained in this Agreement and in the Plan document. You acknowledge that you have received and reviewed these documents and that they set forth the entire agreement between you and the Company regarding this Award of Restricted Stock Units.

PARTICIPANT:

PINEAPPLE ENERGY INC.

By: _____

Title: _____

PINEAPPLE ENERGY INC.
2022 Equity Incentive Plan
Restricted Stock Unit Award Agreement

Terms and Conditions

1. **Grant of Restricted Stock Units.** The Company hereby confirms the grant to you, as of the Grant Date and subject to the terms and conditions in this Agreement and the Plan, of the number of Restricted Stock Units specified on the cover page of this Agreement (the “Units”). Each Unit represents the right to receive one Share of the Company’s common stock. Prior to their settlement or forfeiture in accordance with the terms of this Agreement, the Units granted to you will be credited to an account in your name maintained by the Company. This account shall be unfunded and maintained for book-keeping purposes only, with the Units simply representing an unfunded and unsecured contingent obligation of the Company.
 2. **Restrictions Applicable to Units.** Neither this Award nor the Units subject to this Award may be sold, assigned, transferred, exchanged or encumbered, voluntarily or involuntarily, other than (i) a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan, or (ii) pursuant to a domestic relations order. Following any such transfer, this Award shall continue to be subject to the same terms and conditions that were applicable to this Award immediately prior to its transfer. Any attempted transfer in violation of this Section 2 shall be void and without effect. The Units and your right to receive Shares in settlement of the Units under this Agreement shall be subject to forfeiture as provided in Section 5 until satisfaction of the vesting conditions set forth in Section 4.
 3. **No Shareholder Rights.** The Units subject to this Award do not entitle you to any rights of a holder of the Company’s common stock. You will not have any of the rights of a shareholder of the Company in connection with the grant of Units subject to this Agreement unless and until Shares are issued to you upon settlement of the Units as provided in Section 6.
 4. **Vesting of Units.** For purposes of this Agreement, “Vesting Date” means any date, including the Scheduled Vesting Dates specified in the Vesting Schedule on the cover page of this Agreement, on which Units subject to this Agreement vest as provided in this Section 4.
 - (a) **Scheduled Vesting.** If you remain a Service Provider continuously from the Grant Date specified on the cover page of this Agreement, then the Units will vest in the amounts and on the Scheduled Vesting Dates specified in the Vesting Schedule.
 - (b) **Accelerated or Continued Vesting.** The vesting of outstanding Units will be accelerated or continued under the circumstances provided below:
 - (1) ***Death or Disability.*** If your Service terminates prior to the final Scheduled Vesting Date due to your death or Disability, then all of the unvested Units shall vest as of such termination date.
 - (2) ***Change in Control.*** Vesting of the Units may be accelerated during the term of the Award under the circumstances described in Sections 12(b) and 12(c) of the Plan. If a Change in Control occurs while you continue to be a Service Provider and prior to the final Scheduled Vesting Date, the following provisions shall apply:
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(i) If, within 24 months after a Change of Control (A) described in paragraphs (1) or (2) of Section 2(f) of the Plan or (B) that constitutes a Corporate Transaction as defined in paragraph (3) of Section 2(f) of the Plan and in connection with which the surviving or acquiring entity (or its parent entity) has continued, assumed or replaced this Award, you cease to be a Service Provider due to an involuntary termination for reasons other than Cause, then all unvested Units shall immediately vest in full.

(ii) If this Award is not continued, assumed or replaced in connection with a Change in Control that constitutes a Corporate Transaction, then all unvested Units shall immediately vest in full upon the occurrence of the Change in Control.

(iii) For purposes of this Section 4(b)(2), this Award will be considered assumed or replaced under the circumstances specified in Section 12(b)(1) of the Plan.

5. **Effect of Termination of Service.** Except as otherwise provided in accordance with Section 4(b) above, if you cease to be a Service Provider, you will forfeit all unvested Units.

6. **Settlement of Units.** After any Units vest pursuant to Section 4, the Company shall, as soon as practicable (but no later than the 15th day of the third calendar month following the Vesting Date), cause to be issued and delivered to you (or to your personal representative or your designated beneficiary or estate in the event of your death, as applicable) one Share in payment and settlement of each vested Unit. Delivery of the Shares shall be effected by the issuance of a stock certificate to you, by an appropriate entry in the stock register maintained by the Company's transfer agent with a notice of issuance provided to you, or by the electronic delivery of the Shares to a brokerage account you designate, and shall be subject to the tax withholding provisions of Section 7 and compliance with all applicable legal requirements as provided in Section 16(c) of the Plan, and shall be in complete satisfaction and settlement of such vested Units.

7. **Tax Consequences and Withholding.** No Shares will be delivered to you in settlement of vested Units unless you have made arrangements acceptable to the Company for payment of any federal, state, local or foreign withholding taxes that may be due as a result of the delivery of the Shares. You hereby authorize the Company (or any Affiliate) to withhold from payroll or other amounts payable to you any sums required to satisfy such withholding tax obligations, and otherwise agree to satisfy such obligations in accordance with the provisions of Section 14 of the Plan. You may elect to satisfy such withholding tax obligations by having the Company withhold a number of Shares that would otherwise be issued to you in settlement of the Units and that have a fair market value equal to the amount of such withholding tax obligations by notifying the Company of such election prior to the Vesting Date.

8. **Compensation Recovery Policy.** To the extent that this Award and any compensation associated therewith is considered "incentive-based compensation" within the meaning and subject to the requirements of Section 10D of the Exchange Act, this Award and any compensation associated therewith shall be subject to potential forfeiture or recovery by the Company in accordance with any compensation recovery policy adopted by the Board or the Committee in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's Shares are then listed. This Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

9. **Notices.** Every notice or other communication relating to this Agreement shall be in writing and shall be mailed to or delivered (including electronically) to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided. Unless and

until some other address is so designated, all notices or communications by you to the Company shall be mailed or delivered to the Company, to the attention of its [_____], at its office at [_____], [email address], and all notices or communications by the Company to you may be given to you personally or may be mailed or, if you are still a Service Provider, emailed to you at the address indicated in the Company's records as your most recent mailing or email address.

10. **Additional Provisions.**

(a) **No Right to Continued Service.** This Agreement does not give you a right to continued Service with the Company or any Affiliate, and the Company or any such Affiliate may terminate your Service at any time and otherwise deal with you without regard to the effect it may have upon you under this Agreement.

