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 February 29, 2024**

**OR**

☐ **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) 427-1704**
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 ☒ No ☐

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

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

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

As of April 8, 2024, 122,739,540 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)**

| | February 29, 2024 | May 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,435 | $ 28,999 |
| Restricted cash | 29,545 | 14,575 |
| Accounts receivable | 225 | 82 |
| Prepaid expenses and other current assets | 6,127 | 2,012 |
| Current assets held for sale | 65,369 | — |
| Total current assets | 105,701 | 45,668 |
| Property and equipment, net | 211,172 | 195,593 |
| Operating lease right of use assets, net | 95,429 | 1,290 |
| Finance lease right of use assets, net | 189,627 | 14,303 |
| Other assets | 41,239 | 7,103 |
| **TOTAL ASSETS** | $ 643,168 | $ 263,957 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 93,918 | $ 6,446 |
| Accrued liabilities | 27,545 | 9,960 |
| Current portion of operating lease liability | 13,023 | 320 |
| Current portion of finance lease liability | 86,438 | 5,722 |
| Current portion of debt | 19,329 | 7,950 |
| Customer deposits | 32,410 | 32,560 |
| Related party customer deposits | 3,810 | 3,810 |
| Deferred revenue | 63,121 | 47,168 |
| Related party deferred revenue | 1,287 | 1,524 |
| Current liabilities held for sale | 8,279 | — |
| Total current liabilities | 349,160 | 115,460 |
| Long-term portion of operating lease liability | 69,260 | 1,005 |
| Long-term portion of finance lease liability | 63,803 | 8,334 |
| Long-term debt | 24,845 | 33,222 |
| Long-term related party loan | 17,612 | 35,257 |
| Other long-term related party liabilities | — | 1,000 |
| Total liabilities | 524,680 | 194,278 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, $0.001 par value, 166,666,667 shares authorized, 127,486,937 shares issued and 122,417,839 shares outstanding at February 29, 2024, and 100,927,358 shares issued and 95,925,630 shares outstanding at May 31, 2023 | 127 | 101 |
| Treasury stock, 5,069,098 shares at February 29, 2024 and 5,001,728 shares at May 31, 2023, at cost | (62) | (62) |
| Additional paid in capital | 303,963 | 160,194 |
| Accumulated deficit | (185,540) | (100,716) |
| Total stockholders’ equity attributable to Applied Digital Corporation | 118,488 | 59,517 |
| Noncontrolling interest | — | 10,162 |
| Total stockholders' equity including noncontrolling interest | 118,488 | 69,679 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 643,168 | $ 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 | | Nine Months Ended | |
|---|---|---|---|---|
| | **February 29, 2024** | **February 28, 2023** | **February 29, 2024** | **February 28, 2023** |
| Revenue: | | | | |
| Revenue | $ 40,284 | $ 10,054 | $ 110,993 | $ 23,139 |
| Related party revenue | 3,064 | 4,036 | 10,883 | 10,215 |
| Total revenue | 43,348 | 14,090 | 121,876 | 33,354 |
| Costs and expenses: | | | | |
| Cost of revenues [1] | 47,061 | 10,533 | 102,051 | 28,450 |
| Selling, general and administrative [2] | 30,386 | 10,546 | 67,142 | 42,779 |
| Loss on classification as held for sale | 21,723 | — | 21,723 | — |
| Loss from legal settlement | — | — | 2,380 | — |
| Total costs and expenses | 99,170 | 21,079 | 193,296 | 71,229 |
| Operating loss | (55,822) | (6,989) | (71,420) | (37,875) |
| Interest expense, net [3] | 4,404 | 352 | 8,836 | 1,061 |
| Loss on change in fair value of related party debt | 2,612 | — | 2,612 | — |
| Loss on extinguishment of debt [4] | — | — | 2,353 | 94 |
| Net loss before income tax expenses | (62,838) | (7,341) | (85,221) | (39,030) |
| Income tax benefit | — | — | — | (280) |
| Net loss | (62,838) | (7,341) | (85,221) | (38,750) |
| Net loss attributable to noncontrolling interest | — | (316) | (397) | (577) |
| Net loss attributable to Applied Digital Corporation | $ (62,838) | $ (7,025) | $ (84,824) | $ (38,173) |
| | | | | |
| Basic and diluted net loss per share attributable to Applied Digital Corporation | $ (0.52) | $ (0.07) | $ (0.77) | $ (0.41) |
| Basic and diluted weighted average number of shares outstanding | 121,426,622 | 94,119,944 | 110,500,556 | 93,545,687 |

(1) Includes cost of revenues attributable to related party revenues of $2.5 million and $3.1 million for the three months ended February 29, 2024 and February 28, 2023, respectively, and $6.6 million and $8.8 million for the nine months ended February 29, 2024 and February 28, 2023, respectively.

(2) Includes related party selling, general and administrative expense of $0.1 million and $0.5 million for the three and nine months ended February 29, 2024, respectively. There was no related party selling, general and administrative expense incurred during the three and nine months ended February 28, 2023.

(3) Includes related party interest expense of $0.2 million and $0.8 million for the three months ended and nine months ended February 29, 2024, respectively. There was no related party debt issued during three and nine months ended February 28, 2023 and as such, no interest expense was incurred related to related party debt.

(4) Amounts included in the nine months ended February 29, 2024 are related to the extinguishment of related party debt.

