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 November 30, 2023

OR

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

For the transition period from ________ and __________

Commission file number: 001-31968

APPLIED DIGITAL CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**95-4863690**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3811 Turtle Creek Boulevard, Suite 2100, Dallas, Texas	**75219**
(Address of Principal Executive Offices)	(Zip Code)

(214) 556-2465
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	APLD	Nasdaq Global Select Market

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 x No o

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 x No o

Indicate by 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	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	x
		Emerging growth company	o

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of January 10, 2024, 122,044,737 shares of Common Stock, $0.001 par value, were outstanding.

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Part I - Financial Information

Item 1. Financial Statements

APPLIED DIGITAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except share and par value data)

	November 30, 2023	May 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,217	$ 28,999
Restricted cash	25,416	14,575
Accounts receivable	307	82
Prepaid expenses and other current assets	1,517	2,012
Total current assets	36,457	45,668
Property and equipment, net	258,508	195,593
Operating lease right of use assets, net	73,373	1,290
Finance lease right of use assets, net	95,199	14,303
Other assets	17,117	7,103
TOTAL ASSETS	$ 480,654	$ 263,957
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 38,262	$ 6,446
Accrued liabilities	10,538	8,330
Current portion of operating lease liability	8,887	320
Current portion of finance lease liability	42,805	5,722
Current portion of debt	9,279	7,950
Customer deposits	36,833	32,559
Related party customer deposits	3,811	3,811
Deferred revenue	50,051	47,168
Related party deferred revenue	1,953	1,524
Sales and use tax payable	4	1,630
Total current liabilities	202,423	115,460
Long-term portion of operating lease liability	52,324	1,005
Long-term portion of finance lease liability	36,748	8,334
Long-term debt	33,501	33,222
Long-term related party loan	—	35,257
Other long-term related party liabilities	—	1,000
Total liabilities	324,996	194,278
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value, 166,666,667 shares authorized, 122,734,060 shares issued and 117,732,332 shares outstanding at November 30, 2023, and 100,927,358 shares issued and 95,925,630 shares outstanding at May 31, 2023	123	101
Treasury stock, 5,001,728 shares at November 30, 2023 and 5,001,728 shares at May 31, 2023, at cost	(62)	(62)
Additional paid in capital	278,299	160,194
Accumulated deficit	(122,702)	(100,716)
Total stockholders' equity attributable to Applied Digital Corporation	155,658	59,517
Noncontrolling interest	—	10,162
Total stockholders' equity including noncontrolling interest	155,658	69,679
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 480,654	$ 263,957

See accompanying notes to the condensed consolidated financial statements

APPLIED DIGITAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
Revenue:				
Datacenter hosting revenue	$ 34,119	$ 8,747	$ 64,106	$ 13,086
Cloud services revenue	4,450	—	6,602	—
Related party datacenter hosting revenue	3,634	3,593	7,819	6,178
Total revenue	42,203	12,340	78,527	19,264
Costs and expenses:				
Cost of revenues	29,222	11,812	53,620	17,905
Selling, general and administrative	21,075	27,226	38,127	32,245
Loss from legal settlement	80	—	2,380	—
Total costs and expenses	50,377	39,038	94,127	50,150
Operating loss	(8,174)	(26,698)	(15,600)	(30,886)
Interest expense, net	2,355	364	4,430	709
Loss on extinguishment of debt	—	—	2,353	94
Net loss before income tax expenses	(10,529)	(27,062)	(22,383)	(31,689)
Income tax expense (benefit)	—	(312)	—	(280)
Net loss	(10,529)	(26,750)	(22,383)	(31,409)
Net loss attributable to noncontrolling interest	—	(133)	(397)	(261)
Net loss attributable to Applied Digital Corporation	$ (10,529)	$ (26,617)	$ (21,986)	$ (31,148)
Basic and diluted net loss per share attributable to Applied Digital Corporation	$ (0.10)	$ (0.28)	$ (0.21)	$ (0.33)
Basic and diluted weighted average number of shares outstanding	109,663,030	93,422,427	105,067,375	93,263,266

See accompanying notes to the condensed consolidated financial statements

APPLIED DIGITAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Three Months ended November 30, 2023 and November 30, 2022
(In thousands, except share data)
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Stockholders' Equity	Noncontrolling interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance, August 31, 2023	110,850,885	$ 110	(5,001,728)	$ (62)	$ 240,073	$ (112,173)	$ 127,948	$ —	$ 127,948
Shares issued in offering, net of costs	6,879,070	8	—	—	33,432	—	33,440	—	33,440
Shares issued from award vestings	5,004,105	5	—	—	(5)	—	—	—	—
Stock-based compensation	—	—	—	—	4,799	—	4,799	—	4,799
Net loss	—	—	—	—	—	(10,529)	(10,529)	—	(10,529)
Balance, November 30, 2023	122,734,060	$ 123	(5,001,728)	$ (62)	$ 278,299	$ (122,702)	$ 155,658	$ —	$ 155,658

	Common Stock		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Stockholders' Equity	Noncontrolling interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance, August 31, 2022	97,837,703	$ 98	(5,001,728)	$ (62)	$ 128,872	$ (60,601)	$ 68,307	$ 8,594	$ 76,901
Shares issued from award vestings	1,110,379	1	—	—	(1)	—	—	—	—
Stock-based compensation	—	—	—	—	21,819	—	21,819	—	21,819
Net loss	—	—	—	—	—	(26,617)	(26,617)	(133)	(26,750)
Balance, November 30, 2022	98,948,082	$ 99	$ (5,001,728)	$ (62)	$ 150,690	$ (87,218)	$ 63,509	$ 8,461	$ 71,970

See accompanying notes to the condensed consolidated financial statements

APPLIED DIGITAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended November 30, 2023 and November 30, 2022
(In thousands, except share data)
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Stockholders' Equity	Noncontrolling interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance, May 31, 2023	100,927,358	$ 101	$ (5,001,728)	$ (62)	$ 160,194	$ (100,716)	$ 59,517	$ 10,162	$ 69,679
Shares issued in offering, net of costs	14,787,598	16	—	—	97,906	—	97,922	—	97,922
Shares issued from award vestings	5,534,837	5	—	—	(5)	—	—	—	—
Stock-based compensation	—	—	—	—	10,440	—	10,440	—	10,440
Net loss	—	—	—	—	—	(21,986)	(21,986)	(397)	(22,383)
Extinguishment of noncontrolling interest	1,484,267	1	—	—	9,764	—	9,765	(9,765)	—
Balance, November 30, 2023	122,734,060	$ 123	(5,001,728)	$ (62)	$ 278,299	$ (122,702)	$ 155,658	$ —	$ 155,658

	Common Stock		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Stockholders' Equity	Noncontrolling interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance, May 31, 2022	97,837,703	$ 98	(36,296)	$ (62)	$ 128,293	$ (56,070)	$ 72,259	$ 6,976	$ 79,235
Shares issued from award vestings	1,110,379	1	—	—	(1)	—	—	—	—
Stock-based compensation	—	—	—	—	22,398	—	22,398	—	22,398
Capital contribution to noncontrolling interest	—	—	—	—	—	—	—	1,746	1,746
Common stock forfeited	—	—	(4,965,432)	—	—	—	—	—	—
Net loss	—	—	—	—	—	(31,148)	(31,148)	(261)	(31,409)
Balance, November 30, 2022	98,948,082	$ 99	(5,001,728)	$ (62)	$ 150,690	$ (87,218)	$ 63,509	$ 8,461	$ 71,970

See accompanying notes to the condensed consolidated financial statements

APPLIED DIGITAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited) (In thousands)

	Six Months Ended	
	November 30, 2023	November 30, 2022
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$ (22,383)	$ (31,409)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,284	2,704
Stock-based compensation	10,440	22,398
Deferred income taxes	—	(280)
Loss on extinguishment of debt	2,353	94
Amortization of debt issuance costs	352	—
Loss on abandonment of assets	189	—
Changes in operating assets and liabilities:		
Accounts receivable	(225)	(49)
Prepaid expenses and other current assets	495	(1,061)
Customer deposits	4,274	14,784
Related party customer deposits	—	381
Deferred revenue	2,883	25,147
Related party deferred revenue	429	370
Accounts payable	6,442	(6,844)
Accrued liabilities	2,093	1,099
Lease assets and liabilities	(16,904)	(220)
Sales and use tax payable	(1,626)	865
Other assets	(1,040)	—
CASH FLOW PROVIDED BY OPERATING ACTIVITIES	9,056	27,979
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property and equipment and other assets	(45,830)	(70,305)
Finance lease prepayments	(19,388)	—
Purchases of investments	(390)	—
CASH USED IN INVESTING ACTIVITIES	(65,608)	(70,305)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of finance leases	(13,071)	(778)
Borrowings of long-term debt	4,732	21,711
Borrowings of related party debt	8,000	—
Repayments of long-term debt	(4,471)	(8,158)
Repayment of related party debt	(45,500)	—
Payment of deferred financing costs	—	(378)
Tax payments for restricted stock upon vesting	—	(43)
Noncontrolling interest contributions	—	1,747
Proceeds from issuance of common stock, net of costs	97,922	—
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	47,612	14,101
NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(8,940)	(28,225)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD	43,574	46,299
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	$ 34,634	$ 18,074
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 4,370	$ 707
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Operating right-of-use assets obtained by lease obligation	$ 69,329	$ —
Finance right-of-use assets obtained by lease obligation	$ 96,946	$ 6,925
Property and equipment in accounts payable	$ 23,572	$ 3,466
Conversion of non-controlling interest	$ 9,765	$ —

See accompanying notes to the condensed consolidated financial statements

1. Business and Organization

Applied Digital Corporation (the “Company”), is a designer, builder, and operator of digital infrastructure providing cost-competitive solutions to customers. The Company has three reportable segments. Financial information for each segment is contained in Note 10 - Business Segments.

2. Basis of Presentation and Significant Accounting Policies

Principles of Consolidation

The accompanying interim unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), including the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in the Company's annual consolidated financial statements on Form 10-K have been condensed or omitted. The condensed consolidated balance sheet as of May 31, 2023 has been derived from the audited consolidated financial statements as of that date, but does not include all disclosures required for audited annual financial statements.

In the Company’s opinion, all necessary adjustments have been made for the fair presentation of the results of the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year. For further information, please refer to and read these interim unaudited condensed consolidated financial statements in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2023 filed with the SEC on August 2, 2023.

