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 **June 30, 2024**

☐ **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 August 15, 2024	8,723,625

PINEAPPLE ENERGY INC.

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PINEAPPLE ENERGY INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS

	June 30 2024	December 31 2023
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,046,343	$ 3,575,283
Restricted cash and cash equivalents	1,085,712	1,821,060
Trade accounts receivable, less allowance for credit losses of $159,949 and $94,085, respectively	4,764,055	5,010,818
Inventories, net	3,233,620	3,578,668
Prepaid income taxes	64,598	—
Related party receivables	24,871	46,448
Prepaid expenses	1,589,679	1,313,082
Costs and estimated earnings in excess of billings	4,615	57,241
Other current assets	416,954	376,048
TOTAL CURRENT ASSETS	12,230,447	15,778,648
PROPERTY, PLANT AND EQUIPMENT, net	1,377,150	1,511,878
OTHER ASSETS:		
Goodwill	20,545,850	20,545,850
Operating lease right of use asset	4,298,661	4,516,102
Intangible assets, net	14,389,583	15,808,333
Other assets, net	12,000	12,000
TOTAL OTHER ASSETS	39,246,094	40,882,285
TOTAL ASSETS	$ 52,853,691	$ 58,172,811

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	June 30 2024	December 31 2023
CURRENT LIABILITIES:		
Accounts payable	$ 8,499,765	$ 7,677,261
Accrued compensation and benefits	924,068	1,360,148
Operating lease liability	415,675	394,042
Accrued warranty	261,489	268,004
Other accrued liabilities	635,634	867,727
Income taxes payable	-	5,373
Refundable customer deposits	1,337,839	2,112,363
Billings in excess of costs and estimated earnings	1,413,550	440,089
Contingent value rights	1,198,212	1,691,072
Earnout consideration	2,700,000	2,500,000
Current portion of loans payable	1,877,694	1,654,881
Current portion of loans payable - related party	3,511,341	3,402,522
Embedded derivative liability	1,055,600	-
TOTAL CURRENT LIABILITIES	23,830,867	22,373,482
LONG-TERM LIABILITIES:		
Loans payable and related interest	7,357,475	8,030,562
Loans payable and related interest - related party	2,294,085	2,097,194
Deferred income taxes	41,579	41,579
Operating lease liability	3,978,013	4,193,205
Earnout consideration	-	1,000,000
Warrant liability	9,806,409	-
TOTAL LONG-TERM LIABILITIES	23,477,561	15,362,540
COMMITMENTS AND CONTINGENCIES (Note 7)		
MEZZANINE EQUITY:		
Redeemable convertible preferred stock, par value $1.00 per share; 3,000,000 shares authorized; 14,515 and no shares issued and outstanding, respectively	16,442,945	—

STOCKHOLDERS' EQUITY (DEFICIT)		
Series A Convertible preferred stock, par value $1.00 per share; 3,000,000 shares authorized; no and 28,000 shares issued and outstanding, respectively	—	28,000
Series B preferred stock, par value $1.00 per share; 3,000,000 shares authorized; 1 and no shares issued and outstanding, respectively	1	—
Common stock, par value $0.05 per share; 7,500,000 shares authorized; 7,243,258 and 683,107 shares issued and outstanding, respectively[1]	362,163	34,155
Additional paid-in capital[1]	21,520,759	47,456,045
Accumulated deficit	(32,780,605)	(27,081,411)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(10,897,682)	20,436,789
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 52,853,691	$ 58,172,811

(1) Prior period results have been adjusted to reflect the reverse stock split of the common stock at a ratio of 1-for-15 that became effective June 12, 2024. See Note 1, "Nature of Operations," for further details.

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2024	2023	2024	2023
Sales	$ 13,549,420	$ 19,836,291	$ 26,768,617	$ 41,901,716
Cost of sales	8,757,066	12,699,357	17,170,815	26,758,466
Gross profit	4,792,354	7,136,934	9,597,802	15,143,250
Operating expenses:				
Selling, general and administrative expenses	6,558,923	7,230,555	13,187,950	15,292,678
Amortization expense	709,375	1,216,699	1,418,750	2,483,397
Transaction costs	—	—	—	2,020
Fair value remeasurement of SUNation earnout consideration	(450,000)	105,000	(800,000)	930,000
Total operating expenses	6,818,298	8,552,254	13,806,700	18,708,095
Operating loss	(2,025,944)	(1,415,320)	(4,208,898)	(3,564,845)
Other (expense) income:				
Investment and other income	27,325	35,756	73,166	55,289
Gain on sale of assets	—	—	6,118	244,271
Fair value remeasurement of warrant liability	(3,267,571)	—	461,022	—
Fair value remeasurement of embedded derivative liability	(1,055,600)	—	(1,055,600)	—
Fair value remeasurement of contingent value rights	116,775	1,642,195	492,860	1,392,195
Interest and other expense	(735,633)	(599,335)	(1,500,503)	(1,057,553)
Other (expense) income, net	(4,914,704)	1,078,616	(1,522,937)	634,202
Net loss before income taxes	(6,940,648)	(336,704)	(5,731,835)	(2,930,643)
Income tax (benefit) expense	(6,633)	(2,894)	(471)	2,838
Net loss from continuing operations	(6,934,015)	(333,810)	(5,731,364)	(2,933,481)
Net loss from discontinued operations, net of tax	—	(1,216,934)	—	(1,172,252)
Net loss	(6,934,015)	(1,550,744)	(5,731,364)	(4,105,733)
Other comprehensive income (loss), net of tax:				
Unrealized gain on available-for-sale securities	—	20,125	—	44,530
Total other comprehensive income	—	20,125	—	44,530
Comprehensive loss	$ (6,934,015)	$ (1,530,619)	$ (5,731,364)	$ (4,061,203)
Less: Deemed dividend on extinguishment of Convertible Preferred Stock	—	—	(10,571,514)	—
Less: Deemed dividend on modification of PIPE Warrants	—	—	(751,125)	—
Net loss attributable to common shareholders	$ (6,934,015)	$ (1,550,744)	$ (17,054,003)	$ (4,105,733)
Basic net loss per share[(1)]:				
Continuing operations	$ (1.11)	$ (0.50)	$ (3.83)	$ (4.43)
Discontinued operations	—	(1.83)	—	(1.77)
	$ (1.11)	$ (2.34)	$ (3.83)	$ (6.20)
Diluted net loss per share[(1)]:				
Continuing operations	$ (1.11)	$ (0.50)	(3.83)	(4.43)
Discontinued operations	—	(1.83)	—	(1.77)
	$ (1.11)	$ (2.34)	$ (3.83)	$ (6.20)

Weighted Average Basic Shares Outstanding(1)	6,269,514	663,256	4,448,431	662,288
Weighted Average Dilutive Shares Outstanding(1)	6,269,514	663,256	4,448,431	662,288

(1) Prior period results have been adjusted to reflect the reverse stock split of the common stock at a ratio of 1-for-15 that became effective June 12, 2024. See Note 1, "Nature of Operations," for further details.

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

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

For the Six Months Ended June 30, 2024

	Redeemable Convertible Preferred Stock		Series A Convertible Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares(1)	Amount(1)	Capital(1)	Deficit	Income	Total
BALANCE AT DECEMBER 31, 2023	—	$ —	28,000	$ 28,000	—	$ —	683,107	$ 34,155	$ 47,456,045	$ (27,081,411)	$ —	$ 20,436,789
Net loss	—	—	—	—	—	—	—	—	—	(5,731,364)	—	(5,731,364)
Issuance of common stock under Employee Stock Purchase Plan	—	—	—	—	—	—	7,666	383	9,389	—	—	9,772
Issuance of common stock under Equity Incentive Plan	—	—	—	—	—	—	16,553	828	(828)	—	—	—
Issuance of common stock under registered direct offering, net of issuance costs	—	—	—	—	—	—	180,180	9,009	909,979	—	—	918,988
Issuance of Series B Preferred Stock	—	—	—	—	1	1	—	—	14	—	—	15
Issuance of common stock under PIPE Warrant exercise	—	—	—	—	—	—	56,618	2,831	321,959			324,790
Reclassification of Series A Preferred Stock to temporary equity	28,000	30,968,875	(28,000)	(28,000)	—	—	—	—	(30,940,875)	—	—	(30,968,875)
Deemed dividend on extinguishment of Convertible Preferred Stock	—	751,125	—	—	—	—	—	—	(751,125)	—	—	(751,125)
Reclassification of PIPE Warrants to liabilities	—	—	—	—	—	—	—	—	(10,592,220)	—	—	(10,592,220)

Conversion of Redeemable Convertible Preferred Stock to Common Stock	(13,485)	(15,277,055)	—	—	—	—	6,304,978	315,249	14,961,806	—	—	15,277,055
Cash in lieu payment on fractional shares under reverse stock split	—	—	—	—	—	—	(721)	(36)	(1,096)	—	—	(1,132)
Share based compensation	—	—	—	—	—	—	—	—	185,723	—	—	185,723
Other share retirements	—	—	—	—	—	—	(5,123)	(256)	(38,012)	32,170	—	(6,098)
BALANCE AT JUNE 30, 2024	14,515	$ 16,442,945	—	$ —	1	$ 1	7,243,258	$ 362,163	$ 21,520,759	$ (32,780,605)	$ —	$ (10,897,682)

For the Three Months Ended June 30, 2024

	Redeemable Convertible Preferred Stock		Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital[(1)]	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares[(1)]	Amount[(1)]				
BALANCE AT MARCH 31, 2024	20,597	$ 23,333,613	—	$ —	—	$ —	4,276,953	$ 213,847	$ 14,464,817	$ (25,850,588)	$ —	$ (11,171,924)
Net loss	—	—	—	—	—	—	—	—	—	(6,934,015)	—	(6,934,015)
Issuance of common stock under Employee Stock Purchase Plan	—	—	—	—	—	—	7,527	376	8,356	—	—	8,732
Issuance of common stock under Equity Incentive Plan	—	—	—	—	—	—	8,817	441	(441)	—	—	—
Issuance of Series B Preferred Stock	—	—	—	—	1	1	—	—	14	—	—	15
Issuance of common stock under PIPE Warrant exercise	—	—	—	—	—	—	56,618	2,831	321,959			324,790
Conversion of Redeemable Convertible Preferred Stock to Common Stock	(6,082)	(6,890,668)	—	—	—	—	2,896,457	144,823	6,745,844	—	—	6,890,667
Cash in lieu payment on fractional shares under reverse stock split	—	—	—	—	—	—	(721)	(36)	(1,096)	—	—	(1,132)
Share based compensation	—	—	—	—	—	—	—	—	(11,583)	—	—	(11,583)
Other share retirements	—	—	—	—	—	—	(2,393)	(119)	(7,111)	3,998	—	(3,232)
BALANCE AT JUNE 30, 2024	14,515	$ 16,442,945	0	$ 0	1	$ 1	7,243,258	$ 362,163	$ 21,520,759	$ (32,780,605)	$ —	$ (10,897,682)