See Note 5 - Related Party Transactions for further discussion of related party transactions.

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 February 29, 2024 and February 28, 2023**
**(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, November 30, 2023** | 122,734,060 | $ 123 | (5,001,728) | $ (62) | $ 278,299 | $ (122,702) | $ 155,658 | $ — | $ 155,658 |
| Shares issued in offering, net of costs | 4,158,243 | 4 | — | — | 23,076 | — | 23,080 | — | 23,080 |
| Shares issued from awards vesting | 594,634 | — | — | — | — | — | — | — | — |
| Tax payments for restricted stock upon vesting | — | — | — | — | (606) | — | (606) | — | (606) |
| Share cancellations | — | — | (67,370) | — | — | — | — | — | — |
| Stock-based compensation | — | — | — | — | 3,194 | — | 3,194 | — | 3,194 |
| Net loss | — | — | — | — | — | (62,838) | (62,838) | — | (62,838) |
| **Balance, February 29, 2024** | 127,486,937 | $ 127 | (5,069,098) | $ (62) | $ 303,963 | $ (185,540) | $ 118,488 | $ — | $ 118,488 |

| | Common Stock | | Treasury Stock | | Additional Paid in Capital | Accumulated Deficit | Stockholders' Equity | Noncontrolling interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | |
| **Balance, November 30, 2022** | 98,948,082 | $ 99 | (5,001,728) | $ (62) | $ 150,690 | $ (87,218) | $ 63,509 | $ 8,461 | $ 71,970 |
| Shares issued from awards vesting | 523,046 | 1 | — | — | (1) | — | — | — | — |
| Tax payments for restricted stock upon vesting | — | — | — | — | (114) | — | (114) | — | (114) |
| Stock-based compensation | — | — | — | — | 4,480 | — | 4,480 | — | 4,480 |
| Capital contribution to noncontrolling interest | — | — | — | — | — | — | — | 2,400 | 2,400 |
| Net loss | — | — | — | — | — | (7,025) | (7,025) | (316) | (7,341) |
| **Balance, February 28, 2023** | 99,471,128 | $ 100 | (5,001,728) | $ (62) | $ 155,055 | $ (94,243) | $ 60,850 | $ 10,545 | $ 71,395 |

See accompanying notes to the condensed consolidated financial statements

**APPLIED DIGITAL CORPORATION AND SUBSIDIARIES**
**Condensed Consolidated Statements of Changes in Stockholders' Equity**
**For the Nine Months Ended February 29, 2024 and February 28, 2023**
**(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 | 18,945,841 | 20 | — | — | 120,982 | — | 121,002 | — | 121,002 |
| Shares issued from awards vesting | 6,129,471 | 5 | — | — | (5) | — | — | — | — |
| Tax payments for restricted stock upon vesting | — | — | — | — | (606) | — | (606) | — | (606) |
| Share cancellations | — | — | (67,370) | — | — | — | — | — | — |
| Stock-based compensation | — | — | — | — | 13,634 | — | 13,634 | — | 13,634 |
| Net loss | — | — | — | — | — | (84,824) | (84,824) | (397) | (85,221) |
| Extinguishment of noncontrolling interest | 1,484,267 | 1 | — | — | 9,764 | — | 9,765 | (9,765) | — |
| **Balance, February 29, 2024** | 127,486,937 | $ 127 | (5,069,098) | $ (62) | $ 303,963 | $ (185,540) | $ 118,488 | $ — | $ 118,488 |

| | 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 awards vesting | 1,633,425 | 2 | — | — | (2) | — | — | — | — |
| Tax payments for restricted stock upon vesting | — | — | — | — | (114) | — | (114) | — | (114) |
| Stock-based compensation | — | — | — | — | 26,878 | — | 26,878 | — | 26,878 |
| Capital contribution to noncontrolling interest | — | — | — | — | — | — | — | 4,146 | 4,146 |
| Common stock forfeited | — | — | (4,965,432) | — | — | — | — | — | — |
| Net loss | — | — | — | — | — | (38,173) | (38,173) | (577) | (38,750) |
| **Balance, February 28, 2023** | 99,471,128 | $ 100 | (5,001,728) | $ (62) | $ 155,055 | $ (94,243) | $ 60,850 | $ 10,545 | $ 71,395 |

