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

AMENDMENT NO.1 TO FORM 8-K ON FORM 8-K/A

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (date of earliest event reported): March 25, 2022

Pineapple Energy Inc.
(Exact name of Registrant as Specified in its Charter)

Minnesota
(State Or Other Jurisdiction Of Incorporation)

001-31588	**41-0957999**
(Commission File Number)	(I.R.S. 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

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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, $.05 per share	PEGY	The Nasdaq Stock Market, LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

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. ☐

EXPLANATORY NOTE

This Amendment No. 1 to the Current Report on Form 8-K of Pineapple Energy Inc. (the "Company") amends the Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on March 29, 2022 (the "Initial Form 8-K") to file the information required by Item 9.01(a) of Form 8-K related to the completion of the previously announced merger transaction with Pineapple Energy LLC ("Pineapple Energy") and the previously announced asset acquisitions of Hawaii Energy Connection, LLC and E-Gear, LLC (collectively, "HEC"). Except as stated herein, no other information contained in the Initial Form 8-K has been amended.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The audited financial statements of Pineapple Energy as of and for the year ended December 31, 2021 are included in Exhibit 99.1 and incorporated herein by reference.

The audited financial statements of HEC as of and for the year ended December 31, 2021 are included in Exhibit 99.2 and incorporated herein by reference.

(b) Pro Forma Financial Information

The Company intends to file the pro forma financial information required by Item 9.01(b) as part of another amendment to the Initial Form 8-K not later than 71 calendar days after the date the Initial Form 8-K was required to be filed.

(d) Exhibits.

23.1	Consent of Baker Tilly US, LLP, Independent Registered Public Accounting Firm, with respect to the Audited Financial Statements of Pineapple Energy
23.2	Consent of Baker Tilly US, LLP, Independent Registered Public Accounting Firm, with respect to the Audited Financial Statements of HEC
99.1	Audited Financial Statements of Pineapple Energy for the Fiscal Year Ended December 31, 2021
99.2	Audited Financial Statements of HEC for the Fiscal Year Ended December 31, 2021
104	Cover Page Interactive Data File (formatted as Inline XBRL)

SIGNATURES

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

PINEAPPLE ENERGY INC.

By: */s/ Mark D. Fandrich*
Mark D. Fandrich, Chief Financial Officer

Date: May 19, 2022

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement No. 333 264526 on Form S-8 and the Registration Statement No. 333 262893 on Form S-3 of Communications Systems, Inc. (k/n/a Pineapple Energy Inc.) of our report dated May 16, 2022, relating to the financial statements of Pineapple Energy LLC, appearing in this Current Report on Form 8 K/A of Pineapple Energy Inc.

/s/ BAKER TILLY US, LLP

Minneapolis, Minnesota
May 19, 2022

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333 264526 on Form S-8 and Registration Statement No. 333 262893 on Form S-3 of Communications Systems, Inc. (k/n/a Pineapple Energy Inc.) of our report dated May 17, 2022, relating to the combined financial statements of Hawaii Energy Connection, LLC and E Gear, LLC, appearing in this Current Report on Form 8 K/A of Pineapple Energy Inc.

/s/ BAKER TILLY US, LLP

Minneapolis, Minnesota
May 19, 2022

PINEAPPLE ENERGY LLC

Financial Statements as of December 31, 2021 and 2020 and for the year ended December 31, 2021 and the Period of Inception (December 1, 2020) through December 31, 2020

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Report of Independent Registered Public Accounting Firm

To the Members of Pineapple Energy LLC

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Pineapple Energy LLC (the Company) as of December 31, 2021 and 2020, and the related statements of loss and members' deficit, and cash flows for the year ended December 31, 2021 and for the period from inception (December 1, 2020) through December 31, 2020, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the result of its operations and cash flows for the year ended December 31, 2021 and for the period from inception (December 1, 2020) through December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Subsequent Event

As discussed in Note 8 to the financial statements, the Company completed a merger with Communications Systems, Inc. (k/n/a Pineapple Energy Inc.) on March 28, 2022. Our opinion is not modified with respect to that matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted ours audits in accordance with the standards of the PCAOB and in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the combined financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the combined financial statements and (2) involved our especially challenging, subjective or complex judgments. We determined that there are no critical audit matters.

We have served as the Company's auditor since 2021.

Baker Tilly US, LLP

Minneapolis, Minnesota
May 16, 2022

Pineapple Energy LLC
Balance Sheets
As of December 31, 2021 and 2020
(in thousands)

	December 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash	$ 19	$ -
Assets held for sale	-	480
Total current assets	19	480
Intangible assets, net	2,780	4,210
Total assets	$ 2,799	$ 4,690
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,233	$ 11
Accrued expenses	308	-
Working capital note	350	-
Total current liabilities	2,891	11
Payables due to members	2,350	2,350
Loans Payable	6,195	4,830
Total liabilities	11,436	7,191
Commitments and contingencies (See Note 7)		
MEMBERS' DEFICIT		
Members' deficit	(8,637)	(2,501)
Total liabilities and members' deficit	$ 2,799	$ 4,690

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

Pineapple Energy LLC
Statements of Loss and Members' Deficit
For the Year Ended December 31, 2021 and the
Period of Inception (December 1, 2020) through December 31, 2020
(in thousands)

	For the Year Ended December 31, 2021	For the Period of Inception (December 1, 2020) through December 31, 2020
Revenue	$ 38	$ -
Operating expenses:		
General and administration	879	2,361
Amortization expense	1,429	78
Sales and marketing	181	-
Transaction costs	2,412	-
Total operating expenses	4,901	2,439
Loss from operations	(4,863)	(2,439)
Other income (expenses)		
Interest and accretion of loan expense	(1,373)	(62)
Total other income (expenses)	(1,373)	(62)
Net loss	(6,236)	(2,501)
Stock compensation contribution	100	-
Members' deficit, beginning of year	(2,501)	-
Members' deficit, end of period	$ (8,637)	$ (2,501)

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

Pineapple Energy LLC
Statements of Cash Flows
For the Year Ended December 31, 2021 and the
Period of Inception (December 1, 2020) through December 31, 2020
(in thousands)