(b) **Governing Plan Document.** This Agreement and the Award are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

(c) **Governing Law.** This Agreement, the parties' performance hereunder, and the relationship between them shall be governed by, construed, and enforced in accordance with the laws of the State of Minnesota, without giving effect to the choice of law principles thereof.

(d) **Severability.** The provisions of this Agreement shall be severable and if any provision of this Agreement is found by any court to be unenforceable, in whole or in part, the remainder of this Agreement shall nevertheless be enforceable and binding on the parties. You also agree that any trier of fact may modify any invalid, overbroad or unenforceable provision of this Agreement so that such provision, as modified, is valid and enforceable under applicable law.

(e) **Binding Effect.** This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.

(f) **Section 409A of the Code.** The award of Units as provided in this Agreement and any issuance of Shares or payment pursuant to this Agreement are intended to be exempt from Section 409A of the Code under the short-term deferral exception specified in Treas. Reg. § 1.409A-1(b)(4).

(g) **Electronic Delivery and Acceptance.** The Company may deliver any documents related to this Restricted Stock Unit Award by electronic means and request your acceptance of this Agreement by electronic means. You hereby consent to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator.

By signing the cover page of this Agreement or otherwise accepting this Agreement in a manner approved by the Company, you agree to all the terms and conditions described above and in the Plan document.

**PINEAPPLE ENERGY INC.
2022 EQUITY INCENTIVE PLAN**

Performance Stock Unit Agreement

Pineapple Energy Inc. (the “Company”), pursuant to its 2022 Equity Incentive Plan (the “Plan”), hereby grants an award of Performance Stock Units to you, the Participant named below. The terms and conditions of this Award are set forth in this Performance Stock Unit Agreement (the “Agreement”), consisting of this cover page, the Terms and Conditions on the following pages and the attached Exhibit A, and in the Plan document, a copy of which has been provided to you. Any capitalized term that is used but not defined in this Agreement shall have the meaning assigned to it in the Plan as it currently exists or as it is amended in the future.

Name of Participant:

Target Number of Performance
Stock Units:

Maximum Number of Performance
Stock Units:

Grant Date:

Performance Period: January 1, 20__ – December 31, 20__

Vesting Schedule: The number of Units determined in accordance with Exhibit A to have been earned as of the end of the Performance Period will vest* on the date the Company’s Compensation Committee certifies such performance results, which shall be no later than March 15, 20__.

Performance Goals: See Exhibit A

* Assumes your Service has been continuous from the Grant Date to the vesting date.

By signing below or otherwise evidencing your acceptance of this Agreement in a manner approved by the Company, you agree to all of the terms and conditions contained in this Agreement and in the Plan document. You acknowledge that you have received and reviewed these documents and that they set forth the entire agreement between you and the Company regarding this Award of Performance Stock Units.

PARTICIPANT:

PINEAPPLE ENERGY INC.

By:
Title:

PINEAPPLE ENERGY INC.
2022 Equity Incentive Plan
Performance Stock Unit Agreement

Terms and Conditions

1. **Award of Performance Stock Units.** The Company hereby confirms the grant to you, as of the Grant Date and subject to the terms and conditions of this Agreement and the Plan, of an award of Performance Stock Units (the “Units”) in an amount initially equal to the Target Number of Performance Stock Units specified on the cover page of this Agreement. The number of Units that may actually be earned and become eligible to vest pursuant to this Award can be between 0% and [____]% of the Target Number of Units, but may not exceed the Maximum Number of Performance Stock Units specified on the cover page of this Agreement. Each Unit that is earned as a result of the performance goals specified in Exhibit A to this Agreement having been satisfied and which thereafter vests represents the right to receive one Share of the Company’s common stock. Prior to their settlement or forfeiture in accordance with the terms of this Agreement, the Units granted to you will be credited to a performance stock unit account in your name maintained by the Company. This account will be unfunded and maintained for book-keeping purposes only, with the Units simply representing an unfunded and unsecured contingent obligation of the Company.

 2. **Restrictions Applicable to Units.** Neither this Award nor the Units subject to this Award may be sold, assigned, transferred, exchanged or encumbered, voluntarily or involuntarily, other than (i) a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan, or (ii) pursuant to a domestic relations order. Following any such transfer, this Award shall continue to be subject to the same terms and conditions that were applicable to the Award immediately prior to its transfer. Any attempted transfer in violation of this Section 2 shall be void and without effect. The Units and your right to receive Shares in settlement of any Units under this Agreement shall be subject to forfeiture except to extent the Units have been earned and thereafter vest as provided in Sections 4 and 5.

 3. **No Shareholder Rights.** The Units subject to this Award do not entitle you to any rights of a holder of the Company’s common stock. You will not have any of the rights of a shareholder of the Company in connection with any Units granted or earned pursuant to this Agreement unless and until Shares are issued to you in settlement of earned and vested Units as provided in Section 6.

 4. **Vesting and Forfeiture of Units.** The Units shall vest at the earliest of the following times and to the degree specified.
 - (a) **Scheduled Vesting.** The number of Units that have been earned during the Performance Period, as determined by the Committee in accordance with Exhibit A, will vest on the Scheduled Vesting Date, so long as your Service has been continuous from the Grant Date to the Scheduled Vesting Date. For these purposes, the “Scheduled Vesting Date” means the date the Committee certifies (i) the degree to which the applicable performance goals for the Performance Period have been satisfied, and (ii) the number of Units that have been earned during the Performance Period as determined in accordance Exhibit A, which certification shall occur no later than March 15 of the calendar year immediately following the calendar year during which the Performance Period ended.

 - (b) **Disability.** If your Service terminates by reason of your Disability prior to the Scheduled Vesting Date, then you will be entitled to have vest on the Scheduled Vesting Date a pro rata portion of the Units that would otherwise have been determined to have been earned during the Performance Period in accordance with Exhibit A if your Service had been continuous until the Scheduled Vesting Date. The pro rata portion shall be determined by multiplying the
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number of Units that would otherwise have been determined to have been earned by a fraction whose numerator is the number of days during the Performance Period prior to your Service termination date and whose denominator is the number of days in the Performance Period.

(c) **Death.** If your Service terminates by reason of your death prior to the Scheduled Vesting Date, then you will be entitled to have vest on the date your Service terminates a pro rata portion of the Target Number of Units specified on the cover page of this Agreement. The pro rata portion shall be determined in the same manner as provided in Section 4(b) above.