See accompanying notes to the condensed consolidated financial statements

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

| | Nine Months Ended | |
|---|---|---|
| | February 29, 2024 | February 28, 2023 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (85,221) | $ (38,750) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 12,899 | 2,580 |
| Stock-based compensation | 13,634 | 26,878 |
| Lease expense | 41,473 | 2,296 |
| Deferred income taxes | — | (280) |
| Loss on extinguishment of debt | 2,353 | 94 |
| Amortization of debt issuance costs | 498 | — |
| Loss on classification as held for sale | 21,723 | — |
| Loss on change in fair value of related party debt | 2,612 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (143) | 145 |
| Prepaid expenses and other current assets | (4,115) | (266) |
| Customer deposits | (150) | 24,584 |
| Related party customer deposits | — | 2,262 |
| Deferred revenue | 15,953 | 42,261 |
| Related party deferred revenue | (237) | 1,481 |
| Accounts payable | 55,464 | (10,019) |
| Accrued liabilities | 8,191 | 1,562 |
| Lease assets and liabilities | (35,675) | (580) |
| Other assets | (1,363) | (104) |
| **CASH FLOW PROVIDED BY OPERATING ACTIVITIES** | 47,896 | 54,144 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchases of property and equipment and other assets | (86,996) | (96,214) |
| Finance lease prepayments | (35,132) | — |
| Purchases of investments | (390) | (100) |
| **CASH FLOW USED IN INVESTING ACTIVITIES** | (122,518) | (96,314) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Repayment of finance leases | (27,527) | (1,635) |
| Borrowings of long-term debt | 8,422 | 25,567 |
| Borrowings of related party debt | 23,000 | — |
| Repayments of long-term debt | (6,763) | (8,839) |
| Repayment of related party debt | (45,500) | — |
| Payment of deferred financing costs | — | (333) |
| Tax payments for restricted stock upon vesting | (606) | (114) |
| Noncontrolling interest contributions | — | 4,146 |
| Proceeds from issuance of common stock, net of costs | 121,002 | — |
| **CASH FLOW PROVIDED BY FINANCING ACTIVITIES** | 72,028 | 18,792 |
| | | |
| **NET DECREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH** | (2,594) | (23,378) |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF PERIOD** | 43,574 | 46,299 |
| **CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD** | $ 40,980 | $ 22,921 |
| | | |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Interest paid | $ 9,121 | $ 1,118 |
| **SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES** | | |
| Operating right-of-use assets obtained by lease obligation | $ 95,018 | $ — |
| Finance right-of-use assets obtained by lease obligation | $ 219,268 | $ 8,693 |
| Property and equipment in accounts payable and accrued liabilities | $ 41,100 | $ 9,384 |
| Extinguishment of non-controlling interest | $ 9,765 | $ — |

See accompanying notes to the condensed consolidated financial statements

**APPLIED DIGITAL CORPORATION AND SUBSIDIARIES**
Notes to the Condensed Consolidated Financial Statements (unaudited)
For the Three and Nine Months Ended February 29, 2024

**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 11 - 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 is in conformity with accounting principles generally accepted in the United States of America ("GAAP"). 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 other services is generally recognized at a point in time when the services are complete. 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.

**Fair Value Measurements**

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. Assets and liabilities are classified using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, for similar assets or liabilities that are directly or indirectly observable in the marketplace.
- Level 3: Unobservable inputs which are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company will update its assumptions each reporting period based on new developments and will calculate fair value based on the revised assumptions, as applicable. See Note 8 - Fair Value Measurements for further discussion of the Company's fair value measurements.

**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.

**Assets Held For Sale**

The Company generally considers assets to be held for sale when the following criteria are met: (i) management commits to a plan to sell the property, (ii) the property is available for sale immediately, (iii) management has initiated an active program to locate a buyer or buyers and other actions required to complete the plan to sell the disposal group, (iv) the sale of the property within one year is considered probable, (iv) the property is actively being marketed for sale at a price that is reasonable in relation to its current fair value and (vi) significant changes to the plan to sell are not expected. Property classified as held for sale is no longer depreciated and is reported at the lower of its carrying value or its estimated fair value less estimated costs to sell in accordance with ASC 360, *Property, Plant and Equipment - Impairment or Disposal of Long-Lived Assets*.

**Reclassifications**

*Balance Sheet*

We have reclassified certain prior period amounts in our condensed consolidated balance sheets to conform to our current period presentation. Specifically, we have reclassified “Accounts payable and accrued expenses” to separate captions of “Accounts payable” and “Accrued expenses.” We have also reclassified the presentations of restricted cash from “Prepaid expenses and other current assets” to its own caption of “Restricted cash” and security deposits from “Prepaid expenses and other current assets” to “Other assets.” Finally, we have condensed “Sales and use tax payable” into “Accrued expenses.”

*Income Statement*

We have reclassified certain prior period revenue amounts from “Revenue” to “Related party revenue” and have reclassified interest income from “Selling, general and administrative” expense 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**

The Company has restricted cash related to its letters of credit totaling $36.5 million, which is held in money market funds. The Company is required to keep these balances in separate accounts for the duration of the letter of credit agreements, which have terms of up to two years. These letters of credit were issued in lieu of security deposits. The Company considers the money market funds to be Level 1 which the Company believes approximates fair value.

Cash, cash equivalents, and restricted cash within the consolidated balance sheets that are included in the consolidated statements of cash flows as of February 29, 2024 and May 31, 2023 were as follows (in thousands):

| | February 29, 2024 | May 31, 2023 |
|---|---|---|
| Cash and cash equivalents | $ 4,435 | $ 28,999 |
| Restricted cash | 29,545 | 14,575 |
| Restricted cash included in other assets | 7,000 | — |
| Total cash, cash equivalents, and restricted cash | $ 40,980 | $ 43,574 |

**3. Property and Equipment**

Property and equipment consisted of the following as of February 29, 2024, and May 31, 2023 (in thousands):

| | Estimated Useful Life | February 29, 2024 | May 31, 2023 |
|---|---|---|---|
| Networking equipment, electrical equipment, and software | 5 years | $ 31,003 | $ 21,173 |
| Electric generation and transformers | 15 years | 5,983 | 4,655 |
| Land and building | | | |
| Building | 39 years | 103,624 | 63,350 |
| Land | | 6,205 | 2,152 |
| Land improvements | 15 years | 1,380 | 1,293 |
| Leasehold improvements | 3 years - 7 years | 468 | — |
| Construction in progress | | 67,297 | 106,226 |
| Other equipment and fixtures | 5 years - 7 years | 6,781 | 1,684 |
| Total cost of property and equipment | | 222,741 | 200,533 |
| Accumulated depreciation | | (11,569) | (4,940) |
| Property and equipment, net | | $ 211,172 | $ 195,593 |