	For the Year Ended December 31, 2021	For the Period of Inception (December 1, 2020) through December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,236)	$ (2,501)
Adjustments for:		
Amortization	1,430	78
Interest and accretion expense	1,373	62
Indirect asset acquisition costs	-	2,350
Stock compensation contribution	100	-
Change in:		
Accounts and other payables	2,214	11
Accrued expenses	308	-
Net cash used in operations	(811)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets held for sale	480	-
Net cash provided by investing activities	480	-
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds of borrowings on working capital loan	350	-
Net cash provided by financing activities	350	-
NET INCREASE IN CASH	19	-
CASH AT BEGINNING OF PERIOD	-	-
CASH AT END OF PERIOD	$ 19	$ -
Non-cash investing and financing activity		
Acquisition of assets in exchange for term note payable	$ -	$ 4,768

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

Note 1 - Organization

Pineapple Energy LLC ("Pineapple" or the "Company") was organized under the laws of Delaware on December 1, 2020 ("period of inception"). Pineapple Energy expects to operate and consolidate solar companies to power the energy transition through grass-roots growth of solar electricity paired with battery storage on consumers' homes. The Company plans on engaging in the acquisition and growth of local and regional solar, storage and energy service companies and providing solar, battery storage and other energy services to homeowners.

On March 28, 2022, the Company closed a series of transactions that led to it becoming a wholly owned subsidiary of Pineapple Energy Inc. (formerly known as Communications Systems, Inc.). Below is a summary of these transactions and the order in which they occurred.

At December 31, 2021, each limited liability company interest in the Company held by a member (each a "Member" and collectively, the "Members") of the Company was represented by units ("Units"). The total number of Units that the Company had authority to issue was classified as (i) an unlimited number of Class A Units (the "Class A Units"), (ii) 6,250,000 Class B Units (the "Class B Units"), (iii) 5,000,000 Class C Units (the "Class C Units"), and (iv) an unlimited number of Class P Units (the "Class P Units"). The Board had the authority to increase the number of Units, increase the number of Units in a class of Units, or designate one or more new classes of Units without the vote or consent of the Members. As of December 31, 2021 and 2020, 19,150,000 Class A Units and 850,000 Class P Units were issued and outstanding. Class A Units had voting rights, while the Class P Units did not have voting rights. See Note 8, Subsequent Events.

On March 1, 2021, the Company entered into an asset purchase agreement with Hawaii Energy Connection, LLC and E-Gear, LLC, both Hawaii limited liability companies (collectively, "HEC"), under which HEC agreed to sell to the Company substantially all the assets of HEC (the "HEC Asset Acquisition") for an aggregate purchase price of $12,500 in cash payable at closing, subject to a working capital adjustment following closing, plus equity in the Company consisting of 6,250,000 Class B Units of the Company, representing approximately 40% ownership in the Company.

On March 1, 2021, the Company also entered into an Agreement and Plan of Merger (the "Merger Agreement") with Communications Systems, Inc. (now known as Pineapple Energy Inc.), a Minnesota corporation ("CSI"), Helios Merger Co., a Delaware corporation and a wholly owned subsidiary of CSI (the "Merger Sub"), Lake Street Solar LLC, a Delaware limited liability company (the "Members' Representative"), and Randall D. Sampson, as the Shareholders' Representative (the "Shareholders' Representative," and together with CSI, the Merger Sub, the Company and the Members' Representative, the "Parties"). Under the terms of the Merger Agreement, the Merger Sub merged with and into the Company with the Company surviving the merger as a wholly owned subsidiary of CSI (the "Merger"). As consideration for the Merger, CSI issued shares of its common stock to the members of the Company and the members of the Company became the majority owners of CSI's outstanding common stock upon the closing of the Merger.

Under the terms of the Merger Agreement, the Members received base consideration of 3.9 million shares of CSI common stock in the Merger. In addition to the base consideration, the Members have the right to receive additional shares of CSI common stock upon the occurrence of the following milestones:

- If the Company discharges its Permitted Indebtedness (as defined in the Merger Agreement) of $22.5 million within three months of closing, then the Members will be entitled to an additional 750,000 shares.

- If, within two years of closing, the CSI common stock achieves a 30-day VWAP (volume weighted average price) of at least $24.00 per share, then the Members will be entitled to receive up to 1.25 million shares if CSI consummates the "Dispositions" (defined as the disposition of CSI's legacy assets or its legacy subsidiaries) by the 18-month anniversary of the closing).

- If, within two years of closing, the CSI common stock achieves a 30-day VWAP of at least $32.00 per share, members of Pineapple will be entitled to receive up to 1.25 million shares if CSI consummates the Dispositions by the 18-month anniversary of the closing).

In connection with the Merger, on September 15, 2021, CSI entered into a securities purchase agreement (the "PIPE Agreement") with certain investors, referred to as the "PIPE Investors," to make a $32,000 private placement investment referred to as the "PIPE Offering." Under the terms of the PIPE Agreement, for their $32,000 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 CSI common stock, together with five-year warrants to purchase an additional $32,000 of common shares at that same price. The PIPE Offering closed immediately following the consummation of the Merger. Thus, the PIPE Investors invested in the combined company and were not entitled to any cash dividends or other payments issued to CSI shareholders as of the close of the business day immediately preceding the effective time of the Merger. The combined company used the proceeds from the PIPE Offering to fund the cash portion of the purchase price to acquire the HEC assets, to repay $4,500 of Pineapple's $7,500 term loan from Hercules, for transaction expenses, and for working capital to support Pineapple's growth strategy of acquiring leading local and regional solar installers around the United States.

On December 16, 2021, Pineapple and CSI entered an amendment to the Merger Agreement that, among other things, (1) extended the outside date to complete the Merger from August 31, 2021 to March 31, 2022, (2) added additional conditions to closing related to the PIPE Agreement (as defined in the Merger Agreement, (3) extended the date for CSI to complete the Dispositions from 18 months to 24 months, and (4) changed the milestones related to earnout consideration to (i) have the first 750,000 shares related to repayment of the Permitted Indebtedness issued at closing of the Merger and (ii) extend the time under which CSI will be obligated to issue the additional 2.5 million shares for achievement of the second and third milestones from on or before the 18-month anniversary to on or before the 24-month anniversary of the closing date of the Merger.

The amendment also provided that there will not be any accrued payable amounts or liabilities on the balance sheet of the Company specific related parties or affiliates of the Company. See Note 5, Payables Due to Members - Acquisition Related Transaction Costs.

