

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2023**

**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 May 12, 2023

9,948,836

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**PINEAPPLE ENERGY INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>March 31</b>	<b>December 31</b>
	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,920,414	\$ 2,187,540
Restricted cash and cash equivalents	3,672,510	3,068,938
Investments	2,018,057	2,666,766
Trade accounts receivable, less allowance for credit losses of \$112,581 and \$108,636, respectively	6,118,196	5,564,532
Inventories, net	5,679,961	6,054,493
Employee retention credit	—	1,584,541
Related party receivables	76,847	116,710
Prepaid expenses	1,663,536	2,152,058
Costs and estimated earnings in excess of billings	507,564	777,485
Other current assets	634,095	634,362
Current assets held for sale	1,301,823	1,154,099
<b>TOTAL CURRENT ASSETS</b>	<b>23,593,003</b>	<b>25,961,524</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>1,473,464</b>	<b>1,190,932</b>
<b>OTHER ASSETS:</b>		
Goodwill	20,545,850	20,545,850
Operating lease right of use asset	4,672,439	4,166,838
Intangible assets, net	19,280,111	20,546,810
Other assets, net	12,000	12,000
Non-current assets held for sale	2,264,810	2,271,533
<b>TOTAL OTHER ASSETS</b>	<b>46,775,210</b>	<b>47,543,031</b>
<b>TOTAL ASSETS</b>	<b>\$ 71,841,677</b>	<b>\$ 74,695,487</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 7,748,143	\$ 7,594,181
Accrued compensation and benefits	737,793	859,774
Operating lease liability	322,378	220,763
Other accrued liabilities	1,328,544	1,238,777
Related party payables	549,720	2,181,761
Income taxes payable	1,318	1,650
Refundable customer deposits	2,752,156	4,285,129
Billings in excess of costs and estimated earnings	3,104,435	2,705,409
Current portion of loans payable	371,264	346,290
Current portion of loans payable - related party	5,413,170	5,339,265
Current liabilities held for sale	1,069,199	1,161,159
<b>TOTAL CURRENT LIABILITIES</b>	<b>23,398,120</b>	<b>25,934,158</b>
<b>LONG-TERM LIABILITIES:</b>		
Loans payable and related interest	3,444,316	3,138,194
Loans payable and related interest - related party	4,731,778	4,635,914
Operating lease liability	4,379,432	3,961,340
Earnout consideration	2,975,000	2,150,000
Contingent value rights	7,652,714	7,402,714
Long term liabilities held for sale	262,455	250,875
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>23,445,695</b>	<b>21,539,037</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 9)</b>		
<b>STOCKHOLDERS' EQUITY</b>		

Convertible preferred stock, par value \$1.00 per share; 3,000,000 shares authorized; 28,000 shares issued and outstanding	28,000	28,000
Common stock, par value \$0.05 per share; 75,000,000 shares authorized; 9,948,836 and 9,915,586 shares issued and outstanding, respectively	497,442	495,779
Additional paid-in capital	46,088,941	45,798,069
Accumulated deficit	(21,630,504)	(19,089,134)
Accumulated other comprehensive income (loss)	13,983	(10,422)
TOTAL STOCKHOLDERS' EQUITY	<u>24,997,862</u>	<u>27,222,292</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 71,841,677</u>	<u>\$ 74,695,487</u>

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)

	<b>Three Months Ended March 31</b>	
	<b>2023</b>	<b>2022</b>
Sales	\$ 22,065,424	\$ 231,868
Cost of sales	14,059,109	166,160
Gross profit	8,006,315	65,708
Operating expenses:		
Selling, general and administrative expenses	8,062,123	273,750
Amortization expense	1,266,698	357,463
Transaction costs	2,020	968,505
Fair value remeasurement of SUNation earnout consideration	825,000	—
Total operating expenses	10,155,841	1,599,718
Operating loss	(2,149,526)	(1,534,010)
Other income (expense):		
Investment and other income (expense)	19,533	(5,144)
Gain on sale of assets	244,271	—
Fair value remeasurement of contingent value rights	(250,000)	—
Interest and other expense	(458,218)	(350,382)
Other expense, net	(444,414)	(355,526)
Net loss before income taxes	(2,593,940)	(1,889,536)
Income tax expense	5,732	—
Net loss from continuing operations	(2,599,672)	(1,889,536)
Net income from discontinued operations, net of tax	44,683	5,902
Net loss	(2,554,989)	(1,883,634)
Other comprehensive gain (loss), net of tax:		
Unrealized gain (loss) on available-for-sale securities	24,405	(17,067)
Total other comprehensive gain (loss)	24,405	(17,067)
Comprehensive loss	\$ (2,530,584)	\$ (1,900,701)
Basic net loss per share:		
Continuing operations	\$ (0.26)	\$ (0.58)
Discontinued operations	—	—
	\$ (0.26)	\$ (0.58)
Diluted net loss per share:		
Continuing operations	\$ (0.26)	\$ (0.58)
Discontinued operations	—	—
	\$ (0.26)	\$ (0.58)
Weighted Average Basic Shares Outstanding	9,919,650	3,231,461
Weighted Average Dilutive Shares Outstanding	9,919,650	3,231,461

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 Three Months Ended March 31, 2023

	Series A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
BALANCE AT DECEMBER 31, 2022	28,000	\$ 28,000	9,915,586	\$ 495,779	\$ 45,798,069	\$ (19,089,134)	\$ (10,422)	\$ 27,222,292
Net loss	—	—	—	—	—	(2,554,989)	—	(2,554,989)
Issuance of common stock under								
Equity Incentive Plan	—	—	37,500	1,875	(1,875)	—	—	—
Share based compensation	—	—	—	—	312,445	—	—	312,445
Other share retirements	—	—	(4,250)	(212)	(19,698)	13,619	—	(6,291)
Other comprehensive income	—	—	—	—	—	—	24,405	24,405
BALANCE AT MARCH 31, 2023	28,000	\$ 28,000	9,948,836	\$ 497,442	\$ 46,088,941	\$ (21,630,504)	\$ 13,983	\$ 24,997,862

For the Three Months Ended March 31, 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	—	—	—	—	—	(1,883,634)	—	(1,883,634)
Issuance of common stock for								
professional services	—	—	12,499	625	(625)	—	—	—
Issuance of common stock for								
conversion of related party payables	—	—	293,750	14,688	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)
Other comprehensive loss	—	—	—	—	—	—	(17,067)	(17,067)
BALANCE AT MARCH 31, 2022	32,000	\$ 32,000	7,435,586	\$ 371,779	\$ 41,538,864	\$ (10,620,528)	\$ (17,067)	\$ 31,305,048