**APPLIED DIGITAL CORPORATION AND SUBSIDIARIES**
Notes to the Condensed Consolidated Financial Statements
For the Three and Nine Months Ended February 29, 2024

Depreciation expense totaled $7.9 million and $12.9 million for the three and nine months ended February 29, 2024 and $0.9 million and $2.6 million for the three and nine months ended February 28, 2023.

During the three months ended February 29, 2024, the Company recognized $2.8 million of accelerated depreciation expense related to the abandonment of certain transformers and $1.4 million of accelerated amortization on the related right of use assets. These expenses relate primarily to transformers at the Company's Ellendale datacenter hosting facility that required additional repairs and upgrades. The accelerated expense amount is presented within Cost of revenues in the accompanying Condensed Consolidated Statements of Operations.

## 4. Revenue from Contracts with Customers

Below is a summary of the Company's revenue concentration by major customers for the three and nine months ended February 29, 2024 and February 28, 2023, respectively.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| Customer A | 68 % | — % | 69 % | — % |
| Customer B | — % | 26 % | — % | 23 % |
| Customer C | — % | 26 % | — % | 31 % |
| Customer D | — % | 16 % | — % | 17 % |
| Customer E | — % | 13 % | — % | 14 % |
| Customer F | — % | 13 % | — % | 13 % |
| Customer G | 10 % | — % | — % | — % |

*Deferred Revenue*

Changes in the Company's deferred revenue balances for the nine months ended February 29, 2024 and February 28, 2023, respectively, are shown in the following table (in thousands):

| | Nine Months Ended | |
|---|---|---|
| | February 29, 2024 | February 28, 2023 |
| **Balance, beginning of period** | $ 48,692 | $ 3,877 |
| Advance billings | 129,044 | 76,961 |
| Revenue recognized | (121,875) | (33,354) |
| Other adjustments | 8,547 | 135 |
| Less: Related party balances | (1,287) | (2,435) |
| **Balance, end of period** | $ 63,121 | $ 45,184 |

*Customer Deposits*

Changes in the Company's customer deposits balances for the nine months ended February 29, 2024 and February 28, 2023, respectively, are shown in the following table (in thousands):

| | Nine Months Ended | |
|---|---|---|
| | February 29, 2024 | February 28, 2023 |
| **Balance, beginning of period** | $ 36,370 | $ 9,524 |
| Customer deposits received | 8,397 | 26,980 |
| Other adjustments | (8,547) | (135) |
| Less: Related party balances | (3,810) | (3,810) |
| **Balance, end of period** | $ 32,410 | $ 32,559 |

## 5. Related Party Transactions

*Related Party Revenue*

The following table illustrates related party revenue for the three and nine months ended February 29, 2024 and February 28, 2023 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| Customer D* | $ 1,662 | $ 2,250 | $ 5,980 | $ 5,690 |
| Customer E** | $ 1,402 | $ 1,786 | $ 4,903 | $ 4,525 |

*Customer D is a subsidiary of an entity which is deemed to beneficially own over5% of the Company's outstanding common stock

**Customer E is 60% owned by an individual who is deemed to beneficially own over5% of the Company's outstanding common stock

The following table illustrates related party deferred revenue and deposits balances as of February 29, 2024 and May 31, 2023 (in thousands):

| | Customer D balances as of | | Customer E balances as of | |
|---|---|---|---|---|
| | February 29, 2024 | May 31, 2023 | February 29, 2024 | May 31, 2023 |
| Deferred revenue | $ 895 | $ 1,474 | $ 392 | $ 50 |
| Customer Deposits | $ 2,450 | $ 2,450 | $ 1,360 | $ 1,360 |

*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. As previously disclosed, the Company's Chairman and Chief Executive Officer, served as the President of B. Riley Asset Management, and effective February 5, 2024, resigned from that position. Sublease income is included in selling, general and administrative expenses in our condensed consolidated statements of operations. The following table illustrates related party sublease income for the three and nine months ended February 29, 2024 and February 28, 2023 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| Sublease Income | $ 23 | $ 23 | $ 70 | $ 81 |

*B. Riley Loan*

During the nine months ended February 29, 2024, the Company borrowed an additional $8.0 million and early repaid the total outstanding balance of $44.5 million. Interest expense and deferred issuance cost amortization associated with the loan was $0.7 million for the nine months ended February 29, 2024. The Company recognized a $2.4 million loss on debt extinguishment associated with the early repayment of the outstanding balance for the nine months ended February 29, 2024.

On February 5, 2024, the Company entered into a Termination of Loan and Security letter with B. Riley Commercial Capital, LLC and B. Riley Securities, Inc. which terminated the Loan and Security Agreement dated as of May 23, 2023, as amended, among the parties. At the time of the Termination Letter, all principal, interest and fees under the Loan and Security Agreement had been paid in full. No early termination penalty was paid in connection with the Termination of Loan and Security letter.