For the Six Months Ended June 30, 2023

	Redeemable Convertible Preferred Stock		Series A Convertible Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital[(1)]	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares[(1)]	Amount[(1)]				
BALANCE AT DECEMBER 31, 2022	—	$ —	28,000	$ 28,000	—	$ —	661,039	$ 33,052	$ 46,260,796	$ (19,089,134)	$ (10,422)	$ 27,222,292
Net loss	—	—	—	—	—	—	—	—	—	(4,105,733)	—	(4,105,733)
Issuance of common stock under Employee Stock Purchase Plan	—	—	—	—	—	—	5,666	283	125,115	—	—	125,398
Issuance of common stock under Equity Incentive Plan	—	—	—	—	—	—	2,500	125	(125)	—	—	—
Gain on extinguishment of related party debt	—	—	—	—	—	—	—	—	36,291	—	—	36,291
Share based compensation	—	—	—	—	—	—	—	—	612,982	—	—	612,982
Other share retirements	—	—	—	—	—	—	(283)	(14)	(19,896)	13,619	—	(6,291)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	44,530	44,530
BALANCE AT JUNE 30, 2023	—	$ —	28,000	$ 28,000	—	$ —	668,922	$ 33,446	$ 47,015,163	$ (23,181,248)	$ 34,108	$ 23,929,469

For the Three Months Ended June 30, 2023

	Redeemable Convertible Preferred Stock		Series A Convertible Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital[(1)]	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares[(1)]	Amount[(1)]				
BALANCE AT MARCH 31, 2023	—	$ —	28,000	$ 28,000	—	$ —	663,256	$ 33,163	$ 46,553,220	$ (21,630,504)	$ 13,983	$ 24,997,862
Net loss	—	—	—	—	—	—	—	—	—	(1,550,744)	—	(1,550,744)
Issuance of common stock under Employee Stock Purchase Plan	—	—	—	—	—	—	5,666	283	125,115	—	—	125,398
Gain on extinguishment of related party debt	—	—	—	—	—	—	—	—	36,291	—	—	36,291
Share based compensation	—	—	—	—	—	—	—	—	300,537	—	—	300,537
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	20,125	20,125
BALANCE AT JUNE 30, 2023	—	$ —	28,000	$ 28,000	—	$ —	668,922	$ 33,446	$ 47,015,163	$ (23,181,248)	$ 34,108	$ 23,929,469

(1) Prior period results have been adjusted to reflect the reverse stock split of the common stock at a ratio of 1-for-15 that became effective June 12, 2024. See Note 1, "Nature of Operations," for further details.

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

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

	Six Months Ended June 30	
	2024	**2023**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,731,364)	$ (4,105,733)
Net loss from discontinued operations, net of tax	—	(1,172,252)
Net loss from continuing operations	(5,731,364)	(2,933,481)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,588,564	2,694,869
Share based compensation	185,723	612,982
Fair value remeasurement of earnout consideration	(800,000)	930,000
Fair value remeasurement of warrant liability	(461,022)	—
Fair value remeasurement of embedded derivative liability	1,055,600	—
Fair value remeasurement of contingent value rights	(492,860)	(1,392,195)
Gain on sale of assets	(6,118)	(244,271)
Interest and accretion expense	1,500,503	1,057,553
Changes in assets and liabilities:		
Trade accounts receivable	268,340	(41,416)
Inventories	327,540	1,461,933
Income taxes	(69,971)	(26,569)
Other assets, net	(264,877)	2,564,799
Accounts payable	822,503	(1,075,338)
Accrued compensation and benefits	(436,080)	49,133
Customer deposits	(774,524)	(1,615,514)
Other accrued liabilities	758,737	(3,201,736)
Accrued interest	(896,420)	(240,143)
Net cash used in operating activities	(3,425,726)	(1,399,394)
Net cash used in operating activities - discontinued operations	—	(261,588)
Net cash used in operating activities	(3,425,726)	(1,660,982)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(17,579)	(409,762)
Proceeds from the sale of property, plant and equipment	6,118	—
Proceeds from the sale of investments	—	1,358,418
Net cash (used in) provided by investing activities	(11,461)	1,198,656
Net cash provided by investing activities - discontinued operations	—	1,102,935
Net cash (used in) provided by investing activities	(11,461)	2,301,591
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable	—	7,726,361
Payments against loans payable	(748,647)	(6,706,025)
Equity issuance costs paid	(81,012)	—
Proceeds from the issuance of common stock under registered direct offering	1,000,000	—
Proceeds from the issuance of Series B preferred stock	15	—
Payments for contingent value rights distributions	—	—
Proceeds from issuance of common stock, net of shares withheld	9,773	125,398
Cash in lieu payment on fractional shares under reverse stock split	(1,132)	—
Payment of contingent consideration related to acquisition	—	—
Purchase of common stock	(6,098)	(6,291)
Net cash provided by financing activities	172,899	791,378
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(3,264,288)	1,431,987
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	5,396,343	5,256,478
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$ 2,132,055	$ 6,688,465

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income taxes paid	$ 69,500	$ 26,332
Interest paid	821,306	248,627
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Gain on extinguishment of related party debt	—	36,291
Deemed dividend on Convertible Preferred Stock and PIPE Warrants	11,322,639	—
Conversion of redeemable convertible preferred stock to common stock	15,277,055	—
Operating right of use assets obtained in exchange for lease obligations	—	753,972

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

NOTE 1 – NATURE OF OPERATIONS

Description of Business

Pineapple Energy 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 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.

The Company is a 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 subsidiary, Hawaii Energy Connection, LLC (“HEC”) and New York-based subsidiaries, the SUNation entities (collectively, “SUNation”). 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.

On June 30, 2023, the Company divested its legacy operations and operating assets through the sale of substantially all of the assets of its JDL Technologies, Inc. (“JDL”) and Ecessa Corporation (“Ecessa”) businesses. See Note 5, Discontinued Operations. As a result, unless otherwise noted, all information in this quarterly report on 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.

Reverse Stock Split

On January 3, 2024, the Company’s shareholders approved a reverse stock split of the Company’s common stock at a ratio within a range of 1-for-2 and 1-for-15 and granted the Company’s board of directors the discretion to determine the timing and ratio of the split within such range.

On May 28, 2024, the Company’s board of directors determined to effect the reverse stock split of the common stock at a 1-for-15 ratio (the “Reverse Stock Split”) and approved an amendment (“Reverse Stock Split Amendment”) to the Fourth Amended and Restated Articles of Incorporation of the Company to effect the Reverse Stock Split.

Effective June 12, 2024, the Company amended its Fourth Amended and Restated Articles of Incorporation to implement the Reverse Stock Split. The Company's common stock began trading on a split-adjusted basis when the market opened on June 12, 2024 (the "Effective Date").

As a result of the Reverse Stock Split, at 12:01 a.m. Central Time on the Effective Date, every 15 shares of common stock then issued and outstanding automatically were combined into one share of common stock, with no change in par value per share. No fractional shares were outstanding following the Reverse Stock Split, and any fractional shares that would have resulted from the Reverse Stock Split were settled in cash. The number of shares of common stock outstanding was reduced from 108,546,773 to 7,235,731, with 720.901 fractional shares paid out in cash totaling $1,132. The total number of shares authorized for issuance was reduced to 7,500,000 in proportion to the Reverse Stock Split ratio.

Effective as of the same time as the Reverse Stock Split, the number of shares of common stock available for issuance under the Company's equity compensation plans were automatically reduced in proportion to the Reverse Stock Split ratio. Upon effectiveness, the Reverse Stock Split also resulted in reductions in the number of shares of common stock issuable upon exercise or vesting of equity awards in proportion to the Reverse Stock Split ratio and caused a proportionate increase in exercise price or share-based performance criteria, if any, applicable to such awards.

The effects of the Reverse Stock Split have been reflected in this Quarterly Report on Form 10-Q for all periods presented.

Impact of the Reverse Stock Split

The impact of the Reverse Stock Split was applied retroactively for all periods presented in accordance with applicable guidance. Therefore, prior period amounts are different than those previously reported.

The following table illustrates changes in common stock (in number of shares and dollar amount) and additional paid-in-capital, as previously reported prior to, and as adjusted subsequent to, the impact of the Reverse Stock Split retroactively adjusted for the periods presented:

	June 30, 2023		
	As Previously Reported	**Impact of Reverse Stock Split**	**As Adjusted**
Common Stock shares	10,033,831	(9,364,909)	668,922
Common Stock amount	$ 501,692	$ (468,246)	$ 33,446
Additional Paid-in-Capital	$ 46,546,917	$ 468,246	$ 47,015,163

	March 31, 2023			March 31, 2024		
	As Previously Reported	**Impact of Reverse Stock Split**	**As Adjusted**	**As Previously Reported**	**Impact of Reverse Stock Split**	**As Adjusted**
Common Stock shares	9,948,836	(9,285,580)	663,256	64,154,286	(59,877,333)	4,276,953
Common Stock amount	$ 497,442	$ (464,279)	$ 33,163	$ 3,207,714	$ (2,993,867)	$ 213,847
Additional Paid-in-Capital	$ 46,088,941	$ 464,279	$ 46,553,220	$ 11,470,950	$ 2,993,867	$ 14,464,817

	December 31, 2022			December 31, 2023		
	As Previously Reported	**Impact of Reverse Stock Split**	**As Adjusted**	**As Previously Reported**	**Impact of Reverse Stock Split**	**As Adjusted**
Common Stock shares	9,915,586	(9,254,547)	661,039	10,246,605	(9,563,498)	683,107
Common Stock amount	$ 495,779	$ (462,727)	$ 33,052	$ 512,330	$ (478,175)	$ 34,155
Additional Paid-in-Capital	$ 45,798,069	$ 462,727	$ 46,260,796	$ 46,977,870	$ 478,175	$ 47,456,045

The following table illustrates changes in loss per share and weighted average shares outstanding, as previously reported prior to, and as adjusted subsequent to, the impact of the Reverse Stock Split retroactively adjusted for the periods presented:

	Three Months Ended June 30, 2023		
	As Previously Reported	Impact of Reverse Stock Split	As Adjusted
Weighted average shares outstanding - basic and diluted	9,948,836	(9,285,580)	663,256
Loss per share from continuing operations - basic and diluted	$ (0.03)	$ (0.47)	$ (0.50)
Loss per share from discontinued operations - basic and diluted	$ (0.13)	$ (1.70)	$ (1.83)

	Six Months Ended June 30, 2023		
	As Previously Reported	Impact of Reverse Stock Split	As Adjusted
Weighted average shares outstanding - basic and diluted	9,934,324	(9,272,036)	662,288
Loss per share from continuing operations - basic and diluted	$ (0.29)	$ (4.14)	$ (4.43)
Loss per share from discontinued operations - basic and diluted	$ (0.12)	$ (1.65)	$ (1.77)

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, 2023 included on the Company’s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (“SEC”) on April 1, 2024. The accompanying condensed consolidated balance sheet at December 31, 2023 has been derived from the audited balance sheet at December 31, 2023 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.

