UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 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	41-0957999
(State or other jurisdiction of incorporation or organization)	(Federal Employer Identification No.)
10900 Red Circle Drive, Minnetonka, MN	55343
(Address of principal executive offices)	(Zip Code)

(952) 996-1674
Registrant's telephone number, including area code

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

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

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

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

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-accelerated Filer ☒
Smaller Reporting Company ☒ Emerging growth company ☐

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding at November 10, 2023	10,201,757

PINEAPPLE ENERGY INC.

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PINEAPPLE ENERGY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

	September 30 2023	December 31 2022
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,417,649	$ 2,187,540
Restricted cash and cash equivalents	2,175,753	3,068,938
Investments	—	2,666,766
Trade accounts receivable, less allowance for credit losses of $177,662 and $108,636, respectively	5,743,630	5,564,532
Inventories, net	4,626,764	6,054,493
Prepaid income taxes	27,431	—
Employee retention credit	—	1,584,541
Related party receivables	50,479	116,710
Prepaid expenses	1,720,937	2,152,058
Costs and estimated earnings in excess of billings	369,881	777,485
Other current assets	790,275	634,362
Current assets held for sale	—	1,154,099
TOTAL CURRENT ASSETS	18,922,799	25,961,524
PROPERTY, PLANT AND EQUIPMENT, net	1,565,722	1,190,932
OTHER ASSETS:		
Goodwill	20,545,850	20,545,850
Operating lease right of use asset	4,622,387	4,166,838
Intangible assets, net	16,846,714	20,546,810
Other assets, net	12,000	12,000
Non-current assets held for sale	—	2,271,533
TOTAL OTHER ASSETS	42,026,951	47,543,031
TOTAL ASSETS	$ 62,515,472	$ 74,695,487

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30 2023	December 31 2022
CURRENT LIABILITIES:		
Accounts payable	$ 7,083,759	$ 7,594,181
Accrued compensation and benefits	944,196	859,774
Operating lease liability	384,581	220,763
Accrued warranty	300,000	276,791
Other accrued liabilities	937,608	961,986
Related party payables	—	2,181,761
Income taxes payable	—	1,650
Refundable customer deposits	3,363,901	4,285,129
Billings in excess of costs and estimated earnings	1,750,256	2,705,409
Contingent value rights	3,213,765	—
Earnout consideration	2,370,000	—
Current portion of loans payable	1,461,228	346,290
Current portion of loans payable - related party	360,723	5,339,265
Current liabilities held for sale	—	1,161,159
TOTAL CURRENT LIABILITIES	22,170,017	25,934,158
LONG-TERM LIABILITIES:		
Loans payable and related interest	8,264,318	3,138,194
Loans payable and related interest - related party	4,984,458	4,635,914
Operating lease liability	4,295,406	3,961,340
Earnout consideration	940,000	2,150,000
Contingent value rights	—	7,402,714
Long term liabilities held for sale	—	250,875

TOTAL LONG-TERM LIABILITIES	18,484,182	21,539,037
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY		
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; 10,182,723 and 9,915,586 shares issued and outstanding, respectively	509,136	495,779
Additional paid-in capital	46,773,844	45,798,069
Accumulated deficit	(25,449,707)	(19,089,134)
Accumulated other comprehensive loss	—	(10,422)
TOTAL STOCKHOLDERS' EQUITY	21,861,273	27,222,292
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 62,515,472	$ 74,695,487

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	**2022**	**2023**	**2022**
Sales	$ 18,288,697	$ 5,888,162	$ 60,190,413	$ 10,338,483
Cost of sales	11,256,239	4,483,989	38,014,705	7,966,159
Gross profit	7,032,458	1,404,173	22,175,708	2,372,324
Operating expenses:				
Selling, general and administrative expenses	7,150,110	2,702,005	22,442,788	5,792,270
Amortization expense	1,216,698	863,574	3,700,095	2,084,470
Transaction costs	—	262,365	2,020	1,399,147
Fair value remeasurement of SUNation earnout consideration	230,000	—	1,160,000	—
Total operating expenses	8,596,808	3,827,944	27,304,903	9,275,887
Operating loss	(1,564,350)	(2,423,771)	(5,129,195)	(6,903,563)
Other (expense) income:				
Investment and other income	88,163	8,215	143,452	106,974
Gain on sale of assets	192,845	14,573	437,116	1,229,133
Fair value remeasurement of merger earnout consideration	—	13,000	—	4,684,000
Fair value remeasurement of contingent value rights	(239,922)	—	1,152,273	(1,214,560)
Interest and other expense	(810,023)	(154,805)	(1,867,576)	(640,536)
Other (expense) income, net	(768,937)	(119,017)	(134,735)	4,165,011
Net loss before income taxes	(2,333,287)	(2,542,788)	(5,263,930)	(2,738,552)
Income tax benefit	(4,234)	—	(1,396)	—
Net loss from continuing operations	(2,329,053)	(2,542,788)	(5,262,534)	(2,738,552)
Net (loss) income from discontinued operations, net of tax	(33,983)	22,792	(1,206,235)	(222,426)
Net loss	(2,363,036)	(2,519,996)	(6,468,769)	(2,960,978)
Other comprehensive gain (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	(34,108)	38	10,422	(32,760)
Total other comprehensive gain (loss)	(34,108)	38	10,422	(32,760)
Comprehensive loss	$ (2,397,144)	$ (2,519,958)	$ (6,458,347)	$ (2,993,738)
Basic net loss per share:				
Continuing operations	$ (0.23)	$ (0.34)	$ (0.53)	$ (0.45)
Discontinued operations	(0.01)	—	(0.12)	(0.04)
	$ (0.24)	$ (0.34)	$ (0.65)	$ (0.49)
Diluted net loss per share:				
Continuing operations	$ (0.23)	(0.34)	(0.53)	(0.45)
Discontinued operations	(0.01)	—	(0.12)	(0.04)
	$ (0.24)	$ (0.34)	$ (0.65)	$ (0.49)
Weighted Average Basic Shares Outstanding	10,050,015	7,435,586	9,973,311	6,049,611
Weighted Average Dilutive Shares Outstanding	10,050,015	7,435,586	9,973,311	6,049,611