The amendment also added conditions that (i) Hercules Capital, Inc. will have waived the Company's obligation to pay upon closing of the Merger $3.0 million of debt under the Term Loan Agreement (as defined below) and extended the maturity date of the related debt to the earlier of (a) December 10, 2024 or (b) the date on which CSI or the Company receives equity financing in one more transactions in an amount in excess of $25.0 million (other than pursuant to the PIPE Agreement) and (ii) the entire amounts owed by Pineapple under a Working Capital Term Loan Agreement (as defined below) will have been extinguished or the maturity date extended to at least December 10, 2024. See Note 6, Loans Payable.

The HEC Asset Acquisition, and the Merger and the PIPE Offering closed sequentially on March 28, 2022. See Note 8, Subsequent Events.

Note 2 - Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenue and expenses. Actual results could differ from these estimates. Any effects on the business, financial position or results of operations from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Significant items subject to estimates and assumptions include the fair value of the Company's term loan payable and related assets at the date of acquisition, and the related useful life of the Company's intangible asset.

Assets Held for Sale

Assets held for sale were tangible assets acquired in the Hercules transactions (see Note 4). These assets were sold in 2021 and as of December 31, 2020, were valued at their fair market value.

Intangible Assets

Intangible assets primarily consist of trademarks and are amortized using the straight-line method over the estimated useful lives of the respective trademarks, which are 36 months.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including intangibles, 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 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. For the year ended December 31, 2021, and for the period of inception (December 1, 2020) through December 31, 2020, no impairment was recognized.

Fair Value of Financial Instruments

Accounts payable approximate fair value because of the short-term nature of these instruments. The payables due to Members are considered long term and due to the nature of the transaction, fair value is impractical to estimate.

To record estimates at fair value, the Company uses market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements and attempt to use the best available information. We determine the fair value based upon the hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and lowest priority to unobservable inputs (Level 3 measurement). The three levels of fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. At December 31, 2021 and 2020, there were no Level 1 measurements.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Where observable inputs are available directly or indirectly, for substantially the full term of the asset or liability, the instrument is categorized in Level 2. At December 31, 2021 and 2020, there were no Level 2 measurements.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. At December 31, 2021 and 2020, there were no recurring Level 3 measurements.

The fair value of the Company's long-term debt and assets acquired of $4,768 as of the acquisition date of December 11, 2020 is a Level 3 non-recurring measurement. The fair value of the liability and intangible asset were measured using a discounted cash flow methodology. The payments were discounted over the term of the loan using a 25.0 percent discount rate which reflected a rate between first quartile and median rate for venture capital funding of an enterprise in the start-up stage business cycle given the similarity of the business to a start-up. See Note 4, Asset Acquisition.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606").

The Company recognizes revenue in accordance with the core principle of ASC 606 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 primarily 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.

For all revenue streams, no elements of variable consideration were identified.

Transaction Costs

Direct and indirect acquisition-related costs are expensed as incurred when the service is received.

Income Taxes

The Company has elected to be treated as an association taxable as a corporation as of the date of formation. As of December 31, 2021 and 2020, the Company had a deferred tax asset of $2,266 and $710, respectively. The Company has applied a valuation allowance of $2,266 and $710 as of December 31, 2021 and 2020, respectively, and therefore the net deferred tax asset was $0 as of December 31, 2021 and 2020. As of December 31, 2021, the Company had net operating loss carryforwards of $1,705 that do not expire. Tax expense for the year ended December 31, 2021 and the period of inception (December 1, 2020) through December 31, 2020 was $0.

The Company applies the provisions of ASC Topic 740, Income Taxes ("ASC 740"), which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. Tax positions that meet the more-likely-than-not recognition threshold may be recognized. The Company's accounting policy related to income tax penalties and interest assessments is to accrue for these costs and record a charge to general and administrative expense for tax penalties and a charge to interest expense for interest assessments during the period that we take an uncertain tax position through the date of resolution with the taxing authorities or the expiration of the applicable statute of limitations.

The Company did not record any amounts related to penalties and interest for the year ended December 31, 2021 and the period of inception (December 1, 2020) through December 31, 2020. Management does not believe that the Company has any material uncertain tax positions at December 31, 2021.

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements were issued. The Company has evaluated subsequent events through May 16, 2022, which is the date the financial statements were issued. See Note 8, Subsequent Events.

Note 3 - Intangible Assets

Intangible assets are stated at amortized cost and consist of the Sungevity tradename and trademark (see Note 4, Asset Acquisition). For the year ended December 31, 2021 and the period of inception (December 1, 2020) through December 31, 2020, amortization expense totaled $1,430 and $78, respectively. Future amortization was estimated to be $1,429 and $1,351, for the years ended December 31, 2022 and 2023, respectively.

Note 4 – Asset Acquisition

On December 11, 2020, Pineapple purchased certain assets from Hercules Technology Management Co V, LLC ("Hercules Management") that it had acquired in a public auction of assets of HoSoPo Corporation, Solar Spectrum LLC, and Solar Spectrum Holdings, LLC conducted by Hercules Capital, Inc. ("Hercules"). The assets sold by Hercules Management to Pineapple related to the Sungevity business and included tangible assets consisting of fixed assets and inventory, and intangible assets consisting of the Sungevity tradename, trademark, and a database comprised of both historical existing and unconverted customer leads.

On December 11, 2020, the Company and Hercules entered into a loan and security agreement (the "Term Loan Agreement") for a term loan to Pineapple in the principal amount of $7,500 to finance the acquisition of the Sungevity assets from Hercules Management. As partial consideration for the asset purchase, the Company also issued to Hercules 3,000,000 of its Class A Units, which represented a 15.0% ownership interest in the Company.

The Company has determined this transaction to be an asset acquisition and has identified the trademark and assets held for sale as identifiable assets. As the transaction did not involve the exchange of monetary consideration, the value associated with the asset acquisition was based on the Company's most reliable indication of fair value, which is the estimated fair value of the debt and equity units issued in consideration. The Company has determined the fair value of the debt was $4,768 at the date of acquisition. The assets held for sale are recorded at fair market value, which approximates the amount received from the sale of these assets subsequent to year-end. The remaining difference between the fair value of the debt and the assets held for sale has been ascribed to the Sungevity tradename and will be amortized over a 36-month period. No value is being assigned to the equity units because the acquisition did not include an operating business with steady, reliable cash flows, as well as the fact that no residual value exists beyond the acquired tangible and intangible assets. Equity value creation will depend upon future business execution and growth following the bankruptcy exit and conversion of customer leads.