PIPE Transaction

On March 28, 2022, following the Closing, 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 $204.00 per share ($13.60 prior to the Reverse Stock Split) 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 an 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.

Registered Direct Offering

On February 5, 2024, the Company entered into a securities purchase agreement with certain institutional investors for the sale by the Company of 180,180 shares (2,702,703 prior to the Reverse Stock Split) of the Company's common stock in a registered direct offering. The purchasers in this offering purchased, and the Company sold, the shares at a purchase price per share of $5.55 ($0.37 prior to the Reverse Stock Split). The sale closed on February 7, 2024 for aggregate gross proceeds of $1.0 million, before deducting the placement agent fees and related offering expenses.

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 warrant liabilities, 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. Total cash equivalents invested in short-term money market funds was $1,225,988 and $1,799,357 as of June 30, 2024 and December 31, 2023, respectively. The $1.1 million of restricted cash and cash equivalents on the balance sheet as of June 30, 2024 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.

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 credit loss 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. The inventory reserve was $221,982 and $126,990 at June 30, 2024 and December 31, 2023, respectively.

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 and technology, 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 and Intangible Assets

The Company reviews its long-lived assets and definite lived intangible 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.

Mezzanine Equity

The Company has issued various financial instruments, including preferred stock. Instruments containing redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company’s control are classified as redeemable or mezzanine equity. The purpose of this classification is to convey that such a security may not be permanently part of equity and could result in a demand for cash, securities or other assets of the entity in the future. See Note 10, Convertible Preferred Stock, for further discussion regarding the reclassification of the Company’s Convertible Preferred Stock from permanent equity to mezzanine equity.

Warrants

The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant’s specific terms and applicable authoritative guidance, ASC 480 “Distinguishing Liabilities from Equity” and ASC 815, “Derivatives and Hedging.” Management’s assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, whether they meet the definition of a liability pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815. See Note 11, Warrants, for further discussion regarding the reclassification of the Company’s PIPE Warrants from equity to liabilities.

For issued or modified warrants that do not meet all the criteria for equity classification, such warrants are required to be recorded as a liability initially at their fair value on the date of issuance, and subsequently remeasured to fair value on each balance sheet date thereafter. Changes in the estimated fair value of liability-classified warrants are recognized in other income (expense) in the condensed consolidated statements of operations in the period of change.

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. Revenues from commercial contracts are 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 the period 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.

See Note 3, 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.

Cost of Sales

Cost of sales consists of direct and indirect material and labor costs for solar energy system installations as well as warranty costs, permitting fees, financing fees and overhead, including costs related to procurement, warehousing and inventory management.

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). The Company recognizes forfeitures as they occur.

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 the lifetime of the system 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 to the customer for up to 25 years for the service of inverters, which is reimbursed by the manufacturer.

The Company estimates its warranty obligations upon installation, 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 comprised of our Interim Chief Executive Officer, Chief Financial Officer, and Chief Operating 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 attributable to common shareholders per common share is based on the weighted average number of common shares outstanding during each period. Diluted net loss attributable to common shareholders per common share adjusts for the dilutive effect of potential common shares outstanding. The Company had $11,322,639 in deemed dividends during the six months ended June 30, 2024, which decreases the numerator in the net loss per share calculation. 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, warrants and shares associated with the long-term incentive compensation plans, which resulted in no dilutive effect for the three and six months ended June 30, 2024 and for the three and six months ended June 30, 2023. 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 June 30, 2024 and 2023. Warrants totaling 15,573,145 and 345,099 and restricted stock units totaling 30,287 and 68,016 would have been excluded from the calculation of diluted earnings per share for the six months ended June 30, 2024 and 2023, 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 Issued

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which expands disclosures about a public entity's reportable segments and requires more enhanced information about a reportable segment's expenses, interim segment profit or loss, and how a public entity's chief operating decision maker uses reported segment profit or loss information in assessing segment performance and allocating resources. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating this ASU and the impact it may have on its consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative," which is intended to clarify or improve disclosure and presentation requirements of a variety of topics. Many of the amendments will allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements and align the requirements in the FASB accounting standard codification with the SEC's regulations. The Company is currently evaluating this ASU and the impact it may have on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," which expands disclosures in an entity's income tax rate reconciliation table and regarding cash taxes paid both in the U.S. and foreign jurisdictions. This ASU is effective for fiscal periods beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating this ASU and the impact it may have on its financial statement disclosures.

NOTE 3 – 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 disaggregates revenue based on type:

	Revenue by Type			
	Three Months Ended June 30		Six Months Ended June 30	
	2024	2023	2024	2023
Residential contracts	$ 12,302,517	$ 14,993,596	$ 23,900,451	$ 33,335,330
Commercial contracts	492,202	3,760,263	1,489,395	6,588,042
Service revenue	754,701	1,023,049	1,378,771	1,665,370
Software revenue	—	51,480	—	301,480
Other	—	7,903	—	11,494
	$ 13,549,420	$ 19,836,291	$ 26,768,617	$ 41,901,716

The following table disaggregates revenue based on the timing of satisfaction of the performance obligations:

	Three Months Ended June 30		Six Months Ended June 30	
	2024	2023	2024	2023
Performance obligations satisfied at a point in time	$ 13,057,218	$ 16,076,028	$ 25,279,222	$ 35,313,674
Performance obligations satisfied over time	492,202	3,760,263	1,489,395	6,588,042
	$ 13,549,420	$ 19,836,291	$ 26,768,617	$ 41,901,716

NOTE 4 – CONTRACTS IN PROGRESS

Billings in excess of costs and estimated earnings as of June 30, 2024 and December 31, 2023 are as follows:

	June 30, 2024	December 31, 2023
Billings to date	$ 2,106,313	$ 2,131,579
Costs incurred on uncompleted contracts	414,228	1,208,444
Estimated earnings	278,535	483,046
Cost plus estimated earnings	692,763	1,691,490
Billings in excess of costs plus estimated earnings on uncompleted contracts	$ 1,413,550	$ 440,089

Costs and estimated earnings in excess of billings as of June 30, 2024 and December 31, 2023 are as follows:

	June 30, 2024	December 31, 2023
Costs incurred on uncompleted contracts	$ 16,018	$ 119,782
Estimated earnings	12,061	396,174
Total costs and estimated earnings	28,079	515,956
Billings to date	23,464	458,715
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 4,615	$ 57,241

NOTE 5 – 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 was held in escrow until July 1, 2024 for potential indemnification claims that may arise under the asset purchase agreement. The amount in escrow represented a consideration receivable that is included in other current assets within the condensed consolidated balance sheet as of June 30, 2024, as it was 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. There were no indemnification obligations identified and the escrow funds will be released in the third quarter of 2024. 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 financial results of the discontinued operations are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2024	2023	2024	2023
Sales	$ —	$ 1,662,629	$ —	$ 3,414,810
Cost of sales	—	1,199,646	—	2,444,014
Selling, general and administrative expenses	—	430,509	—	879,214
Transaction costs	—	—	—	14,426
Restructuring expenses	—	56,717	—	56,717
Loss on sale of assets	—	1,190,002	—	1,190,002
Operating loss before income taxes	—	(1,214,245)	—	(1,169,563)
Income tax expense	—	2,689	—	2,689
Loss from discontinued operations	$ —	$ (1,216,934)	$ —	$ (1,172,252)

During the three and six months ended June 30, 2023, the Company recorded a total of $56,717 in expected restructuring expenses, which consisted of severance and related benefits costs. The Company paid $56,717 in restructuring charges in 2023 and had no restructuring accruals recorded at either June 30, 2024 or December 31, 2023.

NOTE 6 –INTANGIBLE ASSETS

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

		June 30, 2024		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Tradenames & trademarks	3-8 years	$ 22,187,882	$ (8,848,299)	$ 13,339,583
Developed technology	4 years	2,400,000	(1,350,000)	1,050,000
Backlog	1 year	600,000	(600,000)	—
		$ 25,187,882	$ (10,798,299)	$ 14,389,583

		December 31, 2023		
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Tradenames & trademarks	3-8 years	$ 22,187,882	$ (7,729,549)	$ 14,458,333
Developed technology	4 years	2,400,000	(1,050,000)	1,350,000
Backlog	1 year	600,000	(600,000)	—
		$ 25,187,882	$ (9,379,549)	$ 15,808,333

Amortization expense on these identifiable intangible assets was $709,375 and $1,216,699 during the three months ended June 30, 2024 and 2023, respectively and $1,418,750 and $2,483,397 during the six months ended June 30, 2024 and 2023, respectively. The estimated future amortization expense for identifiable intangible assets during the next fiscal years is as follows:

Year Ending December 31:	
Q3 - Q4 2024	$ 1,418,750
2025	2,837,500
2026	2,387,500
2027	2,237,500
2028	2,237,500
Thereafter	3,270,833
Total	$ 14,389,583

NOTE 7 – 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, among other things, 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 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 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 June 30, 2024 and December 31, 2023, the combined loan and accrued interest balance was $596,183 and $497,052, 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 $192,290 and $221,983 for three months ended June 30, 2024 and 2023, respectively, and $395,119 and $412,641 for the six months ended June 30, 2024 and 2023, respectively. The loan is collateralized by all of Pineapple Energy's personal property and assets.