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

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

For the Nine Months Ended September 30, 2023

	Series A Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Deficit	Income (Loss)	Total
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	—	—	—	—	—	(6,468,769)	—	(6,468,769)
Issuance of common stock under Employee Stock Purchase Plan	—	—	84,995	4,250	121,148	—	—	125,398
Issuance of common stock under Equity Incentive Plan	—	—	212,057	10,603	(10,603)	—	—	—
Gain on extinguishment of related party debt	—	—	—	—	36,291	—	—	36,291
Share based compensation	—	—	—	—	966,825	—	—	966,825
Other share retirements	—	—	(29,915)	(1,496)	(137,886)	108,196	—	(31,186)
Other comprehensive income	—	—	—	—	—	—	10,422	10,422
BALANCE AT SEPTEMBER 30, 2023	28,000	$ 28,000	10,182,723	$ 509,136	$ 46,773,844	$ (25,449,707)	$ —	$ 21,861,273

For the Three Months Ended September 30, 2023

	Series A Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Deficit	Income (Loss)	Total
BALANCE AT JUNE 30, 2023	28,000	$ 28,000	10,033,831	$ 501,692	$ 46,546,917	$ (23,181,248)	$ 34,108	$ 23,929,469
Net loss	—	—	—	—	—	(2,363,036)	—	(2,363,036)
Issuance of common stock under Equity Incentive Plan	—	—	174,557	8,728	(8,728)	—	—	—
Share based compensation	—	—	—	—	353,843	—	—	353,843
Other share retirements	—	—	(25,665)	(1,284)	(118,188)	94,577	—	(24,895)
Other comprehensive loss	—	—	—	—	—	—	(34,108)	(34,108)
BALANCE AT SEPTEMBER 30, 2023	28,000	$ 28,000	10,182,723	$ 509,136	$ 46,773,844	$ (25,449,707)	$ —	$ 21,861,273

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

For the Nine Months Ended September 30, 2022

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

For the Three Months Ended September 30, 2022

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

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

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

	Nine Months Ended September 30	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,468,769)	$ (2,960,978)
Net loss from discontinued operations, net of tax	(1,206,235)	(222,426)
Net loss from continuing operations	(5,262,534)	(2,738,552)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,002,939	2,187,044
Share based compensation	966,825	23,498
Fair value remeasurement of earnout consideration	1,160,000	(4,684,000)
Fair value remeasurement of contingent value rights	(1,152,273)	1,214,560
Gain on sale of assets	(437,116)	(1,229,133)
Interest and accretion expense	1,867,576	534,748
Changes in assets and liabilities:		
Trade accounts receivable	(112,868)	(1,237,923)
Inventories	1,427,729	(104,211)
Prepaid income taxes	(29,081)	(11,297)
Other assets, net	2,198,423	54,692
Accounts payable	(510,422)	(3,126,910)
Accrued compensation and benefits	84,421	(803,948)
Customer deposits	(921,228)	4,462,156
Other accrued liabilities	(3,095,746)	25,887
Accrued interest	(716,188)	(972,641)
Net cash used in operating activities	(529,543)	(6,406,030)
Net cash (used in) provided by operating activities - discontinued operations	(295,571)	64,858
Net cash used in operating activities	(825,114)	(6,341,172)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(614,435)	(106,667)
Acquisition of business, net of cash acquired	—	(10,199,835)
Proceeds from the sale of property, plant and equipment held for sale	450	6,297,115
Proceeds from the sale of investments	2,869,584	218,301
Proceeds from earnout consideration on sale of assets	250,000	1,500,000
Net cash provided by (used in) investing activities	2,505,599	(2,291,086)
Net cash provided by (used in) investing activities - discontinued operations	1,102,935	(9,640)
Net cash provided by (used in) investing activities	3,608,534	(2,300,726)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings against working capital note payable	—	150,000
Borrowings of loans payable	7,814,844	—
Payments against loan payable principal	(6,970,811)	(4,500,000)
Payments related to debt issuance costs	(348,065)	—
Payments related to equity issuance costs	—	(2,699,370)
Proceeds from the issuance of preferred stock upon closing of private placement	—	32,000,000
Payments for contingent value rights distributions	(3,036,676)	(8,745,628)
Proceeds from issuance of common stock, net of shares withheld	125,398	—
Purchase of common stock	(31,186)	—
Net cash (used in) provided by financing activities	(2,446,496)	16,205,002
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	336,924	7,563,104
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	$ 5,593,402	$ 7,582,070

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Income taxes paid	$	28,672	$	11,297
Interest paid		688,954		1,070,853
NONCASH FINANCING AND INVESTING ACTIVITIES:				
Gain on extinguishment of related party debt		36,291		—
Issuance of common stock for conversion of related party payables		—		2,350,000
Issuance of common stock for conversion of working capital note payable		—		500,000
Issuance of common stock for the acquisition of HEC and E-Gear		—		12,781,234
Effect of reverse capitalization		—		1,594,779
Contingent consideration related to merger transaction		—		(4,684,000)
Operating right of use assets obtained in exchange for lease obligations		753,972		127,902

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

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 worked to divest its legacy operations and operating assets. The Company sold substantially all of the assets of its JDL Technologies, Inc. ("JDL") and Ecessa Corporation ("Ecessa") businesses on June 30, 2023. 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. In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. 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 disposed of its legacy subsidiaries, JDL and Ecessa, on June 30, 2023 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, revenue recognition on commercial projects based on percentage of completion, 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. The $2.2 million of restricted cash and cash equivalents on the balance sheet as of September 30, 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.