Note 5 – Payables Due to Members - Acquisition Related Transaction Costs

As of December 31, 2021 and 2020, the Company had accrued a payable of $2,000 to one Member and $350 to another Member relating to the asset acquisition (see Note 4, Asset Acquisition). The underlying costs are considered indirect costs of the asset acquisition and have been expensed as acquisition-related costs from the period of inception (December 1, 2020) through December 31, 2020. Under the Term Loan Agreement, this aggregate $2,350 in payables to Members is subordinated to the payment to Hercules of the amounts due under the Term Loan Agreement (see Note 6, Loans Payable) and may only be repaid under certain conditions, including the requirement that no obligations are outstanding under the Term Loan Agreement and the Company or its subsidiaries has closed on an equity transaction generating at least $30,000 in proceeds.

As contemplated by the amendment to the Merger Agreement, on December 16, 2021, subscription agreements were signed among two Members and the Company. In consideration for the full cancellation of the $2,000 and $350 of accrued payables due to the Members, the Members agreed to convert their accrued payables into convertible promissory notes of the Company, effective immediately prior to the merger with CSI. The convertible promissory notes automatically converted into 1,175,000 Class C Units of the Company after issuance of the Convertible Note to the Members and immediately prior to the consummation of the Merger.

This conversion option was considered clearly and closely related to the host contract. As such, the payables were converted to equity effective immediately prior to the Merger, which occurred on March 28, 2022. See Note 8, Subsequent Events.

Note 6 – Loans Payable

Loan Payable
As of December 31, 2021 and 2020, the Company had $7,500 in loans payable to Hercules under the Term Loan Agreement (see Note 4, Asset Acquisition). This loan accrues interest at 10%, payable-in-kind and was due and payable on December 10, 2023. There were no financial covenants associated with this loan. As this loan was used to acquire the assets in the asset acquisition, the Company assessed the fair market value of the debt instrument at $4,768. The Company accreted the value of the debt over its life at a discount rate of approximately 25%. The combined loan balance and accrued interest as of December 31, 2021 and 2020 was $6,195 and $4,830, respectively.

As contemplated by the amendment to the Merger Agreement, on December 16, 2021, an amendment to the Term Loan Agreement was executed. The amendment extended the maturity date of the $7,500 loan to December 31, 2024, subject to prepayment in certain events. In addition, the amendment provided that immediately after CSI receives proceeds pursuant to the PIPE Agreement, the Company shall repay $4,500 of the outstanding loan plus all accrued and unpaid interest and expenses, with the remaining principal to be paid upon the loan maturity date.

This amendment represents a modification to the loan agreement as both the original loan agreement and the amendment allow for immediate prepayment and the Company passes the cash flow test. As such, no gain or loss has been recorded, and a new effective interest rate of approximately 19.96% has been established based on the carrying value of the revised cash flows.

Interest and accretion expense for the year ended December 31, 2021 and period of inception (December 1, 2020) through December 31, 2020 was $1,373 and $62, respectively. The loan is collateralized by all of the Company’s personal property and assets (see Note 4, Asset Acquisition).

Working Capital Note
On January 8, 2021, the Company and Hercules, as agent for itself and the lenders, entered into a Working Capital Loan and Security Agreement (the “Working Capital Loan and Security Agreement”) for a working capital loan in the maximum principal amount of $500. The lenders, Hercules and Northern Pacific Growth Investment Advisors, LLC, made working capital loan commitments of $400 and $100, 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. Borrowings under the Working Capital Loan Agreement bear interest at 10.00% per annum with interest compounded daily and payable monthly. As of December 31, 2021, the balance outstanding on the working capital loan was $350. The loan is collateralized by all of the Company’s assets. The working capital loan had a maturity date of January 7, 2022.

The Working Capital Loan and Security 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 Loan and Security 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, the Company consummates the Merger, then immediately prior to the consummation of the Merger, the working capital loan and all accrued and unpaid interest and expenses thereon shall automatically convert into Class C Units of the Company 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. As such, the loan and accrued interest was converted to equity consummate to the Merger, which occurred on March 28, 2022. See Note 8, Subsequent Events.

Note 7 - Commitments and Contingencies

Contingencies

At times there may be claims and legal proceedings generally incidental to the normal course of business that are pending or threatened against the Company. Although the Company cannot predict the outcome of these matters when they arise, in the opinion of management, any liability arising from them will not have a material adverse effect on the consolidated financial position, results of operations, or liquidity of the Company. At December 31, 2021 and 2020, there were no such claims or legal proceedings.

Note 8 - Subsequent Events

The HEC Asset Acquisition, the Merger, and the PIPE Offering closed sequentially on March 28, 2022.

HEC Asset Acquisition
On March 28, 2022, the Company closed the HEC Asset Acquisition for an aggregate purchase price of $12,392 cash payable at closing, consisting of initial cash consideration of $12,500 less $108 in working capital adjustments, plus equity in the Company consisting of 6,250,000 Class B Units of the Company, representing approximately 40% ownership in the Company (which upon close of the merger with CSI translated to 1,562,498 shares of common stock with a fair value of $12,781 using the publicly traded stock price at the merger date). See Note 1, Organization. This acquisition is 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.

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

Cash and cash equivalents	$	216
Accounts receivable		892
Inventory		1,572
Other assets		108
Property, plant, and equipment		182
Intangible assets		13,800
Goodwill		9,787
Total assets		26,557
Total liabilities		1,384
Net assets acquired	$	25,173

The identifiable intangible assets from the HEC Asset Acquisition are definite-lived assets. These assets include a trade name and developed technology and have a weighted average amortization period of seven years. Goodwill recorded as part of the purchase price allocation is tax deductible. The fair value of the acquired identifiable intangible assets is provisional depending on the final valuation of those assets.

Merger

On March 28, 2022, immediately following the closing of the HEC Asset Acquisition, the Company completed the Merger with CSI whereby the Company became a wholly-owned subsidiary of CSI, which then changed its name to Pineapple Energy Inc. See Note 1, Organization. The purpose of the Merger was to allow for the Company to continue its acquisition growth plan within the solar market as a publicly traded company. The Company accounted for the Business Combination as a reverse recapitalization whereby Pineapple was determined as the accounting acquirer and CSI as the accounting acquiree.