SUNation Short-Term and Long-Term Notes

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 $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. Interest is due annually on each December 31st. The Company was unable to make the second interest payment totaling $250,703 due on December 31, 2023. The Company will be required to make a principal payment of $2,740,000 million on November 9, 2024. The Company is not permitted to make any payments under the Long-Term Note unless Decathlon (defined below) has provided prior written consent to such payment pursuant to the Loan Agreement. Pursuant to that certain subordination letter dated May 31, 2023, each holder of the Long-Term Note has subordinated all payments under the Long-Term Note to the obligations owed to Decathlon under the Loan Agreement (the "Decathlon Obligations") and has agreed that, until the Decathlon Obligations have been paid in full, any payment under the Long-Term Note is subject to Decathlon's prior written consent. 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 June 30, 2024 and December 31, 2023 was $5,805,426 and $5,499,716, respectively. Interest and accretion expense related to the notes totaled $152,855 and $250,347 for the three months ended June 30, 2024 and 2023 respectively, and $305,710 and $470,419 for the six months ended June 30, 2024 and 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.

At issuance of the Loan Agreement, the Company concluded that the potential acceleration of amounts outstanding under the Loan Agreement upon an event of default included a substantial premium and met the requirement to be bifurcated and recorded as a derivative liability at fair value at inception and at the end of each quarterly reporting period. However, based on management's estimates of the likelihood of certain events, the embedded derivative liability had no fair value at issuance and at the end of each of the reporting periods ended prior to June 30, 2024. As of June 30, 2024, the fair value of this embedded derivative liability was estimated to be $1,055,600 and was recorded within current liabilities. For the six months ended June 30, 2024, the Company recorded a loss of $1,055,600 from the change in fair value of the derivative liability, which is included in "Other (expense) income, net" in the consolidated statements of operations and comprehensive loss.

The Decathlon Fixed Loan is repayable in fixed monthly payments, which generally aggregate to $960,000 that was paid in 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 (as defined in the Loan Agreement); (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 (as defined in the Loan Agreement)).

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 using an effective interest rate of 21%. At June 30, 2024 and December 31, 2023, the combined loan and accrued interest balance was $7,042,880 and $7,408,925, respectively, and the unamortized debt issuance costs balance was $225,633 and $280,856, respectively. The Company recorded interest expense of $379,721 and $127,698 for the three months ended June 30, 2024 and 2023, respectively, and $769,178 and $127,698 for the six months ended June 30, 2024 and 2023, respectively.

Equipment Loans

The Company obtains various equipment loan agreements through SUNation. 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 June 30, 2024 and December 31, 2023 was $277,844 and $333,717, respectively. Interest expense was $2,592 and $5,036 for the three months ended June 30, 2024 and 2023, respectively, and $11,560 and $5,653 for the six months ended June 30, 2024 and 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 June 30, 2024 and December 31, 2023 was $1,533,867 and $1,656,416, respectively. Interest expense was $12,796 and $15,337 for the three months ended June 30, 2024 and 2023, respectively, and $26,090 and $29,968 for the six months ended June 30, 2024 and 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 8 – RELATED PARTY TRANSACTIONS

Related party receivables

The Company has provided advances to employees resulting in a balance as of June 30, 2024 and December 31, 2023 of $24,871 and $46,448, respectively.

Related party payables

As part of the acquisition of SUNation, 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 2023, leaving no remaining balance at either June 30, 2024 or December 31, 2023.

Leases

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

NOTE 9 – 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 83,333 shares of common stock (1,250,000 prior to the Reverse Stock Split). At June 30, 2024, 30,693 shares had been issued under the 2022 Plan, 20,650 shares were subject to currently outstanding unvested restricted stock units ("RSUs"), and 31,990 shares were available for grant under future awards.

Inducement Grants

On October 10, 2022, the board of directors approved an inducement grant of 5,485 RSUs in connection with the hiring of a new Chief Financial Officer. On November 6, 2022, the board of directors approved inducement grants totaling 8,970 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 six months ended June 30, 2024:

	RSUs	Weighted Average Grant Date Fair Value Per Share
Outstanding – December 31, 2023	52,361	$ 30.27
Units Granted	8,400	8.85
Shares Issued	(16,553)	25.29
Forfeited	(13,921)	24.99
Outstanding – June 30, 2024	30,287	29.47

All RSUs and weighted average grant date fair value per share values have been adjusted to reflect the impact of the Reverse Stock Split of the common stock at a ratio of 1-for-15 that became effective on June 12, 2024. See Note 1, "Nature of Operations," for further details.

Compensation Expense

Share-based compensation expense recognized for the three months ended June 30, 2024 and 2023 was $(11,583) and $300,537, respectively, and $185,723 and $612,982 for the six months ended June 30, 2024 and 2023. Unrecognized compensation expense related to outstanding RSUs was $341,490 at June 30, 2024 and is expected to be recognized over a weighted-average period of 1.5 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 June 30, 2024, 20,001 shares remained available for purchase under the ESPP.

NOTE 10 – CONVERTIBLE PREFERRED STOCK

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 shareholders agreed to waive such provisions in exchange for certain concessions from the Company. The Company's outstanding Series A Preferred Stock have anti-dilution provisions that would increase the number of shares issuable upon conversion, and lower the conversion price of the Series A Preferred Stock if the Company issues equity securities at a price less than the current conversion price of the Series A Preferred Stock at the time of such issuance. In February 2024, the Company entered into a Limited Waiver and Amendment ("Waiver") and the investors agreed to a floor of $2.10 ($0.14 prior to the Reverse Stock Split) with respect to the adjustment set forth for the conversion price and to waive future anti-dilution protection with respect to 50% of the shares of Preferred Stock held by such purchasers as of the date of the Waiver.

The Company is required to analyze amendments 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 the amendment made to the preferred stock terms and consistent with its prior policy, the Company determined that the fair value approach was the most appropriate methodology. Based on the quantitative method, the Company determined that the Waiver resulted in an extinguishment of the Preferred Stock. As a result, the Preferred Stock was revalued immediately after the Waiver in February 2024. The difference between the previous carrying amount and the fair value of $751,125 was recognized as a deemed dividend in the three months ended March 31, 2024 that reduces retained earnings and income available to common shareholders in calculating earnings per share. As the Company does not have any retained earnings, management recorded the deemed dividend by reducing the amount of additional paid-in-capital ("APIC") in the consolidated statement of stockholders' equity as of June 30, 2024.

In addition, management evaluated the Series A Preferred Stock after the modifications and determined that they should be reclassified to mezzanine equity under ASC 480-10-S99 as a result of the Company not having sufficient authorized and unissued shares to settle a conversion to Common Stock.

NOTE 11 – WARRANTS

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. The Company's outstanding Series A Warrants have anti-dilution provisions that would increase the number of shares issuable upon exercise and lower the exercise price of the Series A Warrants if the Company issues equity securities at a price less than the current exercise price of the Series A Warrants at the time of such issuance. Pursuant to the Waiver, investors agreed to a floor of $2.10 ($0.14 prior to the Reverse Stock Split) with respect to the anti-dilution adjustments in the warrants and extend the term of the warrants until March 28, 2029.

The PIPE Warrants were valued immediately before and immediately after the modifications to calculate the $10.6 million incremental value of the modified PIPE Warrants. The Company considers this incremental value to be a deemed dividend that reduces retained earnings and income available to common shareholders in calculating earnings per share. As the Company does not have any retained earnings, management recorded the deemed dividend by reducing APIC in the consolidated statement of stockholders' equity as of March 31, 2024.

Management evaluated the warrants after the modifications made in February 2024 and determined that they should be reclassified from equity to liability based on the guidance in ASC 815-40 and the Company failing to have enough authorized and unissued shares available to settle an exercise of the contract. In accordance with ASC 815-40, the carrying value of the warrants were adjusted to fair value through an adjustment in stockholders' equity immediately prior to the reclassification. Subsequent to the reclassification, management remeasured the warrant liability to fair value as of June 30, 2024 and recorded the change in fair value to other income (expense) in the condensed consolidated statement of operations.

NOTE 12 – SERIES B PREFERRED STOCK

On May 13, 2024, the Company entered into a Subscription and Investment Representation Agreement pursuant to which the Company agreed to issue and sell one share of the Company's Series B Preferred Stock, par value $1.00 per share ("Series B Preferred Stock"), for $15. The sale closed on May 14, 2024.

On May 13, 2024, the Company filed a certificate of designation (the "Certificate of Designation") with the Secretary of State of Minnesota, effective as of May 13, 2024, designating the rights, preferences, privileges and restrictions of the share of the Series B Preferred Stock. The Certificate of Designation provides that the share of Series B Preferred Stock has 5,000,000,000 votes and will vote together with the outstanding shares of the Company's common stock as a single class exclusively with respect to (i) any proposal to amend the Company's Fourth Amended and Restated Articles of Incorporation (the "Articles") to effect a reverse stock split of the Company's common stock (the "Reverse Stock Split Proposal") and (ii) any proposal to adopt an amendment to the Articles, or any other proposal to otherwise approve or ratify, to increase the authorized number of shares of common stock, either by increasing the total number of authorized shares or by effecting a reverse stock split without a corresponding decrease in the number of authorized shares (the "Authorized Shares Increase Proposal"). The Series B Preferred Stock will also be entitled to vote in the election of directors, but will only have one vote to cast with respect to each director nominee.

The Series B Preferred Stock must be voted, without action by the holder, in the same proportion as shares of common stock are voted. The Series B Preferred Stock otherwise has no voting rights except as otherwise required by the Minnesota Business Corporation Act.

The Series B Preferred Stock is not convertible into, or exchangeable for, shares of any other class or series of stock or other securities of the Company, nor is it redeemable for cash or any other consideration. The Series B Preferred Stock has no rights with respect to any distribution of assets of the Company, including upon a liquidation, bankruptcy, reorganization, merger, acquisition, sale, dissolution, or winding up of the Company, whether voluntarily or involuntarily. The holder of the Series B Preferred Stock will not be entitled to receive dividends of any kind.

Under the Certificate of Designation, the outstanding share of Series B Preferred Stock will be cancelled in whole, but not in part, at any time (i) if such cancellation is ordered by the Company's board of directors in its sole discretion or (ii) automatically upon the approval by the Company's shareholders of the Reverse Stock Split Proposal and Authorized Shares Increase Proposal at any meeting of shareholders. The holder of the share of Series B Preferred Stock was not entitled to any consideration upon such cancellation. The shareholders approved the Reverse Stock Split Proposal and Authorized Shares Increase Proposal on July 19, 2024 and, as a result, the share of Series B Preferred Stock was automatically cancelled at that time.