*AI Bridge Loan*

On January 30, 2024, the Company issued an Unsecured Promissory Note (the "AI Bridge Loan") payable to AI Bridge Funding LLC (the "Lender"), providing for an unsecured loan in the aggregate principal amount of up to $20.0 million, of which $15.0 million was available immediately and funded upon the execution of the AI Bridge Loan. The obligation of the Lender to advance the remaining $5.0 million shall be in the Lender's sole discretion. The AI Bridge Loan will mature on January 30, 2026 and bears interest at a rate of 12.5% per annum.

Additionally, upon the receipt by the Company or any of its subsidiaries of any cash proceeds from either the incurrence of any indebtedness (other than the AI Bridge Loan) or the issuance of any equity interests in the Company, which net proceeds total more than $35.0 million, the Company shall apply such net proceeds toward the prepayment of the outstanding principal of the AI Bridge Loan. Pursuant to the terms of the AI Bridge Loan, the Company is obligated to pay to the Lender a repayment fee in an amount sufficient for the Lender to receive an aggregate amount equal to 1.25x the aggregate principal amount funded as loans by the Lender to the Company.

As of February 29, 2024, the total outstanding balance under the AI Bridge Loan was $15.0 million. The Company has elected to recognize the entire note at fair value under ASC 815, *Derivatives and Hedging*. During the three and nine months ended February 29, 2024, the Company recognized a $2.6 million loss on change in fair value of debt associated with such election which is included in our condensed consolidated statements of operations. See Note 8 - Fair Value Measurements for further discussion on the Company's fair value considerations.

Affiliates of the Lender are both an investor in B. Riley Financial, Inc. and also an investment management client of B. Riley Asset Management. As previously disclosed, the Company's Chairman and Chief Executive Officer, served as the President of B. Riley Asset Management, and effective February 5, 2024, resigned from that position.

*Other Related Party Transactions*

During the three and nine months ended February 29, 2024, the Company paid construction and consulting costs of $44.4 thousand and $0.3 million, respectively, to a company owned by a family member of the Company's Chief Financial Officer.

During the three and nine months ended February 29, 2024, the Company paid software license fees of $0.1 million and $0.2 million, respectively, to a company whose chairman is also a member of the Company's Board of Directors.

During the three and nine months ended February 29, 2024, the Company paid $23 thousand in consulting fees to a Board of Director member for sales consulting work.

The Company did not make any payments to these related parties during the three and nine months ended February 28, 2023.

## 6. Debt

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

| | Interest Rate | Maturity Date | February 29, 2024 | May 31, 2023 |
|---|---|---|---|---|
| Starion term loan | 6.50% | July 25, 2027 | $ 10,730 | $ 12,786 |
| Vantage Garden City loan | 6.15% | April 26, 2028 | 12,757 | 10,074 |
| Starion Ellendale loan | 7.48% | February 3, 2028 | 17,079 | 19,728 |
| Vantage transformer loan | 6.50% | February 8, 2029 | 3,660 | — |
| Other long-term debt | | | 373 | 354 |
| Deferred financing costs, net of amortization | | | (425) | (1,770) |
| Less: Current portion of term loan | | | (19,329) | (7,950) |
| Long-term debt, net | | | $ 24,845 | $ 33,222 |

**APPLIED DIGITAL CORPORATION AND SUBSIDIARIES**
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*Remaining Principal Payments*

Below is a summary of the remaining principal payments due over the life of the term loans as of February 29, 2024 (in thousands):

| | | |
|---|---|---|
| Remainder of FY24 | $ | 14,429 |
| FY25 | | 6,946 |
| FY26 | | 8,555 |
| FY27 | | 9,172 |
| FY28 | | 5,492 |
| Thereafter | | 5 |
| Total | $ | 44,599 |

*Letters of Credit*

As of February 29, 2024, the Company had letters of credit totaling $36.5 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. The Company presents all restricted cash amounts with letter of credit term of 12 months or less within the Restricted Cash caption within current assets and any amounts with a related letter of credit term of over 12 months in Other Assets.

*Vantage Garden City Loan*

During the third quarter of fiscal year 2024, the Company approved plans to sell its Garden City facility. In accordance with the original loan agreement, the sale of the Garden City facility will cause the associated loan to become immediately callable by the lender as those assets were pledged as collateral for the loan. As such, the Company has reclassified the outstanding balance on the loan of $12.8 million to Current portion of long-term debt on its condensed consolidated balance sheets as of February 29, 2024.

*Cornerstone Bank Loan*

On February 28, 2024, APLD GPU-01, LLC, a wholly-owned subsidiary of the Company, entered into a Loan Agreement with Cornerstone Bank and the Company as Guarantor (the “Cornerstone Bank Loan”). The Cornerstone Bank Loan provides for a term loan in the principal amount of $16.0 million with a maturity date of March 1, 2029. The Cornerstone Bank Loan contains customary covenants, representations, warranties and events of default. The Cornerstone Bank Loan provides for an interest rate of 8.59% per annum. The proceeds of the Cornerstone Bank Loan will be used to finance, in part, existing improvements to real property. As of February 29, 2024, the Company had not received funding from the Cornerstone Bank Loan and accordingly, no amounts have been included in the tables above.