As a result of the reverse merger, the acquired assets and assumed liabilities of CSI are remeasured and recognized at fair value as of the acquisition date. The total purchase price represents the fair value of the common stock held by legacy CSI shareholders at the time of the merger (2,429,341 shares of common stock). The fair value of the purchase consideration was $19,872 using the publicly traded stock price at the merger date, which is allocated at the acquisition date between the liability associated with the Company's obligation to pay legacy CSI shareholders cash as part of the contingent value rights ("CVR"s) discussed below and equity based on their respective 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 CSI 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, 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. As of the merger date, the fair value of the CVR liability was estimated at $18,277, which was determined based on the provisional fair value of the tangible and definite-lived intangibles assets of CSI.

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

Cash and cash equivalents	$	1,920
Investments		3,155
Accounts receivable		1,821
Inventory		139
Other assets		1,316
Property, plant, and equipment		118
Non-current assets held for sale		6,567
Intangible assets		2,556
Goodwill		5,989
Total assets		23,581
Accounts payable		2,547
Accrued expenses		1,013
Deferred revenue		149
Total liabilities		3,709
Net assets acquired	$	19,872

The identifiable intangible assets from the merger are definite-lived assets. These assets include trade names, customer relationships and developed technology and have a weighted average amortization period of four years. Goodwill recorded as part of the purchase price allocation is not tax deductible.

The initial accounting for the acquired assets and liabilities is incomplete due to the timing of the closing of the merger in proximity to the quarter-end. The fair value of the intangible assets and any related income tax matters is provisional depending the final valuation of those assets.

Transaction costs related to the Merger and HEC Asset Acquisition totaled $2,412 during the year ended December 31, 2021 and were recorded in operating expenses within the Statements of Loss and Members' Deficit.

PIPE Offering
On March 28, 2022, immediately following the closing of the Merger, the Company closed its $32,000 private placement investment under the terms of the PIPE Agreement. See Note 1, Organization.

Payables Due to Members
On March 28, 2022, payables due to Members were converted to equity immediately prior to the Merger. See Note 5, Payables Due to Members – Acquisition Related Transaction Costs.

Loan Payable
On March 29, 2022, the Company paid $5,555 to Hercules, which represented $4,500 of the outstanding loan balance, plus accrued interest.

Working Capital Note
On March 28, 2022, the working capital loan and all accrued and unpaid interest and expenses thereon was converted into Class C Units of the Company immediately prior to the Merger. See Note 6, Loans Payable.

Units Issuance
On January 7, 2022, the Company agreed to issue 81,301 Class A Units to a non-employee for advisory services provided in 2021. These units have been recognized as of December 31, 2021 as the services were provided during 2021. The amount recognized as stock compensation for the year ended December 31, 2021 was $100.

Merger Earnout
On March 28, 2022, upon completion of the merger, the Members received the 750,000 earnout shares related to the repayment of the Permitted Indebtedness earnout. See Note 1, Organization.

HAWAII ENERGY CONNECTION, LLC AND

E-GEAR, LLC

Combined Financial Statements as of and for the
Years Ended December 31, 2021 and 2020

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Report of Independent Registered Public Accounting Firm

To the Members of
Hawaii Energy Connection, LLC and E-Gear, LLC

Opinion on the Combined Financial Statements

We have audited the accompanying combined balance sheets of Hawaii Energy Connection, LLC and E-Gear, LLC (collectively, the Company) as of December 31, 2021 and 2020, the related combined statements of income and members' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the combined financial statements). In our opinion, the combined financial statements present fairly, in all material respects, the combined financial position of the Company as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's combined financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the combined financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of Matter - Subsequent Event:

As discussed in Note 11 to the combined financial statements, the Company was acquired by Pineapple Energy LLC on March 28, 2022. Our opinion is not modified with respect to that matter.

Critical Audit Matters:

Critical audit matters are matters arising from the current period audit of the combined financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the combined financial statements and (2) involved our especially challenging, subjective or complex judgments. We determined that there are no critical audit matters.

We have served as the Company's auditor since 2021.

Baker Tilly US, LLP

Minneapolis, Minnesota
May 16, 2022

Hawaii Energy Connection, LLC and E-Gear, LLC
Combined Balance Sheets
As of December 31, 2021 and 2020
(in thousands)

	2021	2020
ASSETS		
Current assets		
Cash	$ 2,773	$ 1,477
Accounts receivable	1,709	1,525
Inventories, net	1,851	1,727
Prepaid expenses and other current assets	109	141
Total current assets	6,442	4,870
Property, plant, and equipment, net	161	222
Intangible assets, net	88	76
Other long-term assets	12	12
Total assets	$ 6,703	$ 5,180
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,873	$ 1,203
Accrued expenses	203	279
Customer deposits	1,282	364
Total liabilities	3,358	1,846
Commitments and contingencies (See Note 9)		
Members' equity	3,345	3,334
Total liabilities and members' equity	$ 6,703	$ 5,180

The accompanying notes are an integral part of these combined financial statements.

Hawaii Energy Connection, LLC and E-Gear, LLC
Combined Statements of Income and Members' Equity
For the Years Ended December 31, 2021 and 2020
(in thousands)

	2021	2020
Revenue	$ 19,301	$ 18,957
Cost of goods sold	13,852	13.102
Gross Profit	5,449	5,855
Operating expenses:		
General and administrative expenses	2,181	2,286
Gross excise taxes	869	855
Sales and marketing	1,144	1,283
Total operating expenses	4,194	4,424
Income from operations	1,255	1,431
Other income (expenses)		
Government grant other income (PPP)	-	553
Interest expense	-	(16)
Other, net	14	9
Other income (expenses)	14	546
Net income	1,269	1,977
Members' equity, beginning of year	3,334	2,342
Distributions to members	(1,258)	(985)
Members' equity, end of period	$ 3,345	$ 3.334

The accompanying notes are an integral part of these combined financial statements.