Significant Accounting Policies and Use of Estimates

Use of Estimates

The preparation of the unaudited condensed consolidated 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 balance sheet and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ significantly from those estimates. The most significant accounting estimates inherent in the preparation of the Company’s financial statements include estimates of the valuation allowance associated with the Company’s deferred tax assets.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification 606, Revenue from Contracts with Customers.

Datacenter Hosting Revenue

The Company provides energized space to customers who locate their hardware within the Company’s co-hosting facility. All datacenter hosting performance obligations are achieved simultaneously by providing the hosting environment for the customers’ operations. Customers pay a fixed rate to the Company in exchange for a managed hosting environment supported by customer-provided equipment. Revenue is recognized based on the contractual fixed rate, net of any credits for non-performance, over the term of the agreements. Any ancillary revenue for maintenance or installation services is at a point in time when the maintenance or installation service is complete. As these services are directly attributable to the Company’s datacenter hosting service, this revenue is captured within the datacenter hosting revenue caption in our condensed consolidated statements of operations. Customer contracts include advance payment terms. All advanced service payments are recorded as deferred revenue and are recognized as revenue once the related service is provided.

Cloud Services Revenue

The Company also provides managed cloud infrastructure services to customers, such as artificial intelligence and machine learning developers, to help develop their advanced products. Customers pay a fixed rate to the Company in exchange for managed cloud services supported by Company-provided equipment. Revenues are recognized based on the fixed rate, net of any credits for non-performance, over the term of the agreements.

Segments

The Company has identified three reportable segments: cloud services ("Cloud services"), high-performance compute hosting ("HPC hosting"), and datacenter hosting ("Datacenter hosting"). The Company's chief operating decision-maker evaluates performance, makes operating decisions and allocates resources on both a consolidated basis and on the basis of these three reportable segments. Intercompany transactions between segments are excluded for management reporting purposes.

The Datacenter hosting segment operates datacenters to provide energized space to crypto mining customers. Customer-owned hardware is installed in the Company's facilities and the Company provides operational and maintenance services for a fixed fee.

The Cloud services segment operates through our Sai Computing brand and provides cloud services to customers, such as artificial intelligence and machine learning developers, to develop their advanced products. Customers pay a fixed rate to the Company in exchange for a managed hosting environment supported by Company-provided equipment.

The HPC hosting segment designs, builds, and operates datacenters which are designed to support high-compute applications using advanced and sophisticated infrastructures to provide services to customers.

See Note 3 - Basis of Presentation and Significant Accounting Policies to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended May 31, 2023, as filed with the SEC, for additional information regarding the Company's significant accounting policies and use of estimates.

Recent Accounting Pronouncements

We reviewed all recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact on our consolidated financial statements.

Reclassifications

We have reclassified certain prior period revenue amounts from datacenter hosting revenue to related party datacenter hosting revenue on our condensed consolidated statements of operations. We have also reclassified amounts from accounts payable and accrued expenses and prepaid expenses and other current assets to accounts payable, accrued expenses, prepaid expenses, and other current assets as well as from customer deposits and deferred revenue to the associated related party caption lines and from prepaid expenses and other current assets to other assets in our condensed consolidated balance sheets to conform to our current period presentation. Lastly, we have reclassified interest income from selling, general and administrative to interest expense, net in our condensed consolidated statement of operations to conform to our current period presentation. These reclassifications had no impact on reported net income, cash flows, or total assets and liabilities.

Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash within the consolidated balance sheets that are included in the consolidated statements of cash flows as of November 30, 2023 and May 31, 2023 were as follows (in thousands):

	November 30, 2023	May 31, 2023
Net Cash & Equivalents	$ 9,217	$ 28,999
Restricted Cash	25,416	14,575
Total Cash & Cash Equivalents	$ 34,633	$ 43,574

3. Property and Equipment

Property and equipment consisted of the following as of November 30, 2023, and May 31, 2023 (in thousands):

	Estimated Useful Life	November 30, 2023	May 31, 2023
Electric generation and transformers	15 years	$ 13,169	$ 4,655
Other equipment and fixtures	5 years - 7 years	5,074	1,684
Construction in progress		70,846	106,226
Information systems and software	5 years	41,295	21,173
Land and building			
Land		6,213	2,152
Land improvements	15 years	1,391	1,293
Building	39 years	129,815	63,350
Leasehold improvements	3 years - 7 years	468	—
Total cost of property and equipment		268,271	200,533
Accumulated depreciation		(9,763)	(4,940)
Property and equipment, net		$ 258,508	$ 195,593

Depreciation expense totaled $2.6 million and $4.9 million for the three and six months ended November 30, 2023 and $0.8 million and $1.7 million for the three and six months ended November 30, 2022.

4. Revenue from Contracts with Customers

Below is a summary of the Company’s revenue concentration by major customers for the three and six months ended November 30, 2023 and 2022, respectively.

	Three Months Ended November 30,		Six Months Ended November 30,	
	2023	2022	2023	2022
Customer A	70 %	— %	69 %	— %
Customer B	— %	27 %	— %	22 %
Customer C	— %	33 %	— %	34 %
Customer D	— %	16 %	— %	18 %
Customer E	— %	13 %	— %	14 %
Customer F	— %	12 %	— %	13 %
Customer G	11 %	— %	— %	— %

Deferred Revenue

As of November 30, 2023, the Company had $52.0 million in deferred revenue (inclusive of related party deferred revenue), which represents the Company’s remaining performance obligations, and expects to recognize the entire balance within the next 12 months. Changes in the Company's deferred revenue balances for the six months ended November 30, 2023 and 2022, respectively, are shown in the following tables (in thousands):

	Six Months Ended	
	November 30, 2023	November 30, 2022
Balance, beginning of period	$ 48,692	$ 3,877
Advance billings	81,839	44,646
Revenue recognized	(78,527)	(19,264)
Other adjustments	—	135
Less: Related party balances	(1,953)	(1,639)
Balance, end of period	$ 50,051	$ 27,755

Customer Deposits

Changes in the Company's customer deposits balances for the six months ended November 30, 2023 and 2022, respectively, are shown in the following table (in thousands):

	Six Months Ended	
	November 30, 2023	November 30, 2022
Balance, beginning of period	$ 36,370	$ 9,524
Customer deposits received	4,274	15,300
Customer deposits refunded	—	—
Other adjustments	—	(135)
Less: Related party balances	(3,811)	(1,940)
Balance, end of period	$ 36,833	$ 22,749

5. Related Party Transactions

Related Party Revenue

The following table illustrates related party revenue for the three and six months ended November 30, 2023 and November 30, 2022 (in thousands):

	Three Months Ended November 30,		Six Months Ended November 30,	
	2023	2022	2023	2022
Customer D*	$ 1,986	$ 1,996	$ 4,319	$ 3,446
Customer E**	$ 1,648	$ 1,596	$ 3,500	$ 2,732

*Customer D is a subsidiary of an entity which is deemed to beneficially own over 5% of the Company's outstanding common stock

**Customer E is 60% owned by an individual who is deemed to beneficially own over 5% of the Company's outstanding common stock

The following table illustrates related party deferred revenue and deposits balances as of November 30, 2023 and May 31, 2023 (in thousands):

	Customer D balances as of		Customer E balances as of	
	November 30, 2023	May 31, 2023	November 30, 2023	May 31, 2023
Deferred revenue	$ 1,470	$ 1,474	$ 483	$ 50
Customer Deposits	$ 2,450	$ 2,450	$ 1,361	$ 1,361

Related Party Sublease Income

The Company receives sublease income from B. Riley Asset Management, which is also a wholly-owned subsidiary of B. Riley Financial, Inc. Mr. Cummins, the CEO of the Company, is also the President of B. Riley Asset Management. The following table illustrates related party revenue for the three and six months ended November 30, 2023 and November 30, 2022 (in thousands):

	Three Months Ended November 30,		Six Months Ended November 30,	
	2023	**2022**	**2023**	**2022**
Sublease Income	$ 24	$ 30	$ 47	$ 58

B. Riley Loan

During the six months ended November 30, 2023, the Company borrowed an additional $8.0 million and repaid the outstanding balance of $44.5 million. Interest expense associated with the loan was $0.5 million for the six months ended November 30, 2023. Total remaining unused capacity on the B. Riley Loan as of November 30, 2023, was $5.5 million.

6. Debt

Long-term debt consisted of the following components (in thousands):

	Interest Rate	**Maturity Date**	**November 30, 2023**	**May 31, 2023**
Starion term loan	6.50%	July 25, 2027	$ 11,428	$ 12,786
Vantage Garden City loan	6.15%	April 26, 2028	13,427	10,074
Starion Ellendale loan	7.48%	February 3, 2028	17,974	19,728
Other long-term debt			372	354
Deferred financing costs, net of amortization			(421)	(3,012)
Less: Current portion of term loan			(9,279)	(7,950)
Long-term debt, net			$ 33,501	$ 31,980

Remaining Principal Payments

Below is a summary of the remaining principal payments due over the life of the term loans as of November 30, 2023 (in thousands):

Remainder of FY24	$ 4,645
FY25	9,768
FY26	10,441
FY27	11,150
FY28	7,197
Total	$ 43,201

Letters of Credit

As of November 30, 2023, the Company had letters of credit totaling $25.4 million. The Company has restricted cash related to its letters of credit and is required to keep these balances in separate accounts for the duration of the letter of credit agreements, which all have terms ending within the 12 months following November 30, 2023.

7. Stockholders' Equity

Equity Plans

On October 9, 2021, the Company's Board of Directors approved two equity incentive plans, which the Company's stockholders approved on January 20, 2022. The two plans consist of the 2022 Incentive Plan, previously referred to in the Company's SEC filings as the 2021 Incentive Plan (the "Incentive Plan"), which provides for grants of various equity awards to the Company’s employees and consultants, and the 2022 Non-Employee Director Stock Plan previously referred to in the Company’s SEC filings as the 2021 Non-Employee Director Stock Plan (the “Director Plan” and, together with the Incentive Plan, the “Plans”), which provides for grants of restricted stock to non-employee directors and for deferral of cash and stock compensation if such deferral provisions are activated at a future date. As of November 30, 2023, the Company had issued awards for approximately 14.2 million shares of common stock of the Company (the “Common Stock”) under the plans. During the three and six months ended November 30, 2023 the Company recognized $4.8 million and $10.4 million in stock-based compensation.

Restricted Stock Awards

The following is a summary of the activity and balances for unvested restricted stock awards granted for the six months ended November 30, 2023:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding as of May 31, 2023	380,955	$ 2.22
Granted	202,110	4.75
Vested	(380,955)	2.22
Forfeited	—	—
Outstanding as of November 30, 2023	202,110	$ 4.75

As of November 30, 2023, total remaining expense to be recognized related to these awards was $0.9 million and the weighted average remaining recognition period for the unvested awards was 0.9 years.