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

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

	<b>Three Months Ended March 31</b>	
	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,554,989)	\$ (1,883,634)
Net income from discontinued operations, net of tax	44,683	5,902
Net loss from continuing operations	(2,599,672)	(1,889,536)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,377,023	358,230
Share based compensation	312,445	—
Fair value remeasurement of earnout consideration	825,000	—
Fair value remeasurement of contingent value rights	250,000	—
Gain on sale of assets	(244,271)	—
Interest and accretion expense	458,218	336,405
Changes in assets and liabilities:		
Trade accounts receivable	(513,802)	(50,165)
Inventories	624,532	71,754
Prepaid income taxes	(332)	—
Other assets, net	2,274,326	285,880
Accounts payable	153,962	(2,528,599)
Accrued compensation and benefits	(121,982)	(502,869)
Customer deposits	(1,532,973)	(47,367)
Other accrued liabilities	(1,129,141)	(1,091,411)
Accrued interest	(85,893)	—
Net cash provided by (used in) operating activities	47,440	(5,057,678)
Net cash (used in) provided by operating activities - discontinued operations	(173,019)	15,237
Net cash used in operating activities	(125,579)	(5,042,441)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(329,657)	(245)
Acquisition of business, net of cash acquired	—	(10,256,865)
Proceeds from the sale of investments	673,114	49,194
Net cash provided by (used in) investing activities	343,457	(10,207,916)
Net cash used in investing activities - discontinued operations	(3,681)	—
Net cash provided by (used in) investing activities	339,776	(10,207,916)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings against working capital note payable	—	150,000
Borrowings of loans payable	226,361	—
Payments against loan payable principal	(97,821)	(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
Purchase of common stock	(6,291)	—
Net cash provided by financing activities	122,249	24,950,630
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	336,446	9,700,273
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	5,256,478	18,966
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 5,592,924	\$ 9,719,239
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Income taxes paid	\$ 332	\$ —
Interest paid	80,578	1,070,853
<b>NONCASH FINANCING AND INVESTING ACTIVITIES:</b>		
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
Operating right of use assets obtained in exchange for lease obligations	596,093	127,902

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



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”, “Pineapple”, “we”, “our”, “us” 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”).

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 (“Solar 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, “SUNation”). Each of SUNation Service, Inc. and SUNation Electric, Inc. were acquired through a merger with and into Solar Merger Sub, with Solar 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 (“SUNation Acquisition”). 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 is a growing domestic operator and consolidator of residential solar, battery storage, and grid services solutions. Our strategy is focused on acquiring, integrating, and growing leading local and regional solar, storage, and energy services companies nationwide.

Pineapple today is primarily engaged in the sale, design, and installation of photovoltaic solar energy systems and battery storage systems through its Hawaii-based HEC and New York-based SUNation entities. We install systems that provide clean, reliable solar energy typically at savings relative to traditional utility offerings. Our primary customers are residential homeowners. We also provide solar energy systems to commercial owners and other municipal customers.

Through its E-Gear business, Pineapple also develops, manufactures, and sells patented edge-of-grid energy management software and hardware technology, such as energy management control devices. These products allow homeowners to get the most out of their installed photovoltaic solar energy systems and utility grid support benefits. Our primary customers for this technology are energy services companies and other utilities.

Pursuant to the merger agreement, the Company is working to divest its legacy operations and operating assets. The Company is actively pursuing the sale of its JDL Technologies, Inc. (“JDL”) and Ecessa Corporation (“Ecessa”)

businesses and has met the criteria to report the operations of these businesses as discontinued operations. See Note 7, Discontinued Operations. As a result, unless otherwise noted, all information in this Form 10-Q related to the JDL and Ecessa businesses are discussed and presented as discontinued operations and the Company reports its remaining business operations as continuing operations.

## **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 the Company’s audited financial statements and notes thereto for the year ended December 31, 2022 included on the Company’s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (“SEC”) on April 14, 2023. The accompanying condensed consolidated balance sheet at December 31, 2022 has been derived from the audited balance sheet at December 31, 2022 contained in the above-referenced Form 10-K. 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 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, 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 condensed 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 allowances for credit losses, 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.

### ***Cash, 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. Approximately \$4.2 million of the restricted cash and cash equivalents on the balance sheet as of March 31, 2023 are funds that can only be used to support the legacy CSI business, and 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. The remaining \$1.5 million consists of funds that can only be used to support SUNation’s operations. Per the SUNation transaction agreement, only excess cash over \$1.5 million can be used to support the remaining operations of Pineapple Energy until the Short-Term Note (as defined below) is paid off.

### ***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. 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 March 31, 2023 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 credit losses. 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 credit losses 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, net***

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 condensed consolidated statements of operations.

### ***Goodwill and Other Intangible Assets, net***

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 Income (Loss)***

Accumulated other comprehensive income (loss), net of tax, is comprised of unrealized gains or losses on debt securities.

### ***Revenue Recognition***

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 under a percentage of completion method, measured by the percentage of hours incurred to date against estimated total hours budgeted for each contract. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near future. Contract costs include all direct material, labor costs and those indirect costs related to contract performance, such as indirect labor and other supplies. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and revenues which are recognized in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, contract penalty provisions, claims, change orders, and settlements, are accounted for as changes in estimates in the current period.

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.

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 6% of compensation. Additionally, as part of the November 9, 2022 SUNation Acquisition, the Company also acquired the SUNation Solar Systems, Inc. 401(k) Plan which matches up to 3% of eligible 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 condensed consolidated statements of operations over the requisite service period (generally the vesting period).

#### ***Warranty***

SUNation warrants its products for various periods against defects in material or installation workmanship. The manufacturers of the solar panels and the inverters provide a warranty period of generally 25 years and 10 years, respectively. SUNation will assist its customers in the event that the manufacturers' warranty needs to be used to replace a defective solar panel or inverter. SUNation provides for warranty up to 10 years in duration on the installation of a system and all equipment and incidental supplies other than solar panels and inverters that are recovered under the manufacturers' warranty. SUNation provides extended workmanship warranties paid by the customer for up to 25 years for the service of inverters, which is reimbursed by the manufacturer.

The Company records a provision for the installation warranty, an expense included in cost of sales, based on management's best estimate of the probable cost to be incurred in honoring its warranty commitment. The Company's accrued warranty provision was \$300,791 and \$276,791 at March 31, 2023 and December 31, 2022, respectively, and is included in other current liabilities.