(d) **Change in Control.** If a Change in Control occurs while you continue to be a Service Provider and prior to the Scheduled Vesting Date, the following provisions shall apply:

(1) If, within twenty-four (24) months after a Change in Control (A) described in paragraphs (1) or (2) of Section 2(f) of the Plan or (B) that constitutes a Corporate Transaction as defined in paragraph (3) of Section 2(f) of the Plan and in connection with which the surviving or acquiring entity (or its parent entity) has continued, assumed or replaced this Award, you cease to be a Service Provider due to an involuntary termination for reasons other than Cause, then the Units shall be deemed to have been achieved and vested as of such termination date to the degree and in the manner provided in Section 4(d)(iii).

(2) If this Award is not continued, assumed or replaced in connection with a Change in Control that constitutes a Corporate Transaction, then the Units shall be deemed to have been achieved and vested immediately prior to the effective time of the Corporate Transaction to the degree and in the manner provided in Section 4(d)(iii).

(3) The number of Units that would be deemed achieved and vested pursuant to Section 4(d)(i) and Section 4(d)(ii) will be equal to (A) if the accelerated vesting event occurs before the last day of the Performance Period, the Target Number of Units, prorated by multiplying such number of Units by a fraction whose numerator is the number of days during the Performance Period prior to the date of the Change in Control or the termination of Service, as applicable, and whose denominator is the number of days in the Performance Period, or (B) if the accelerated vesting event occurs on or after the last day of the Performance Period, the number of Units will be determined in accordance with Section 4(a) and Annex A hereof based on the actual level of achievement of the performance goals set forth in Annex A.

(e) **Forfeiture of Unvested Units.** To the extent any of Sections 4(a) through (d) is applicable to this Award, any Units that do not vest on the applicable vesting date as provided therein shall immediately be forfeited. If your employment terminates prior to the Scheduled Vesting Date under circumstances other than as set forth in Sections 4(b) through (d), all unvested Units shall immediately be forfeited.

5. **Settlement of Units.** As soon as practicable after any date on which Units vest (but no later than the 15th day of the third calendar month following the vesting date), the Company shall cause to be issued and delivered to you (or to your personal representative or your designated beneficiary or estate in the event of your death, as applicable) one Share in payment and settlement of each vested Unit. Delivery of the Shares shall be effected by the issuance of a stock certificate to you, by an appropriate entry in the stock register maintained by the Company's transfer agent with a notice of issuance provided to you, or by the electronic delivery of the Shares to a brokerage account you designate, and shall be subject to the tax withholding provisions of Section 6 and compliance with all applicable legal requirements as provided in Section 16(c) of the Plan, and shall be in complete satisfaction and settlement of such vested Units. If the Units that vest include a fractional Unit, the Company shall round the number of vested Units to the nearest whole Unit prior to issuance of Shares as provided herein.

6. **Tax Consequences and Withholding.** No Shares will be delivered to you in settlement of vested Units unless you have made arrangements acceptable to the Company for payment of any federal, state, local or foreign withholding taxes that may be due as a result of the delivery of the Shares. You hereby authorize the Company (or any Affiliate) to withhold from payroll or other amounts payable to you any sums required to satisfy such

withholding tax obligations, and otherwise agree to satisfy such obligations in accordance with the provisions of Section 14 of the Plan. You may elect to satisfy such withholding tax obligations by having the Company withhold a number of Shares that would otherwise be issued to you in settlement of the Units and that have a fair market value equal to the amount of such withholding tax obligations by notifying the Company of such election prior to the Vesting Date.

7. **Compensation Recovery Policy.** To the extent that this Award and any compensation associated therewith is considered “incentive-based compensation” within the meaning and subject to the requirements of Section 10D of the Exchange Act, this Award and any compensation associated therewith shall be subject to potential forfeiture or recovery by the Company in accordance with any compensation recovery policy adopted by the Board or the Committee in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder adopted by the Securities and Exchange Commission or any national securities exchange on which the Company’s Shares are then listed. This Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

8. **Notices.** Every notice or other communication relating to this Agreement shall be in writing and shall be mailed to or delivered (including electronically) to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided. Unless and until some other address is so designated, all notices or communications by you to the Company shall be mailed or delivered to the Company, to the attention of its [_____], at its office at [_____], [email address], and all notices or communications by the Company to you may be given to you personally or may be mailed or, if you are still a Service Provider, emailed to you at the address indicated in the Company’s records as your most recent mailing or email address.

9. **Additional Provisions.**

(a) **No Right to Continued Service.** This Agreement does not give you a right to continued Service with the Company or any Affiliate, and the Company or any such Affiliate may terminate your Service at any time and otherwise deal with you without regard to the effect it may have upon you under this Agreement.

(b) **Governing Plan Document.** This Agreement and the Award are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

(c) **Governing Law.** This Agreement, the parties’ performance hereunder, and the relationship between them shall be governed by, construed, and enforced in accordance with the laws of the State of Minnesota, without giving effect to the choice of law principles thereof.

(d) **Severability.** The provisions of this Agreement shall be severable and if any provision of this Agreement is found by any court to be unenforceable, in whole or in part, the remainder of this Agreement shall nevertheless be enforceable and binding on the parties. You also agree that any trier of fact may modify any invalid, overbroad or unenforceable provision of this Agreement so that such provision, as modified, is valid and enforceable under applicable law.

(e) **Binding Effect.** This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.

(f) Section 409A of the Code. The award of Units as provided in this Agreement and any issuance of Shares or payment pursuant to this Agreement are intended to be exempt from Section 409A of the Code under the short-term deferral exception specified in Treas. Reg. § 1.409A-1(b)(4).

(g) Electronic Delivery and Acceptance. The Company may deliver any documents related to this Restricted Stock Unit Award by electronic means and request your acceptance of this Agreement by electronic means. You hereby consent to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator.

By signing the cover page of this Agreement or otherwise accepting this Agreement in a manner approved by the Company, you agree to all the terms and conditions described above and in the Plan document.

PERFORMANCE GOALS

PINEAPPLE ENERGY INC.

Incentive Stock Option Agreement
Under the 2022 Equity Incentive Plan

Pineapple Energy Inc. (the “Company”), pursuant to its 2022 Equity Incentive Plan (the “Plan”), hereby grants an Option to purchase shares of the Company’s common stock to you, the Participant named below. The terms and conditions of the Option Award are set forth in this Agreement, consisting of this cover page and the Option Terms and Conditions on the following pages, and in the Plan document, a copy of which has been provided to you. Any capitalized term that is not defined in this Agreement shall have the meaning set forth in the Plan as it currently exists or as it is amended in the future.