Restricted Stock Units

The following is a summary of the activity and balances for unvested restricted stock units granted for the six months ended November 30, 2023:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding as of May 31, 2023	12,465,935	$ 2.53
Granted	1,564,400	7.38
Vested	(5,377,778)	2.64
Forfeited	(305,110)	2.43
Outstanding as of November 30, 2023	8,347,447	$ 3.42

As of November 30, 2023, total remaining expense to be recognized related to these awards was $29.2 million and the weighted average remaining recognition period for the unvested awards was 2.1 years.

Public Offering

During the six months ended November 30, 2023, the Company began issuing and selling common stock under an "at the market" sale agreement pursuant to which the Company may sell up to $125 million in aggregate proceeds of Common Stock. As of November 30, 2023, the Company has sold approximately 14.8 million shares. Net proceeds, less commission and legal fees of approximately $3.3 million, were approximately $97.9 million.

Extinguishment of Noncontrolling Interest

On August 31, 2023, pursuant to the joint venture agreement, the minority partner in 1.21 Gigawatts LLC exercised the option to exchange their interest in the joint venture for approximately 1.5 million shares for a value of $9.8 million of the Company’s common stock. The Company is now the sole member of 1.21 Gigawatts LLC and will report all activity as attributable to the Company in future periods.

8. Leases

The Company enters into leases for equipment, office space, and land. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company presents operating and finance right of use assets and liabilities separately on the balance sheet as their own captions, with the liabilities split between current and long-term, respectively.

Components of lease expense were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
Operating lease cost:				
Operating lease expense	$ 2,486	$ 82	$ 2,970	$ 164
Short-term lease expense	80	105	207	223
Total operating lease cost	2,566	187	3,177	387
Finance lease expense:				
Amortization of right-of-use assets[(1)]	10,860	735	16,490	1,033
Interest on lease liabilities	1,659	183	2,741	292
Total finance lease cost	12,519	918	19,231	1,325
Variable lease cost	40	—	77	—
Sublease Income	(24)	(30)	(47)	(58)
Total net lease cost	$ 15,101	$ 1,075	$ 22,438	$ 1,654

(1) Amortization of right-of-use assets is included within depreciation expense, and is recorded within cost of revenues and selling, general and administrative expense in the condensed consolidated statements of operations.

The following table represents the Company's future minimum lease payments as of November 30, 2023:

	Operating Leases	Finance Leases	Total
Remainder of FY24	$ 6,605	$ 24,341	$ 30,946
FY25	13,562	47,340	60,902
FY26	14,031	12,108	26,139
FY27	14,166	188	14,354
FY28	14,360	180	14,540
Thereafter	12,441	89,944	102,385
Total lease payments	75,165	174,101	249,266
Less: imputed interest	(13,954)	(94,548)	(108,502)
Total lease liabilities	61,211	79,553	140,764
Less: Current portion of lease liability	(8,887)	(42,805)	(51,692)
Long-term portion of lease liability	$ 52,324	$ 36,748	$ 89,072

Supplemental cash flow and other information related to leases is as follows:

	Six Months Ended	
	November 30, 2023	**November 30, 2022**
Weighted-average years remaining (in years):		
Finance leases	5.5 years	28.6 years
Operating leases	5.7 years	3.9 years
Weighted-average discount rate:		
Finance leases	8.8 %	8.0 %
Operating leases	7.9 %	12.5 %

The Company has entered into operating leases which are executed but not yet commenced with total minimum payments of approximately $130.4 million. The payments are for various leases with terms ranging from 2 years to 7 years.

9. Commitments and Contingencies

Energy Commitment

The Company also has a minimum commitment of approximately $89.2 million related to the energy services agreement for its Jamestown, North Dakota co-hosting facility with a remaining term of approximately 3.2 years as of November 30, 2023.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business.

On August 12, 2023, a putative securities class action complaint, captioned *McConnell v. Applied Digital Corporation, Wesley Cummins and David Rench*, No. 3:23-cv-1805, was filed in the U.S. District Court for the Northern District of Texas, Dallas Division against Applied Digital Corporation (the "Company") and two of its officers, Chief Executive Officer Wesley Cummins and Chief Financial Officer David Rench, asserting violations of Sections 10(b) and 20(a) of the Securities Exchange Act. The complaint alleges that the defendants made materially false and misleading statements regarding the Company's business, operations, and compliance policies. Specifically, the complaint alleges that the Company overstated the profitability of its datacenter hosting business and its ability to successfully transition into a low-cost cloud services provider and that the Company's board of directors was not "independent" within the meaning of NASDAQ listing rules.

On November 15, 2023, a putative securities complaint, captioned *Robert Weich v. Wes Cummins, Chuck Hastings, Kelli McDonald, Douglas Miller, Virginia Moore, and Richard Nottenburg,* No. A-23-881629-C, was filed in the U.S. District Court for Clark County, Nevada against certain members of Applied Digital Corporation's Board of Directors and two of its officers, Chief Executive Officer Wesley Cummins and Chief Financial Officer David Rench, asserting breaches of fiduciary duties and unjust enrichment from April 2022 through the present. The complaint alleges that the defendants made materially false and misleading statements regarding the Company's business, operations, and compliance policies. Specifically, the complaint alleges that the Company overstated the profitability of its datacenter hosting business and its ability to successfully transition into a low-cost cloud services provider and that the Company's board of directors was not "independent" within the meaning of NASDAQ listing rules.

The Company is unable to estimate a range of loss, if any, that could result were there to be an adverse final decision in this action. If an unfavorable action were to occur, it is possible that the impact could be material to the Company's results of operations in the period(s) in which any such outcome becomes probable and estimable.

As of November 30, 2023, there were no other pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated operations. There are also no legal proceedings in which any of the Company's management or affiliates is an adverse party or has a material interest adverse to the Company's interest.

Settlement of Potential Claim

During the second quarter of fiscal year 2024, the Company entered into a settlement agreement with respect to employment-related claims by a former executive. The terms of the settlement included payment to the claimant of $2.3 million, which is included in Loss on legal settlement on our condensed consolidated statements of operations.

10. Business Segments

Revenue by segment (excluding HPC hosting as that segment has no revenue) was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
Datacenter hosting segment	$ 37,753	$ 12,340	$ 71,925	$ 19,264
Cloud services segment	4,450	—	6,602	—
Total revenue	$ 42,203	$ 12,340	$ 78,527	$ 19,264

Segment profit (loss) and a reconciliation to net loss before income tax expenses is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
Segment Profit (Loss):				
Datacenter hosting segment	$ 10,846	$ (14,236)	$ 19,804	$ (15,101)
Cloud services segment	(11,719)	—	(19,129)	—
HPC hosting segment	(908)	—	(1,662)	—
Total segment loss	(1,781)	(14,236)	(987)	(15,101)
Other [1]	(6,393)	(12,462)	(14,613)	(15,785)
Interest expense, net	2,355	364	4,430	709
Loss on debt extinguishment	—	—	2,353	94
Net loss before income tax expenses	$ (10,529)	$ (27,062)	$ (22,383)	$ (31,689)

[1] Other includes corporate related items not allocated to reportable segments.

We also provide the following additional segment disclosures (in thousands):

	Three Months Ended		Six Months Ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
Depreciation and amortization:				
Datacenter hosting segment	$ 4,365	$ 1,568	$ 7,564	$ 2,692
Cloud services segment	8,782	—	13,290	—
HPC hosting segment	184	—	311	—
Other [1]	93	—	119	12
Total depreciation and amortization	$ 13,424	$ 1,568	$ 21,284	$ 2,704

[1] Other includes corporate related items not allocated to reportable segments.

Information on segment assets and a reconciliation to consolidated assets are as follows (in thousands):

	November 30, 2023	May 31, 2023
Datacenter hosting segment	$ 232,747	$ 224,447
Cloud services segment	166,536	3,127
HPC hosting segment	54,748	10,949
Total segment assets	454,031	238,523
Other [1]	26,623	25,434
Total assets	$ 480,654	$ 263,957

[1] Other includes corporate related items not allocated to reportable segments.

11. Earnings Per Share

Basic net income (loss) per share ("EPS") of common stock is computed by dividing the Company's net earnings (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted EPS reflects the potential dilution that could occur if the securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Potentially dilutive securities are excluded from the computation of diluted net loss per share as their inclusion would be anti-dilutive. The table below shows the calculation for earnings per share:

	Three Months Ended		Six Months Ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
Net loss	$ (10,529)	$ (26,750)	$ (22,383)	$ (31,409)
Net loss attributable to noncontrolling interest	—	(133)	(397)	(261)
Net loss attributable to Applied Digital Corporation	$ (10,529)	$ (26,617)	$ (21,986)	$ (31,148)
Basic and diluted net loss per share attributable to Applied Digital Corporation	$ (0.10)	$ (0.28)	$ (0.21)	$ (0.33)
Basic and diluted weighted average number of shares outstanding	109,663,030	93,422,427	105,067,375	93,263,266

12. Subsequent Events

At-The-Market Common Stock Offering

The Company completed sales of common stock under the "at the market" common stock sale agreement dated June 26, 2023. The Company sold approximately 4.2 million shares subsequent to November 30, 2023. Net proceeds from these sales, less commission fees of approximately $0.7 million, are approximately $23.1 million.

Indemnification Agreements

On January 13, 2024, the Company entered into an individual Indemnification Agreement with each member of its Board of Directors. The Indemnification Agreements generally provide that the Company will indemnify the indemnitees, to the fullest extent permitted by applicable law, against liabilities that may arise by reason of their status with, or service to, the Company. The Indemnification Agreements also generally provide that the Company advance expenses incurred by the indemnitees as a result of any proceeding related to such matters.

Conditional Agreement

On January 15, 2024, the Company entered into a conditional agreement to provide HPC datacenter capacity at its Ellendale, North Dakota campus, subject to finalization of definitive lease documents. The conditional agreement is for a total of 100 MWs for a term of 10 years, with a total value of approximately $2.2 billion over such 10 year term. The conditional agreement is conditioned upon each party securing satisfactory financing for the completion of construction, with the ability of each party to terminate within 45 days, without penalty, if the condition is not satisfied.

Other Agreements

Subsequent to November 30, 2023, the Company entered into three additional agreements for services in our cloud services and datacenter hosting segments totaling a combined $104.4 million over a weighted average term of 32 months.