## ***Segment Information***

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding the method to allocate resources and assess performance. Our chief operating decision maker is the chief executive officer. Based on the financial information presented to and reviewed by our chief operating decision maker in deciding how to allocate resources and in assessing performance, we have determined we have two operating segments, but meet the aggregation criteria in order to aggregate into one reportable segment.

## ***Net Loss Per Share***

Basic net loss per common share is based on the weighted average number of common shares outstanding during each period. 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 and warrants, which resulted in no dilutive effect for the three months ended March 31, 2023 and 2022, due to the net loss in each period. The Company calculates the dilutive effect of outstanding 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 March 31, 2023 and 2022. Warrants totaling 5,176,471 and 2,353,936 would have been excluded from the calculation of diluted earnings per share for the three months ended March 31, 2023 and 2022, respectively, 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.

## ***Accounting Standards Adopted***

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 adopted this ASU in the first quarter of 2023 without a material impact on the Company's 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 9, 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. 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 the Company's legacy CSI subsidiaries, JDL and Ecessa, which are classified as held for sale as of March 31, 2023 and December 31, 2022 and included within discontinued operations.

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

Cash and cash equivalents	\$	1,919,593
Investments		3,155,443
Accounts receivable		1,735,570
Inventory		138,767
Other assets		946,813
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>23,952,115</u>
Accounts payable		2,192,346
Accrued expenses		1,013,004
Deferred revenue		874,756
Total liabilities		<u>4,080,106</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 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 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 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 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 months ended March 31, 2023 and 2022, which included \$1,752,182 and \$86,932 of revenue, respectively, and net income of \$44,683 and \$3,874, respectively, related to its JDL and Ecessa businesses included in discontinued operations and a net loss of \$145,940 and \$39,648, 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 as of the merger date at their respective fair values. The purchase price allocation is based on the fair value of assets acquired and liabilities assumed and has been 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		9,829,212
Total assets		<u>26,587,694</u>
Total liabilities		<u>(1,471,348)</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 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 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 use of tradenames, margins, depreciation, contributory asset charges, discount rates, and income tax rates.

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 months ended March 31, 2023 and 2022, which included \$5,166,960 and \$221,437 of revenue, respectively, and a net loss of \$76,760 and net income of \$18,583, respectively.

### ***SUNation Acquisition***

On November 9, 2022, the Company completed the SUNation Acquisition as contemplated under 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 SUNation from Sellers for an aggregate purchase price of \$18,440,533, comprised of (a) \$2,390,000 in cash consideration paid at closing, (b) the issuance at closing of a \$5,000,000 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"), with a fair value of \$4,830,533 at the acquisition date, (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, with a fair value of \$4,070,000 at the acquisition date and (e) potential earn-out payments of up to \$5,000,000 based on the percentage of year-over-year EBITDA growth of the SUNation in 2023 and 2024, as set forth in the Transaction Agreement (the "Earnout"), with a fair value of \$2,150,000 at the acquisition date. The Company utilized a Monte Carlo simulation to determine the fair value of the earnout liability, which included the following significant assumptions: the expected probability and timing of achievement of milestone events. As of March 31, 2023, the fair value of the earnout liability was \$2,975,000. See further discussion regarding the Short-Term Note and Long-Term Note within Note 9, Commitments and Contingencies.

The assets and liabilities of SUNation were recorded as of the merger date at their respective fair values. The purchase price allocation is based on the fair value of assets acquired and liabilities assumed and has been allocated as follows:

Cash	\$ 1,598,707
Accounts receivable	2,824,029
Inventory	4,875,089
Employee retention credit receivable	1,584,541
Right of use asset	2,602,024
Other assets	2,880,014
Fixed assets	960,514
Intangible assets	7,100,000
Goodwill	10,716,638
<b>Total assets</b>	<b>35,141,556</b>
Accounts Payable	3,316,867
Other current liabilities	1,349,501
Related party payables	2,191,761
Operating lease liability	2,602,024
Loans payable	2,348,685
Customer deposits	1,606,054
Deferred revenue	3,286,131
<b>Total liabilities</b>	<b>16,701,023</b>
<b>Net assets acquired</b>	<b>\$ 18,440,533</b>

The identifiable intangible assets from the SUNation Acquisition are definite-lived assets. These assets include a trade name and backlog and have a weighted average amortization period of eight years. Goodwill recorded as part of the purchase price allocation is not tax deductible. The trade name fair values were determined on an income approach under an estimate developed from the relief-from-royalty method and the projected cash savings over an estimated period of time that would otherwise be required to license this asset. The backlog amount was determined using an income approach under a multi-period excess earnings approach whereby cash flows in excess of those needed to operate contributory assets over a period of time are otherwise attributed to the fair value of the asset.

The condensed consolidated financial statements include results of operations of SUNation following the consummation of the SUNation Acquisition for the three months ended March 31, 2023, which included \$16,894,875 of revenue and net income of \$965,674.

Transaction costs related to the merger, HEC Asset Acquisition and the SUNation Acquisition totaled \$2,020 and \$968,505 during the three months ended March 31, 2023 and 2022, 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, the HEC Asset Acquisition and the SUNation Acquisition as of January 1, 2022. The unaudited pro forma financial information below includes adjustments to amortization expense for intangible assets totaling \$(50,000) and \$838,161 and excludes transaction costs totaling \$2,020 and \$2,698,548 for the three months ended March 31, 2023 and 2022, 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.

	<b>Three Months Ended March 31</b>	
	<b>2023</b>	<b>2022</b>
Net revenue	\$ 22,065,424	\$ 13,794,605
Net loss	(2,547,652)	(2,634,695)

## 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 for the three months ended March 31, 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 March 31, 2023, the fair value of the Merger Earnout Shares was \$0.