Name of Participant: [_____]			
No. of Shares Covered: [_____]	Grant Date: _____, 20__		
Exercise Price Per Share: \$[_____]	Expiration Date: _____, 20__		
Vesting and Exercise Schedule: <table border="0" style="width: 100%;"> <tr> <td style="text-align: center; width: 50%;"><u>Dates</u></td> <td style="text-align: center; width: 50%;"><u>Portion of Shares as to Which Option Becomes Vested and Exercisable</u></td> </tr> </table>		<u>Dates</u>	<u>Portion of Shares as to Which Option Becomes Vested and Exercisable</u>
<u>Dates</u>	<u>Portion of Shares as to Which Option Becomes Vested and Exercisable</u>		

By signing below or otherwise evidencing your acceptance of this Agreement in a manner approved by the Company, you agree to all of the terms and conditions contained in this Agreement and in the Plan document. You acknowledge that you have received and reviewed these documents and that they set forth the entire agreement between you and the Company regarding your right to purchase shares of the Company’s common stock pursuant to this Option.

PARTICIPANT:

PINEAPPLE ENERGY INC.

By: _____
 Title: _____

Pineapple Energy Inc.
2022 Equity Incentive Plan
Incentive Stock Option Agreement

Option Terms and Conditions

1. **Incentive Stock Option.** This Option is intended to be an “incentive stock option” within the meaning of Section 422 of the Internal Revenue Code (the “Code”) and will be interpreted accordingly. To the extent that, for any reason, the Option does not qualify as an incentive stock option under Code Section 422, the Option will be treated as a non-statutory stock option, subject to the tax consequences applicable to such options.
 2. **Vesting and Exercisability of Option.**
 - (a) **Scheduled Vesting.** This Option will vest and become exercisable as to the number of Shares and on the dates specified in the Vesting and Exercise Schedule on the cover page to this Agreement, so long as your Service to the Company does not end. The Vesting and Exercise Schedule is cumulative, meaning that to the extent the Option has not already been exercised and has not expired or been terminated or cancelled, you or the person otherwise entitled to exercise the Option as provided in this Agreement may at any time purchase all or any portion of the Shares subject to the vested portion of the Option.
 - (b) **Accelerated Vesting.** Notwithstanding Section 2(a), (i) this Option will vest and become exercisable in full upon a termination of your Service as a result of your death or Disability and shall remain exercisable for the period specified in Section 6(e) of the Plan, and (ii) if and to the extent this Option is continued, assumed or replaced in connection with a Change in Control, and if within 24 months after such Change in Control you experience an involuntary termination of Service for reasons other than Cause, then this Option (or any replacement award) shall immediately vest and become exercisable in full and shall remain exercisable for one year following your termination of Service. In addition, vesting and exercisability of this Option may be accelerated during the term of the Option under the circumstances described in Sections 12(b) and 12(c) of the Plan, and at the discretion of the Committee in accordance with Section 3(b)(2) of the Plan.
 3. **Expiration.** This Option will expire and will no longer be exercisable at 5:00 p.m. Central Time on the earliest of:
 - (a) The expiration date specified on the cover page of this Agreement;
 - (b) Upon your termination of Service for Cause;
 - (c) Upon the expiration of any applicable period specified in Section 6(e) of the Plan or Section 2 of this Agreement during which this Option may be exercised after your termination of Service; or
 - (d) The date (if any) fixed for termination or cancellation of this Option pursuant to Section 12 of the Plan.
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4. **Service Requirement.** Except as otherwise provided in Section 6(e) of the Plan or Section 2 of this Agreement, this Option may be exercised only while you continue to provide Service to the Company or any Affiliate, and only if you have continuously provided such Service since the Grant Date of this Option.
5. **Exercise of Option.** Subject to Section 4, the vested and exercisable portion of this Option may be exercised in whole or in part at any time during the Option term by delivering a written or electronic notice of exercise to the Company's [] or to such other party as may be designated by such officer, and by providing for payment of the exercise price of the Shares being acquired and any related withholding taxes. The notice of exercise must be in a form approved by the Company and state the number of Shares to be purchased, the method of payment of the aggregate exercise price and the directions for the delivery of the Shares to be acquired, and must be signed or otherwise authenticated by the person exercising the Option. If you are not the person exercising the Option, the person submitting the notice also must submit appropriate proof of his/her right to exercise the Option.
6. **Payment of Exercise Price.** When you submit your notice of exercise, you must include payment of the exercise price of the Shares being purchased through one or a combination of the following methods:
 - (a) Cash (including personal check, cashier's check or money order);
 - (b) By means of a broker-assisted cashless exercise in which you irrevocably instruct your broker to deliver proceeds of a sale of all or a portion of the Shares to be issued pursuant to the exercise to the Company in payment of the exercise price of such Shares;
 - (c) By delivery to the Company of Shares (by actual delivery or attestation of ownership in a form approved by the Company) already owned by you that are not subject to any security interest and that have an aggregate Fair Market Value on the date of exercise equal to the exercise price of the Shares being purchased; or
 - (d) By authorizing the Company to retain, from the total number of Shares as to which the Option is being exercised, that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is being exercised.

However, if the Committee determines, in any given circumstance, that payment of the exercise price with Shares or by authorizing the Company to retain Shares is undesirable for any reason, you will not be permitted to pay any portion of the exercise price in that manner.

7. **Tax Consequences.** You hereby acknowledge that if any Shares received pursuant to the exercise of any portion of this Option are sold within two years from the Grant Date or within one year from the effective date of exercise of this Option, or if certain other requirements of the Code are not satisfied, such Shares will be deemed under the Code not to have been acquired by you pursuant to an "incentive stock option" as defined in the Code. You agree to promptly notify the Company if you sell any Shares received upon the exercise of this Option within the time periods
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specified in the previous sentence. The Company shall not be liable to you if this Option for any reason is deemed not to be an “incentive stock option” within the meaning of the Code.