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. All investments have either converted to cash and cash equivalents or been distributed to the CVR holders as of September 30, 2023.

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.

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 and chief financial 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 and nine months ended September 30, 2023, and the three and nine months ended September 30, 2022. 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 September 30, 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 and nine months ended September 30, 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 was the first quarter ended March 31, 2023. 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 its evaluation of the accounting for the merger and the HEC Asset Acquisition.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the goodwill impairment test. Under ASU 2017-04, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value up to the amount of goodwill allocated to that reporting unit. ASU 2017-04 became effective for accelerated filing companies for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2022. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted ASU 2017-04 in 2023.

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. The Company sold substantially all of the remaining legacy assets of the Company's legacy CSI subsidiaries, JDL and Ecessa, on June 30, 2023. The JDL and Ecessa assets were classified as held for sale as of December 31, 2022, and the results of these businesses in the nine months ended September 30, 2023 and 2022 are included within discontinued operations. See Note 7, Discontinued Operations. During the third quarter of 2023, the Company distributed an additional $1.25 per CVR, or $3,036,676 in total.

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		23,952,115
Accounts payable		2,192,346
Accrued expenses		1,013,004
Deferred revenue		874,756
Total liabilities		4,080,106
Net assets acquired	$	19,872,009

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 and nine months ended September 30, 2023 and 2022 as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Revenue from discontinued operations	$ —	$ 1,820,900	$ 3,414,810	$ 3,580,015
Net (loss) income from discontinued operations	(33,983)	22,792	(1,206,235)	(222,426)

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		26,587,694
Total liabilities		(1,471,348)
Net assets acquired	$	25,116,346

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 used 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 and nine months ended September 30, 2023 and 2022 as follows:

	Three Months Ended September 30				Nine Months Ended September 30			
	2023		2022		2023		2022	
Revenue	$	6,247,011	$	5,873,706	$	17,902,225	$	10,289,655
Net income (loss)		121,318		(302,857)		390,732		(816,180)

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, 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 September 30, 2023, the fair value of the earnout liability was $3,310,000, of which $2,370,000 is expected to be paid within the next twelve months. 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
Total assets		35,141,556
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
Total liabilities		16,701,023
Net assets acquired	$	18,440,533

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 and nine months ended September 30, 2023, which included $12,041,686 and $42,276,694 of revenue, respectively, and net income of $239,875 and $1,540,954, respectively.

Transaction costs related to the merger, HEC Asset Acquisition and the SUNation Acquisition totaled $2,020 and $1,399,147 during the nine months ended September 30, 2023 and 2022, respectively. Transaction costs related to the merger, HEC Asset Acquisition and the SUNation Acquisition totaled $0 and $262,365 during the three months ended September 30, 2023 and 2022, respectively. Transaction costs 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 $0 and $303,125 and excludes transaction costs totaling $0 and $292,174 for the three months ended September 30, 2023 and 2022, respectively. The unaudited pro forma financial information below includes adjustments to amortization expense for intangible assets totaling $0 and $1,538,378 and excludes transaction costs totaling $2,020 and $3,204,118 for the nine months ended September 30, 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.

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Net revenue	$ 18,288,697	$ 20,289,487	$ 60,190,413	$ 50,209,437
Net loss	(2,329,053)	(217,898)	(5,260,515)	(1,363,018)

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 and nine months ended September 30, 2022.

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

The first tranche of 750,000 shares issued of the Company's common stock is accounted for as permanent equity in accordance with ASC 815-40, and no subsequent remeasurement is required as long as the shares continue to be classified in equity. The shares of the Company's common stock contingently issuable under the second and third tranches, up to an additional 2.5 million shares of the Company's common stock are classified as a liability, similar to the accounting for written equity options, which requires an initial measurement of the liability at fair value with subsequent remeasurements to fair value at each reporting date and changes in the fair value recognized in the condensed consolidated statement of operations. As of March 28, 2022, the fair value of the Merger Earnout Shares for the second and third tranches was approximately $4.7 million. The Company utilized a Monte Carlo simulation to determine the fair value of the liability, which included the following significant assumptions: the expected probability and timing of achievement of milestone events. As of September 30, 2023 and December 31, 2022 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 September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Residential contracts	$ 15,300,411	$ 5,800,813	$ 48,635,741	$ 10,180,214
Commercial contracts	2,201,888	72,894	8,789,930	109,441
Service revenue	764,063	—	2,429,433	—
Software revenue	22,335	—	323,815	—
Other	—	14,455	11,494	48,828
	$ 18,288,697	$ 5,888,162	$ 60,190,413	$ 10,338,483

NOTE 5 – CONTRACTS IN PROGRESS

Billings in excess of costs and estimated earnings as of September 30, 2023 and December 31, 2022 are as follows:

	September 30, 2023	December 31, 2022
Billings to date	$ 1,901,527	$ 4,208,409
Costs incurred on uncompleted contracts	78,327	1,122,453
Estimated earnings	72,944	380,547
Cost plus estimated earnings	151,271	1,503,000
Billings in excess of costs plus estimated earnings on uncompleted contracts	$ 1,750,256	$ 2,705,409

Costs and estimated earnings in excess of billings as of September 30, 2023 and December 31, 2022 are as follows:

	September 30, 2023	December 31, 2022
Costs incurred on uncompleted contracts	$ 1,953,127	$ 931,801
Estimated earnings	1,772,486	513,648
	3,725,613	1,445,449
Billings to date	3,355,732	667,964
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 369,881	$ 777,485

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 September 30, 2023 and December 31, 2022.