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 three months ended June 30, 2024. 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 six months ended June 30, 2023 was (0.1%) 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 June 30, 2024 and December 31, 2023 are summarized below.

	June 30, 2024			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Cash equivalents:				
Money market funds	$ 1,225,988	$ —	$ —	$ 1,225,988
Subtotal	1,225,988	—	—	1,225,988
Liabilities:				
Contingent value rights	—	—	(1,198,212)	(1,198,212)
Warrant liability	—	—	(9,806,409)	(9,806,409)
Embedded derivative liability	—	—	(1,055,600)	(1,055,600)
Earnout consideration	—	—	(2,700,000)	(2,700,000)
Subtotal	—	—	(14,760,221)	(14,760,221)
Total	$ 1,225,988	$ —	$ (14,760,221)	$ (13,534,233)

	December 31, 2023			
	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:				
Money market funds	$ 1,799,357	$ —	$ —	$ 1,799,357
Subtotal	1,799,357	—	—	1,799,357
Current Liabilities:				
Contingent value rights	—	—	(1,691,072)	(1,691,072)
Earnout consideration	—	—	(3,500,000)	(3,500,000)
Subtotal	—	—	(5,191,072)	(5,191,072)
Total	$ 1,799,357	$ —	$ (5,191,072)	$ (3,391,715)

The following tables present reconciliations of recurring fair value measurements that use significant unobservable inputs (Level 3):

	Three Months Ended June 30, 2024				
	Contingent value rights	Warrant liability	Embedded derivative liability	Earnout consideration	Total
March 31, 2024	$ (1,314,987)	$ (6,863,627)	$ —	$ (3,150,000)	$ (11,328,614)
Warrant exercise	—	324,789	—	—	324,789
Fair value adjustments	116,775	(3,267,571)	(1,055,600)	450,000	(3,756,396)
June 30, 2024	$ (1,198,212)	$ (9,806,409)	$ (1,055,600)	$ (2,700,000)	$ (14,760,221)

	Three Months Ended June 30, 2023		
	Contingent value rights	Earnout consideration	Total
March 31, 2023	$ (7,652,715)	$ (2,975,000)	$ (10,627,715)
Fair value adjustments	1,642,195	(105,000)	1,537,195
June 30, 2023	$ (6,010,520)	$ (3,080,000)	$ (9,090,520)

	Six Months Ended June 30, 2024				
	Contingent value rights	Warrant liability	Embedded derivative liability	Earnout consideration	Total
December 31, 2023	$ (1,691,072)	$ —	$ —	$ (3,500,000)	$ (5,191,072)
Reclassification from equity	—	(10,592,220)	—	—	(10,592,220)
Warrant exercise	—	324,789		—	324,789
Fair value adjustments	492,860	461,022	(1,055,600)	800,000	698,282
June 30, 2024	$ (1,198,212)	$ (9,806,409)	$ (1,055,600)	$ (2,700,000)	$ (14,760,221)

	Six Months Ended June 30, 2023		
	Contingent value rights	Earnout consideration	Total
December 31, 2022	$ (7,402,715)	$ (2,150,000)	$ (9,552,715)
Fair value adjustments	1,392,195	(930,000)	462,195
June 30, 2023	$ (6,010,520)	$ (3,080,000)	$ (9,090,520)

The estimated fair value of the CVRs as of June 30, 2024 and December 31, 2023 was $1,198,212 and $1,691,072, respectively, as noted above. The Company recorded a $492,860 gain on the fair value remeasurement of the CVRs during the six months ended June 30, 2024 and a $1,392,195 gain on the fair value of the remeasurement of the CVRs during the six months ended June 30, 2023.

The estimated fair value of earnout consideration related to the acquisition of SUNation as of June 30, 2024 and December 31, 2023 was $2,700,000 and $3,500,000, respectively. Included in the $2,700,000 at June 30, 2024 is $2,500,000 related to the first earnout period and $200,000 related to the second earnout period, both recorded in current liabilities. 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 $800,000 and a remeasurement loss of $930,000 during the six months ended June 30, 2024 and 2023, respectively.

The estimated fair value of the PIPE warrants was $9,806,409 and $0 as of June 30, 2024 and December 31, 2023, respectively. As noted in Note 11, the warrants were classified as a liability during the first quarter of 2024, resulting in a $10,592,202 reclassification from equity. The estimated fair value is considered a Level 3 measurement and the fair value of the warrant liability is determined using a Monte Carlo simulation to model future movement of the stock price. As a result of the fair value remeasurement, the Company recorded a remeasurement gain of $461,022 and $0 during the six months ended June 30, 2024 and 2023, respectively.

The estimated fair value of the embedded derivative liability was $1,055,600 and $0 as of June 30, 2024 and December 31, 2023, respectively. As a result of the fair value remeasurement, the Company recorded a remeasurement loss of $1,055,600 and $0 during the six months ended June 30, 2024 and 2023, respectively. The estimated fair value is considered a Level 3 measurement and the fair value of the embedded derivative liability is determined based on a comparison of the present value of cash flows with and without the embedded derivative. This analysis includes management estimates of the likelihood of an event of a default.

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 (expense) income 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 six months ended June 30, 2024.

NOTE 15 – GOING CONCERN

The Company's financial statements as of June 30, 2024 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 $1.1 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 did not have sufficient cash to make the first earnout payment under the SUNation Transaction Agreement, which was due on May 6, 2024, and the Company's forecasted future cash flows for the 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 principal payment of the Long-Term Note that is due on November 9, 2024, a factor which raises substantial doubt about the ability of the Company to continue as a going concern for a reasonable period of time. Notwithstanding the Company's ability to make such payments, the Company is not permitted to make any earnout payments under the SUNation Transaction Agreement or any payments under the Long-Term Note unless Decathlon has provided prior written consent to such payment pursuant to the Loan Agreement. Pursuant to that certain subordination letter dated May 31, 2023, each holder of the Long-Term Note has subordinated all payments under the Long-Term Note to the obligations owed to Decathlon under the Loan Agreement and has agreed that, until the Decathlon Obligations have been paid in full, any payment under the Long-Term Note is subject to Decathlon's prior written consent. Therefore, if Decathlon does not consent to the first principal payment of the Long-Term Note, such non-payment will not result in a default under the Long-Term Note. Failure to make earnout payments under the SUNation Transaction Agreement, which are prohibited under the Loan Agreement, could result in a breach under the SUNation Transaction Agreement.

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.

Nasdaq Compliance

On October 27, 2023, the Company received a notice from the Listing Qualifications Department of the Nasdaq Stock Market informing it that because the closing bid price for its common stock listed on Nasdaq was below $1.00 per share for the last 31 consecutive business days, it 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 "Minimum Bid Rule"). In accordance with Nasdaq's Listing Rules, the Company had a period of 180 calendar days, or until April 24, 2024, to regain compliance with the Minimum Bid Rule.

Additionally, on February 27, 2024, the Staff issued another notice (the "February Notice") notifying the Company that its common stock had a closing bid price of $0.10 or less for 10 consecutive trading days (February 12, 2024 to February 26, 2024). Accordingly, the Company is subject to the provisions contemplated under Nasdaq Listing Rule 5810(c)(3)(A)(iii) (the "Low Priced Stock Rule"). As a result, the Staff had determined to delist the Company's securities from Nasdaq effective as of the opening of business on March 7, 2024, unless the Company requested an appeal before the Nasdaq Hearings Panel (the "Panel") of the Staff's determination by March 5, 2024. The Company requested a hearing before the Panel to appeal the February Notice, and Nasdaq initially scheduled the hearing for April 30, 2024. Subsequently, the Company was granted an expedited review process and extension as described below, and received notice that an oral hearing was not necessary.

Following the Company's Special Meeting of Shareholders that was held on April 12, 2024, at which the reverse stock split proposal was not approved, the Company provided the Panel with an update on the Company's plan to regain compliance with the Minimum Bid Rule and an extension request until July 24, 2024. On April 19, 2024, the Panel granted an extension for the Company to regain compliance with the Minimum Bid Rule until July 24, 2024.

On May 16, 2024, the Company received a notice from the Staff of the Nasdaq Stock Market informing the Company that it no longer complied with the requirement under Nasdaq Listing Rule 5550(b)(1) to maintain a minimum of $2,500,000 in stockholders' equity for continued listing on the Nasdaq Capital Market (the "Equity Rule") because the Company reported stockholders' equity of negative $11.2 million in its Form 10-Q for the period ended March 31, 2024, and, as of the date of the Notice, the Company did not meet the alternatives of market value of listed securities or net income from continuing operations. Accordingly, the Notice indicates that this matter serves as an additional basis for delisting the Company's securities from the Nasdaq Stock Market.

As noted in Note 1, on June 12, 2024, the Company effected a 1-for-15 Reverse Stock Split in an effort to regain compliance with the Minimum Bid Rule. On July 18, 2024, the Company received a notice from the Staff informing the Company that it has regained compliance with the Bid Price Rule, and that, as a result, the Company will be subject to a Mandatory Panel Monitor for a period of one year from the date of this letter in accordance with Listing Rule 5815(d)(4)(B). If, within that one-year monitoring period, the Staff finds the Company again out of compliance with the Bid Price Rule, the Company will not be permitted to provide the Staff with a plan of compliance with respect to that deficiency and the Staff will not be permitted to grant additional time for the Company to regain compliance with respect to that deficiency, nor will the Company be afforded an applicable cure or compliance period pursuant to Rule 5810(c)(3). Instead, the Staff will issue a Delist Determination Letter and the Company will have an opportunity to request a new hearing with the initial panel or a newly convened Hearings Panel if the initial panel is unavailable. The Company will have the opportunity to respond/present to the Hearings Panel as provided by Listing Rule 5815(d)(4)(C). The Company's securities may be at that time delisted from Nasdaq.

On July 19, 2024, the shareholders approved an increase in authorized shares which gives the Company sufficient shares to settle the conversion of the Company's convertible preferred stock and warrants into common stock. As a result, on July 26, 2024, the Company received a decision from the Nasdaq Hearings Panel (the "Panel") informing the Company that Nasdaq has determined and agreed that the Company is now in compliance with the Equity Rule. The Company will remain on a one-year Nasdaq Panel Monitor, which means that if the Company falls out of compliance again, it will not be able to submit a remediation plan to the Staff, but rather it will be required to go back into the hearings process.