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

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve substantial risks and uncertainties. In some cases you can identify these statements by forward-looking words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “should,” “will,” and “would,” or similar words. Statements that contain these words and other statements that are forward-looking in nature should be read carefully because they discuss future expectations, contain projections of future results of operations or of financial positions or state other “forward-looking” information.

Forward-looking statements involve inherent uncertainty and may ultimately prove to be incorrect or false. These statements are based on our management’s beliefs and assumptions, which are based on currently available information. These assumptions could prove inaccurate. You are cautioned not to place undue reliance on forward-looking statements. Except as otherwise may be required by law, we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or actual operating results. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to:

- labor and other workforce shortages and challenges;
- our dependence on principal customers;
- the addition or loss of significant customers or material changes to our relationships with these customers;
- our ability to timely and successfully build new hosting facilities with the appropriate contractual margins and efficiencies;
- our ability to continue to grow sales in our hosting business;
- concentration of customers in the crypto mining industry, which customer base may decline due to price volatility and uncertainties around regulation policy of cryptoasset prices; and
- equipment failures, power or other supply disruptions.

You should carefully review the risks described in Item 1A of the Company’s Annual Report on Form 10-K for the year ended May 31, 2023, which was filed on August 2, 2023, as well as any other cautionary language in this Quarterly Report on Form 10-Q, as the occurrence of any of these events could have an adverse effect, which may be material, on our business, results of operations, financial condition or cash flows.

Executive Overview

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q.

Business Overview

We are a designer, builder, and operator of digital infrastructure providing cost-competitive solutions to customers in high-performance compute hosting (“HPC hosting”), cloud service (“Cloud services”), and datacenter hosting (“Datacenter hosting”) industries.

Trends and Other Factors Affecting Our Business

Regulatory Environment

We have a material concentration of customers in the crypto mining industry. Our customers’ businesses are subject to extensive laws, rules, regulations, policies and legal and regulatory guidance, including those governing securities, commodities, cryptoasset custody, exchange and transfer, data governance, data protection, cybersecurity and tax. Many of these legal and regulatory regimes were adopted prior to the advent of the Internet, mobile technologies, cryptoassets and related technologies. As a result, they do not contemplate or address unique issues associated with the crypto economy, are subject to significant uncertainty, and vary widely across U.S. federal, state and local and international jurisdictions. These legal and regulatory regimes, including the laws, rules and regulations thereunder, evolve frequently and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another. Moreover, the complexity and evolving nature of our business and the significant uncertainty surrounding the regulation of the crypto economy requires us to exercise our judgement as to whether certain laws, rules and regulations apply to us or our customers, and it is possible that governmental bodies and regulators may disagree with our or our customers' conclusions. To the extent we or our customers have not complied with such laws, rules and regulations, we could be subject to significant fines and other regulatory consequences, which could adversely affect our business, prospects or operations. As cryptoassets have grown in popularity and in market size, the Federal Reserve Board, U.S. Congress and certain U.S. agencies (e.g., the Commodity Futures Trading Commission, the SEC, the Financial Crimes Enforcement Network and the Federal Bureau of Investigation) have begun to examine the operations of cryptoasset networks, cryptoasset users and cryptoasset exchange markets. Other countries around the world are likewise reviewing and, in some cases, increasing regulation of the cryptoasset industry. For instance, on September 24, 2021, China imposed a ban on all crypto transactions and mining.

Ongoing and future regulatory actions could effectively prevent our customers' mining operations and our ongoing or planned co-hosting operations, limiting or preventing future revenue generation by us or rendering our operations and crypto mining equipment obsolete. Such actions could severely impact our ability to continue to operate and our ability to continue as a going concern or to pursue our strategy at all, which would have a material adverse effect on our business, prospects or operations.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our unaudited condensed consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Our critical accounting policies and estimates are identified and described in our annual consolidated financial statements and the related notes included in our Annual Report, and there have been no material changes since the filing of our Annual Report.

Business Update

Cloud Services

Our Cloud services business operates through our Sai Computing brand and provides cloud services to customers, such as artificial intelligence and machine learning developers, to develop their advanced products.

During the six months ended November 30, 2023, the Company received and deployed an initial production cluster of 1,024 GPUs, and began recognizing revenue on our first cloud services contract.

HPC Hosting

Our HPC hosting business designs, builds, and operates datacenters which are designed to support high-compute applications using advanced and sophisticated infrastructures to provide services to customers.

The Company is in process of constructing a facility next to the Company's currently operating facilities in Jamestown, North Dakota, and Ellendale, North Dakota.

On January 15, 2024, the Company entered into a conditional agreement to provide HPC datacenter capacity at its Ellendale, North Dakota campus, subject to finalization of definitive lease documents. The conditional agreement is for a total of 100 MWs for a term of 10 years, with a total value of approximately $2.2 billion over such 10 year term. The conditional agreement is conditioned upon each party securing satisfactory financing for the completion of construction, with the ability of each party to terminate within 45 days, without penalty, if the condition is not satisfied.

Datacenter Hosting

Our Datacenter hosting business operates datacenters to provide energized space to crypto mining customers.

As of November 30, 2023, the Company's 106 MW facility in Jamestown, North Dakota and 180 MW facility in Ellendale, North Dakota were fully operational. During the quarter ended November 30, 2023, the Company entered into a long term

Retail Electric Service Agreement with TerraForm Power to provide energy to the Company's 200 MW Garden City, Texas facility and the Company began energizing the facility.

Results of Operations

Comparative Results for the Three and Six Months Ended November 30, 2023 and 2022:

The following table sets forth key components of the results of operations (in thousands) during the three and six months ended November 30, 2023 and 2022.

	Three Months Ended		Six Months Ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
Revenues				
Datacenter hosting revenue	$ 34,119	$ 8,747	$ 64,106	$ 13,086
Cloud services revenue	4,450	—	6,602	—
Related party datacenter hosting revenue	3,634	3,593	7,819	6,178
Total revenue	42,203	12,340	78,527	19,264
Costs and expenses:				
Cost of revenues	29,222	11,812	53,620	17,905
Selling, general and administrative	21,075	27,226	38,127	32,245
Loss from legal settlement	80	—	2,380	—
Total costs and expenses	50,377	39,038	94,127	50,150
Operating loss	(8,174)	(26,698)	(15,600)	(30,886)
Interest expense, net	2,355	364	4,430	709
Loss on extinguishment of debt	—	—	2,353	94
Net loss before income taxes	(10,529)	(27,062)	(22,383)	(31,689)
Income tax expenses	—	(312)	—	(280)
Net loss	(10,529)	(26,750)	(22,383)	(31,409)
Net loss attributable to noncontrolling interest	—	(133)	(397)	(261)
Net loss attributable to Applied Digital Corporation	$ (10,529)	$ (26,617)	$ (21,986)	$ (31,148)
Basic and diluted net loss per share	$ (0.10)	$ (0.28)	$ (0.21)	$ (0.33)
Basic and diluted weighted average number of shares outstanding	109,663,030	93,422,427	105,067,375	93,263,266
Adjusted Amounts [(a)]				
Adjusted operating loss	$ (2,800)	$ (3,721)	$ (1,040)	$ (6,722)
Adjusted operating margin	(7)%	(30)%	(1)%	(35)%
Adjusted net loss	$ (5,155)	$ (3,773)	$ (5,470)	$ (7,151)
Basic and diluted net loss per share	$ (0.05)	$ (0.04)	$ (0.05)	$ (0.08)
Other Financial Data [(a)]				
EBITDA	$ 5,250	$ (25,130)	$ 3,331	$ (28,276)
as a percentage of revenues	12 %	(204)%	4 %	(147)%
Adjusted EBITDA	$ 10,624	$ (2,153)	$ 20,244	$ (4,018)
as a percentage of revenues	25 %	(17)%	26 %	(21)%

(a) Adjusted Amounts and Other Financial Data are non-GAAP performance measures. A reconciliation of reported amounts to adjusted amounts can be found in the "Non-GAAP Measures and Reconciliation" section of the MD&A.

Commentary on Results of Operations Comparative Results for the Three Months Ended November 30, 2023 compared to the Three Months Ended November 30, 2022

Revenue

Datacenter hosting revenue increased $25.4 million, or 290%, from $8.7 million for the three months ended November 30, 2022 to $34.1 million for the three months ended November 30, 2023 driven primarily by a full quarter of revenue generation from the Company's Ellendale facility as well as the Garden City facility beginning revenue generation during the second quarter of fiscal year 2024.

Cloud services revenue increased $4.5 million, or 100%, from zero for the three months ended November 30, 2022 to $4.5 million for the three months ended November 30, 2023 driven by a full quarter of revenue generation as the Company began providing service to its cloud services customers during the first quarter of fiscal year 2024.

Related party datacenter hosting revenue was $3.6 million for the three months ended November 30, 2023 which was comparable to $3.6 million for the three months ended November 30, 2022.

Cost of revenues

Cost of revenues increased $17.4 million, or 147%, from $11.8 million for the three months ended November 30, 2022 to $29.2 million for the three months ended November 30, 2023. The increase was primarily driven by the growth in the business as more facilities were energized compared to the three months ended November 30, 2022. The change in cost of revenues are categorized as follows:

- approximately $8.2 million increase in energy costs used to generate revenue;
- approximately $7.7 million increase in depreciation and amortization expense attributable to owned and leased assets directly supporting revenue;
- approximately $1.0 million increase in personnel expenses for employees directly attributable to generating revenue; and
- approximately $0.5 million increase in other expenses directly attributable to generating revenue.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased $6.1 million, or 23%, from $27.2 million for the three months ended November 30, 2022 to $21.1 million for the three months ended November 30, 2023. The primary driver of the decrease was a $17.0 million decrease in stock based compensation expense, as the Company recognized a cumulative catch-up of expense in stock based compensation expense in the comparative period upon the Company's registration statement for the award shares being declared effective. This decrease was partially offset by the following increases:

- approximately $5.0 million increase in depreciation and amortization expense attributable to owned and leased assets that do not directly support revenue;
- approximately $2.0 million increase in employee salaries and benefits expense not directly attributable to revenues;
- approximately $1.9 million increase in other selling, general, and administrative expenses such as insurance premiums and computer and software expenses;
- approximately $1.5 million increase in colocation lease expenses, incurred prior to services being provided, due to the growth of the business; and
- approximately $0.5 million increase in professional service expenses incurred to support the growth of the business.

Other expenses

Interest expense, net increased $2.0 million, or 547%, from $0.4 million for the three months ended November 30, 2022 to $2.4 million for the three months ended November 30, 2023. The increase was driven by an increase in finance leases and interest-bearing loans between periods.