	September 30, 2023						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market Funds	$ 1,777,737	$ —	$ —	$ 1,777,737	$ 1,777,737	$ —	$ —
Total	$ 1,777,737	$ —	$ —	$ 1,777,737	$ 1,777,737	$ —	$ —

	December 31, 2022						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash equivalents:							
Money Market Funds	$ 978,462	$ —	$ —	$ 978,462	$ 978,462	$ —	$ —
Subtotal	978,462	—	—	978,462	978,462	—	—
Investments:							
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	—
Total	$ 3,694,069	$ —	$ (48,841)	$ 3,645,228	$ 978,462	$ 2,666,766	$ —

The Company recognized $38,419 and $0 in gross realized gains during the three and nine months ended September 30, 2023 or 2022, respectively.

NOTE 7– DISCONTINUED OPERATIONS

On June 30, 2023, the Company sold substantially all of the assets of its legacy non-core subsidiaries, JDL and Ecessa, to TheIPGuys.net LLC doing business as OneNet Global for total net proceeds of $1,231,616. The Company received net initial proceeds of $1,106,616, consisting of $1,175,000 in initial consideration less $68,384 in adjustments. An additional $125,000 in consideration is being held in escrow until July 1, 2024 for potential indemnification claims that may arise under the asset purchase agreement. The amount in escrow represents a consideration receivable that is included in other current assets within the condensed consolidated balance sheet as it is currently considered to be probable that the amount will be received in full at the conclusion of the escrow period. The amount of escrow proceeds that will be received will depend on whether any indemnification obligations arise under the asset purchase agreement and the receivable will be monitored for potential impairment. The Company recorded a loss on sale of $1,190,002 during the second quarter of 2023. The presentation of discontinued operations with respect to this transaction has been retrospectively applied to all prior periods presented.

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

	September 30, 2023	December 31, 2022
Trade accounts receivable	$ —	$ 752,420
Inventories	—	145,808
Other current assets	—	255,871
Total current assets	$ —	$ 1,154,099
Property, plant, and equipment	$ —	$ 69,270
Right of use asset	—	46,025
Intangible assets	—	2,110,550
Goodwill	—	45,688
Total noncurrent assets	$ —	$ 2,271,533
Total assets held for sale	$ —	$ 3,425,632
Accounts payable	$ —	$ 381,992
Accrued compensation and benefits	—	184,585
Operating lease liability	—	50,170
Other accrued liabilities	—	10,727
Deferred revenue	—	533,685
Total current liabilities	$ —	$ 1,161,159
Deferred revenue	$ —	$ 250,875
Total noncurrent liabilities	$ —	$ 250,875
Total liabilities held for sale	$ —	$ 1,412,034

The financial results of the discontinued operations are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Sales	$ —	$ 1,820,900	$ 3,414,810	$ 3,580,015
Cost of sales	—	1,211,331	2,444,014	2,567,203
Selling, general and administrative expenses	37,697	420,971	916,911	861,526
Amortization expense	—	162,788	—	325,575
Transaction costs	—	3,018	14,426	48,137
Restructuring expenses	—	—	56,717	—
Loss on sale of assets	—	—	1,190,002	—
Operating loss before income taxes	(37,697)	22,792	(1,207,260)	(222,426)
Income tax expense	(3,714)	—	(1,025)	—
Loss from discontinued operations	$ (33,983)	$ 22,792	$ (1,206,235)	$ (222,426)

During the nine months ended September 30, 2023, the Company recorded $56,717 in expected restructuring expenses, which consisted of severance and related benefits costs. The Company made $36,213 in payments during the three months ended September 30, 2023 and had a restructuring accrual balance of $20,504 at September 30, 2023 recorded in accrued compensation and benefits, which is expected to be paid during the remainder of 2023.

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the nine months ended September 30, 2023 and 2022 by reporting unit are as follows.

	HEC	SUNation	Total
January 1, 2022	$ —	$ —	$ —
Acquisition	9,829,212	—	9,829,212
September 30, 2022	9,829,212	—	9,829,212
January 1, 2023	$ 9,829,212	$ 10,716,638	$ 20,545,850
Acquisition	—	—	—
September 30, 2023	$ 9,829,212	$ 10,716,638	$ 20,545,850
Gross goodwill	9,829,212	10,716,638	20,545,850
Accumulated impairment loss	—	—	—
Balance at September 30, 2023	$ 9,829,212	$ 10,716,638	$ 20,545,850

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

		September 30, 2023		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Tradenames & trademarks	3-8 years	$ 22,187,882	$ (6,891,168)	$ 15,296,714
Developed technology	4 years	2,400,000	(900,000)	1,500,000
Backlog	1 year	600,000	(550,000)	50,000
		$ 25,187,882	$ (8,341,168)	$ 16,846,714

		December 31, 2022		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
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
		$ 25,187,882	$ (4,641,072)	$ 20,546,810

Amortization expense on these identifiable intangible assets was $1,216,698 and $863,574 during the three months ended September 30, 2023 and 2022, respectively, and $3,700,095 and $2,084,470 during the nine months ended September 30, 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:	
Q4 2023	$ 1,038,381
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

Pineapple Energy has a loan in an original amount of $7,500,000 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 ("PIK") 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.