8. **Delivery of Shares.** As soon as practicable after the Company receives the notice of exercise and payment of the exercise price as provided above, and has determined that all other conditions to exercise, including compliance with applicable laws as provided in Section 16(c) of the Plan, have been satisfied, it shall deliver to the person exercising the Option, in the name of such person, the Shares being purchased, as evidenced by issuance of a stock certificate or certificates, electronic delivery of such Shares to a brokerage account designated by such person, or book-entry registration of such Shares with the Company’s transfer agent. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the Shares and all fees and expenses incurred by it in connection therewith. All Shares so issued shall be fully paid and nonassessable.
 9. **Transfer of Option.** During your lifetime, only you (or your guardian or legal representative in the event of legal incapacity) may exercise this Option. You may not assign or transfer this Option except for a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan. The Option held by any such transferee will continue to be subject to the same terms and conditions that were applicable to the Option immediately prior to its transfer and may be exercised by such transferee as and to the extent that the Option has become exercisable and has not terminated in accordance with the provisions of the Plan and this Agreement.
 10. **No Stockholder Rights Before Exercise.** Neither you nor any permitted transferee of this Option will have any of the rights of a stockholder of the Company with respect to any Shares subject to this Option until a certificate evidencing such Shares has been issued, electronic delivery of such Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made. No adjustments shall be made for dividends or other rights if the applicable record date occurs before your stock certificate has been issued, electronic delivery of your Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made, except as otherwise described in the Plan.
 11. **Governing Plan Document.** This Agreement and Option are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.
 12. **Choice of Law.** This Agreement will be interpreted and enforced under the laws of the state of Minnesota (without regard to its conflicts or choice of law principles).
 13. **Binding Effect.** This Agreement will be binding in all respects on your heirs, representatives, successors and assigns , and on the successors and assigns of the Company.
 14. **Other Agreements.** You agree that in connection with the exercise of this Option, you will execute such documents as may be necessary to become a party to any stockholder, voting or similar agreements as the Company may require.
 15. **Restrictive Legends.** The Company may place a legend or legends on any certificate representing
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Shares issued upon the exercise of this Option summarizing transfer and other restrictions to which the Shares may be subject under applicable securities laws, other provisions of this Agreement, or other agreements contemplated by Section 14 of this Agreement. You agree that in order to ensure compliance with the restrictions referred to in this Agreement, the Company may issue appropriate “stop transfer” instructions to its transfer agent.

16. **Compensation Recovery Policy.** To the extent that any compensation paid or payable pursuant to this Agreement is considered “incentive-based compensation” within the meaning and subject to the requirements of Section 10D of the Exchange Act, such compensation shall be subject to potential forfeiture or recovery by the Company in accordance with any compensation recovery policy adopted by the Board of Directors of the Company or any committee thereof in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder adopted by the Securities and Exchange Commission or any national securities exchange on which the Company’s common stock is then listed. This Agreement may be unilaterally amended by the Company to comply with any such compensation recovery policy.
17. **Electronic Delivery and Acceptance.** The Company may deliver any documents related to this Option Award by electronic means and request your acceptance of this Agreement by electronic means. You hereby consent to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company’s third-party stock plan administrator.

By signing the cover page of this Agreement or otherwise accepting this Agreement in a manner approved by the Company, you agree to all the terms and conditions described above and in the Plan document.

PINEAPPLE ENERGY INC.

Non-Qualified Stock Option Agreement
Under the 2022 Equity Incentive Plan

Pineapple Energy Inc. (the "Company"), pursuant to its 2022 Equity Incentive Plan (the "Plan"), hereby grants an Option to purchase shares of the Company's common stock to you, the Participant named below. The terms and conditions of the Option Award are set forth in this Agreement, consisting of this cover page and the Option Terms and Conditions on the following pages, and in the Plan document, a copy of which has been provided to you. Any capitalized term that is not defined in this Agreement shall have the meaning set forth in the Plan as it currently exists or as it is amended in the future.

Name of Participant: [_____]			
No. of Shares Covered: [_____]	Grant Date: _____, 20__		
Exercise Price Per Share: \$[_____]	Expiration Date: _____, 20__		
Vesting and Exercise Schedule: <table style="width: 100%; border: none;"> <tr> <td style="text-align: center; width: 50%;"><u>Dates</u></td> <td style="text-align: center; width: 50%;"><u>Portion of Shares as to Which Option Becomes Vested and Exercisable</u></td> </tr> </table>		<u>Dates</u>	<u>Portion of Shares as to Which Option Becomes Vested and Exercisable</u>
<u>Dates</u>	<u>Portion of Shares as to Which Option Becomes Vested and Exercisable</u>		

By signing below or otherwise evidencing your acceptance of this Agreement in a manner approved by the Company, you agree to all of the terms and conditions contained in this Agreement and in the Plan document. You acknowledge that you have received and reviewed these documents and that they set forth the entire agreement between you and the Company regarding your right to purchase shares of the Company's common stock pursuant to this Option.

PARTICIPANT:

PINEAPPLE ENERGY INC.

By: _____

Title: _____

Pineapple Energy Inc.
2022 Equity Incentive Plan
Non-Qualified Stock Option Agreement

Option Terms and Conditions

1. **Non-Qualified Stock Option.** This Option is not intended to be an “incentive stock option” within the meaning of Section 422 of the Internal Revenue Code and will be interpreted accordingly.
 2. **Vesting and Exercisability of Option.**
 - (a) **Scheduled Vesting.** This Option will vest and become exercisable as to the number of Shares and on the dates specified in the Vesting and Exercise Schedule on the cover page to this Agreement, so long as your Service to the Company does not end. The Vesting and Exercise Schedule is cumulative, meaning that to the extent the Option has not already been exercised and has not expired or been terminated or cancelled, you or the person otherwise entitled to exercise the Option as provided in this Agreement may at any time purchase all or any portion of the Shares subject to the vested portion of the Option.
 - (b) **Accelerated Vesting.** Notwithstanding Section 2(a), (i) this Option will vest and become exercisable in full upon a termination of your Service as a result of your death or Disability and shall remain exercisable for the period specified in Section 6(e) of the Plan, and (ii) if and to the extent this Option is continued, assumed or replaced in connection with a Change in Control, and if within 24 months after such Change in Control you experience an involuntary termination of Service for reasons other than Cause, then this Option (or any replacement award) shall immediately vest and become exercisable in full and shall remain exercisable for one year following your termination of Service. In addition, vesting and exercisability of this Option may be accelerated during the term of the Option under the circumstances described in Sections 12(b) and 12(c) of the Plan, and at the discretion of the Committee in accordance with Section 3(b)(2) of the Plan.
 3. **Expiration.** This Option will expire and will no longer be exercisable at 5:00 p.m. Central Time on the earliest of:
 - (a) The expiration date specified on the cover page of this Agreement;
 - (b) Upon your termination of Service for Cause;
 - (c) Upon the expiration of any applicable period specified in Section 6(e) of the Plan or Section 2 of this Agreement during which this Option may be exercised after your termination of Service; or
 - (d) The date (if any) fixed for termination or cancellation of this Option pursuant to Section 12 of the Plan.
 4. **Service Requirement.** Except as otherwise provided in Section 6(e) of the Plan or Section 2 of this Agreement, this Option may be exercised only while you continue to provide Service to the Company or any Affiliate, and only if you have continuously provided such Service since the Grant Date of this Option.
 5. **Exercise of Option.** Subject to Section 4, the vested and exercisable portion of this Option may be exercised in whole or in part at any time during the Option term by delivering a written or electronic notice of exercise to the Company’s [] or to such other party as may be designated by such
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officer, and by providing for payment of the exercise price of the Shares being acquired and any related withholding taxes. The notice of exercise must be in a form approved by the Company and state the number of Shares to be purchased, the method of payment of the aggregate exercise price and the directions for the delivery of the Shares to be acquired, and must be signed or otherwise authenticated by the person exercising the Option. If you are not the person exercising the Option, the person submitting the notice also must submit appropriate proof of his/her right to exercise the Option.