The following table presents a pro forma presentation of our warrant liability, mezzanine equity and stockholders' equity (deficit) to reflect what the June 30, 2024 balances would have been if the Company had sufficient authorized shares as of the balance sheet date.

	June 30, 2024 As Presented	Pro Forma Adjustments	Pro Forma June 30, 2024
LONG-TERM LIABILITIES:			
Warrant liability	$ 9,806,409	$ (9,806,409)	$ —
MEZZANINE EQUITY:			
Redeemable convertible preferred stock	16,442,945	(16,442,945)	—
STOCKHOLDERS' EQUITY (DEFICIT)			
Series A Convertible preferred stock	—	16,442,945	16,442,945
Series B preferred stock	1	—	1
Common stock	362,163	—	362,163
Additional paid-in capital	21,520,759	9,806,409	31,327,168
Accumulated deficit	(32,780,605)	—	(32,780,605)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	$ (10,897,682)	$ 26,249,354	$ 15,351,672

Bridge Loan Financing

On July 22, 2024, the Company obtained bridge loan financing for working capital purposes from Conduit Capital U.S. Holdings LLC ("Conduit"), an unaffiliated lender, and MBB Energy, LLC ("MBB"), an affiliate of the Company. On such date, Conduit and MBB each loaned the principal sum of $500,000 to the Company on an original issue ("OID") basis of 20% and accordingly, Conduit and MBB each advanced $400,000 to the Company (the "Initial Loans") for a total of $800,000. The Initial Loans will accrue interest on the unpaid principal amount, without deduction for the OID, at an annual rate of 20%. Commencing on October 21, 2024 through and including maturity date, the Company may request that Conduit and MBB provide additional advances for working capital on identical terms, conditions and interest rate as the Initial Loans on an OID basis, up to an aggregate principal sum of $1,000,000, and Conduit and MBB shall have the right, without commitment or obligation, to make such requested loan(s) by advancing 80% percent of the principal thereof. All such loans are secured by a pledge of all of the Company's assets. The loans due by the Company to Conduit and MBB will become due on July 21, 2025 ("Maturity Date").

On July 22, 2024, the Company entered into a Joinder and Amendment to Subordination Agreement (the "Joinder Agreement") with Decathlon, Hercules Capital, Inc., Conduit and MBB. Pursuant thereto, Conduit and MBB became parties to the Subordination Agreement dated June 21, 2023, among the Company, Decathlon, and Hercules Capital, Inc. In accordance with the Joinder Agreement, Conduit and MBB agreed to subordinate their respective security interests in the Company's assets, to the first priority security interest of Decathlon and the second security priority interest of Hercules.

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 our audited financial statements and notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the Securities and Exchange Commission ("SEC") on April 1, 2024.

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:

- if our shareholders sell, or indicate an intention to sell, substantial amounts of our stock in the public market, the trading price of our common stock could decline;
- if we fail to design and implement and maintain effective internal controls over financial reporting, we may be subject to sanctions or investigations by regulatory authorities or lose investor confidence in the accuracy and completeness of our financial reports;
- if our common stock market price continues to be highly volatile, it may harm the value of the investment of our shareholders in our common stock;
- if we issue additional common stock, it may materially dilute the ownership interests of our shareholders;
- anti-takeover provisions in our organizational documents and agreements may discourage or prevent a change in control, even if a sale of Pineapple could be beneficial to our shareholders;
- our board of directors may establish shares of preferred stock in series and fix the designation, powers, preferences and rights of the shares of each series which may be senior to or on parity with our common stock, which may reduce its value;
- 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 maintain compliance with the applicable listing standards;
- 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, 2023 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. ("Pineapple," "PEGY," "we," "our", "us" or the "Company") was originally organized as a Minnesota corporation in 1969.

Pineapple's vision is to power the energy transition through grass-roots growth of solar electricity paired with battery storage. The Company is a 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 subsidiary, Hawaii Energy Connection, LLC ("HEC"), and New York-based subsidiaries, the SUNation entities (collectively, "SUNation"). 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.

On June 30, 2023, the Company sold substantially all of the remaining assets of its JDL Technologies, Inc. ("JDL") and Ecessa Corporation ("Ecessa") businesses. 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.

Reverse Stock Split

On January 3, 2024, the Company's shareholders approved a reverse stock split of the Company's common stock at a ratio within a range of 1-for-2 and 1-for-15 and granted the Company's board of directors the discretion to determine the timing and ratio of the split within such range.

On May 28, 2024, the Company's board of directors determined to effect the reverse stock split of the common stock at a 1-for-15 ratio (the "Reverse Stock Split") and approved an amendment ("Reverse Stock Split Amendment") to the Fourth Amended and Restated Articles of Incorporation of the Company to effect the Reverse Stock Split.

Effective June 12, 2024, the Company amended its Fourth Amended and Restated Articles of Incorporation to implement the Reverse Stock Split. The Company's common stock began trading on a split-adjusted basis when the market opened on June 12, 2024 (the "Effective Date").

As a result of the Reverse Stock Split, at 12:01 a.m. Central Time on the Effective Date, every 15 shares of common stock then issued and outstanding automatically were combined into one share of common stock, with no change in par value per share. No fractional shares were outstanding following the Reverse Stock Split, and any fractional shares that would have resulted from the Reverse Stock Split were settled in cash. The number of shares of common stock outstanding was reduced from 108,546,773 to 7,235,731, with 720.901 fractional shares paid out in cash totaling $1,132. The total number of shares authorized for issuance was reduced to 7,500,000 in proportion to the Reverse Stock Split ratio.

Effective as of the same time as the Reverse Stock Split, the number of shares of common stock available for issuance under the Company's equity compensation plans were automatically reduced in proportion to the Reverse Stock Split. Upon effectiveness, the Reverse Stock Split also resulted in reductions in the number of shares of common stock issuable upon exercise or vesting of equity awards in proportion to the Reverse Stock Split ratio and caused a proportionate increase in exercise price or share-based performance criteria, if any, applicable to such awards.

Results of Operations

Comparison of the Three Months Ended June 30, 2024 and 2023

Consolidated sales decreased $6,286,871, or 31.7% to $13,549,420 in the second quarter of 2024 from $19,836,291 in the second quarter of 2023. Sales in the second quarter of 2024 and 2023 by type were as follows:

	Revenue by Type	
	Three Months Ended June 30	
	2024	2023
Residential contracts	$ 12,302,517	$ 14,993,596
Commercial contracts	492,202	3,760,263
Service revenue	754,701	1,023,049
Software revenue	—	51,480
Other	—	7,903
	$ 13,549,420	$ 19,836,291

Residential contract sales decreased $2,691,079, or 18%, due to a 7% reduction in residential kilowatts installed and also a decrease in average price per system installed as result of lower financing fees and lower battery attachment rate. The residential market within the solar industry is seeing an overall decline in installations due to higher interest rates. Commercial contract sales decreased $3,268,061, or 87%, due to a delay in the start of commercial pipeline projects into the second half of 2024.

Consolidated gross profit decreased to $4,792,354 in the second quarter of 2024 as compared to gross profit of $7,136,934 in the second quarter of 2023 due primarily to the decrease in revenue during the quarter. Gross margin decreased slightly to 35% during the second quarter of 2024 as compared to 36% in the second quarter of 2023.

Consolidated operating expenses, which include selling, general and administrative expenses, amortization expense, transaction costs and a fair value remeasurement gain (loss) of SUNation earnout consideration, decreased to $6,818,298 in the second quarter of 2024 as compared to $8,552,254 in the second quarter of 2023. Consolidated selling, general and administrative expenses decreased $671,632, or 18%, to $6,558,923 in the second quarter of 2024 from $7,230,555 in the second quarter of 2023, due primarily to a $312,120 decrease in stock compensation expense and overall decreased personnel expenses on lower headcount. Amortization expense decreased by $507,324 to $709,375 in the second quarter of 2024 as compared to $1,216,699 in the same period of the prior year due to the completion of the amortization of certain intangible assets in late 2023. The fair value remeasurement related to the SUNation acquisition earnout consideration in the second quarter of 2024 was a gain of $450,000 compared to a loss of $105,000 in the same period of the prior year.

Consolidated other (expense) income decreased by $5,993,320 to expense of $4,914,704 in the second quarter of 2024 as compared to $1,078,616 in income in the second quarter of 2023. The decrease was primarily related to a $3,267,571 fair value remeasurement loss on the warrant liability, a $1,055,600 fair value remeasurement loss on the embedded derivative liability, a $1,525,420 decrease in fair value remeasurement gain on the contingent value rights (“CVRs”), and a $136,297 increase in interest and accretion expense.

Consolidated operating loss from continuing operations in the second quarter of 2024 was $2,025,944 as compared to $1,415,320 in the second quarter of 2023. Net loss from continuing operations attributable to shareholders in the second quarter of 2024 was $6,934,015, or $(1.11) per diluted share, compared to net loss from continuing operations of $333,810, or $(2.34) per diluted share, in the second quarter of 2023.

Comparison of the Six Months Ended June 30, 2024 and 2023

Consolidated sales decreased $15,133,099, or 36.1% to $26,768,617 in the first six months of 2024 from $41,901,716 in the first six months of 2023. Sales in the first six months of 2024 and 2023 by type were as follows:

	Revenue by Type Six Months Ended June 30 2024	2023
Residential contracts	$ 23,900,451	$ 33,335,330
Commercial contracts	1,489,395	6,588,042
Service revenue	1,378,771	1,665,370
Software revenue	—	301,480
Other	—	11,494
	$ 26,768,617	$ 41,901,716

Residential contract sales decreased $9,434,879, or 28%, due to a 19% reduction in residential kilowatts installed and also a decrease in average price per system installed as result of lower financing fees and lower battery attachment rate. The residential market within the solar industry is seeing an overall decline in installations due to higher interest rates. Commercial contract sales decreased $5,098,647, or 77%, due to a delay in the start of commercial pipeline projects into the second half of 2024.

Consolidated gross profit decreased to $9,597,802 in the first six months of 2024 as compared to gross profit of $15,143,250 in the first six months of 2023 due primarily to the decrease in revenue during the quarter. Gross margin remained flat at 36% during each of the first six months of 2024 and the first six months of 2023.