Hawaii Energy Connection, LLC and E-Gear, LLC
Combined Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020
(in thousands)

	2021	2020
Cash flows from operating activities		
Net income	$ 1,269	$ 1,977
Adjustments for:		
Depreciation	71	115
Amortization	14	88
Change in:		
Accounts receivable	(184)	1,527
Inventories, net	(124)	(406)
Prepaid expenses and other current assets	32	(62)
Other long-term assets	-	8
Accounts payable	670	(286)
Accrued expenses	(76)	137
Customer deposits	918	(1,386)
Net cash provided by operating activities	2,590	1,712
Cash flows from investing activities		
Purchase of property, plant, and equipment	(10)	(150)
Purchase of intangible assets	(26)	(15)
Net cash used in investing activities	(36)	(165)
Cash flows from financing activities		
Payment of loans payable and borrowings on line of credit	-	(975)
Distribution to members	(1,258)	(985)
Net cash used in financing activities	(1,258)	(1,960)
Net increase (decrease) in cash	1,296	(413)
Cash, beginning of the period	1,477	1,890
Cash, end of the period	$ 2,773	$ 1,477
Cash paid for interest	$ -	$ 16

The accompanying notes are an integral part of these combined financial statements.

(in thousands, except for Units)

Note 1 - Organization

Hawaii Energy Connection, LLC ("HEC") and E-Gear, LLC ("E-Gear") were formed under the laws of Hawaii on February 27, 2007 and February 8, 2012, respectively. The accompanying combined financial statements present the operations of Hawaii Energy Connection, LLC and E-Gear, LLC (together – the Company). HEC is primarily engaged in the construction and sale of residential and commercial photovoltaic (PV) solar solutions. E-Gear offers proprietary patented and patent pending edge-of-grid management and storage solutions to energy consumers, energy services companies and utilities.

COVID-19 Update

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The pandemic has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of the COVID-19 pandemic.

As a response to the COVID-19 pandemic, the Company implemented a controlled schedule, social distancing, mask requirements for employees permitted to use the office, implementation of an infectious disease prevention policy, and required employees to quarantine after out of state travel of any kind before returning to work.

The Company considered the emergence and pervasive economic impact of the COVID-19 pandemic in its assessment of its financial position, results of operations, cash flows, and certain accounting. During 2020, the Company received a PPP loan in the amount of $553 (see Note 6). The Company has not identified any specific impairment triggering event from circumstances originating from COVID-19. Due to the evolving and uncertain nature of the COVID-19 pandemic, it is possible that the effects of the COVID-19 pandemic could materially impact the Company's estimates and combined financial statements in future reporting periods.

Note 2 - Significant Accounting Policies

Basis of Presentation and Principles of Combination

These combined financial statements include the results of Hawaii Energy Connection, LLC and E-Gear, LLC and have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") as applied to interim financial information. The Company has determined the basis for preparation of combined financial statements is due to common ownership and management of the entities. Intercompany accounts and transactions have been eliminated upon combination. The Company uses a qualitative approach to identify a controlling financial interest in a variable interest entity (VIE) and performs an ongoing assessment of whether its interest makes HEC the primary beneficiary of E-Gear. As described in Note 8, HEC holds a variable interest in E-Gear, LLC in the form of a receivable of $2,009 and $1,742 as of December 31, 2021 and 2020, respectively, which is eliminated in combination.

Use of Estimates

The preparation of combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenue and expenses. Actual results could differ from these estimates. Any effects on the business, financial position or results of operations from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Significant items subject to estimates and assumptions include the carrying amount and useful lives of property and equipment and intangible assets, and impairment assessments.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and accounts receivable. The Company maintains its cash accounts with financial institutions where, at times, deposits exceed federal insurance limits. The Company extends credit to customers in the normal course of business and requires a 50% down payment due at the signing of a contract for residential installations. No deposit is required for commercial installations, as payment occurs during the construction process. The Company performs credit analyses and monitors the financial health of its customers to reduce credit risk.

The Company has two major business lines: (i) sales of PV solar solutions together with maintenance and support services on these systems for residential and commercial customers and (ii) proprietary patented and patent-pending edge-of-grid energy management and storage solutions (software sales).

The Company's accounts receivables are derived from revenue earned from customers primarily located in Hawaii.

Accounts Receivable

Accounts receivable are recorded at their net realizable value and are not collateralized. Accounts receivable include amounts earned less payments received and allowances for doubtful accounts. Management continually monitors and adjusts its allowances associated with the Company's receivables to address any credit risks associated with the accounts receivable and periodically writes off receivables when collection is not considered probable. The Company does not charge interest on past due accounts. When uncertainty exists as to the collection of receivables, the Company records an allowance for doubtful accounts and a corresponding charge to bad debt expense. As of December 31, 2021 and 2020, there was no allowance for doubtful accounts.

Inventories, Net

Inventories, which consist primarily of materials and supplies used in the construction of solar arrays, are stated at lower of cost or net realizable value, with costs computed on an 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. At December 31, 2021 and 2020, the allowance for obsolete inventory was $0 and $49.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost and depreciated or amortized using the straight-line method over the estimated useful lives of the respective assets. Existing useful lives range from five to fifteen years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the lease term. Major additions and improvements are capitalized, while replacements, repairs, and maintenance that do not extend the life of an asset are charged to operations. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation or amortization are removed from the accounts.

The estimated useful lives of assets are as follows:

Equipment	5 – 7 years
Software	3 years
Furniture and fixtures	5 – 7 years
Vehicles	5 - 7 years
Leasehold improvements	7 – 15 years

Intangible Assets

Intangible assets primarily consist of licensing agreements and patents and are recorded at cost and are amortized using the straight-line method over the estimated useful lives of the respective assets, generally 5 to 7 years.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including property, equipment, software and intangibles, 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 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. As of December 31, 2021 and 2020, no impairment was identified.

Leases

The Company accounts for leases in accordance with Accounting Standards Codification (ASC) 842, "Leases." This standard requires lessees to recognize the liabilities related to all leases, including operating leases, with a term greater than 12 months on the balance sheets. The Company has one lease with a related party for office space, which is on a month-to-month basis. As such, the Company accounts for the payments under the lease monthly. Rent expense for the year ended December 31, 2021 and 2020 was $209 and $259, respectively.

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”).

The Company recognizes revenue in accordance with the core principle of ASC 606 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 considered to be contract liabilities.

Commercial contracts are generally completed within three to twelve months from commencement of construction. Construction on large projects may be completed within eighteen to twenty-four months, depending on the size and location of the project. Revenue from commercial contracts are recognized as work is performed based on the estimated ratio of costs incurred to date to the total estimated costs at the completion of the performance obligation. There were no significant commercial contracts in progress as of December 31, 2021 and 2020.