6. **Payment of Exercise Price.** When you submit your notice of exercise, you must include payment of the exercise price of the Shares being purchased through one or a combination of the following methods:
- (a) Cash (including personal check, cashier's check or money order);
 - (b) By means of a broker-assisted cashless exercise in which you irrevocably instruct your broker to deliver proceeds of a sale of all or a portion of the Shares to be issued pursuant to the exercise to the Company in payment of the exercise price of such Shares;
 - (c) By delivery to the Company of Shares (by actual delivery or attestation of ownership in a form approved by the Company) already owned by you that are not subject to any security interest and that have an aggregate Fair Market Value on the date of exercise equal to the exercise price of the Shares being purchased; or
 - (d) By authorizing the Company to retain, from the total number of Shares as to which the Option is being exercised, that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is being exercised.

However, if the Committee determines, in any given circumstance, that payment of the exercise price with Shares or by authorizing the Company to retain Shares is undesirable for any reason, you will not be permitted to pay any portion of the exercise price in that manner.

7. **Withholding Taxes.** You may not exercise this Option in whole or in part unless you make arrangements acceptable to the Company for payment of any federal, state, local or foreign withholding taxes that may be due as a result of the exercise of this Option. You hereby authorize the Company (or any Affiliate) to withhold from payroll or other amounts payable to you any sums required to satisfy such withholding tax obligations, and otherwise agree to satisfy such obligations in accordance with the provisions of Section 14 of the Plan. You may satisfy such withholding tax obligations by delivering Shares you already own or by having the Company retain a portion of the Shares being acquired upon exercise of the Option, provided you notify the Company in advance of any exercise of your desire to pay withholding taxes in this manner. Delivery of Shares upon exercise of this Option is subject to the satisfaction of applicable withholding tax obligations.
8. **Delivery of Shares.** As soon as practicable after the Company receives the notice of exercise and payment of the exercise price as provided above, and has determined that all other conditions to exercise, including satisfaction of withholding tax obligations and compliance with applicable laws as provided in Section 16(c) of the Plan, have been satisfied, it shall deliver to the person exercising the Option, in the name of such person, the Shares being purchased, as evidenced by issuance of a stock certificate or certificates, electronic delivery of such Shares to a brokerage account designated by such person, or book-entry registration of such Shares with the Company's transfer agent. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the Shares and all fees and expenses incurred by it in connection therewith. All Shares so issued shall be fully paid and nonassessable.
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9. **Transfer of Option.** During your lifetime, only you (or your guardian or legal representative in the event of legal incapacity) may exercise this Option except in the case of a transfer described below. You may not assign or transfer this Option except (i) for a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan, (ii) pursuant to a domestic relations order, or (iii) with the prior written approval of the Company, by gift to a "family member" as the term is defined under General Instruction A(5) to Form S-8 under the Securities Act. The Option held by any such transferee will continue to be subject to the same terms and conditions that were applicable to the Option immediately prior to its transfer and may be exercised by such transferee as and to the extent that the Option has become exercisable and has not terminated in accordance with the provisions of the Plan and this Agreement.
 10. **No Stockholder Rights Before Exercise.** Neither you nor any permitted transferee of this Option will have any of the rights of a stockholder of the Company with respect to any Shares subject to this Option until a certificate evidencing such Shares has been issued, electronic delivery of such Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made. No adjustments shall be made for dividends or other rights if the applicable record date occurs before your stock certificate has been issued, electronic delivery of your Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made, except as otherwise described in the Plan.
 11. **Governing Plan Document.** This Agreement and Option are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.
 12. **Choice of Law.** This Agreement will be interpreted and enforced under the laws of the state of Minnesota (without regard to its conflicts or choice of law principles).
 13. **Binding Effect.** This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.
 14. **Other Agreements.** You agree that in connection with the exercise of this Option, you will execute such documents as may be necessary to become a party to any stockholder, voting or similar agreements as the Company may require.
 15. **Restrictive Legends.** The Company may place a legend or legends on any certificate representing Shares issued upon the exercise of this Option summarizing transfer and other restrictions to which the Shares may be subject under applicable securities laws, other provisions of this Agreement, or other agreements contemplated by Section 14 of this Agreement. You agree that in order to ensure compliance with the restrictions referred to in this Agreement, the Company may issue appropriate "stop transfer" instructions to its transfer agent.
 16. **Compensation Recovery Policy.** To the extent that any compensation paid or payable pursuant to this Agreement is considered "incentive-based compensation" within the meaning and subject to the requirements of Section 10D of the Exchange Act, such compensation shall be subject to potential forfeiture or recovery by the Company in accordance with any compensation recovery policy adopted by the Board of Directors of the Company or any committee thereof in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder adopted by
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the Securities and Exchange Commission or any national securities exchange on which the Company's common stock is then listed. This Agreement may be unilaterally amended by the Company to comply with any such compensation recovery policy.

17. **Electronic Delivery and Acceptance.** The Company may deliver any documents related to this Option Award by electronic means and request your acceptance of this Agreement by electronic means. You hereby consent to receive all applicable documentation by electronic delivery and to participate in the Plan through an on-line (and/or voice activated) system established and maintained by the Company or the Company's third-party stock plan administrator.

By signing the cover page of this Agreement or otherwise accepting this Agreement in a manner approved by the Company, you agree to all the terms and conditions described above and in the Plan document.