Consolidated operating expenses, which include selling, general and administrative expenses, amortization expense, transaction costs and a fair value remeasurement gain of SUNation earnout consideration, decreased to $13,806,700 in the first six months of 2024 as compared to $18,708,095 in the first six months of 2023. Consolidated selling, general and administrative expenses decreased $2,104,728, or 14%, to $13,187,950 in the first six months of 2024 from $15,292,678 in the first six months of 2023, due primarily to a $427,259 decrease in stock compensation expense, decreased sales and marketing expense, including commissions, on lower revenue in the quarter, and decreased personnel expenses on lower headcount. Amortization expense decreased by $1,064,647 to $1,418,750 in the first six months of 2024 as compared to $2,483,397 in the same period of the prior year due to the completion of the amortization of certain intangible assets in late 2023. The fair value remeasurement related to the SUNation acquisition earnout consideration in the first six months of 2024 was a gain of $800,000 compared to a loss of $930,000 in the same period of the prior year.

Consolidated other (expense) income decreased by $2,157,139 to expense of $1,522,937 in the first six months of 2024 as compared to $634,202 in income in the first six months of 2023. The decrease was primarily related to a $442,950 increase in interest and accretion expense, a $1,055,600 fair value remeasurement loss on the embedded derivative liability, and a $899,335 decrease in fair value remeasurement gain on the CVRs, partially offset by a $461,022 fair value remeasurement gain on the warrant liability.

Consolidated operating loss from continuing operations in the first six months of 2024 was $4,208,898 as compared to $3,564,845 in the first six months of 2023. Net loss from continuing operations attributable to shareholders in the first six months of 2024 (after taking into effect $11,322,639 in deemed dividends) was $17,054,003, or $(3.83) per diluted share, compared to net loss from continuing operations of $2,933,481, or $(4.43) per diluted share, in the first six months of 2023.

Liquidity and Capital Resources

As of June 30, 2024, the Company had $2,132,055 in cash, restricted cash and cash equivalents. Of this amount, $1,225,988 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 June 30, 2024, $1,085,712 consisted 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 deficit of $(11,600,420) at June 30, 2024, consisting of current assets of $12,230,447 and current liabilities of $23,830,867 compared to working capital deficit of $(6,594,834) at December 31, 2023.

Cash used in operating activities was $3,425,726 in the first six months of 2024 as compared to $1,660,982 in the same period of 2023. Significant working capital changes in the six months ended June 30, 2024 included an increase in accounts payable of $822,503, a decrease in customer deposits of $774,524, and an increase in other accrued liabilities of $758,737 due to an increase in deferred revenue on upcoming commercial projects.

Net cash used in investing activities was $11,461 in the first six months of 2024 compared to $2,301,591 provided by investing activities in the same period of 2023. Net cash provided in the 2023 period was the result of proceeds from the sale of investments, proceeds from the sale of JDL and Ecessa assets included within discontinued operations, partially offset by capital expenditures.

Net cash provided by financing activities was $172,899 in the first six months of 2024 compared to $791,378 in the same period of 2023. Net cash provided by financing activities in the first six months of 2024 was due to $1,000,000 in proceeds from the issuance of common stock under a registered direct offering, partially offset by payments against loans payable. Net cash provided by financing activities in the six months of 2023 was due to $7,500,000 in borrowings from Decathlon Specialty Finance, LLC ("Decathlon"), partially offset by $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.

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 $2.74 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.

Based on the Company's current financial position, the Company did not have sufficient cash to make the first SUNation earnout payment, which was due on May 6, 2024, and the Company's forecasted future cash flows for the 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 principal payment of the Long-Term Note that is due on November 9, 2024, a factor which raises substantial doubt about the ability of the Company to continue as a going concern for a reasonable period of time. Notwithstanding the Company's ability to make such payments, the Company is not permitted to make any earnout payments under the SUNation Transaction Agreement or any payments under the Long-Term Note unless Decathlon has provided prior written consent to such payment pursuant to the Company's Revenue Loan and Security Agreement, dated as of June 1, 2023, by and among the Company, Decathlon, and the other parties thereto (the "Loan Agreement"). Pursuant to that certain subordination letter dated May 31, 2023, each holder of the Long-Term Note has subordinated all payments under the Long-Term Note to the obligations owed to Decathlon under the Loan Agreement (the "Decathlon Obligations") and has agreed that, until the Decathlon Obligations have been paid in full, any payment under the Long-Term Note is subject to Decathlon's prior written consent. Therefore, if Decathlon does not consent to the first principal payment of the Long-Term Note, such non-payment will not result in a default under the Long-Term Note. Failure to make earnout payments under the SUNation Transaction Agreement, which are prohibited under the Loan Agreement, could result in a breach under the SUNation Transaction Agreement.

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

The Company issued CVRs prior to the Closing 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. The CVR liability as of June 30, 2024 was estimated at $1,198,212 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, 2023. There have been no changes to our critical accounting estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2023, except as set forth below.

Convertible Preferred Stock and Warrants: In March 2022, the Company issued shares of Series A convertible preferred stock (the "Convertible Preferred Stock") and PIPE Warrants to investors as part of a $32.0 million private investment in public equity ("PIPE") transaction. The proceeds from the issuance of the Convertible Preferred Stock were allocated between the Convertible Preferred Stock and PIPE Warrants using a relative fair value method. The Company accounts for the Convertible Preferred Stock and PIPE Warrants based on an assessment of the specific terms and applicable authoritative guidance in Accounting Standards Codification ("ASC") 480, "Distinguishing Liabilities from Equity", and ASC 815, "Derivatives and Hedging". The Convertible Preferred Stock was originally reported as part of permanent equity and the PIPE Warrants were originally determined to be equity-classified. As discussed in Notes 10 and 11, the Convertible Preferred Stock and PIPE Warrants were modified during the first quarter of 2024, which resulted in the Company not having sufficient authorized and unissued shares to settle the conversion and exercise to common stock and the reclassification of the Convertible Preferred Stock to mezzanine equity and the PIPE Warrants to a liability.

Embedded Derivative Liability: The Company's Decathlon Fixed Loan includes a mandatory prepayment feature upon a contingent event that is considered an embedded derivative that requires bifurcation under ASC 815. Under ASC 815, the embedded derivative is bifurcated and recorded at fair value at inception and each subsequent reporting period. However, based on management's estimates of the likelihood of certain events, the embedded derivative liability had no fair value at issuance and at the end of each of the reporting periods ended prior to June 30, 2024. As of June 30, 2024, the fair value of this embedded derivative was ascribed value. See further discussion in Note 7.

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

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 Interim 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 were not effective because of material weaknesses in the Company's internal control over financial reporting described below.

Material Weakness in Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of the Company's management, including the CEO and CFO, the Company conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2023, based on *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "Framework"). Based on that evaluation, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2023, due to material weaknesses in the Company's internal control over financial reporting. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We identified material weaknesses in our internal control over financial reporting due to our limited accounting and finance resources, which resulted in inappropriate preparation, review and maintenance of documentation and information that is critical to the design and consistent execution of internal controls. These material weaknesses could result in a misstatement of account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected.

Remediation Plan

To address the material weaknesses in our internal control over financial reporting, the Company is in the process of formalizing a remediation plan that will address our limited resources and also includes implementing a new Enterprise Resource Planning ("ERP") system which provides the necessary control environment to help mitigate the potential for misstatements in financial reporting, including but not limited to segregation of duties, user permission and access controls, and automated processes. While we believe that these efforts will improve our internal control over financial reporting, the design and implementation of our remediation is ongoing and will require validation and testing of the design and operating effectiveness of our internal controls over a sustained period of time. We will not be able to conclude whether the steps we are taking will fully remediate the material weaknesses in our internal control over financial reporting until we have completed our remediation efforts and subsequent evaluation of their effectiveness. Until these weaknesses are remediated, we plan to continue to perform additional analyses and other procedures to ensure that our consolidated financial statements are prepared in accordance with U.S. GAAP.

Inherent Limitations on Control Systems

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be or have been detected. These inherent limitations include the realities that judgments in decision making can by faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

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 June 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As reported in our Annual Report on Form 10-K for the year ended December 31, 2023, we concluded that our internal control over financial reporting was not effective.

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, 2023 (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 risk factors are hereby amended and restated as reflected below:

Our failure to maintain compliance with the Nasdaq Stock Market's continued listing requirements could result in the delisting of our common stock, which could negatively affect the market price of our common stock, our liquidity and our ability to raise capital.

On October 27, 2023, the Company received a notice from the Listing Qualifications Department of the Nasdaq Stock Market informing it that because the closing bid price for its common stock listed on Nasdaq was below $1.00 per share for the last 31 consecutive business days, it 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 "Minimum Bid Rule"). In accordance with Nasdaq's Listing Rules, the Company had a period of 180 calendar days, or until April 24, 2024, to regain compliance with the Minimum Bid Rule.

Additionally, on February 27, 2024, the Staff issued another notice (the “February Notice”) notifying the Company that its common stock had a closing bid price of $0.10 or less for 10 consecutive trading days (February 12, 2024 to February 26, 2024). Accordingly, the Company is subject to the provisions contemplated under Nasdaq Listing Rule 5810(c)(3)(A)(iii) (the “Low Priced Stock Rule”). As a result, the Staff had determined to delist the Company’s securities from Nasdaq effective as of the opening of business on March 7, 2024, unless the Company requested an appeal before the Nasdaq Hearings Panel (the “Panel”) of the Staff’s determination by March 5, 2024. The Company requested a hearing before the Panel to appeal the February Notice, and Nasdaq initially scheduled the hearing for April 30, 2024. Subsequently, the Company was granted an expedited review process and extension as described below, and received notice that an oral hearing was not necessary.

Following the Company’s Special Meeting of Shareholders that was held on April 12, 2024, at which the reverse stock split proposal was not approved, the Company provided the Panel with an update on the Company’s plan to regain compliance with the Minimum Bid Rule and an extension request until July 24, 2024. On April 19, 2024, the Panel granted an extension for the Company to regain compliance with the Minimum Bid Rule until July 24, 2024.

On May 16, 2024, the Company received a notice from the Staff of the Nasdaq Stock Market informing the Company that it no longer complies with the requirement under Nasdaq Listing Rule 5550(b)(1) to maintain a minimum of $2,500,000 in stockholders’ equity for continued listing on the Nasdaq Capital Market (the “Equity Rule”) because the Company reported stockholders’ equity of negative $11.2 million in its Form 10-Q for the period ended March 31, 2024, and, as of the date of the Notice, the Company did not meet the alternatives of market value of listed securities or net income from continuing operations. Accordingly, the Notice indicates that this matter serves as an additional basis for delisting the Company’s securities from the Nasdaq Stock Market.