## 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. The following table presents how we disaggregated our revenues:

	Revenue by Type	
	Three Months Ended March 31	
	2023	2022
Residential contracts	\$ 18,341,734	\$ 221,437
Commercial contracts	2,827,779	—
Service revenue	642,321	—
Software revenue	250,000	—
Other	3,590	10,431
	<u>\$ 22,065,424</u>	<u>\$ 231,868</u>

**NOTE 5 – CONTRACTS IN PROGRESS**

Billings in excess of costs and estimated earnings as of March 31, 2023 and December 31, 2022 are as follows:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Billings to date	\$ 4,152,330	\$ 4,208,409
Costs incurred on uncompleted contracts	657,505	1,122,453
Estimated earnings	390,390	380,547
Cost plus estimated earnings	<u>1,047,895</u>	<u>1,503,000</u>
Billings in excess of costs plus estimated earnings on uncompleted contracts	<u>\$ 3,104,435</u>	<u>\$ 2,705,409</u>

Costs and estimated earnings in excess of billings as of March 31, 2023 and December 31, 2022 are as follows:

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Costs incurred on uncompleted contracts	\$ 1,270,743	\$ 931,801
Estimated earnings	916,754	513,648
	<u>2,187,497</u>	<u>1,445,449</u>
Billings to date	1,679,933	667,964
Costs and estimated earnings in excess of billings on uncompleted contracts	<u>\$ 507,564</u>	<u>\$ 777,485</u>

**NOTE 6 – 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 March 31, 2023 and December 31, 2022.

<u>March 31, 2023</u>							
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Cash Equivalents</u>	<u>Short-Term Investments</u>	<u>Long-Term Investments</u>
<b>Cash equivalents:</b>							
Money Market Funds	\$ 1,665,266	\$ —	\$ —	\$ 1,665,266	\$ 1,665,266	\$ —	\$ —
Subtotal	<u>1,665,266</u>	<u>—</u>	<u>—</u>	<u>1,665,266</u>	<u>1,665,266</u>	<u>—</u>	<u>—</u>
<b>Investments:</b>							
Corporate Notes/Bonds	2,042,493	—	(24,436)	2,018,057	—	2,018,057	—
Subtotal	<u>2,042,493</u>	<u>—</u>	<u>(24,436)</u>	<u>2,018,057</u>	<u>—</u>	<u>2,018,057</u>	<u>—</u>
Total	<u>\$ 3,707,759</u>	<u>\$ —</u>	<u>\$ (24,436)</u>	<u>\$ 3,683,323</u>	<u>\$ 1,665,266</u>	<u>\$ 2,018,057</u>	<u>\$ —</u>

**December 31, 2022**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
<b>Cash equivalents:</b>							
Money Market Funds	\$ 978,462	\$ —	\$ —	\$ 978,462	\$ 978,462	\$ —	\$ —
Subtotal	978,462	—	—	978,462	978,462	—	—
<b>Investments:</b>							
Corporate Notes/Bonds	2,715,607	—	(48,841)	2,666,766	—	2,666,766	—
Subtotal	2,715,607	—	(48,841)	2,666,766	—	2,666,766	—
<b>Total</b>	<b>\$ 3,694,069</b>	<b>\$ —</b>	<b>\$ (48,841)</b>	<b>\$ 3,645,228</b>	<b>\$ 978,462</b>	<b>\$ 2,666,766</b>	<b>\$ —</b>

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 Company did not recognize any gross realized gains or losses during the three months ended March 31, 2023 or 2022.

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 March 31, 2023:

	Amortized Cost	Estimated Market Value
Due within one year	\$ 2,042,493	\$ 2,018,057
Due after one year through five years	—	—
	<u>\$ 2,042,493</u>	<u>\$ 2,018,057</u>

**NOTE 7– DISCONTINUED OPERATIONS**

Pursuant to the merger agreement, the Company is working to divest its legacy operations and operating assets. The Company is actively pursuing the sale of its JDL and Ecessa businesses and has met the criteria to report the operations of these businesses as discontinued operations beginning in the fourth quarter of 2022.

The assets and liabilities of the discontinued operations that are classified as held for sale are as follows:

	March 31, 2023	December 31, 2022
Trade accounts receivable	\$ 961,968	\$ 752,420
Inventories	154,998	145,808
Other current assets	184,857	255,871
Total current assets	\$ 1,301,823	\$ 1,154,099
Property, plant, and equipment	\$ 72,951	\$ 69,270
Right of use asset	35,621	46,025
Intangible assets	2,110,550	2,110,550
Goodwill	45,688	45,688
Total noncurrent assets	\$ 2,264,810	\$ 2,271,533

Total assets held for sale	\$	<u>3,566,633</u>	\$	<u>3,425,632</u>
Accounts payable	\$	250,632	\$	381,992
Accrued compensation and benefits		141,956		184,585
Operating lease liability		39,237		50,170
Other accrued liabilities		9,565		10,727
Deferred revenue		<u>627,809</u>		<u>533,685</u>
Total current liabilities	\$	<u>1,069,199</u>	\$	<u>1,161,159</u>
Deferred revenue	\$	<u>262,455</u>	\$	<u>250,875</u>
Total noncurrent liabilities	\$	<u>262,455</u>	\$	<u>250,875</u>
Total liabilities held for sale	\$	<u>1,331,654</u>	\$	<u>1,412,034</u>

The financial results of the discontinued operations are as follows:

	<b>Three Months Ended March 31</b>	
	<b>2023</b>	<b>2022</b>
Sales	\$ 1,752,182	\$ 86,932
Cost of sales	1,244,368	57,508
Selling, general and administrative expenses	448,705	23,522
Transaction costs	14,426	—
Operating income before income taxes	44,683	5,902
Income tax expense	—	—
Income from discontinued operations	<u>\$ 44,683</u>	<u>\$ 5,902</u>

#### NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three months ended March 31, 2023 and 2022 by reporting unit are as follows.

	<b>HEC</b>		<b>SUNation</b>		<b>Total</b>
	\$	—	\$	—	\$
January 1, 2022		—		—	—
Acquisition		9,829,212		—	9,829,212
March 31, 2022		<u>9,829,212</u>		<u>—</u>	<u>9,829,212</u>
January 1, 2023	\$	9,829,212	\$	10,716,638	\$ 20,545,850
Acquisition		—		—	—
March 31, 2023	\$	<u>9,829,212</u>	\$	<u>10,716,638</u>	<u>\$ 20,545,850</u>
Gross goodwill		9,829,212		10,716,638	20,545,850
Accumulated impairment loss		—		—	—
Balance at March 31, 2023	\$	<u>9,829,212</u>	\$	<u>10,716,638</u>	<u>\$ 20,545,850</u>

The Company's identifiable intangible assets with finite lives are being amortized over their estimated useful lives and were as follows:

**March 31, 2023**

	<b>Estimated Useful Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Tradenames & trademarks	3-8 years	\$ 22,187,882	\$ (5,057,771)	\$ 17,130,111
Developed technology	4 years	2,400,000	(600,000)	1,800,000
Backlog	1 year	600,000	(250,000)	350,000
		<u>\$ 25,187,882</u>	<u>\$ (5,907,771)</u>	<u>\$ 19,280,111</u>