Income tax benefit

The income tax benefit decreased $0.3 million, or 100%, from a $0.3 million benefit for the three months ended November 30, 2022 to zero for the three months ended November 30, 2023. This change was driven by a change in valuation allowance for the three months ended November 30, 2023 compared to the three months ended November 30, 2022.

Commentary on Results of Operations Comparative Results for the Six Months Ended November 30, 2023 compared to the Six Months Ended November 30, 2022

Revenues

Datacenter hosting revenues increased $51.0 million, or 390%, from $13.1 million for the six months ended November 30, 2022 to $64.1 million for the six months ended November 30, 2023. The increase in datacenter hosting revenues was driven by a full six months of operations at our Ellendale, North Dakota facility as well as as well as the Garden City facility beginning revenue generation during the second quarter of fiscal year 2024.

Cloud services revenue increased $6.6 million, or 100%, from zero for the six months ended November 30, 2022 to $6.6 million for the six months ended November 30, 2023 due to revenue from the Company's first cloud services contract, which started during the first quarter of fiscal year 2024.

Related party datacenter hosting revenue increased $1.6 million, or 27%, from $6.2 million for the six months ended November 30, 2022 to $7.8 million for the six months ended November 30, 2023 driven by increased uptime at the Company's Jamestown, North Dakota facility.

Cost of revenues

Cost of revenues increased by $35.7 million, or 199%, from $17.9 million for the six months ended November 30, 2022 to $53.6 million for the six months ended November 30, 2023. The increase is primarily driven by the growth in the business as more facilities were energized compared to the six months ended November 30, 2022. The change in cost of revenues are categorized as follows:

- approximately $21.1 million increase in energy costs used to generate revenue;
- approximately $11.6 million increase in depreciation and amortization expense attributable to owned and leased assets directly supporting revenue;
- approximately $2.1 million increase in personnel expenses for employees directly attributable to generating revenue; and
- approximately $0.9 million increase in other expenses directly attributable to generating revenue.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by $5.9 million, or 18%, from $32.2 million for the six months ended November 30, 2022 to $38.1 million for the six months ended November 30, 2023. The primary drivers of the change to selling, general and administrative expense for the six months ended November 30, 2023 were:

- approximately $7.8 million increase in depreciation and amortization expense not attributable to owned and leased assets directly supporting revenue;
- approximately $3.8 million increase in employee salaries and benefits expense not directly attributable to revenues;
- approximately $3.7 million increase in other selling, general, and administrative expenses such as insurance premiums and computer and software expenses;
- approximately $1.9 million increase in colocation lease expenses, incurred prior to services being provided, due to the growth of the business; and
- approximately $0.7 million increase in professional service expenses incurred to support the growth of the business.

These increases were partially offset by a $12.0 million decrease in stock based compensation expense, as the Company recognized a cumulative catch-up of expense in stock based compensation expense in the comparative period upon the Company's registration statement for the award shares being declared effective.

Loss from Legal Settlement

Loss from legal settlement was $2.4 million for the six months ended November 30, 2023 primarily due to a settlement agreement entered into by the Company in respect to employment-related claims by a former executive. The terms of the settlement include payment to the claimant of $2.3 million.

Other expenses

Interest expense, net increased $3.7 million, or 525% , from $0.7 million for the six months ended November 30, 2022 to $4.4 million for the six months ended November 30, 2023 driven by an increase in finance leases and change in the Company's debt obligations between periods.

Loss on extinguishment of debt increased $2.3 million, or 2403%, from $0.1 million for the six months ended November 30, 2022 to $2.4 million for the six months ended November 30, 2023. The increase was driven by the termination fees to extinguish the B. Riley loan during the six months ended November 30, 2023.

Income tax benefit

Income tax benefit decreased $0.3 million or 100% from a $0.3 million benefit for the six months ended November 30, 2022 to zero for the six months ended November 30, 2023. This change was driven by a change in valuation allowance for the six months ended November 30, 2023 compared to the six months ended November 30, 2022.

Comparative Segment Data for the Three and Six Months Ended November 30, 2023 and 2022:

The following table sets forth the Company's operating profit for each of our segments for the three and six months ended November 30, 2023 and 2022 (in thousands):

	Three Months Ended		Six Months Ended	
	November 30, 2023	**November 30, 2022**	**November 30, 2023**	**November 30, 2022**
Segment Operating Profit (Loss):				
Datacenter hosting segment	10,846	(14,236)	19,804	(15,101)
Cloud services segment	$ (11,719)	$ —	$ (19,129)	$ —
HPC hosting segment	(908)	—	(1,662)	—
Total segment profit	$ (1,781)	$ (14,236)	$ (987)	$ (15,101)

Commentary on Segment Data Comparative Results for the Three Months Ended November 30, 2023 compared to the Three Months Ended November 30, 2022

Datacenter Hosting Segment

Operating Profit

Datacenter hosting operating profit increased $25.1 million, or 176% from a loss of $14.2 million for the three months ended November 30, 2022 to a profit of $10.8 million for the three months ended November 30, 2023. The change is driven by full energization of the Company's Ellendale, North Dakota and Jamestown, North Dakota facilities during the three months ended November 30, 2023, relative to operations only at the Company's Jamestown facility during the the three months ended November 30, 2022. The change is also driven by a decrease in stock-based compensation between the periods.

Cloud Services Segment

Operating Loss

Cloud services operating loss increased $11.7 million, from zero for the three months ended November 30, 2022 to $11.7 million for the three months ended November 30, 2023. The operating loss is primarily driven by amortization expense on finance leases on computing equipment, occupancy costs from operating leases, and stock-based compensation expense attributable to the segment.

HPC Hosting Segment

Operating Loss

HPC hosting operating loss increased $0.9 million, or 100% from zero to $0.9 million due to the Company launching the segment during the current period. The loss is largely comprised of stock-based compensation expense, payroll, and amortization expense related to finance leases in the HPC hosting buildout.

Commentary on Segment Data Comparative Results for the Six Months Ended November 30, 2023 compared to the Six Months Ended November 30, 2022

Datacenter Hosting Segment

Operating Profit

Datacenter hosting operating profit increased $34.9 million, or 231% from a loss of $15.1 million for the six months ended November 30, 2022 to a profit of $19.8 million for the six months ended November 30, 2023. The change is driven by a full six months of operations at our Ellendale, North Dakota facility as well as the Garden City facility beginning revenue generation during the second quarter of fiscal year 2024. The change is also driven by a decrease in stock-based compensation between the periods.

Cloud Services Segment

Operating Loss

Cloud services operating loss increased $19.1 million, from zero for the six months ended November 30, 2022 to $19.1 million for the six months ended November 30, 2023 primarily driven by amortization expense on finance leases on computing equipment, occupancy costs from operating leases, and stock-based compensation expense attributable to the segment.

HPC Hosting Segment

Operating Loss

HPC hosting operating loss increased $1.7 million, or 100% from zero to $1.7 million due to the Company launching the segment during the current period. The loss is largely comprised of stock-based compensation expense, payroll, and amortization expense related to finance leases in the HPC hosting buildout.

Non-GAAP Measures

Adjusted Operating Loss and Adjusted Net Loss

"Adjusted Operating Loss" is a non-GAAP measure that represents operating loss excluding stock-based compensation, loss from legal settlement, non-recurring professional service costs and other non-recurring expenses. "Adjusted Net Loss" is a non-GAAP measure that represents net loss excluding stock-based compensation, loss on extinguishment of debt, loss on legal settlement, non-recurring professional services costs and other non-recurring expenses. We believe these are useful metrics as they provide additional information regarding factors and trends affecting our business and provide perspective on results absent one-time or significant non-cash items. However, the Company's presentation of these measures should not be construed as an inference that its future results will be unaffected by unusual or non-recurring items. The Company's computation of Adjusted Operating Loss and Adjusted Net Loss may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted Operating Loss and Adjusted Net Loss in the same fashion.

Because of these limitations, Adjusted Operating Loss and Adjusted Net Loss should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. The Company compensates for these limitations by relying primarily on its GAAP results and using Adjusted Operating Loss and Adjusted Net Loss on a supplemental basis. You should review the reconciliation of operating loss to Adjusted Operating Loss and net loss to Adjusted Net Loss above and not rely on any single financial measure to evaluate the Company's business.

EBITDA and Adjusted EBITDA

"EBITDA" is defined as earnings before interest, taxes, and depreciation and amortization. "Adjusted EBITDA" is defined as EBITDA adjusted for stock-based compensation, loss on extinguishment of debt, loss from legal settlement, non-recurring professional service costs, and other non-recurring expenses. These costs have been adjusted as they are not indicative of business operations. Adjusted EBITDA is intended as a supplemental measure of the Company's performance that is neither required by, nor presented in accordance with, GAAP. The Company believes that the use of EBITDA and Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing its financial measures with those of comparable companies, which may present similar non-GAAP financial measures to investors. We also believe EBITDA and Adjusted EBITDA are useful metrics to investors because they provide additional information regarding factors and trends affecting our business, which are used in the business planning process to understand expected operating performance, to evaluate results against those expectations, and because of their importance as measures of underlying operating performance, as the primary compensation performance measure under certain programs and plans. However, you should be aware that when evaluating EBITDA and Adjusted EBITDA, the Company may incur future expenses similar to those excluded when calculating these measures. In addition, the Company's presentation of these measures should not be construed as an inference that its future results will be unaffected by unusual or non-recurring items. the Company's computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies may not calculate Adjusted EBITDA in the same fashion.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. The Company compensates for these limitations by relying primarily on its GAAP results and using EBITDA and Adjusted EBITDA on a supplemental basis. You should review the reconciliation of net loss to EBITDA and Adjusted EBITDA above and not rely on any single financial measure to evaluate the Company's business.