All other revenues for sales of components or maintenance are recorded at the point that the control transfers to the customer, which typically occurs upon shipment or delivery to the customer.

For all revenue streams, no elements of variable consideration were identified.

Cost of Revenue

Cost of revenue consists of expenses relating to salaries and benefits of supporting engineers and other direct supporting personnel, materials and supplies, depreciation of fixed assets and other costs incurred to directly support the fulfillment of the revenue contracts.

Gross Excise Tax

The State of Hawaii imposes a gross receipts tax on all business (operations) done in Hawaii.

Warranties

Warranties for the Company are limited to labor on installation. Expenses related to warranties on labor were minimal for the year ended December 31, 2021 and 2020.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2021 and 2020 were $240 and $193, respectively.

Income Taxes

The Company is treated as a partnership for income tax purposes and all income and expenses are reported in the tax returns of its members.

The Company applies the provisions of ASC Topic 740, Income Taxes (“ASC 740”), which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. Tax positions that meet the more likely than not recognition threshold may be recognized. The Company's accounting policy related to income tax penalties and interest assessments is to accrue for these costs and record a charge to general and administrative expense for tax penalties and a charge to interest expense for interest assessments during the period that the Company takes an uncertain tax position through resolution with the taxing authorities or the expiration of the applicable statute of limitations.

The Company did not record any amounts related to penalties and interest during the year ended December 31, 2021 and 2020. Management does not believe that the Company has any material uncertain tax positions at December 31, 2021 and 2020.

Subsequent Events

Subsequent events are events or transactions that occur after the combined balance sheet date but before the combined financial statements are issued. The Company recognizes in the combined financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the combined balance sheet, including the estimates inherent in the process of preparing the combined financial statements. The Company's combined financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the combined balance sheet but arose after the combined balance sheet date and before the combined financial statements were issued. The Company has evaluated subsequent events through May 16, 2022, which is the date the combined financial statements were issued.

Note 3 - Property, Plant and Equipment

Property, plant, and equipment at December 31 consisted of the following:

	2021	2020
Equipment	$ 348	$ 347
Software	739	739
Furniture and fixtures	28	28
Vehicles	729	720
Leasehold improvements	114	114
	1,958	1,948
Less accumulated depreciation and amortization	(1,797)	(1,726)
Total property, plant, and equipment, net	$ 161	$ 222

For the years ended December 31, 2021 and 2020, depreciation expense totaled $71 and $115, respectively.

Note 4 - Intangible Assets

Intangible assets are stated at amortized cost and consist of the following at December 31:

	2021	2020
Licensing agreement	$ 350	$ 350
Patents and trademarks	190	164
Total intangible assets	540	514
Less accumulated amortization	(452)	(438)
Total intangible assets, net	$ 88	$ 76

For the years ended December 31, 2021 and 2020, amortization expense totaled $14 and $88, respectively. Future amortization expense is as follows: For the year ended 2022 - $15; 2023 - $15; 2024 - $14; 2025 - $14; 2026 - $14; thereafter - $16.

Note 5 – Loans Payable

Loans Payable

Owner Loans Payable
The Company had $402 in unsecured loans payable to the owners as of December 31, 2019, bearing interest at 6%. These loans were paid in full by the Company during 2020. There were no covenants associated with these loans.

Business Loan from American Savings Bank, F.S.B.
On November 12, 2019, the Company entered a business loan agreement, promissory note and security agreement with American Savings Bank, F.S.B. (“ASB”), which would not exceed at any one time the amount of $1,500. The loan bore interest of 5.75% per annum and was payable monthly. The note was collateralized by substantially all the assets of the Company with a maturity date of November 18, 2020 and was repaid in full during 2020.

Revolving Line of Credit From ASB
During 2021 and 2020, the Company had a $400 credit agreement with ASB to provide a revolving line of credit. As of December 31, 2020, the Company had no balance outstanding on the line of credit. This line of credit matured on May 18, 2021 and was not renewed.

Note 6 - Governmental Grant – Paycheck Protection Program

On May 4, 2020, the Company executed a promissory note evidencing an unsecured loan in the amount of $553 under the Paycheck Protection Program (or “PPP”). The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) and is administered by the U.S. Small Business Administration (“SBA”). The Loan was made through ASB.

The Company elected to account for proceeds of its PPP loan under International Accounting Standards (“IAS”) 20, “Accounting for Governmental Grants and Disclosure of Government Assistance.” The Company completed all requirements for the forgiveness application in December 2020. On January 13, 2021, the Company received notification from the SBA that it approved the forgiveness of the full $553. Revenue was recognized ratably over the covered period of the PPP loan as this approximates the actual amount of eligible expenses incurred.

Note 7 – Revenue from Contracts with Customers

Disaggregation of Revenue

The following table represent disaggregated revenue from contracts with customers for the year ended December 31:

	2021	2020
Residential contracts	$ 18,714	$ 18,794
Commercial contracts	422	141
Software sales	165	22
Total revenue	$ 19,301	$ 18,957

Contract Assets and Liabilities

Contract liabilities consist of customer deposits of $1,282 and $364 as of December 31, 2021 and 2020, respectively. There are no contract assets.

Note 8 – Variable Interest Entities

Management evaluates the Company’s explicit and implicit variable interests to determine the existence of VIEs. Variable interests are contractual, ownership, or other pecuniary interests in an entity whose value changes with changes in the fair value of the entity’s net assets, exclusive of variable interests. Explicit variable interests are those that directly absorb the variability of a VIE and can include contractual interests such as loans or guarantees as well as equity investments. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing of variability indirectly, such as through related-party arrangements or implicit guarantees. The analysis includes consideration of the design of the entity and its organizational structure, including decision-making ability over the activities that most significantly impact the VIE’s economic performance. U.S. GAAP requires a reporting entity to consolidate a VIE when the reporting entity has a variable interest, or combination of variable interests, that provides it with a controlling financial interest in the VIE. The entity that consolidates a VIE is referred to as the primary beneficiary of that VIE.