On May 31, 2023, the Term Loan Agreement was further amended (the "Second Amendment"), primarily for the purpose of obtaining consent for the senior financing from Decathlon Specialty Finance, LLC (the "Decathlon Financing"), the proceeds of which were partially applied to repay $1,500,000 of the principal amount of the Hercules Term Loan. At the time of the Second Amendment and prior to the repayment, the aggregate remaining balance of the Term Loan, including principal and interest, was $3,375,742. The Second Amendment also extended the maturity date of the Term Loan to June 2, 2027 and set the interest rate at ten percent (10.0%) payable monthly and removing the PIK interest. The aggregate remaining principal balance of $1,875,742 along with interest is payable in equal monthly installments of principal and interest beginning on July 3, 2023 and continuing on the first business day of each month thereafter. The Second Amendment represented a modification under ASC 470-50 as the original loan agreement and the amended agreement are not substantially different.

At September 30, 2023 and December 31, 2022, the combined loan and accrued interest balance was $426,580 and $1,428,685, respectively. A new effective interest rate of approximately 48.6% was established during the second quarter of 2023 based on the carrying value of the revised cash flows.

Interest and accretion expense was $227,975 and $151,025 for three months ended September 30, 2023 and 2022, respectively, and $640,616 and $618,983 for the nine months ended September 30, 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 nine months ended September 30, 2023 and 2022, respectively. There was no interest expense during the three months ended September 30, 2023 and 2022.

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 was secured by a pledge by the Company and Merger Sub of the equity of SUNation purchased under the Transaction Agreement and was scheduled to mature on August 9, 2023. It carried 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 was paid in full. On June 1, 2023 the Company used funds from the Decathlon Financing to repay the Short-Term Note in full. The repayment of Short-Term Note has been recorded as a debt extinguishment as the Company is relieved of its obligation under the Short-Term Note and the related pledge by the Company of the equity of SUNation to secure the repayment of the Short-Term Note has been terminated. Since the Short-Term Note was with a related party, the Company recorded a capital contribution of $36,291 based on the difference between the carrying amount and reacquisition price of the Short-Term Note.

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%. The Long-Term Note may be prepaid at the Company's option at any time without penalty.

The balance of Long-Term Note recorded at September 30, 2023 and December 31, 2022 was $5,345,181 and $4,917,879, respectively. Interest and accretion expense related to the notes totaled $154,535 and $624,954 for the three and nine months ended September 30, 2023, respectively.

Decathlon Fixed Loan

On June 1, 2023, the Company entered into a Revenue Loan and Security Agreement (the "Loan Agreement") with Decathlon Specialty Finance, LLC ("Decathlon"). The Loan Agreement provides for a loan facility for the Company in the maximum amount of $7.5 million with a maturity date of June 1, 2027 (the "Decathlon Fixed Loan"), with the full amount being advanced to the Company upon execution of the Loan Agreement. The Decathlon Fixed Loan contains customary conditions, representations and warranties, affirmative and negative covenants, mandatory prepayment provisions and events of default. The advances are secured by all present and hereafter acquired property of the Company.

The Decathlon Fixed Loan is repayable in fixed monthly payments, which generally aggregate to $960,000 payable in the remainder of 2023, $2,220,000 payable in 2024, $2,580,000 payable in 2025, $2,760,000 payable in 2026 and $3,480,000 payable in 2027 to the maturity date. All outstanding advances and interest under the Loan Agreement are due at maturity on June 1, 2027 (unless accelerated upon a change of control or the occurrence of other events of default). Interest accrues on the amounts advanced pursuant to the Loan Agreement at such rate as is necessary to generate an amount equal to the Minimum Interest, which is defined in the Loan Agreement as the following multiple of the advanced amount depending on the period during which all amounts due under the Loan Agreement are paid: (i) 0.25 times if on or before 12 months after the Effective Date; (ii) 0.35 times if after 12 months and on or before 24 months after the Effective Date; (iii) 0.50 times if after 24 months and on or before 36 months after the Effective Date; and 0.60 times if after 36 months after the Effective Date. The Company may at its option prepay the advance(s) and accrued but unpaid interest from time to time without penalty or premium (other than payment of the Minimum Interest).

The Company incurred an aggregate of $348,065 in debt issuance costs that are recorded as a discount and are amortized using the effective interest method over the life of the Decathlon Fixed Loan. At September 30, 2023, the combined loan and accrued interest balance was $7,516,386 and the unamortized debt issuance costs balance was $309,671. The Company recorded interest expense of $407,082 and $534,780 for the three and nine months ended September 30, 2023, 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 August 2029 with interest rates ranging from 4.5 to 9.7% per annum. The balance for the equipment loans recorded at September 30, 2023 and December 31, 2022 was $375,302 and $168,184, respectively. Interest expense was $6,150 and $11,802 for the three and nine months ended September 30, 2023, 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 September 30, 2023 and December 31, 2022 was $1,716,949 and $1,887,616, respectively. Interest expense was $14,276 and $44,243 for the three and nine months ended September 30, 2023, 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 September 30, 2023 and December 31, 2022 of $50,479 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 the full amount was paid during the nine months ended September 30, 2023, leaving no remaining balance as of September 30, 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 September 30, 2023, 212,057 shares had been issued under the 2022 Plan, 628,854 shares were subject to currently outstanding unvested restricted stock units ("RSUs"), and 409,089 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 nine months ended September 30, 2023:

	RSUs	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2022	687,712	$ 2.58
Granted	396,786	1.41
Issued	(212,057)	2.00
Forfeited	(26,763)	2.00
Outstanding – September 30, 2023	845,678	2.19

Compensation Expense

Share-based compensation expense recognized for the three and nine months ended September 30, 2023 was $353,843 and $966,825, respectively. Share-based compensation expense for both the three and nine months ended September 30, 2022 was $23,498. Unrecognized compensation expense related to outstanding RSUs was $1,001,516 at September 30,

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 September 30, 2023, 115,005 shares remained available for purchase under the ESPP. The first plan phase commenced on January 1, 2023 and 84,995 shares were purchased on June 30, 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 September 30, 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 participation rights, 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 ($4.00 for half of the warrants after the November 2022 amendment as further discussed below) with a five-year term, commencing on the date of issuance.

These Convertible Preferred Stock and PIPE Warrants were issued on March 28, 2022 upon the consummation of the merger. As of September 30, 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 September 30, 2023 and all 2,352,936 PIPE Warrants remained outstanding as of September 30, 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 September 30, 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 September 30, 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 (0.0%) for the nine months ended September 30, 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 nine months ended September 30, 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 September 30, 2023 and December 31, 2022 are summarized below.

	September 30, 2023			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$ 1,777,737	$ —	$ —	$ 1,777,737
Subtotal	1,777,737	—	—	1,777,737
Liabilities:				
Contingent value rights	—	—	(3,213,765)	(3,213,765)
Earnout consideration	—	—	(3,310,000)	(3,310,000)
Subtotal	—	—	(6,523,765)	(6,523,765)
Total	$ 1,777,737	$ —	$ (6,523,765)	$ (4,746,028)

	December 31, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$ 978,462	$ —	$ —	$ 978,462
Subtotal	978,462	—	—	978,462
Short-term investments:				
Corporate notes/bonds	—	2,666,766	—	2,666,766
Subtotal	—	2,666,766	—	2,666,766
Current Liabilities:				
Contingent value rights	—	—	(7,402,714)	(7,402,714)
Earnout consideration	—	—	(2,150,000)	(2,150,000)
Subtotal	—	—	(9,552,714)	(9,552,714)
Total	$ 978,462	$ 2,666,766	$ (9,552,714)	$ (5,907,486)

The estimated fair value of the CVRs as of September 30, 2023 and December 31, 2022 was $3,213,765 and $7,402,714, respectively, as noted above. The Company recorded a net $1,152,273 gain on the fair value remeasurement of the CVRs during the nine months ended September 30, 2023 related to the loss on the sale of the JDL and Ecessa assets offset with 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 September 30, 2023 and December 31, 2022 was $3,310,000 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 of $4,684,000 for earnout shares to holders of certain pre-merger Pineapple Energy shareholders and a liability of $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 $1,160,000 related to the remeasurement of the value of the liability for SUNation Acquisition earnout consideration during the first nine months of 2023.

The fair value remeasurement related to the SUNation earnout was recorded within operating expenses. The other 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 nine months ended September 30, 2023.

NOTE 15 – GOING CONCERN

The Company's financial statements as of September 30, 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. Based on the Company's current financial position, which includes approximately $2.2 million of restricted cash and cash equivalents that are restricted under the CVR agreement and cannot be used by the Company for its own working capital needs, the Company's forecasted future cash flows for twelve months beyond the date of issuance of these financial statements indicate that the Company will not have sufficient cash to make the first earnout payment in the second quarter of 2024 under the SUNation Transaction Agreement, 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;
- our common stock may be delisted from Nasdaq if we cannot increase the share price within the time period and for the duration as required by Nasdaq;
- 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;
- 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 and in Part II, Item 1A. "Risk Factors" of this Quarterly Report on Form 10-Q. Accordingly, you should not place undue reliance on forward-looking statements. To the extent permitted by applicable law, we expressly disclaim any intent or obligation to update any forward-looking statements to reflect subsequent events or circumstances.

Overview

Pineapple Energy Inc. (formerly Communications Systems, Inc. ("CSI") and Pineapple Holdings, Inc.) (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, the Company sold substantially all of the remaining assets of its JDL Technologies, Inc. ("JDL") and Ecessa Corporation ("Ecessa") businesses on June 30, 2023. Because the Company was working to divest such assets pursuant to the merger agreement, it previously 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 September 30, 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 $18,288,697 in the third quarter of 2023 and $5,888,162 in the third quarter of 2022. The significant increase in revenue was primarily related to the SUNation acquisition that occurred in the fourth quarter of 2022 and contributed $12.0 million of the $12.4 million increase in the third quarter of 2023. The additional increase was due to an increase in residential contract revenue in Hawaii. Sales in the third quarter of 2023 and 2022 by type were as follows:

	Revenue by Type	
	Three Months Ended September 30	
	2023	2022
Residential contracts	$ 15,300,411	$ 5,800,813
Commercial contracts	2,201,888	72,894
Service revenue	764,063	—
Software revenue	22,335	—
Other	—	14,455
	$ 18,288,697	$ 5,888,162

Consolidated gross profit increased to $7,032,458 in the third quarter of 2023 from gross profit of $1,404,173 in the third quarter of 2022. Gross margin increased to 38% in the third quarter of 2023 compared to 24% in the third quarter of 2022 due to the SUNation acquisition and an improvement in equipment costs and financing fees.