Reconciliation of GAAP to Non-GAAP Measures

$ in thousands	Three Months Ended November 30, 2023	Three Months Ended November 30, 2022	Six Months Ended November 30, 2023	Six Months Ended November 30, 2022
Adjusted operating loss				
Operating loss (GAAP)	$ (8,174)	$ (26,698)	$ (15,600)	$ (30,886)
Stock-based compensation	4,799	21,819	10,440	22,398
Loss from legal settlement	80	—	2,380	—
Non-recurring professional service costs [(a)]	495	664	1,087	1,072
Other non-recurring expenses [(b)]	—	494	653	694
Adjusted operating loss (Non-GAAP)	$ (2,800)	$ (3,721)	$ (1,040)	$ (6,722)
Adjusted operating margin	(7)%	(30)%	(1)%	(35)%
Adjusted net loss				
Net loss (GAAP)	$ (10,529)	$ (26,750)	$ (22,383)	$ (31,409)
Stock-based compensation	4,799	21,819	10,440	22,398
Loss on extinguishment of debt	—	—	2,353	94
Loss from legal settlement	80	—	2,380	—
Non-recurring professional service costs [(a)]	495	664	1,087	1,072
Other non-recurring expenses [(b)]	—	494	653	694
Adjusted net loss (Non-GAAP)	$ (5,155)	$ (3,773)	$ (5,470)	$ (7,151)
Adjusted net loss per share (Non-GAAP)	$ (0.05)	$ (0.04)	$ (0.05)	$ (0.08)
EBITDA and Adjusted EBITDA				
Net loss (GAAP)	$ (10,529)	$ (26,750)	$ (22,383)	$ (31,409)
Interest expense, net	2,355	364	4,430	709
Income tax benefit (expense)	—	(312)	—	(280)
Depreciation and amortization	13,424	1,568	21,284	2,704
EBITDA (Non-GAAP)	$ 5,250	$ (25,130)	$ 3,331	$ (28,276)
Stock-based compensation	4,799	21,819	10,440	22,398
Loss on extinguishment of debt	—	—	2,353	94
Loss from legal settlement	80	—	2,380	—
Non-recurring professional service costs [(a)]	495	664	1,087	1,072
Other non-recurring expenses [(b)]	—	494	653	694
Adjusted EBITDA (Non-GAAP)	$ 10,624	$ (2,153)	$ 20,244	$ (4,018)

(a) Non-recurring professional service costs represents legal, accounting, and other professional services costs related to non-recurring transactions.

(b) Other non-recurring expenses include expenses related to non-recurring research and development activities, asset abandonment charges, and other expenses that are not representative of the Company's expected ongoing costs.

Sources of Liquidity

As of November 30, 2023, the Company had unrestricted cash and cash equivalents of $9.2 million and negative working capital of $166.0 million. Historically the Company has incurred losses and has relied on equity and debt financings to fund its operations. We have primarily generated cash in the last 12 months from the proceeds of our term loans, issuance of common stock, and the receipt of contractual deposits and revenue payments from customers.

See Note 6 - Debt to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information on our term loans.

On June 27, 2023, the Company began issuing and selling common stock under an "at the market" sales agreement, with Craig-Hallum Capital, pursuant to which the Company may sell up to $125 million in aggregate proceeds from sales of common stock. As of November 30, 2023, the Company has sold approximately 14.8 million shares. Net proceeds, less commission and legal fees of approximately $3.3 million, were approximately $97.9 million. The Company received an additional $23.1 million in proceeds subsequent to November 30, 2023. The at the market offering is now complete.

During the six months ended November 30, 2023, we received $81.8 million in payments for future datacenter hosting services.

Further, during December 2023, the Company received payments from cloud services customers totaling $8.1 million and $3.0 million from datacenter hosting customers for future services.

Funding Requirements

We have experienced net losses through the period ended November 30, 2023. Our transition to profitability is dependent on the successful operation of our three lines of business. The Company expects to have sufficient liquidity, including cash on hand, payments from customers, and access to public capital markets, to support ongoing operations. We believe these activities will be sufficient to meet our working capital needs for at least the next 12 months and all of the Company's known requirements and plans for cash. We have based our estimates as to how long we expect we will be able to fund our operations on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect, in which case, we would be required to obtain additional financing sooner than currently projected, which may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy.

We expect that our general and administrative expenses and our operating expenditures will continue to increase as we continue to expand our operations. We believe that the significant investments in property and equipment will remain throughout fiscal year 2024 as we continue construction of our HPC hosting facilities and acquire assets to support our cloud services business. We also expect that our revenues will increase as we continue to bring online additional capacity at our Garden City, Texas location and within our cloud services contracts.

Summary of Cash Flows

The following table provides information about the Company's net cash flow (in thousands) for the six months ended November 30, 2023 and November 30, 2022, respectively.

	Six Months Ended	
$ in thousands	**November 30, 2023**	**November 30, 2022**
Net cash provided by operating activities	$ 9,056	$ 27,979
Net cash used in investing activities	(65,608)	(70,305)
Net cash provided by financing activities	47,611	14,101
Net decrease in cash and cash equivalents	(8,941)	(28,225)
Cash, cash equivalents, and restricted cash at beginning of year	43,574	46,299
Cash, cash equivalents, and restricted cash at end of period	$ 34,633	$ 18,074

Commentary on the change in cash flows between the Six Months Ended November 30, 2023 and Six Months Ended November 30, 2022

Operating Activities

The net cash provided by operating activities decreased by $18.9 million, or 68%, from $28.0 million for the six months ended November 30, 2022 to $9.1 million for the six months ended November 30, 2023. The primary reason for the change was a decrease in revenue prepayments received relative to revenue earned during the six months ended November 30, 2023 as well as an increase in payments associated with our operating leases.

Investing Activities

The net cash used in investing activities decreased by $4.7 million, from $70.3 million for the six months ended November 30, 2022 to $65.6 million for the six months ended November 30, 2023. The primary reason for the change was a reduction in investments in property, plant, and equipment as the Company had completed most of the Ellendale, North Dakota and Garden City, Texas facilities as of the beginning of the current period. This reduction was partially offset by an increase in finance lease prepayments made for leases on hosting equipment to support the Company's cloud services business during the six months ended November 30, 2023.

Financing Activities

The net cash provided by financing activities increased by $33.5 million, or 238%, from $14.1 million for the six months ended November 30, 2022 to $47.6 million for the six months ended November 30, 2023. The primary reason for the change was the receipt of net proceeds from the Company's common stock offering which was partially offset by an increase in debt repayments and an increase in finance lease payments during the six months ended November 30, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, and as a result of the material weaknesses described below, our Chief Executive Officer and Chief Financial Officer concluded that, as of November 30, 2023, our disclosure controls and procedures were not effective at the reasonable assurance level.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual and interim financial statements will not be detected or prevented on a timely basis.

We have identified the following material weaknesses in the design of our internal controls:

- We have not designed and implemented controls to ensure we can record, process, summarize, and report financial data.
- We have not yet designed and implemented user access controls to ensure appropriate segregation of duties that would adequately restrict user and privileged access to the financially relevant systems and data to appropriate personnel.
- We did not design and maintain effective controls associated with related party transactions and disclosures. Controls in place were not designed or implemented at a sufficient level of precision or rigor to effectively identify related party relationships and disclose their related transactions in our financial statements.
- We also do not have a properly designed internal control system that identifies critical processes and key controls.

In order to remediate these material weaknesses, we are taking the following steps, among others:

1. continued hiring of additional qualified accounting and financial reporting personnel to support division of responsibilities;
2. improving and updating our systems;
3. developing IT general controls to manage access and program changes across our key systems and the execution of improvements to application controls within our systems; and
4. implementing processes and controls to better identify and manage segregation of duties.

We will not be able to fully remediate the material weaknesses until these steps have been completed and have been operating effectively for a sufficient period of time.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting, other than the remediation steps described above that are in process, that occurred during the three months ended November 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

The Company, Wes Cummins, the Company's Chief Executive Officer, and David Rench, the Company's Chief Financial Officer, have been named as a defendants in a class action lawsuit that was filed in August 2023 in the U.S. District Court for the Northern District of Texas (McConnell v. Applied Digital Corporation et al., Case No. 3:23-cv-1805). The case is in an early stage and the class has not yet been certified. The Company has not yet responded to the complaint. At this time, the Company is unable to estimate potential losses, if any, related to this action. While it is not possible to predict the outcome of these matters with certainty, we do not expect the results of this action to have a material adverse effect on our results of operations or financial position. However, this matter is subject to uncertainties, and we could incur judgments or enter into settlements of claims that could adversely affect our financial position, results of operations or cash flows.

On November 15, 2023, a putative securities complaint, captioned *Robert Weich v. Wes Cummins, Chuck Hastings, Kelli McDonald, Douglas Miller, Virginia Moore, and Richard Nottenburg,* No. A-23-881629-C, was filed in the U.S. District Court for the District of Nevada against certain members of the Company's Board of Directors and two of its officers, Chief Executive Officer Wesley Cummins and Chief Financial Officer David Rench, asserting breaches of fiduciary duties and unjust enrichment from April 2022 through the present. The complaint alleges that the defendants made materially false and misleading statements regarding the Company's business, operations, and compliance policies. Specifically, the complaint alleges that the Company overstated the profitability of its datacenter hosting business and its ability to successfully transition into a low-cost cloud services provider and that the Company's board of directors was not "independent" within the meaning of NASDAQ listing rules.

Item 1A. Risk Factors

A description of the risk factors associated with our business is contained in the "Risk Factors" section of our Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description of Document
10.1*	Form of Indemnification Agreement by and between Applied Digital Corporation and individual directors or officers.
31.1*	Chief Executive Officer’s Certificate Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Chief Financial Officer’s Certificate Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Press Release dated January 16, 2024.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension 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).

* Filed herewith.

** Furnished herewith.

Signatures

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED DIGITAL CORPORATION

Date:	January 16, 2024	By:	/s/ Wesley Cummins Wesley Cummins Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
Date:	January 16, 2024	By:	/s/ David Rench David Rench Chief Financial Officer (Principal Financial Officer)

INDEMNITY AGREEMENT

This Indemnity Agreement is made as of [●], 20[●], by and between Applied Digital Corporation, a Nevada corporation (the "Company") and [●] (the "Indemnitee").

RECITALS

A. The Company is aware that competent and experienced persons are increasingly reluctant to serve as directors, officers or agents of corporations unless they are protected by comprehensive liability insurance or indemnification, due to increased exposure to litigation costs and risks resulting from their service to such corporations, and due to the fact that the exposure frequently bears no reasonable relationship to the compensation of such directors, officers and other agents.

B. The statutes and judicial decisions regarding the duties of directors and officers are often difficult to apply, ambiguous, or conflicting, and therefore fail to provide such directors, officers and agents with adequate, reliable knowledge of legal risks to which they are exposed or information regarding the proper course of action to take.

C. Plaintiffs often seek damages in such large amounts and the costs of litigation may be so enormous (whether or not the case is meritorious), that the defense and/or settlement of such litigation is often beyond the personal resources of directors, officers and other agents.

D. The Company believes that it is unfair for its directors, officers and agents and the directors, officers and agents of its subsidiaries to assume the risk of huge judgments and other expenses which may occur in cases in which the director, officer or agent received no personal profit and in cases where the director, officer or agent was not culpable.