**December 31, 2022**

	<b>Estimated Useful Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Tradenames & trademarks	3-8 years	\$ 22,187,882	\$ (4,141,072)	\$ 18,046,810
Developed technology	4 years	2,400,000	(450,000)	1,950,000
Backlog	1 year	600,000	(50,000)	550,000
		<u>\$ 25,187,882</u>	<u>\$ (4,641,072)</u>	<u>\$ 20,546,810</u>

Amortization expense on these identifiable intangible assets was \$1,266,698 and \$357,463 during the three months ended March 31, 2023 and 2022, respectively. The estimated future amortization expense for identifiable intangible assets during the next fiscal years is as follows:

**Year Ending December 31:**

Q2-Q4 2023	\$ 3,471,778
2024	2,837,500
2025	2,837,500
2026	2,387,500
2027	2,237,500
Thereafter	5,508,333

**NOTE 9 – COMMITMENTS AND CONTINGENCIES*****Loan Payable***

As of March 31, 2023 and December 31, 2022, Pineapple Energy had \$3,000,000 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 March 31, 2023 and December 31, 2022, the combined loan and accrued interest balance was \$1,619,343 and \$1,428,685,

respectively. 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 \$190,658 and \$336,405 for three months ended March 31, 2023 and 2022, 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% 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 months ended March 31, 2023 and 2022, 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.

#### ***SUNation Short-Term and Long-Term Notes***

As discussed in Note 3, Business Combinations, the Company entered into Short-Term and Long-Term Notes in connection with the SUNation Acquisition on November 9, 2022. The \$5,000,000 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 \$5,486,000 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. As the debt was part of the SUNation purchase price allocation, the Company assessed the fair market value of the debt instrument at \$4,830,533 at the asset acquisition date (a non-recurring Level 3 fair value input). The Company accretes the value of the debt over its life at a discount rate of approximately 11.2%. Both the Short-Term Note and Long-Term Note may be prepaid at the Company's option at any time without penalty.

Pursuant to the Pledge Agreement, the Short-Term Note is secured by a pledge by the Company and Merger Sub of the equity of SUNation 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 SUNation, 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 to 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.

The balances of the Short-Term Note and Long-Term Note recorded at March 31, 2023 was \$5,107,156 and \$5,037,791, respectively. The balances of the Short-Term Note and Long-Term Note recorded at December 31, 2022 was \$5,057,299 and \$4,917,879, respectively. Interest and accretion expense related to the notes totaled \$250,347 and \$0 for the three months ended March 31, 2023 and 2022, respectively.

#### ***Equipment Loans***

The Company acquired various equipment loan agreements through its SUNation Acquisition. These loans are secured by machinery and equipment and expire at various dates through February 2029 with interest rates ranging from 4.5 to 9.7% per annum. The balance for the equipment loans recorded at March 31, 2023 and December 31, 2022 was \$359,687 and \$168,184, respectively. Interest expense was \$616 and \$0 for the three months ended March 31, 2023 and 2022, respectively.

#### ***Promissory Note***

Through the SUNation Acquisition, the Company acquired a promissory note with a former shareholder and member of SUNation through a buyout agreement. The promissory note includes monthly payments of principal and interest at an annual rate of 3.25%. The promissory note matures on March 1, 2031. The balance for the promissory note recorded at March 31, 2023 and December 31, 2022 was \$1,836,551 and \$1,887,616, respectively. Interest expense was \$15,337 and \$0 for the three months ended March 31, 2023 and 2022, respectively.

#### ***Other Contingencies***

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 10 – RELATED PARTY TRANSACTIONS**

#### ***Related party receivables***

The Company has provided advances to employees resulting in a balance as of March 31, 2023 and December 31, 2022 of \$76,847 and \$116,710, respectively.

### Related party payables

As part of the SUNation Acquisition, the Company agreed to reimburse the sellers for proceeds received related to SUNation's employee retention credit (a refundable tax credit against certain employment taxes incurred during the first nine months of 2021), totaling \$1,584,541 as of December 31, 2022. The full amount of this credit was received by the Company and subsequently remitted to the sellers during the three months ended March 31, 2023. The Company also agreed to reimburse the sellers approximately \$597,219 for tax payments due related to the period prior to acquisition, of which \$47,499 was paid during the three months ended March 31, 2023, leaving a remaining balance of \$549,720 as of March 31, 2023.

### Leases

The Company leases its offices in Hawaii and New York from companies owned by the prior owners of HEC and SUNation, respectively, most of whom are still employees and one who is a current director of the Company.

## NOTE 11 – SHARE-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. Following an amendment approved on December 7, 2022, the 2022 Plan authorizes the issuance of up to 1,250,000 shares of common stock. At March 31, 2023, 37,500 shares had been issued under the 2022 Plan, 433,388 shares were subject to currently outstanding unvested restricted stock units ("RSUs"), and 779,112 shares were available for grant under future awards.

### Inducement Grants

On October 10, 2022, the board of directors approved an inducement grant of 82,278 RSUs in connection with the hiring of a new Chief Financial Officer. On November 6, 2022, the board of directors approved inducement grants totaling 134,546 RSUs in connection with the hiring of Senior Vice Presidents in connection with the SUNation Acquisition.

### Changes in Restricted Stock Units Outstanding

The following table summarizes the changes in the number of RSUs during the three months ended March 31, 2023:

	RSUs	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2022	687,712	\$ 2.58
Granted	—	—
Issued	(37,500)	2.00
Forfeited	—	—
Outstanding – March 31, 2023	<u>650,212</u>	2.61

### Compensation Expense

Share-based compensation expense recognized for the three months ended March 31, 2023 was \$312,445. There was no share-based compensation expense for the three months ended March 31, 2022. Unrecognized compensation expense related to outstanding RSUs was \$1,149,955 at March 31, 2023 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.

#### Employee Stock Purchase Plan

On December 7, 2022, the Company's shareholders approved an Employee Stock Purchase Plan ("ESPP"), pursuant to which eligible employees are able to acquire shares of common stock at a purchase price determined by the board of directors or compensation committee prior to the start of each six-month plan phase, which price may not be less than 85% of the fair market value of the lower of the value on the first day or the last day of the phase, or the value on the last day of the phase. The ESPP is considered compensatory under current Internal Revenue Service rules. At March 31, 2023, 200,000 shares remained available for purchase under the ESPP. The first plan phase commenced on January 1, 2023.