CERTIFICATION

I, Kyle Udseth certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pineapple Energy 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, in light of 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 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 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: November 14, 2022

/s/ Kyle Udseth
Kyle Udseth
Chief Executive Officer

CERTIFICATION

I, Eric Ingvaldson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pineapple Energy 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, in light of 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 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 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: November 14, 2022

/s/ Eric Ingvaldson
Eric Ingvaldson
Chief Financial Officer

CERTIFICATION

The undersigned certify pursuant to 18 U.S.C. § 1350, that:

- (1) The accompanying Quarterly Report on Form 10-Q for the period ended September 30, 2022 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the accompanying Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2022

/s/ Kyle Udseth
Kyle Udseth
Chief Executive Officer

Date: November 14, 2022

/s/ Eric Ingvaldson
Eric Ingvaldson
Chief Financial Officer



Pineapple Energy Reports Third Quarter 2022 Financial Results

November 14, 2022 at 4:15 p.m. EST

- **Increased revenue +31% from Q2 2022**
- **Increased gross profit +58% from Q2 2022**
- **Increased kW sold +105% YoY**
- **Increased pending installations +40% from Q2 2022**
- **\$10.2 million of cash, restricted cash, and investments**
- **Step-function growth going forward from SUNation acquisition**

MINNETONKA, MN, Nov. 14, 2022 /Globe Newswire/ -- Pineapple Energy Inc. (NASDAQ:PEGY), a leading provider of sustainable solar energy and back-up power to households and small businesses, today announced financial results for the third quarter ended September 30, 2022. Results reflect performance of the Hawaiian operations; future results will reflect the SUNation acquisition that closed last week.

Pineapple CEO Kyle Udseth commented, "The SUNation acquisition fundamentally transforms Pineapple, launching us on our path of intended growth. SUNation triples our current revenue run rate, and opens a large new geography for us in the Northeast U.S. We now have an even stronger team, an expanded service offering, and are starting to show our potential for national scale. As important, this deal demonstrates our ability to execute our acquisition-driven growth strategy. With each new acquisition, we fortify our track record, making subsequent deals easier to source and close, and making capital more accessible at lower cost. We believe the SUNation deal establishes our 'street credibility', showing the world that Pineapple is an emerging force in our industry."

Pineapple CFO Eric Ingvaldson added, "Third quarter results demonstrate a solid foundation upon which we intend to grow. Revenue and gross profit grew sequentially, and new incoming orders outpaced our ability to install, driving robust backlog growth. Battery storage, which is a key incremental offering that adds revenue and margin per install, is seeing high demand. We had an 90% attach rate in the third quarter and anticipate ongoing high demand in the quarters ahead due to the compelling value proposition of stable reliable power."

Third Quarter Business Highlights

- **Solid performance at our Hawaii operations (Q3 2022 vs Q3 2021)**
 - **kW sold +105%**
 - **Battery capacity sold +107%**
 - **Battery attachment rate of 90%**
 - **kW installed +37%**
 - **Battery capacity installed +52%**
 - **Customer acquisition cost per watt – 62%**
-

- **Revenue, gross profit, and operating expense improvement in the third quarter of 2022 resulted in a 43% improvement in adjusted EBITDA from the second quarter of 2022.**

Subsequent Events

- **Appointed Eric Ingvaldson as Chief Financial Officer**

On October 10, 2022, Eric Ingvaldson took the helm of all financial operations at Pineapple. Mr. Ingvaldson came to the Company with a track record of driving financial success at multiple companies. His experience includes “Big 4” accounting, as well as audit and corporate finance roles at large public companies, middle market companies and early-stage start-ups.

- **Transformative acquisition of New York-based solar installer SUNation**

On November 9, 2022, Pineapple closed the acquisition of SUNation, a 19-year-old company in Long Island, New York that installs solar and battery energy storage systems for residential and small commercial customers. SUNation generated revenue of \$48 million in the trailing twelve months ended September 30, 2022. The acquisition was valued at approximately \$21.9 million. SUNation is a transformative acquisition for Pineapple, helping move toward a national service footprint, creating a substantial positive financial impact, and fortifying the team with an outstanding group of solar professionals.

Third Quarter 2022 Results¹

	3 rd Quarter 2022	2 nd Quarter 2022	3 rd Quarter 2021
Revenue	\$7,709,062	\$5,890,636	\$25,417
Gross Profit	\$2,013,742	\$1,276,262	\$25,417
Operating Expense	\$4,414,721	\$4,473,164	\$1,144,986
Net (Loss) Income	\$(2,519,996)	\$1,442,652	\$(1,395,263)
Adjusted EBITDA ²	\$(1,050,722)	\$(1,834,584)	\$(216,311)
Cash, restricted cash & investments ³	\$10,236,453	\$17,863,301	\$66,624
Diluted Earnings (Loss) per share	\$(0.34)	\$0.15	\$(0.45)

All figures are for the third quarter of 2022 unless noted otherwise. Because Pineapple had no meaningful operations in the third quarter of 2021, all comparisons are sequential with the second quarter of 2022, unless noted otherwise.

Total revenue of \$7.7 million was up 31% sequentially, driven by an increased pace of installation and increasing penetration of battery storage add-on sales.

Gross profit of \$2.0 million was up 58% sequentially, driven by the increase in revenue and improved margins from battery storage add-on sales.

Adjusted EBITDA loss of \$(1.05) million was reduced by 43% sequentially, due to higher revenue, higher gross margins, and a slight improvement in operating expenses.

Outlook

Fourth quarter results will reflect approximately seven weeks of contribution from SUNation. SUNation's revenue run rate is approximately double that of Pineapple's Hawaii operations with similar margins.

About Pineapple Energy

Pineapple is focused on growing leading local and regional solar, storage, and energy services companies nationwide. Our vision is to power the energy transition through grass-roots growth of solar electricity paired with battery storage. Our portfolio of brands (SUNation, Hawaii Energy Connection, E-Gear, Sungevity, and Horizon Solar Power) provide homeowners and small businesses with an end-to-end product offering spanning solar, battery storage, and grid services.

Forward Looking Statements

This press release includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding future financial performance, future growth or growth opportunities, future opportunities, future flexibility to pursue acquisitions, future cash flows, and the expected financial impact of, and results following, the SUNation acquisition. These statements are based on the Company's current expectations or beliefs and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements here due to changes in economic, business, competitive or regulatory factors, and other risks and uncertainties, including those set forth in the Company's filings with the Securities and Exchange Commission. The forward-looking statements in this press release speak only as of the date of this press release. The Company does not undertake any obligation to update or revise these forward-looking statements for any reason, except as required by law.