*Vantage Transformer Loan*

On February 8, 2024, APLD ELN-02 LLC, a wholly-owned subsidiary of the Company, entered into a Loan Agreement with Vantage Bank and the Company as Guarantor (the “Vantage Transformer Loan”). The Vantage Transformer Loan provides for a term loan in the principal amount of $3.7 million with a maturity date of February 8, 2029. The Loan Agreement contains customary covenants, representations, warranties and events of default. The Vantage Transformer Loan provides for an interest rate of 6.50% per annum. The proceeds of the Vantage Transformer Loan were used to fund a transformer for its HPC location in Ellendale. As of February 29, 2024, there was $3.7 million outstanding on the loan.

**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. Thetwo 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 February 29, 2024, the Company had issued awards for approximately 15.1 million shares of common stock of the Company under the plans. During the three and nine months ended February 29, 2024 the Company recognized $3.2 million and $13.6 million in stock-based compensation, respectively.

**Restricted Stock Awards**

The following is a summary of the activity and balances for unvested restricted stock awards granted for the nine months ended February 29, 2024:

| | Number of Shares | Weighted Average Grant Date Fair Value Per Share |
|---|---|---|
| Outstanding as of May 31, 2023 | 380,955 | $ 2.22 |
| Granted | 315,265 | 4.94 |
| Vested | (391,416) | 2.30 |
| Forfeited | (67,370) | 4.75 |
| Outstanding as of February 29, 2024 | 237,434 | $ 4.98 |

As of February 29, 2024, total remaining expense to be recognized related to these awards was $1.0 million and the weighted average remaining recognition period for the unvested awards was 1.4 years.

**Restricted Stock Units**

The following is a summary of the activity and balances for unvested restricted stock units granted for the nine months ended February 29, 2024:

| | Number of Shares | Weighted Average Grant Date Fair Value Per Share |
|---|---|---|
| Outstanding as of May 31, 2023 | 12,465,935 | $ 2.53 |
| Granted | 2,278,400 | 6.81 |
| Vested | (5,920,463) | 2.68 |
| Forfeited | (314,575) | 2.49 |
| Outstanding as of February 29, 2024 | 8,509,297 | $ 3.62 |

As of February 29, 2024, total remaining expense to be recognized related to these awards was $29.6 million and the weighted average remaining recognition period for the unvested awards was 2.0 years.

**Public Offering**

During the nine months ended February 29, 2024, the Company completed sales of common stock under an "at the market" sale agreement pursuant to which the Company could sell up to $125 million in aggregate proceeds of common stock. The Company sold approximately 18.9 million shares for net proceeds of approximately $121.0 million in total. Commission and legal fees related to the issuance were $0.7 million and $4.0 million for the three and nine months ended February 29, 2024, respectively.

**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, or 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. Fair Value Measurements

The carrying values of cash and cash equivalents, restricted cash and restricted cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature.

The majority of the Company's non-financial instruments, which include lease assets and property and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur, a non-financial instrument is required to be evaluated for impairment. If the Company determines that the non-financial instrument is impaired, the Company would be required to write down the non-financial instrument to its fair value. No such triggering events were identified during the three and nine months ended February 29, 2024.

The Company's debt outstanding under the AI Bridge Loan (See Note 5 - Related Party Transactions for further discussion) contains an accelerated redemption feature and the Company has elected to measure the entire note at fair value. The Company has not elected to measure its other existing long-term debt instruments at fair value. The Company engaged a third party valuation specialist to assist management in its determination of the fair value of the AI Bridge Loan. Changes in the fair value of debt are disclosed in loss on change in fair value of debt on the condensed consolidated statements of operations.

Fair value of debt is determined on a recurring basis, which results are summarized as follows (in thousands):

| | | February 29, 2024 | |
|---|---|---|---|
| Debt instrument | Fair Value Hierarchy | Outstanding Principal | Fair Value |
| AI Bridge Loan | Level 3 | $ 15,000 | $ 17,612 |

The fair value of the AI Bridge Loan was estimated using a discounted cash flow method applied to the remaining quarterly payments using a credit-adjusted discount rate calculated based on a risk-free rate derived from the U.S. yield curve for a similar term plus a credit risk adjustment derived from an estimated credit rating of CCC and above and which ranged from 5.31% to 5.71%. The resulting fair value represents a Level 3 fair value measurement.

## 9. 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 | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| Operating lease cost: | | | | |
| Operating lease expense | $ 5,203 | $ 82 | $ 8,174 | $ 246 |
| Short-term lease expense | 12 | 118 | 52 | 341 |
| Total operating lease cost | 5,215 | 200 | 8,226 | 587 |
| Finance lease expense: | | | | |
| Amortization of right-of-use assets[1] | 18,350 | 1,017 | 34,840 | 2,051 |
| Interest on lease liabilities | 3,253 | 224 | 5,994 | 516 |
| Total finance lease cost | 21,603 | 1,241 | 40,834 | 2,567 |
| Variable lease cost | 48 | — | 125 | — |
| Sublease Income | (23) | (23) | (70) | (81) |
| Total net lease cost | $ 26,843 | $ 1,418 | $ 49,115 | $ 3,073 |