### **NOTE 12 – 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 March 31, 2023, 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 March 31, 2023, there were 3,000,000 shares of Convertible Preferred Stock authorized and 28,000 shares of Convertible Preferred Stock issued and outstanding. No PIPE Warrants were exercised prior to March 31, 2023 and all 2,352,936 PIPE Warrants remained outstanding as of March 31, 2023.

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 March 31, 2023 and 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 March 31, 2023 and 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.

### ***Warrant Modifications***

In September 2021, the Company entered into transactions with holders of its outstanding Series A Preferred Stock to issue PIPE Warrants to purchase the Company's common stock. At such time, the PIPE Warrants contained certain anti-dilution provisions. In November 2022, the Company amended and restated the agreement under which PIPE Warrant holders agreed to waive such provisions in exchange for certain concessions from the Company. Management evaluated the warrants after the modifications and determined that they continued to be equity-classified under the derivative scope exception of ASC 815-40. The PIPE Warrants were valued immediately before and immediately after the modifications to calculate the \$3.6 million incremental value of the modified PIPE Warrants. The Company considers this incremental value to be a deemed dividend that reduces retained earnings and earnings per share. As the Company does not have any retained earnings, the Company has the option of recording the deemed dividend by reducing additional paid-in capital ("APIC") or increasing accumulated deficit. Therefore, in the consolidated statement of stockholders' equity as of December 31, 2022, management recorded the deemed dividend by reducing APIC.

### ***Preferred Stock Modifications***

In June 2021, the Company entered into a stock purchase agreement to issue Series A Preferred Stock. At such time, the Series A Preferred Stock contained certain anti-dilution provisions. In November 2022, the Company amended and restated the agreement under which Series A Preferred stockholders agreed to waive such provisions in exchange for certain concessions from the Company. Management evaluated the Series A Preferred Shares after the modifications and determined that they continued to be permanent equity-classified under ASC 480-10-S99-3A(3)(f).

The Company is required to analyze amendment to preferred stock terms to determine the appropriate method of accounting to be applied. While guidance exists in ASC 470-50 to address the accounting for debt modifications, including preferred stock that is accounted for as a liability, there is no comparable guidance to address the accounting for modifications to preferred stock instruments that are accounted for as equity or temporary equity, which necessitates the subjective determination of whether a modification or exchange represents an extinguishment. Current accounting guidance permits the analysis of preferred stock modifications by using either the qualitative approach, the fair value approach or the cash flow approach. Due to the nature of amendment made to the preferred stock terms, the Company determined that the fair value approach was the most appropriate methodology. The Company determined that the amendments resulted in an extinguishment of the Preferred Stock. The Preferred Stock was revalued immediately after the amendment in November 2022 and would recognize the \$13.2 million incremental value above the carrying value as a deemed dividend that reduces retained earnings and earnings per share. As the Company does not have any retained earnings, the Company has the option of recording the deemed dividend by reducing APIC or increasing accumulated deficit. Therefore, in the consolidated statement of stockholders' equity as of December 31, 2022, management recorded the deemed dividend by reducing APIC.

### **NOTE 13 – 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 from continuing operations was (0.2)% for the three months ended March 31, 2023. 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's effective income tax rate from continuing operations for the three months ended March 31, 2022 was 0% and differed from the federal tax rate due to state income taxes and changes in valuation allowances related to deferred tax assets.

## NOTE 14 – 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 March 31, 2023 and December 31, 2022 are summarized below.

	March 31, 2023			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Cash equivalents:</b>				
Money market funds	\$ 1,665,266	\$ —	\$ —	\$ 1,665,266
Subtotal	<u>1,665,266</u>	<u>—</u>	<u>—</u>	<u>1,665,266</u>
<b>Short-term investments:</b>				
Corporate notes/bonds	—	2,018,057	—	2,018,057
Subtotal	<u>—</u>	<u>2,018,057</u>	<u>—</u>	<u>2,018,057</u>
<b>Liabilities:</b>				
Contingent value rights	—	—	(7,652,714)	(7,652,714)
Earnout consideration	—	—	(2,975,000)	(2,975,000)
Subtotal	<u>—</u>	<u>—</u>	<u>(10,627,714)</u>	<u>(10,627,714)</u>
Total	<u>\$ 1,665,266</u>	<u>\$ 2,018,057</u>	<u>\$ (10,627,714)</u>	<u>\$ (6,944,391)</u>

**December 31, 2022**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
<b>Cash equivalents:</b>				
Money market funds	\$ 978,462	\$ —	\$ —	\$ 978,462
Subtotal	<u>978,462</u>	<u>—</u>	<u>—</u>	<u>978,462</u>
<b>Short-term investments:</b>				
Corporate notes/bonds	—	2,666,766	—	2,666,766
Subtotal	<u>—</u>	<u>2,666,766</u>	<u>—</u>	<u>2,666,766</u>
<b>Current Liabilities:</b>				
Contingent value rights	—	—	(7,402,714)	(7,402,714)
Earnout consideration	—	—	(2,150,000)	(2,150,000)
Subtotal	<u>—</u>	<u>—</u>	<u>(9,552,714)</u>	<u>(9,552,714)</u>
<b>Total</b>	<u>\$ 978,462</u>	<u>\$ 2,666,766</u>	<u>\$ (9,552,714)</u>	<u>\$ (5,907,486)</u>

The estimated fair value of the CVRs as of March 31, 2023 and December 31, 2022 was \$7,652,714 and \$7,402,714, respectively, as noted above. The Company recorded a \$250,000 loss on the fair value remeasurement of the CVRs during the first quarter of 2023 related to a \$250,000 gain on an earnout payment realized in the first quarter of 2023 related to legacy CSI's sale of its Electronics and Software segment in 2021.

The estimated fair value of all earnout consideration as of March 31, 2023 and December 31, 2022 was \$2,975,000 and \$2,150,000, respectively all attributed to the earnout consideration related to the SUNation Acquisition. As noted in Note 3, Business Combinations, the Company recorded a liability for earnout shares to holders of certain pre-merger Pineapple Energy shareholders in the amount of \$4,684,000 and \$2,150,000 in earnout consideration related to the SUNation Acquisition in the respective opening balance sheets. As described in Note 3, Business Combinations, the estimated fair value is considered a Level 3 measurement. In order to update the fair value of the earnout consideration, 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 remeasurement gain of \$4,684,000 during the year ended December 31, 2022 related to the remeasurement of the value of the liability for the earnout shares and a remeasurement loss of \$825,000 related to the remeasurement of the value of the liability for SUNation Acquisition earnout consideration during the first quarter of 2023.