E. The Company recognizes that the issues in controversy in litigation against a director, officer or agent of a corporation such as the Company or its subsidiaries are often related to the knowledge, motives and intent of such director, officer or agent, that the Indemnitee is usually the only witness with knowledge of the essential facts and exculpating circumstances regarding such matters, and that the long period of time which usually elapses before the trial or other disposition of such litigation often extends beyond the time that the director, officer or agent can reasonably recall such matters and may extend beyond the normal time for retirement for such director, officer or agent with the result that the Indemnitee, after retirement or in the event of the Indemnitee's death, the Indemnitee's spouse, heirs, executors or administrators, may be faced with limited ability and undue hardship in maintaining an adequate defense, which may discourage such a director, officer or agent from serving in that position.

F. Based upon their experience as business managers, the Board of Directors of the Company (the "Board") has concluded that, to retain and attract talented and experienced individuals to serve as directors, officers and agents of the Company and its subsidiaries and to encourage such individuals to take the business risks necessary for the success of the Company and its subsidiaries, it is necessary for the Company to contractually indemnify its directors, officers and agents and the directors, officers and agents of its subsidiaries, and to assume for itself maximum liability for expenses and damages in connection with claims against such directors, officers and agents in connection with their service to the Company and its subsidiaries, and has further concluded that the failure to provide such contractual indemnification could result in great harm to the Company and its subsidiaries and the Company's stockholders.

G. Section 78.7502 of the Nevada Revised Statutes, under which the Company is organized ("Section 78.7502"), empowers the Company to indemnify its directors, officers, employees and agents by agreement and to indemnify persons who serve, at the request of the Company, as the directors, officers, employees or agents of other corporations or enterprises, and expressly provides that the indemnification provided by Section 78.7502 is not exclusive.

H. The Company desires and has requested the Indemnitee to serve or continue to serve as a director, officer or agent of the Company and/or one (1) or more subsidiaries of the Company free from undue concern for claims for damages arising out of or related to such services to the Company and/or one (1) or more subsidiaries of the Company.

I. The Indemnitee is willing to serve, or to continue to serve, the Company and/or one (1) or more subsidiaries of the Company, provided that the Indemnitee is furnished the indemnity provided for herein.

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions.

(a) Agent. For the purposes of this Agreement, "agent" of the Company means any person who is or was a director, officer, employee or other agent of the Company or a subsidiary of the Company; or is or was serving at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company as a director, officer, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise; or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the Company or a subsidiary of the Company, or was a director, officer, employee or agent of another enterprise at the request of, for the convenience of, or to represent the interests of such predecessor corporation.

(b) Expenses. For purposes of this Agreement, "expenses" include all out-of-pocket costs of any type or nature whatsoever (including, without limitation, all attorneys' fees and related disbursements), actually and reasonably incurred by the Indemnitee in connection with either the investigation, defense or appeal of a proceeding or establishing or enforcing a right to indemnification under this Agreement or Section 78.7502 or otherwise; provided, however, that "expenses" shall not include any judgments, fines, ERISA excise taxes or penalties, or amounts paid in settlement of a proceeding.

(c) Proceeding. For the purposes of this Agreement, "proceeding" means any threatened, pending, or completed action, suit or other proceeding, whether civil, criminal, administrative, or investigative.

(d) Subsidiary. For purposes of this Agreement, "subsidiary" means any corporation of which more than fifty percent (50%) of the outstanding voting securities is owned directly or indirectly by the Company, by the Company and one (1) or more other subsidiaries, or by one (1) or more other subsidiaries.

2. Agreement to Serve. The Indemnitee agrees to serve and/or continue to serve as agent of the Company, at its will (or under separate agreement, if such agreement exists), in the capacity the Indemnitee currently serves as an agent of the Company, so long as the Indemnitee is duly appointed or elected and qualified in accordance with the applicable provisions of the Bylaws of the Company or any subsidiary of the Company or until such time as the Indemnitee tenders such Indemnitee's resignation in writing; provided, however, that nothing contained in this Agreement is intended to create any right to continued employment of the Indemnitee by the Company.

3. Liability Insurance.

(a) Maintenance of D&O Insurance. The Company hereby covenants and agrees that, so long as the Indemnitee shall continue to serve as an agent of the Company and thereafter so long as the Indemnitee shall be subject to any possible proceeding by reason of the fact that the Indemnitee was an agent of the Company, the Company, subject to Section 3(c), shall promptly obtain and maintain in full force and effect directors' and officers' liability insurance ("D&O Insurance") in reasonable amounts from established and reputable insurers.

(b) Rights and Benefits. In all policies of D&O Insurance, the Indemnitee shall be named as an insured in such a manner as to provide the Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if the Indemnitee is a director; or of the Company's officers, if the Indemnitee is not a director of the Company but is an officer; or of the Company's key employees, if the Indemnitee is not a director or officer but is a key employee.

(c) Limitation on Required Maintenance of D&O Insurance. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain D&O Insurance if the Company determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or the Indemnitee is covered by similar insurance maintained by a subsidiary of the Company.

4. Mandatory Indemnification. The Company shall indemnify the Indemnitee to the fullest extent permitted by Nevada law (including, without limitation, Nevada Revised Statutes 78.7502 and 78.751, and in particular 78.751(3)), the Articles of Incorporation of the Company, as amended (the "Articles") and the bylaws of the Company, as amended (the "Bylaws") in effect on the date hereof or as Nevada law, the Articles or the Bylaws may from time to time be amended (but, in the case of any such amendment, only to the extent such amendment permits the Company to provide broader indemnification rights than Nevada law, the Articles and the Bylaws permitted the Company to provide before such amendment). Such indemnification shall include, without limitation, the rights granted to Indemnitee under this Agreement.

(a) Third Party Actions. If the Indemnitee is a person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the Company) by reason of the fact that the Indemnitee is or was an agent of the Company, or by reason of anything done or not done by the Indemnitee in any such capacity, the Company shall indemnify the Indemnitee against any and all expenses and liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes and penalties, and amounts paid in settlement) actually and reasonably incurred by the Indemnitee in connection with the investigation, defense, settlement or appeal of such proceeding, provided the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its stockholders, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the Indemnitee's conduct was unlawful.

(b) Derivative Actions. If the Indemnitee is a person who was or is a party or is threatened to be made a party to any proceeding by or in the right of the Company by reason of the fact that the Indemnitee is or was an agent of the Company, or by reason of anything done or not done by the Indemnitee in any such capacity, the Company shall indemnify the Indemnitee against all expenses actually and reasonably incurred by the Indemnitee in connection with the investigation, defense, settlement, or appeal of such proceeding, provided the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and its stockholders; except that no indemnification under this Section 4(b) shall be made in respect to any claim, issue or matter as to which such person shall have been finally adjudged to be liable to the Company by a court of competent jurisdiction unless and only to the extent that the court in which such proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such amounts which the court shall deem proper.

(c) Actions where the Indemnitee is Deceased. If the Indemnitee is a person who was or is a party or is threatened to be made a party to any proceeding by reason of the fact that the Indemnitee is or was an agent of the Company, or by reason of anything done or not done by the Indemnitee in any such capacity, and if prior to, during the pendency of after completion of such proceeding the Indemnitee becomes deceased, the Company shall indemnify the Indemnitee's heirs, executors and administrators against any and all expenses and liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes and penalties, and amounts paid in settlement) actually and reasonably incurred to the extent the Indemnitee would have been entitled to indemnification pursuant to Sections 4(a) or 4(b) above were the Indemnitee still alive.

(d) Limitations. Notwithstanding the foregoing, the Company shall not be obligated to indemnify the Indemnitee for expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes and penalties, and amounts paid in settlement) for which payment is actually made to or on behalf of the Indemnitee under a valid and collectible insurance policy of D&O Insurance, or under a valid and enforceable indemnity clause, by-law or agreement.

5. Partial Indemnification. If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any expenses or liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes and penalties, and amounts paid in settlement) incurred by the Indemnitee in the investigation, defense, settlement or appeal of a proceeding, but not entitled, however, to indemnification for all of the total amount hereof, the Company shall nevertheless indemnify the Indemnitee for such total amount except as to the portion hereof to which the Indemnitee is not entitled.

6. Advancement of Expenses. The Company shall, to the fullest extent permitted by applicable law, advance all expenses (including attorneys' fees, costs and expenses) incurred by the Indemnitee in connection with the investigation, defense, settlement or appeal of any proceeding to which the Indemnitee is a party or is threatened to be made a party by reason of the fact that the Indemnitee is or was an agent of the Company. The Indemnitee hereby undertakes to repay any such amounts so advanced (without interest) if, and to the extent that, it shall be determined ultimately that the Indemnitee is not entitled to be indemnified by the Company as authorized hereby. The advances to be made hereunder, if any, shall be paid by the Company to the Indemnitee within twenty (20) days following delivery of a written request therefor by the Indemnitee to the Company. In the event that the Company fails to pay expenses as incurred by the Indemnitee as required by this Section 6, the Indemnitee may seek mandatory injunctive relief from any court having jurisdiction to require the Company to pay expenses as set forth in this Section 6. If the Indemnitee seeks mandatory injunctive relief pursuant to this Section 6, it shall not be a defense to enforcement of the Company's obligations set forth in this Section 6 that the Indemnitee has an adequate remedy at law for damages. Notwithstanding the foregoing, this Section 6 shall not apply to any claim made by the Indemnitee for which indemnity is excluded pursuant to Section 9.

7. Notice and Other Indemnification Procedures.

(a) Notice by the Indemnitee. Promptly after receipt by the Indemnitee of notice of the commencement of or the threat of commencement of any proceeding, the Indemnitee shall, if the Indemnitee believes that indemnification with respect thereto may be sought from the Company under this Agreement, notify the Company in writing (email being sufficient) of the commencement or threat of commencement thereof.

(b) Notice by the Company. If, at the time of the receipt of a notice of the commencement of a proceeding pursuant to Section 7(a) hereof, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) Defense. In the event the Company shall be obligated to pay the expenses of any proceeding against the Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such proceeding, with counsel approved by the Indemnitee, upon the delivery to the Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by the Indemnitee and the retention of such counsel by the Company, the Company will not be liable to the Indemnitee under this Agreement for any fees of counsel subsequently incurred by the Indemnitee with respect to the same proceeding, provided that (i) the Indemnitee shall have the right to employ counsel in any such proceeding at the Indemnitee's expense; and (ii) if (A) the employment of counsel by the Indemnitee has been previously authorized by the Company, (B) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of any such defense, or (C) the Company shall not, in fact, have employed counsel to assume the defense of such proceeding, then the fees and expenses of the Indemnitee's counsel shall be at the expense of the Company.