HEC and E-Gear are entities that have common ownership. HEC's financial transactions with E-Gear as of December 31, 2021 and 2020 consisted of an intercompany receivable of $2,009 and $1,742, respectively, which is eliminated in combination and was advanced by HEC to payoff externally held debt and payables due from E-Gear to the owners. HEC purchased no product from E-Gear during the years ended December 31, 2021 and 2020.

E-Gear's summarized financial information is as follows:

As of December 31:		2021		2020
Assets	$	225	$	137
Members' equity (deficit)	$	(1,822)	$	(1,630)
For the years ended December 31:				
Revenue	$	165	$	26
Net income (loss)	$	(192)	$	(240)

HEC has no direct ownership in E-Gear and has not provided any financial or other support other than the support noted above. While HEC has neither a contractual obligation to do so nor any current intent, it may voluntarily elect to provide E-Gear with additional direct or indirect financial support based on E-Gear's business objectives and cash flow needs.

HEC has determined that E-Gear is a variable interest entity due to a lack of sufficient at-risk equity. HEC, and the two members of both LLCs who own HEC and E-Gear LLC's equally, are the beneficiaries and related parties of E-Gear.

HEC considered the following factors in determining the primary beneficiary of E-Gear:

1. Existence of a principal-agency relationship between parties within the related party group:

   There is no existence of a principal-agency relationship between parties within the related party group, as such, no primary beneficiary exists with this factor.

2. The relationship and significance of the activities of E-Gear to the members and HEC:

   a. The members significantly influenced the design of both entities.
   b. The operations of the two companies are not substantially similar.
   c. The variable interest of E-Gear are not considered significant inputs to any of the related parties.
   d. The products sold by E-Gear are not considered significant inputs to any of the related parties.
   e. No related party has outsourced any of its activities to E-Gear.
   f. HEC does not sell products to E-Gear.
   g. Significant inputs of E-Gear include pricing decisions, enhancements to product development and patent decisions. These decisions are made by the members of E-Gear, and these members are the only members actively involved in management of the operations of E-Gear. No operational or management decisions are made by HEC. However, day-to-day management decisions are generally made by one of the owners, who is considered the primary beneficiary.
   h. The owners are obligated to fund or discontinue operations of E-Gear.

   Management's conclusion is that the primary beneficiary is the owner who makes day-to-day management decisions for this factor.

3. A party's exposure to the variability associated with the anticipated economic performance of E-Gear:

   HEC's positive exposure to variability is limited to repayment of the related party payable. The Members' variability is much greater, as future profits and losses of E-Gear will be absorbed by the members. As there is no related party agreement, the members will direct the timing of repayment or forgiveness of the related party note payable. As the members share this obligation equally, no primary beneficiary exists with this factor.

4. The design of E-Gear:

   HEC and E-Gear were designed to be operated independent of each other. E-Gear patents technology and sells that technology to solar installers, including HEC. HEC does not have the power to direct who E-Gear can sell to, including competitors. HEC provides solar installation services and is not required to utilize E-Gear's technology, nor is E-Gear required to sell to HEC. All of HEC and E-Gear's financial and operating activity decisions are made by the members. The related-party payable was not a part of the design of HEC or E-Gear, but an operational and business decision made by the members. As such, the design of E-Gear supports the members as the beneficiaries. As the members share this obligation equally, no primary beneficiary exists with this factor.

HEC has determined it is not the primary beneficiary of E-Gear. The primary beneficiary is the owner who makes day-to-day management decisions. Accordingly, HEC has not consolidated E-Gear. The financial statements of HEC and E-Gear are presented on a combined basis.

Note 9 - Commitments and Contingencies

Contingencies

At times there may be claims and legal proceedings generally incidental to the normal course of business that are pending or threatened against the Company. Although the Company cannot predict the outcome of these matters when they arise, in the opinion of management, any liability arising from them will not have a material adverse effect on the combined financial position, results of operations, or liquidity of the Company. At December 31, 2021 and 2020, there were no claims or legal proceedings.

Note 10 – Employee Pension Plan

The Company has a 401(k) pension plan covering substantially all of its employees. The Plan has 401(k) salary deferral features and allows for elective employer contributions. The Company's contributions to the plan were $82 for both of the years ended December 31, 2021 and 2020.

Note 11 – Sale of Company

On March 1, 2021, the Company entered into an asset purchase agreement with Pineapple Energy, LLC ("Pineapple"), a Delaware limited liability company located in Minnesota, under which the Company agreed to sell to Pineapple substantially all the assets of the Company for an aggregate purchase price of $12,500 cash payable at closing, subject to a working capital adjustment following closing, plus equity in Pineapple consisting of 6,250,000 Class B Units of Pineapple (the "Closing Equity Consideration"), representing approximately 40% ownership in Pineapple.

Also on March 1, 2021, Pineapple, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Communications Systems, Inc. ("CSI"), a Minnesota corporation, Helios Merger Co., a Delaware corporation and a wholly-owned subsidiary of CSI (the "Merger Sub"), Lake Street Solar LLC, a Delaware limited liability company (the "Members' Representative"), and Randall D. Sampson, as the Shareholders' Representative (the "Shareholders' Representative," and together with CSI, the Merger Sub, Pineapple and the Members' Representative, the "Parties"), pursuant to which Merger Sub will merge with and into Pineapple with Pineapple surviving the merger as a wholly owned subsidiary of CSI (the "Pineapple Merger").

On December 16, 2021, Pineapple and the Company entered into amendment number one to the Asset Purchase Agreement dated March 1, 2021 that, among other things, (1) extended the Termination Date under which either party could terminate from August 31, 2021 to March 31, 2022, (2) added a section called "Additional Payment" whereby Pineapple will pay to the owners of the Company $250 if the closing of the asset purchase does not occur before the Termination Date, and (3) provided that the owners of the Company may, at their sole discretion, elect to relinquish a portion of their Closing Equity Consideration in such amount as shall be set forth in a written notice provided to Pineapple not less than three business days prior to closing.

On March 28, 2022, the Company closed on the sale of assets to Pineapple for an aggregate purchase price of $12,392 cash paid at closing, which consisted of the initial cash consideration of $12,500 less $108 in working capital adjustments, plus 6,250,000 Class B Units of Pineapple, representing an approximate 40% ownership interest in Pineapple (which upon the close of Pineapple's merger with CSI was converted to 1,562,498 shares of common stock of Pineapple Energy Inc., having a fair value of $12,781 using the publicly traded stock price at the merger date, which was March 28, 2022.