The fair value remeasurements noted above were 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 March 31, 2023.

**NOTE 15 – GOING CONCERN**

The Company's financial statements as of March 31, 2023 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 9, Commitments and Contingencies, 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 \$4.2 million of restricted cash, cash equivalents and investments that are restricted under the CVR agreement or the SUNation 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 or first earnout payment, 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.

**NOTE 16 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the date of this filing. We do not believe there are any material subsequent events other than those disclosed in the footnotes to these financial statements that require further disclosure.

## 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, 2022 and 2021, which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on April 14, 2023.*

### Forward-Looking Statements

This quarterly report and, from time to time, reports filed with the 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:

- our growth strategy depends on the continued origination of solar installation agreements;
- if we fail to manage our operations and growth effectively, we may be unable to execute our business plan, maintain high levels of customer service or adequately address competitive challenges;
- we need to raise additional capital to fund our operations and repay our obligations, which funding may not be available on favorable terms or at all and may lead to substantial dilution to our existing shareholders. Further, there is substantial doubt about our ability to continue as a going concern, which conditions may adversely affect our stock price and our ability to raise capital;
- we depend on a limited number of suppliers of solar energy system components and technologies to adequately meet demand for our solar energy systems;
- increases in the cost of our solar energy systems due to tariffs and other trade restrictions imposed by the U.S. government could have a material adverse effect on our business, financial condition and results of operations;
- our operating results and our ability to grow may fluctuate from quarter to quarter and year to year, which could make our future performance difficult to predict and could cause our operating results for a particular period to fall below expectations.
- we may have difficulty integrating the businesses from the SUNation transaction with our existing operations or otherwise obtaining the strategic benefits of the acquisition, and we may be adversely impacted by negative covenants under the Short-Term Note;
- 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;
- product liability and property damage claims against us or accidents could result in adverse publicity and potentially significant monetary damages;
- we will not be able to insure against all potential risks and we may become subject to higher insurance premiums;
- damage to our brand and reputation or change or loss of use of our brand could harm our business and results of operations;
- 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 also be subject to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies;
- we may be subject to interruptions or failures in our information technology systems;
- our information technology systems may be exposed to various cybersecurity risks and other disruptions that could impair our ability to operate, adversely affect our business, and damage our brand and reputation;



our failure to hire and retain a sufficient number of key employees, such as installers and electricians, would constrain our growth and our ability to timely complete projects;

our business is concentrated in certain markets, putting us at risk of region-specific disruptions;

if sufficient additional demand for residential solar energy systems does not develop or takes longer to develop than we anticipate, our ability to originate solar installation agreements may decrease;

our business prospects are dependent in part on a continuing decline in the cost of solar energy system components and our business may be adversely affected to the extent the cost of these components stabilize or increase in the future;

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;

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;

terrorist or cyberattacks against centralized utilities could adversely affect our business;

climate change may have long-term impacts on our business, industry, and the global economy;

increases in the cost of our solar energy 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;

we are not currently regulated as an electric public utility under applicable law, but 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 energy systems that may significantly reduce demand for our solar energy systems and adversely impact our ability to originate new solar installation agreements;

we rely on net metering and related policies to sell solar systems to our customers in most of our current markets, and changes to policies governing net metering may significantly reduce demand for electricity from residential solar energy systems and thus for our installation services;

a customer's decision to procure installation services from us depends in part on the availability of rebates, tax credits and other financial incentives. The expiration, elimination or reduction of these rebates, credits or incentives or our ability to monetize them could adversely impact our business;

technical and regulatory limitations regarding the interconnection of solar energy systems to the electrical grid may significantly delay interconnections and customer in-service dates, harming our growth rate and customer satisfaction; and

compliance with occupational safety and health requirements and best practices can be costly, and noncompliance with such requirements may result in potentially significant monetary penalties, operational delays and adverse publicity.

Other risks and uncertainties are discussed more fully under the caption "Risk Factors" in our filings with the SEC, including in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2022. 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.) (herein collectively referred to as "Pineapple," "PEGY," "our," "we," "us" 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, 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”). On November 9, 2022, the Company purchased the equity of New York-based SUNation Solar Systems, Inc. and five of its affiliated entities (collectively “SUNation”).

Pineapple’s vision is to power the energy transition through grass-roots growth of solar electricity paired with battery storage. The Company is a growing domestic operator and consolidator of residential and commercial solar, battery storage, and grid services solutions. Our strategy is focused on acquiring, integrating, and growing leading local and regional solar, storage, and energy services companies nationwide.

Pineapple today is primarily engaged in the sale, design, and installation of photovoltaic solar energy systems and battery storage systems through its Hawaii-based HEC and New York-based SUNation entities. We install systems that provide clean, reliable solar energy typically at savings relative to traditional utility offerings. Our primary customers are residential homeowners. We also provide solar energy systems to commercial owners and other municipal customers.

Through its E-Gear business, Pineapple also develops, manufactures, and sells patented edge-of-grid energy management software and hardware technology, such as energy management control devices. These products allow homeowners to get the most out of their installed photovoltaic solar energy systems and utility grid support benefits. Our primary customers for this technology are energy services companies and other utilities.

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, including the results of SUNation following that acquisition, 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.

In addition, pursuant to the merger agreement, the Company is working to divest its legacy operations and operating assets. The Company is actively pursuing the sale of its JDL Technologies, Inc. (“JDL”) and Ecessa Corporation (“Ecessa”) businesses and has met the criteria to report the operations of these businesses as discontinued operations. As a result, unless otherwise noted, all information in this Form 10-Q related to the JDL and Ecessa businesses are discussed and presented as discontinued operations and the Company reports its remaining business operations as continuing operations.

## **Results of Operations**

### ***Comparison of the Three Months Ended March 31, 2023 and 2022***

The consolidated results herein reflect the historical operating results of Pineapple Energy prior to the merger and the consolidated results of CSI (excluding the discontinued operations of JDL & Ecessa), Pineapple Energy, HEC and E-Gear following the Closing on March 28, 2022 and the results of SUNation following the closing on its acquisition on November 9, 2022.