On June 12, 2024, the Company effected a 1-for-15 reverse stock split in an effort to regain compliance with the Minimum Bid Rule. On July 18, 2024, the Company received a notice from the Staff informing the Company that it has regained compliance with the Bid Price Rule, and that, as a result, the Company will be subject to a Mandatory Panel Monitor for a period of one year from the date of this letter in accordance with Listing Rule 5815(d)(4)(B). If, within that one-year monitoring period, the Staff finds the Company again out of compliance with the Bid Price Rule, the Company will not be permitted to provide the Staff with a plan of compliance with respect to that deficiency and the Staff will not be permitted to grant additional time for the Company to regain compliance with respect to that deficiency, nor will the Company be afforded an applicable cure or compliance period pursuant to Rule 5810(c)(3). Instead, the Staff will issue a Delist Determination Letter and the Company will have an opportunity to request a new hearing with the initial panel or a newly convened Hearings Panel if the initial panel is unavailable. The Company will have the opportunity to respond/present to the Hearings Panel as provided by Listing Rule 5815(d)(4)(C). The Company’s securities may be at that time delisted from Nasdaq.

On July 19, 2024, the shareholders approved an increase in authorized shares which gives the Company sufficient shares to settle the conversion of the Company’s convertible preferred stock and warrants into common stock. As a result, on July 26, 2024, the Company received a decision from the Nasdaq Hearings Panel (the “Panel”) informing the Company that Nasdaq has determined and agreed that the Company is now in compliance with the Equity Rule. The Company will remain on a one-year Nasdaq Panel Monitor, which means that if the Company falls out of compliance again, it will not be able to submit a remediation plan to the Staff, but rather it will be required to go back into the hearings process.

While on July 19, 2024 the Company’s shareholders approved a reverse stock split of the outstanding shares of the Company’s common stock at a ratio within a range of 1-for-2 to 1-for-200, as determined by our board of directors, the board has not implemented a reverse stock split pursuant to that approval.

Failure to meet any of the terms of Nasdaq Panel Monitor could result in the immediate delisting of the Company’s securities from the Nasdaq Stock Market, subject to a request by the Company for a new hearing with the initial panel or a newly convened Hearings Panel. There can be no assurances that the Company will be able to continue satisfying the continued listing requirements during the compliance period or in the future or effect another reverse stock split. If the Company is unable to maintain compliance with these Nasdaq requirements, its common stock will 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.

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

Based on the Company's financial position as of June 30, 2024, including the approximately $1.1 million of cash, restricted cash, cash equivalents and investments that are restricted under the Company's contingent value rights ("CVR") agreement and cannot be used by the Company for its own working capital needs, the Company did not have sufficient cash to make the first earnout payment under the SUNation Transaction Agreement, which was due on May 6, 2024, and 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 principal payment of the long-term note that is due on November 9, 2024. 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. Furthermore, failure to make earnout payments under the SUNation Transaction Agreement, which are prohibited under the Loan Agreement, could result in a breach under the SUNation Transaction Agreement.

Raising additional capital may be costly or difficult to obtain and could significantly dilute the Company's shareholders' ownership interests or inhibit the Company's ability to achieve its business objectives. If the Company raises additional funds through public or private equity offerings or convertible debt or other exchangeable securities, the terms of these securities may include liquidation or other preferences that adversely affect the rights of the Company's common shareholders. To the extent that the Company raises additional capital through the sale of common stock or securities convertible or exchangeable into common stock, the Company's existing shareholders will be diluted. In addition, any debt financing may subject the Company to fixed payment obligations and covenants limiting or restricting its ability to take specific actions, such as incurring additional debt or making capital expenditures. Further, certain transactions could trigger a reset of the exercise price of the Company's outstanding Series A preferred stock (the "Convertible Preferred Stock") and outstanding warrants (the "PIPE Warrants") issued to investors in the March 28, 2022 private investment in public equity ("PIPE") offering, 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.

On February 5, 2024, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional investors (the "Purchasers") for the sale by the Company of 2,702,703 shares of the Company's common stock in a registered direct offering (the "Offering"). The Purchasers in this offering agreed to purchase, and the Company has agreed to sell, the Shares at a purchase price per share of $0.37 per share. The aggregate gross proceeds for the sale of the Shares were approximately $1.0 million, before deducting the placement agent fees and related offering expenses. Following the Offering, the share price of the Company's stock price fell due to the dilutive effects of the newly issued shares. If the Company was to undertake another similar offering, its share price could be reduced further.
In addition, the fact that there is substantial doubt about the Company's ability to continue as a going concern and that the Company is operating under these conditions may adversely affect the Company's stock price and its ability to raise capital.

While the bridge loan financing the Company obtained on July 22, 2024 will assist with the Company's working capital needs, this additional financing is not sufficient to make the outstanding earnout payment or the first principal payment on the long-term note.

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

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Certificate of Elimination

Because we are filing this Quarterly Report on Form 10-Q within four business days after the triggering event, we are making the following disclosure under this Item 5 instead of filing a Current Report on Form 8-K under Item 5.03, Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year:

As previously reported, the Company filed a certificate of designation (the "Certificate of Designation") with the Secretary of State of the State of Minnesota, effective as of May 13, 2024, designating the rights, preferences, privileges and restrictions of one (1) share of the Company's Series B Preferred Stock, par value $1.00 per share.

The Company filed a Statement of Cancellation with the Secretary of State of the State of Minnesota, effective as of August 14, 2024, which canceled all matters set forth in the Certificate of Designation (the "Statement of Cancellation").

The foregoing description of the Statement of Cancellation does not purport to be complete and is subject to, and qualified by, the full text of such document, a copy of which is filed as Exhibit 3.7 to this Quarterly Report on Form 10-Q and is incorporated by reference herein.

Trading Arrangements

During the three months ended June 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified, or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits

The following exhibits are included herewith:

3.1	Fourth Amended and Restated Articles of Incorporation, dated January 30, 2024 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on February 5, 2024)
3.2	Articles of Amendment of Fourth Amended and Restated Articles of Incorporation, effective as of June 12, 2024 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 17, 2024)
3.3	Articles of Amendment to the Articles of Incorporation, dated July 24, 2024 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 25, 2024)
3.4	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)
3.5	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)
3.6	Certificate of Designation of Series B Preferred Stock, dated May 14, 2024 (incorporated by reference in Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 17, 2024)
3.7	Statement of Cancellation of the Certificate of Designation of Series B Preferred Stock, effective as of August 14, 2024
10.1	Form of Limited Waiver and Amendment (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 22, 2024)
10.2	Separation Agreement between Kyle Udseth and Pineapple Energy Inc. dated May 19, 2024 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 23, 2024)
10.3	Pineapple Energy Inc. 2022 Equity Incentive Plan, as amended through July 19, 2024 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 25, 2024)
10.4	Secured Credit Agreement, dated July 22, 2024, between Pineapple Energy Inc. and Conduit Capital U.S. Holdings LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 26, 2024)
10.5	Secured Credit Note, dated July 22, 2024, between Pineapple Energy Inc. and Conduit Capital U.S. Holdings LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 26, 2024)
10.6	Security Agreement, dated July 22, 2024, between Pineapple Energy Inc. and Conduit Capital U.S. Holdings LLC (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 26, 2024)
10.7	Secured Credit Agreement, dated July 22, 2024, between Pineapple Energy Inc. and MBB Energy, LLC (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on July 26, 2024)
10.8	Secured Credit Note, dated July 22, 2024, between Pineapple Energy Inc. and MBB Energy, LLC (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on July 26, 2024)
10.9	Security Agreement, dated July 22, 2024, between Pineapple Energy Inc. and MBB Energy, LLC (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on July 26, 2024)
10.10	First Amendment to Revenue Loan and Security Agreement, dated July 22, 2024, by and among Pineapple Energy Inc., the Guarantors party thereto, and Decathlon Specialty Finance LLC (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on July 26, 2024)
10.11	Amendment and Joinder to Subordination Agreement, dated July 22, 2024 among Pineapple Energy Inc., Decathlon Growth Credit, LLC, Hercules Capital, Inc., and MBB Energy, LLC and Conduit Capital U.S. Holdings, LLC (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed on July 26, 2024)

10.12	Consent and Amendment No. 3 to Loan and Security Agreement, dated July 22, 2024 by and among Pineapple Energy LLC, Pineapple Energy Inc. and each other person that has delivered a Joinder Agreement (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed on July 26, 2024)
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/ Scott Maskin
Scott Maskin
Interim Chief Executive Officer

Date: August 19, 2024

By /s/ Eric Ingvaldson
Eric Ingvaldson
Chief Financial Officer

Date: August 19, 2024

Exhibit 3.7

**STATEMENT OF CANCELLATION
OF THE CERTIFICATE OF DESIGNATION
OF THE SERIES B PREFERRED STOCK
OF
PINEAPPLE ENERGY INC.**

The undersigned officer of Pineapple Energy Inc. (the "Company") hereby certifies that:

1. The name of the Company is Pineapple Energy Inc.

2. The Company's Board of Directors has directed that the statement fixing the rights and preferences of the Company's Series B Preferred Stock be canceled pursuant to Section 302A.133 of the Minnesota Statutes.

3. There are currently no shares of Series B Preferred Stock outstanding.

4. The one share formerly designated as Series B Preferred Stock shall have the status of authorized but unissued, undesignated Preferred Stock, par value $1.00.

IN WITNESS WHEREOF, the undersigned has executed this statement of cancellation as of August 13, 2024.

PINEAPPLE ENERGY INC.

By: /s/ Scott Maskin
Scott Maskin
Interim Chief Executive Officer

Exhibit 3.7

Work Item 1487291600059
Original File Number lU-45

STATE OF MINNESOTA

Steve Simon

OFFICE OF THE SECRETARY OF STATE.
FILED
08/14/2024 11:59 PM

Steve Simon
Secretary of State

Exhibit 31.1

CERTIFICATION

I, Scott Maskin 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/ Scott Maskin
Scott Maskin
Interim Chief Executive Officer

Date: August 19, 2024

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: August 19, 2024

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 June 30, 2024 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the accompanying Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 19, 2024	/s/ Scott Maskin Scott Maskin Interim Chief Executive Officer
Date: August 19, 2024	/s/ Eric Ingvaldson Eric Ingvaldson Chief Financial Officer