8. Determination of Right to Indemnification.

(a) Successful Defense. To the extent the Indemnitee has been successful on the merits or otherwise in defense of any proceeding (including, without limitation, an action by or in the right of the Company) to which the Indemnitee was a party by reason of the fact that the Indemnitee is or was an agent of the Company at any time, the Company shall indemnify the Indemnitee against all expenses of any type whatsoever actually and reasonably incurred by the Indemnitee in connection with the investigation, defense or appeal of such proceeding.

(b) Other Situations. In the event that Section 8(a) is inapplicable, the Company shall also indemnify the Indemnitee unless, and except to the extent that, the Company shall prove by clear and convincing evidence in a forum listed in Section 8(c) below that the Indemnitee has not met the applicable standard of conduct required to entitle the Indemnitee to such indemnification.

(c) Selection of Forum. The Indemnitee shall be entitled to select the forum in which the validity of the Company's claim under Section 8(b) hereof that the Indemnitee is not entitled to indemnification will be heard from among the following:

(i) A quorum of the Board consisting of directors who are not parties to the proceeding for which indemnification is being sought;

(ii) The stockholders of the Company;

(iii) Legal counsel selected by the Indemnitee, and reasonably approved by the Board, which counsel shall make such determination in a written opinion; or

(iv) A panel of three (3) arbitrators, one (1) of whom is selected by the Company, another of whom is selected by the Indemnitee and the last of whom is selected by the first two (2) arbitrators so selected.

(d) Submission to Forum. As soon as practicable, and in no event later than thirty (30) days after written notice of the Indemnitee's choice of forum pursuant to Section 8(c) above, the Company shall, at its own expense, submit to the selected forum in such manner as the Indemnitee or the Indemnitee's counsel may reasonably request, its claim that the Indemnitee is not entitled to indemnification; and the Company shall act in the utmost good faith to assure the Indemnitee a complete opportunity to defend against such claim.

(e) Application to Court. Notwithstanding a determination by any forum listed in Section 8(c) hereof that the Indemnitee is not entitled to indemnification with respect to a specific proceeding, the Indemnitee shall have the right to apply to the New York Supreme Court, the court in which that proceeding is or was pending or any other court of competent jurisdiction, for the purpose of enforcing the Indemnitee's right to indemnification pursuant to this Agreement.

(f) Expenses Related to this Agreement. Notwithstanding any other provision in this Agreement to the contrary, the Company shall indemnify the Indemnitee against all expenses incurred by the Indemnitee in connection with any hearing or proceeding under this Section 8 involving the Indemnitee and against all expenses incurred by the Indemnitee in connection with any other proceeding between the Company and the Indemnitee involving the interpretation or enforcement of the rights of the Indemnitee under this Agreement unless a court of competent jurisdiction finds that each of the claims and/or defenses of the Indemnitee in any such proceeding was frivolous or made in bad faith.

9. Limitations on Indemnification. Notwithstanding any other provision herein to the contrary, the Company shall not be obligated pursuant to this Agreement:

(a) Claims Initiated by Indemnitee. To indemnify or advance expenses to the Indemnitee with respect to an action, suit or proceeding (or part thereof) initiated voluntarily by the Indemnitee (except with respect to any compulsory counterclaim brought by the Indemnitee or an action, suit or proceeding brought to establish or enforce a right to indemnification or advancement of expenses under this Agreement), unless such action, suit or proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Company;

(b) Section 16(b) Matters. To indemnify the Indemnitee on account of any suit in which judgment is rendered against the Indemnitee for disgorgement of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended; or

(c) Prohibited by Law. To indemnify the Indemnitee in any circumstance where such indemnification has been determined by a final (not interlocutory) judgment or other adjudication of a court or arbitration or administrative body of competent jurisdiction as to which there is no further right or option of appeal or the time within which an appeal must be filed has expired without such filing to be prohibited by law.

10. Non-exclusivity. The provisions for indemnification and advancement of expenses set forth in this Agreement shall not be deemed exclusive of any other rights which the Indemnitee may have under any provision of law, the Company's Articles or Bylaws, the vote of the Company's stockholders or disinterested directors, other agreements, or otherwise, both as to action in the Indemnitee's official capacity and to action in another capacity while occupying the Indemnitee's position as an agent of the Company, and the Indemnitee's rights hereunder shall continue after the Indemnitee has ceased acting as an agent of the Company and shall inure to the benefit of the heirs, executors and administrators of the Indemnitee.

11. Enforcement. Any right to indemnification or advances granted by this Agreement to the Indemnitee shall be enforceable by or on behalf of the Indemnitee in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. The Indemnitee, in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting the Indemnitee's claim. It shall be a defense to any action for which a claim for indemnification is made under this Agreement (other than an action brought to enforce a claim for expenses pursuant to Section 6 hereof, provided that the required undertaking has been tendered to the Company) that the Indemnitee is not entitled to indemnification because of the limitations set forth in Sections 4 and 9 hereof. Neither the failure of the Company (including its Board or its stockholders) to have made a determination prior to the commencement of such enforcement action that indemnification of the Indemnitee is proper in the circumstances, nor an actual determination by the Company (including its Board or its stockholders) that such indemnification is improper, shall be a defense to the action or create a presumption that the Indemnitee is not entitled to indemnification under this Agreement or otherwise.

12. Subrogation. In the event the Company is obligated to make a payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery under an insurance policy or any other indemnity agreement covering the Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

13. Survival of Rights.

(a) All agreements and obligations of the Company contained herein shall continue during the period the Indemnitee is an agent of the Company and shall continue thereafter so long as the Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal, arbitrational, administrative or investigative, by reason of the fact that the Indemnitee was serving in the capacity referred to herein.

(b) The Company shall require any successor to the Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

14. Interpretation of Agreement. It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification to the Indemnitee to the fullest extent permitted by law including those circumstances in which indemnification would otherwise be discretionary.

15. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of the Agreement (including without limitation, all portions of any paragraphs of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable and to give effect to Section 14 hereof.

16. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

17. Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed duly given (i) when personally delivered by hand or recognized courier and receipted for by the party addressee, on the date of such receipt, (ii) if mailed by certified or registered mail with postage prepaid, on the third business day after the mailing date or (iii) if sent by confirmed facsimile, on the date sent. Addresses for notice to either party are as shown on the signature page of this Agreement, or as subsequently modified by written notice.

18. Governing Law. This Agreement shall be governed exclusively by and construed according to the laws of the State of Nevada as applied to contracts between Nevada residents entered into and to be performed entirely within Nevada. If, notwithstanding the foregoing, a court of competent jurisdiction shall make a final determination that the provisions of the law of any state other than Nevada govern indemnification by the Company of the Indemnitee, then the indemnification provided under this Agreement shall in all instances be enforceable to the fullest extent permitted under such law, notwithstanding any provision of this Agreement to the contrary.

[*Remainder of Page Intentionally Left Blank*]

The parties hereto have entered into this Indemnity Agreement effective as of the date first above written.

The Company: APPLIED DIGITAL CORPORATION

By: ________
Name:
Title:
Address: 3811 Turtle Creek Blvd., Suite 2100
Dallas, TX 75219

The Indemnitee: [●]

____
[signature]

Address: [●]

Exhibit No. 31.1

CERTIFICATION

I, Wesley Cummins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended November 30, 2023 of Applied Digital Corporation;

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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 16, 2024

By: /s/ Wesley Cummins

Wesley Cummins, Chief Executive Officer, Treasurer, Chairperson of the Board and Director (Principal Executive Officer)

Exhibit No. 31.2

CERTIFICATION

I, David Rench, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended November 30, 2023 of Applied Digital Corporation;
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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	January 16, 2024	By:	/s/ David Rench
			David Rench, Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit No. 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarter ended November 30, 2023 of Applied Digital Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"),Wesley Cummins, Chief Executive Officer of the Company, certifies, to the best of his knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	January 16, 2024	By:	/s/ Wesley Cummins
			Chief Executive Officer, Treasurer, Chairperson of the Board and Director (Principal Executive Officer)

Exhibit No. 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the quarter ended November 30, 2023 of Applied Digital Corporation (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), David Rench, Chief Financial Officer of the Company, certifies, to the best of his knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	January 16, 2024	By:	/s/ David Rench
			Chief Financial Officer (Principal Financial and Accounting Officer)

APPLIED DIGITAL

Applied Digital Signs Anchor Tenant at Ellendale HPC Facility

Further validates the Company's cost-effective high*-performance *compute solutions

DALLAS, Jan. 16, 2024 -- Applied Digital Corporation (Nasdaq: APLD) ("Applied Digital" or the "Company"), a designer, builder, and operator of next-generation digital infrastructure designed for High-Performance Computing ("HPC") applications, announced today it has signed a conditional agreement to provide datacenter capacity at its Ellendale, North Dakota campus, subject to finalization of definitive lease documents. The conditional agreement is for a total of 100MWs for a term of 10 years and is conditional on securing financing for the completion of construction. The company is in conversation with potential lenders to secure the project-level financing needed. The total contract value (TCV) is approximately $2.2 billion over the 10-year term.

About Applied Digital
Applied Digital (Nasdaq: APLD) designs, develops, and operates next-generation data centers across North America to provide digital infrastructure solutions to the rapidly growing high-performance computing (HPC) industry. Find more information at www.applieddigital.com. Follow us on Twitter at @APLDdigital.

Forward-Looking Statements
This release contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 regarding, among other things, future operating and financial performance, product development, market position, business strategy and objectives. These statements use words, and variations of words, such as "continue," "build," "future," "increase," "drive," "believe," "look," "ahead," "confident," "deliver," "outlook," "expect," and "predict." Other examples of forward-looking statements may include, but are not limited to, (i) statements of Company plans and objectives, including our evolving business model, or estimates or predictions of actions by suppliers, (ii) statements of future economic performance, and (iii) statements of assumptions underlying other statements and statements about the Company or its business. You are cautioned not to rely on these forward-looking statements. These statements are based on current expectations of future events and thus are inherently subject to uncertainty. If underlying assumptions prove inaccurate or known or unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. These risks, uncertainties, and other factors include: decline in demand for our products and services; the volatility of the crypto asset industry; the inability to comply with developments and changes in regulation; cash flow and access to capital; and maintenance of third party relationships. Information in this release is as of the dates and time periods indicated herein, and the Company does not undertake to update any of the information contained in these materials, except as required by law.

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