Consolidated sales were \$22,065,424 in the first quarter of 2023 and \$231,868 in the first quarter of 2022. As Pineapple Energy had limited revenue in the prior year period, the increase in sales was due to the merger and acquisitions during 2022. Sales in the first three months of 2023 and 2022 by type were as follows:

	Revenue by Type	
	Three Months Ended March 31	
	2023	2022
Residential contracts	\$ 18,341,734	\$ 221,437
Commercial contracts	2,827,779	—
Service revenue	642,321	—
Software revenue	250,000	—
Other	3,590	10,431
	<u>\$ 22,065,424</u>	<u>\$ 231,868</u>

Consolidated gross profit was \$8,006,315 in the first quarter of 2023 as compared to gross profit of \$65,708 in the first quarter of 2022.

Consolidated operating expenses, which include selling, general and administrative expenses, amortization expense, transaction costs and a fair value remeasurement loss on SUNation earnout consideration increased to \$10,155,841 in the first quarter of 2023 as compared to \$1,599,718 in the first quarter of 2022. Consolidated selling, general and administrative expenses increased to \$8,062,123 in the first quarter of 2023 from \$271,722 in the first quarter of 2022, due primarily to \$6,347,042 in selling, general and administrative costs associated with the acquired businesses and \$1,715,081 in corporate overhead costs in the 2023 period. Amortization expense increased by \$909,235 to \$1,266,698 in the first quarter of 2023 as compared to the same period of the prior year due to intangible assets acquired through the merger, the HEC Asset Acquisition and the SUNation acquisition. Transaction costs decreased by \$966,485 in the first quarter of 2023 as compared to the same period of the prior year, due to the consummation of the merger and the HEC Asset Acquisition in the first quarter of 2022 and limited activity in the first quarter of 2023. There was also a \$825,000 fair value remeasurement loss related to the SUNation acquisition earnout consideration in the first quarter of 2023.

Consolidated other expense increased \$88,888 to \$444,414 in the first quarter of 2023 as compared to \$355,526 in the first quarter of 2022. The increase was primarily related to a \$250,000 fair value remeasurement loss on the contingent value rights (“CVRs”) and a \$107,836 increase in interest and accretion expense, partially offset by a \$244,271 net gain on sale of assets.

Consolidated operating loss from continuing operations in the first quarter of 2023 was \$2,149,526 as compared to an operating loss of \$1,534,010 in the first quarter of 2022. Net loss from continuing operations in the first quarter of 2023 was \$2,599,672, or \$(0.26) per diluted share, compared to a net loss of \$1,889,536, or \$(0.58) per diluted share, in the first quarter of 2022.

#### Liquidity and Capital Resources

As of March 31, 2023, the Company had \$7,610,981 in cash, restricted cash and cash equivalents, and liquid investments. Of this amount, \$1,665,266 was invested 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 Corporation 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 \$2,018,057 in investments consisting of corporate notes and bonds that are traded on the open market and are classified as available-for-sale at March 31, 2023.

Of the amounts of cash, restricted cash, cash equivalents and investments on the balance sheet at March 31, 2023, \$4,190,567 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 and \$1,500,000 consists of funds that can only be used to support SUNation’s operations. Per the SUNation transaction agreement, only excess cash over \$1,500,000 can be used to support the remaining operations of Pineapple Energy until the Short-Term Note (as defined below) is paid off.

The Company had working capital of \$194,883 at March 31, 2023, consisting of current assets of \$23,564,280 and current liabilities of \$23,369,397, compared to working capital of \$27,366 at December 31, 2022 consisting of current assets of \$25,961,524 and current liabilities of \$25,934,158.

Cash flow used in operating activities was \$125,579 in the first three months of 2023 as compared to \$5,042,441 in the same period of 2022. Significant working capital changes in the three months ended March 31, 2023 included a decrease in other assets of \$2,274,326, a decrease in other accrued liabilities of \$1,129,141, and a decrease in customer deposits of \$1,532,973.

Net cash provided by investing activities was \$339,776 in the first three months of 2023 compared to net cash used in investing activities of \$10,207,916 in the same period of 2022. Net cash provided in the 2023 period was the result of proceeds from the sale of investments, partially offset by capital expenditures. Net cash used in the 2022 period was primarily related to \$10,256,865 in net cash paid for the HEC Asset Acquisition and the merger.

Net cash provided by financing activities was \$122,249 in the first three months of 2023 compared to \$24,950,630 in the same period of 2022. Net cash provided by financing activities in the first quarter of 2023 was due to net borrowings under equipment loans. 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 9, Commitments and Contingencies.

In connection with the SUNation Acquisition, on November 9, 2022, the Company issued a \$5,000,000 Short-Term Limited Recourse Secured Promissory Note (the "Short-Term Note") and a \$5,486,000 Long-Term Promissory Note (the "Long-Term Note"). 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 our option at any time without penalty.

The Short-Term Note is secured by a pledge by the Company of the equity of the acquired SUNation companies. While the Short-Term Note remains outstanding, the Company also agreed 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. The pledge will automatically terminate upon the payment of all amounts due under the Short-Term Note.

As discussed above and in Note 3, Business Combinations and Note 9, Commitments and Contingencies, 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.

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 March 31, 2023 was estimated at \$7,652,714 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 ("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. For additional information, please see the discussion of our critical accounting estimates in our Annual Report on Form 10-K for the year ended December 31, 2022.

### **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 March 31, 2023, 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, 2022 (the “Form 10-K”), which could materially affect our business, financial condition or future results.

There have been no material changes in the risk factors disclosed in the Form 10-K.

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:

- [3.1](#) [Third Amended and Restated Articles of Incorporation, as amended through December 9, 2022 \(incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed on December 9, 2022\)](#)
- [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 \(included in Exhibit 3.1\)](#)
- [3.3](#) [Restated Bylaws of Pineapple Energy Inc., as amended \(effective as of April 13, 2022\) \(incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed on April 13, 2022\)](#)
- [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 \(18 U.S.C. §1350\)](#)

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
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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.

By /s/ Kyle Udseth  
 Kyle Udseth  
 Chief Executive Officer

Date: May 12, 2023

By /s/ Eric Ingvaldson  
 Eric Ingvaldson  
 Chief Financial Officer

Date: May 12, 2023

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: May 12, 2023

/s/ Kyle Udseth  
Kyle Udseth  
Chief Executive Officer

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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: May 12, 2023

/s/ Eric Ingvaldson  
Eric Ingvaldson  
Chief Financial Officer

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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 March 31, 2023 (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: May 12, 2023

/s/ Kyle Udseth  
Kyle Udseth  
Chief Executive Officer

Date: May 12, 2023

/s/ Eric Ingvaldson  
Eric Ingvaldson  
Chief Financial Officer

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