[1] Amortization of right-of-use assets is included 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 February 29, 2024:

| | Operating Leases | Finance Leases | Total |
|---|---|---|---|
| Remainder of FY24 | $ 4,574 | $ 24,119 | $ 28,693 |
| FY25 | 18,833 | 96,099 | 114,932 |
| FY26 | 19,514 | 45,220 | 64,734 |
| FY27 | 19,868 | 14 | 19,882 |
| FY28 | 20,290 | 1 | 20,291 |
| Thereafter | 16,029 | — | 16,029 |
| Total lease payments | 99,108 | 165,453 | 264,561 |
| Less: imputed interest | (16,825) | (15,212) | (32,037) |
| Total lease liabilities | 82,283 | 150,241 | 232,524 |
| Less: Current portion of lease liability | (13,023) | (86,438) | (99,461) |
| Long-term portion of lease liability | $ 69,260 | $ 63,803 | $ 133,063 |

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

| | Nine Months Ended | |
|---|---|---|
| | February 29, 2024 | February 28, 2023 |
| Weighted-average years remaining (in years): | | |
| Finance leases | 2.5 years | 28.6 years |
| Operating leases | 5.3 years | 3.9 years |
| Weighted-average discount rate: | | |
| Finance leases | 10.7 % | 8.0 % |
| Operating leases | 7.6 % | 12.5 % |

The Company has entered into leases which are executed but not yet commenced with total minimum payments of approximately $120.7 million. The payments are for various leases with terms ranging from 2 years to 6.7 years.

## 10. Commitments and Contingencies

**Commitments**

*Energy Contracts*

The Company has a minimum commitment of approximately $82.2 million related to the energy services agreement for its Jamestown, North Dakota co-hosting facility with a remaining term of approximately 2.9 years as of February 29, 2024.

*Construction Contracts*

The Company routinely engages with construction vendors for the construction of our facilities. These engagements are governed by contracts containing standard terms and conditions, including certain milestones that obligate the Company to pay as work is completed. In the event of termination of any of these contracts by the Company, the Company would be liable for all work that has been completed or in process, plus any applicable fees. The Company generally has the right to cancel these open purchase orders prior to delivery or terminate the contracts without cause.

**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.

The Company, Wes Cummins, the Company's Chief Executive Officer, and David Rench, the Company's Chief Financial Officer, have been named as defendants in a putative securities class action lawsuit in the matter styled, *McConnell v.*

*Applied Digital Corporation, et al*., Case No. 3:23-cv-1805, filed in August 2023 in the U.S. District Court for the Northern District of Texas (the "Securities Lawsuit"). Specifically, the complaint asserts claims pursuant to Section 10(b) of the Securities and Exchange Act of 1934 based on allegedly false or misleading statements regarding the company's business, operations, and compliance policies, including claims 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 case is in an early stage, and the Court has not appointed a lead plaintiff nor has any class been certified. The Company has not yet responded to the complaint and no response is currently due.

On November 15, 2023, a derivative action was filed in the matter styled,*Weich v. Cummins, et al.*, Case No. A-23-881629-C in the District Court of Clark County, Nevada. The Weich complaint names as defendants certain members of the Company's Board of Directors and its Chief Executive Officer Wesley Cummins and purports to name chief Financial Officer David Rench as a defendant. The complaint asserts claims for breaches of fiduciary duties, unjust enrichment, and corporate waste against the individual defendants largely based on the same fact allegations as the Securities Lawsuit. On February 27, 2024, the plaintiff filed an amended complaint, asserting the same causes of action against the same defendants as the original complaint. The deadline to file or otherwise respond the amended complaint is April 12, 2024.

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 February 29, 2024, 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.

**11. Business Segments**

Revenue by segment (excluding HPC hosting as that segment hasno revenue) was as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **February 29, 2024** | **February 28, 2023** | **February 29, 2024** | **February 28, 2023** |
| Datacenter hosting segment | $ 37,795 | $ 14,090 | $ 109,720 | $ 33,354 |
| Cloud services segment | 5,553 | — | 12,156 | — |
| Total revenue | $ 43,348 | $ 14,090 | $ 121,876 | $ 33,354 |

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| **Segment loss:** | | | | |
| Datacenter hosting segment [1] | $ (24,443) | $ (3,117) | $ (4,647) | $ (18,218) |
| Cloud services segment | (21,565) | (741) | (40,694) | (741) |
| HPC hosting segment | (1,445) | (18) | (3,106) | (18) |
| Total segment loss | (47,453) | (3,876) | (48,447) | (18,977) |
| Other [2] | (8,369) | (3,113) | (22,973) | (18,898) |
| Operating loss | (55,822) | (6,989) | (71,420) | (37,875) |
| Interest expense, net | 4,404 | 352 | 8,836 | 1,061 |
| Loss on change in fair value of related party debt | 2,612 | — | 2,612 | — |
| Loss on debt extinguishment | — | — | 2,353 | 94 |
| Net loss before income tax expenses | $ (62,838) | $ (7,341) | $ (85,221) | $ (39,030) |

(1) The three and nine months ended February 29, 2024 includes $21.7 million loss on held for sale classification related to the sale of the Garden City facility, as well as $2.8 million of accelerated depreciation and $1.4 million of accelerated amortization related to damaged transformers at the Company's Ellendale facility that have been rendered obsolete. See Note 13 - Assets Held for Sale and Note 3 - Property and Equipment, respectively, for further discussion of these events.