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 $8,596,808 in the third quarter of 2023 as compared to $3,827,944 in the third quarter of 2022. Consolidated selling, general and administrative expenses increased to $7,150,110 in the third quarter of 2023 from $2,702,005 in the third quarter of 2022, due primarily to a $4.5 million increase in selling, general and administrative costs associated with the SUNation business. Amortization expense increased by $353,124 to $1,216,698 in the third quarter of 2023 as compared to the same period of the prior year due to additional intangible assets acquired through the SUNation acquisition. Transaction costs decreased by $262,365 in the third quarter of 2023 as compared to the same period of the prior year, due to limited activity in the third quarter of 2023. There was also a $230,000 fair value remeasurement loss related to the SUNation acquisition earnout consideration in the third quarter of 2023.

Consolidated other expense increased by $649,920 to $768,937 in the third quarter of 2023 as compared to $119,017 in the third quarter of 2022. The increase was primarily related to a $655,218 increase in interest and accretion expense and a $239,922 increase in fair value remeasurement loss on the contingent value rights (“CVRs”), partially offset by a $258,220 increase in gain on sale of assets and other income.

Consolidated operating loss from continuing operations in the third quarter of 2023 was $1,564,350 as compared to $2,423,771 in the third quarter of 2022. Net loss from continuing operations in the third quarter of 2023 was $2,329,053, or $ (0.23) per diluted share, compared to net loss of $2,542,788, or $ (0.34) per diluted share, in the third quarter of 2022.

Comparison of the Nine Months Ended September 30, 2023 and 2022

Consolidated sales were $60,190,413 in the first nine months of 2023 and $10,338,483 in the first nine months of 2022. As Pineapple Energy had limited revenue in the first quarter of the prior year, the increase in sales was due to the merger, the HEC Asset Acquisition and the acquisition of SUNation during 2022. Sales in the first nine months of 2023 and 2022 by type were as follows:

	Revenue by Type	
	Nine Months Ended September 30	
	2023	2022
Residential contracts	$ 48,635,741	$ 10,180,214
Commercial contracts	8,789,930	109,441
Service revenue	2,429,433	—
Software revenue	323,815	—
Other	11,494	48,828
	$ 60,190,413	$ 10,338,483

Consolidated gross profit increased to $22,175,708 in the first nine months of 2023 as compared to gross profit of $2,372,324 in the first nine months of 2022 due to the increase in revenue through acquisitions. Gross margin increased to 37% in the first nine months of 2023 compared to 23% in the first nine months of 2022 due to the SUNation acquisition, normalization of the supply chain and a decrease in product costs.

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 $27,304,903 in the first nine months of 2023 as compared to $9,275,887 in the first nine months of 2022. Consolidated selling, general and administrative expenses increased to $22,442,788 in the first nine months of 2023 from $5,792,270 in the first nine months of 2022, due primarily to a $16.6 million increase in selling, general and administrative costs associated with the acquired businesses. Amortization expense increased by $1,615,625 to $3,700,095 in the first nine months of 2023 as compared to the same period of the prior year due to additional intangible assets acquired through the acquired businesses. Transaction costs decreased by $1,397,127 in the first nine months of 2023 as compared to the same period of the prior year, due to the consummation of the merger and HEC Asset Acquisition in the first quarter of 2022 and limited activity in the first nine months of 2023. There was also a $1,160,000 fair value remeasurement loss related to the SUNation acquisition earnout consideration in the first nine months of 2023.

Consolidated other (expense) income decreased $4,299,746 to expense of $134,735 in the first nine months of 2023 as compared to income of $4,165,011 in the first nine months of 2022. The decrease was related to a $4,684,000 gain on the fair value remeasurement of the merger earnout consideration in the first nine months of 2022, a $792,017 decrease in the gain on sale of assets in the first nine months of 2023 compared to the same period of 2022 and a $1,227,040 increase in interest and accretion expense, partially offset by a $2,366,833 increase in fair value remeasurement gain on the CVRs.

Consolidated operating loss from continuing operations in the first nine months of 2023 was $5,129,195 as compared to $6,903,563 in the first nine months of 2022. Net loss from continuing operations in the first nine months of 2023 was $5,262,534, or $ (0.53) per diluted share, compared to $2,738,552, or $ (0.45) per diluted share, in the first nine months of 2022.

Liquidity and Capital Resources

As of September 30, 2023, the Company had $5,593,402 in cash, restricted cash and cash equivalents. Of this amount, $1,777,737 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.

Of the amounts of cash, restricted cash and cash equivalents on the balance sheet at September 30, 2023, $2,175,753 consist of funds that can only be used to support the legacy CSI business, will be distributed to CVR holders and cannot be used to support the working capital needs of the Pineapple Energy business.

The Company had working capital of $ (3,247,218) at September 30, 2023, consisting of current assets of $18,922,799 and current liabilities of $22,170,017 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 $825,114 in the first nine months of 2023 as compared to $6,341,172 in the same period of 2022. Significant working capital changes in the nine months ended September 30, 2023 included a decrease in other accrued expenses of $3,095,746, a decrease in other assets of $2,198,423, a decrease in inventory of $1,427,729, and a decrease in customer deposits of $921,228. $1,584,541 of the decrease in other assets and $2,181,761 of the decrease in other accrued liabilities was related to the receipt and payment out of the employee retention credit receivable and other related party payables. Other accrued liabilities also decreased by approximately $1.0 million due to a decrease in billings in excess of costs and estimated earnings as commercial projects were completed during the first nine months of the year.