Contacts:

Pineapple Energy

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Chief Executive Officer

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Kyle.Udseth@pineappleenergy.com

Eric Ingvaldson

Chief Financial Officer

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The Blueshirt Group

Gary Dvorchak, CFA

Managing Director

+1 (323) 240-5796

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PINEAPPLE ENERGY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

	September 30	December 31
	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,658,354	\$ 18,966
Restricted cash and cash equivalents	1,923,716	—
Investments	2,654,383	—
Trade accounts receivable, less allowance for doubtful accounts of \$70,000 and \$0, respectively	3,938,002	—
Inventories, net	1,793,093	—
Prepaid income taxes	14,671	—
Other current assets	1,223,013	—
TOTAL CURRENT ASSETS	17,205,232	18,966
PROPERTY, PLANT AND EQUIPMENT, net	341,518	—
OTHER ASSETS:		
Investments	250,000	—
Goodwill	16,566,853	—
Operating lease right of use asset	63,684	—
Intangible assets, net	16,777,225	2,780,270
Other assets, net	44,843	—
TOTAL OTHER ASSETS	33,702,605	2,780,270
TOTAL ASSETS	\$ 51,249,355	\$ 2,799,236
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,404,964	\$ 2,233,371
Accrued compensation and benefits	458,177	307,828
Operating lease liability	53,879	—
Other accrued liabilities	96,631	—
Working capital note payable	—	350,000
Customer deposits	4,992,632	—
Deferred revenue	663,480	—
TOTAL CURRENT LIABILITIES	8,669,763	2,891,199
LONG-TERM LIABILITIES:		
Loan payable and related interest	1,257,038	6,194,931
Related party payables	—	2,350,000
Operating lease liability	16,632	—
Deferred revenue	327,189	—
Contingent value rights	10,743,224	—
TOTAL LONG-TERM LIABILITIES	12,344,083	8,544,931
STOCKHOLDERS' EQUITY		
Convertible preferred stock, par value \$1.00 per share; 3,000,000 shares authorized; 32,000 and 0 shares issued and outstanding, respectively	32,000	—
Common stock, par value \$0.05 per share; 37,500,000 shares authorized; 7,435,586 and 3,074,998 shares issued and outstanding, respectively	371,779	153,750
Additional paid-in capital	41,562,362	(53,750)
Accumulated deficit	(11,697,872)	(8,736,894)
Accumulated other comprehensive loss	(32,760)	—
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	30,235,509	(8,636,894)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 51,249,355	\$ 2,799,236

PINEAPPLE ENERGY INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Sales	\$ 7,709,062	\$ 25,417	\$ 13,918,498	\$ 25,417
Cost of sales	5,695,320	—	10,533,362	—
Gross profit	2,013,742	25,417	3,385,136	25,417
Operating expenses:				
Selling, general and administrative expenses	3,122,976	241,728	6,653,796	697,985
Amortization expense	1,026,362	357,324	2,410,045	1,071,971
Transaction costs	265,383	545,934	1,447,284	1,977,436
Total operating expenses	4,414,721	1,144,986	10,511,125	3,747,392
Operating loss	(2,400,979)	(1,119,569)	(7,125,989)	(3,721,975)
Other income (expense):				
Investment and other income	8,215	—	106,974	—
Gain on sale of assets	14,573	—	1,229,133	—
Fair value remeasurement of earnout consideration	13,000	—	4,684,000	—
Fair value remeasurement of contingent value rights	—	—	(1,214,560)	—
Interest and other expense	(154,805)	(275,694)	(640,536)	(1,004,964)
Other income (expense), net	(119,017)	(275,694)	4,165,011	(1,004,964)
Net loss before income taxes	(2,519,996)	(1,395,263)	(2,960,978)	(4,726,939)
Income tax expense	—	—	—	—
Net loss	(2,519,996)	(1,395,263)	(2,960,978)	(4,726,939)
Other comprehensive gain (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	38	—	(32,760)	—
Total other comprehensive gain (loss)	38	—	(32,760)	—
Comprehensive loss	\$ (2,519,958)	\$ (1,395,263)	\$ (2,993,738)	\$ (4,726,939)
Basic net loss per share:	\$ (0.34)	\$ (0.45)	\$ (0.49)	\$ (1.54)
Diluted net loss per share:	\$ (0.34)	\$ (0.45)	\$ (0.49)	\$ (1.54)
Weighted Average Basic Shares Outstanding	7,435,586	3,074,998	6,049,611	3,074,998
Weighted Average Dilutive Shares Outstanding	7,435,586	3,074,998	6,049,611	3,074,998

Non-GAAP Financial Measures

This press release includes non-GAAP financial measures that differ from financial measures calculated in accordance with U.S. generally accepted accounting principles ("GAAP").

Adjusted EBITDA is a non-GAAP financial measure provided in this release, and is net (loss) income, calculated in accordance with GAAP, adjusted for interest, income taxes, depreciation, amortization, transaction costs, and non-cash fair value remeasurement adjustments as detailed in the reconciliations presented below in this press release.

These non-GAAP financial measures are presented because the Company believes they are useful indicators of its operating performance.

Management uses these measures principally as measures of the Company's operating performance and for planning purposes, including the preparation of the Company's annual operating plan and financial projections. The Company believes these measures are useful to investors as supplemental information and because they are frequently used by analysts, investors, and other interested parties to evaluate companies in its industry. The Company also believes these non-GAAP financial measures are useful to its management and investors as a measure of comparative operating performance from period to period.

The non-GAAP financial measures presented in this release should not be considered as an alternative to, or superior to, their respective GAAP financial measures, as measures of financial performance or cash flows from operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP, and they should not be construed to imply that the Company's future results will be unaffected by unusual or non-recurring items. In addition, these measures do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures and certain other cash costs that may recur in the future. Adjusted EBITDA contains certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In evaluating non-GAAP financial measures, you should be aware that in the future the Company may incur expenses that are the same as or similar to some of the adjustments in this presentation. The Company's presentation of non-GAAP financial measures should not be construed to imply that its future results will be unaffected by any such adjustments. Management compensates for these limitations by primarily relying on the Company's GAAP results in addition to using non-GAAP financial measures on a supplemental basis. The Company's definition of these non-GAAP financial measures is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

Reconciliation of Non-GAAP to GAAP Financial Information

Reconciliation of Net (Loss) Income to Adjusted EBITDA:

	Three Months Ended September 30		Three Months
	2022	2021	Ended June 30
			2022
Net (Loss) Income	\$ (2,519,996)	\$ (1,395,263)	\$ 1,442,652
Interest expense	151,025	275,694	131,568
Interest income	(5,960)	-	(5,143)
Income taxes	-	-	-
Depreciation	45,464	-	27,723
Amortization	1,026,362	357,324	1,026,220
Transaction costs	265,383	545,934	213,396
Fair value remeasurement of earnout consideration	(13,000)	-	(4,671,000)
Adjusted EBITDA	\$ (1,050,722)	\$ (216,311)	\$ (1,834,584)