Net cash provided by investing activities was $3,608,534 in the first nine months of 2023 compared to net cash used in investing activities of $2,300,726 in the same period of 2022. Net cash provided in the 2023 period was the result of

proceeds from the sale of investments and proceeds from the sale of the JDL and Ecessa assets included within discontinued operations, partially offset by capital expenditures. Net cash used in the 2022 period was primarily related to $10,199,835 in net cash paid for the HEC Asset Acquisition and the merger, partially offset by $6,297,115 in proceeds from the sale of assets previously classified as held for sale and $1,500,000 in earnout consideration payments related to legacy CSI's sale of its Electronics and Software segment in 2021.

Net cash used in financing activities was $2,446,496 in the first nine months of 2023 compared to net cash provided by financing activities of $16,205,002 in the same period of 2022. Net cash used in financing activities in the first nine months of 2023 was due to $3,036,676 in CVR distributions and $5,000,000 in payments against the SUNation Short-Term Note and $1,500,000 in payments against the Hercules Capital, Inc. ("Hercules") term loan, as discussed further in Note 9, Commitments and Contingencies, partially offset by $7,500,000 in borrowings from Decathlon Specialty Finance, LLC ("Decathlon"). In the first nine months 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 $8,745,628 in CVR distributions and $4,500,000 in principal against the Hercules term loan in the first nine months 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 was secured as described below and was scheduled to mature on August 9, 2023. It carried 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 Short-Term Note was paid in full in conjunction with the Decathlon loan. 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. The Long-Term Note may be prepaid at our option at any time without penalty.

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 make the first SUNation earnout payment in the second quarter of 2024, a factor which raises substantial doubt about the Company's ability to continue as a going concern.

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

Contingent Value Rights and Impact on Cash

As discussed in Note 3, Business Combinations, the Company issued CVRs prior to the closing of the merger to CSI shareholders of record on the close of business on March 25, 2022. The CVR entitles the holder to a portion of the cash, cash equivalents, investments and net proceeds of any divestiture, assignment, or other disposition of all legacy assets of CSI and/or its legacy subsidiaries, JDL and Ecessa, that are related to CSI's pre-merger business, assets, and properties that occur during the 24-month period following the closing of the merger. The CVR liability as of September 30, 2023 was estimated at $3,213,765 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 current 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 September 30, 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, except the following new risk factor is added:

Our failure to maintain compliance with the Nasdaq Stock Market's continued listing requirements could result in the delisting of our common stock.

Our common stock is currently listed on The Nasdaq Capital Market. In order to maintain this listing, we must satisfy minimum financial and other requirements. On October 27, 2023, we received a notice from the Listing Qualifications Department of the Nasdaq Stock Market informing us that because the closing bid price for our common stock listed on Nasdaq was below $1.00 per share for the last 31 consecutive business days, we did not comply with the minimum closing bid price requirement for continued listing on The Nasdaq Capital Market under Nasdaq Marketplace Rule 5550(a)(2) (the "Rule"). In accordance with Nasdaq's Listing Rules, we have a period of 180 calendar days, or until April 24, 2024, to regain compliance with the Rule. If at any time during this 180-day period, the closing bid price of our common stock is at least $1.00 per share for a minimum of 10 consecutive business days, Nasdaq will provide written confirmation that we achieved compliance with the Rule. The notice also disclosed that in the event we do not regain compliance by April 24, 2024, we may be able to request additional time, but there is no assurance that such additional time will be granted.

We intend to continue actively monitoring the bid price for our common stock between now and April 24, 2024, and will consider available options to resolve the deficiency. These options include effecting a reverse stock split, if approved by shareholders. We have scheduled our annual meeting of shareholders for later this year, at which we will ask, among other matters, shareholders to vote to approve a reverse stock split of our outstanding common stock, within a specified range as determined by the Board of Directors. However, there can be no assurance that shareholders will approve a reverse stock split or that any reverse stock split that is effected will increase the share price of our common stock at or above the required $1.00 per share, initially or in the future, or for any certain number of days. Further, there is no assurance that we will be eligible for an additional compliance period or that our common stock will not be delisted from Nasdaq.

The perception among investors that we are at a heightened risk of delisting could negatively affect the market price and trading volume of our common stock. If our common stock is delisted from Nasdaq, the delisting could: substantially decrease trading in our common stock; adversely affect the market liquidity of our common stock as a result of the loss of market efficiencies associated with Nasdaq and the loss of federal preemption of state securities laws; adversely affect our ability to issue additional securities or obtain additional financing in the future on acceptable terms, if at all; result in the potential loss of confidence by investors, suppliers, partners and employees and fewer business development opportunities; and result in limited analyst interest. Additionally, the market price of our common stock may decline further, and shareholders may lose some or all of their investment.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

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: November 13, 2023

By /s/ Eric Ingvaldson
Eric Ingvaldson
Chief Financial Officer

Date: November 13, 2023

Exhibit 31.1

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.

/s/ Kyle Udseth
Kyle Udseth
Chief Executive Officer

Date: November 13, 2023

Exhibit 31.2

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.

/s/ Eric Ingvaldson
Eric Ingvaldson
Chief Financial Officer

Date: November 13, 2023

Exhibit 32

CERTIFICATION

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

(1) The accompanying Quarterly Report on Form 10-Q of Pineapple Energy Inc. (the “Company”) for the period ended September 30, 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.

	/s/ Kyle Udseth
	Kyle Udseth
Date: November 13, 2023	Chief Executive Officer
	/s/ Eric Ingvaldson
	Eric Ingvaldson
Date: November 13, 2023	Chief Financial Officer