(2) Other includes corporate related items not allocated to reportable segments.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| **Depreciation and amortization:** | | | | |
| Datacenter hosting segment | $ 9,162 | $ 1,904 | $ 16,902 | $ 4,596 |
| Cloud services segment | 16,534 | 13 | 29,824 | 13 |
| HPC hosting segment | 407 | 1 | 717 | 1 |
| Other [1] | 102 | 8 | 221 | 20 |
| Total depreciation and amortization [2] | $ 26,205 | $ 1,926 | $ 47,664 | $ 4,630 |

(1) Other includes corporate related items not allocated to reportable segments.

(2) Includes amortization of the finance lease right-of-use assets.

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

| | February 29, 2024 | May 31, 2023 |
|---|---|---|
| Datacenter hosting segment | $ 218,698 | $ 224,447 |
| Cloud services segment | 297,561 | 3,127 |
| HPC hosting segment | 103,896 | 10,949 |
| Total segment assets | 620,155 | 238,523 |
| Other [1] | 23,013 | 25,434 |
| Total assets | $ 643,168 | $ 263,957 |

(1) Other includes corporate related items not allocated to reportable segments.

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### 12. Earnings Per Share

Basic net income (loss) per share ("EPS") of common stock is computed by dividing a 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 | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| Net loss | $ (62,838) | $ (7,341) | $ (85,221) | $ (38,750) |
| Net loss attributable to noncontrolling interest | — | (316) | (397) | (577) |
| Net loss attributable to Applied Digital Corporation | $ (62,838) | $ (7,025) | $ (84,824) | $ (38,173) |
| | | | | |
| Basic and diluted net loss per share attributable to Applied Digital Corporation | $ (0.52) | $ (0.07) | $ (0.77) | $ (0.41) |
| Basic and diluted weighted average number of shares outstanding | 121,426,622 | 94,119,944 | 110,500,556 | 93,545,687 |

### 13. Assets Held for Sale

During the third quarter of fiscal 2024, the Company's board approved plans to sell its Garden City facility. As such, the Company determined that the Garden City datacenter hosting facility met the "held for sale" classification as of February 29, 2024. On March 14, 2024, the Company entered into an agreement to sell the facility for a total potential cash consideration of $87.3 million (the "Cash Purchase Price"). As part of the agreement, the Company can earn additional consideration if it is able to assist the buyer in achieving regulatory approval for additional megawatt energization for the Garden City datacenter hosting facility within 120 days after the transaction closing (the "Contingent Amount").

As such, the associated property, equipment, and lease assets and liabilities have been classified as "held for sale" and the Company recorded a charge of $21.7 million in loss on held for sale classification on its condensed consolidated statements of operations for the three and nine months ended February 29, 2024 to record the asset group at its fair value less costs to sell. The Company has determined that this disposal did not qualify as a discontinued operation as the sale of the Garden City Facility was determined to not be a strategic shift as it does not represent a change in services provided or a change to the Company's customer base.

Assets and liabilities held for sale as of February 29, 2024 are as follows:

| | |
|---|---|
| **Assets held for sale** | |
| Property and equipment, net | $ 57,260 |
| Finance lease right of use assets | 8,109 |
| Total assets held for sale | $ 65,369 |
| | |
| **Liabilities held for sale** | |
| Current portion of finance lease liability | $ 3,657 |
| Long-term portion of finance lease liability | 4,622 |
| Total liabilities held for sale | $ 8,279 |

The Company has calculated the loss on assets held for sale as of February 29, 2024 based on the purchase price agreed upon with Marathon on March 14, 2024. The Company notes that the purchase agreement contains a $34.0 million “holdover” amount that is conditionally owed to the Company if additional energy capacity at the facility receives regulatory approval within 120 days of closing. For purposes of applying the fair value as of February 29, 2024, the Company did not consider achievement of this approval probable, and therefore has not considered any of the holdover amount when calculating the implied purchase price and fair value.

Further, the Company notes that Marathon will release approximately $10.0 million of deferred revenue held by the Company in conjunction with the closing of the agreement. The Company also notes that Marathon will receive all assets related to the facility but is only assuming the ground lease liabilities, and the remaining $5.1 million of equipment lease liabilities are the responsibility of the Company to pay off at closing. Accordingly, the Company has excluded these lease liabilities in its calculation of fair value below. See below for the Company’s calculation of the implied transaction price and fair value and the resulting loss on the classification of assets as held for sale (in thousands):

| **Assets held for sale** | | |
|---|---|---|
| Maximum Purchase Price | $ | 87,329 |
| Less: Conditional Amount | | (34,000) |
| Cash Consideration | | 53,329 |
| Lease Liabilities Assumed | | 3,207 |
| Deferred Revenue Released | | 9,971 |
| Implied Fair Value | | 66,507 |
| Less: Estimated Costs to Sell | | (1,200) |
| Total fair value less costs to sell | $ | 65,307 |

| **Loss calculation** | | |
|---|---|---|
| Carrying value of assets held for sale | $ | 87,030 |
| Less: Fair value less costs to sell | | 65,307 |
| Loss on classification of held for sale | $ | 21,723 |

**14. Subsequent Events**

*Cornerstone Bank Loan Funding*

On March 1, 2024, the Company received funding under the Cornerstone Bank Loan. The funding, net of issuance fees, totaled $15.7 million. See Note 6 - Debt for further discussion of the Cornerstone Bank Loan.

*AI Bridge Loan*

Subsequent to the quarter ended February 29, 2024, the Company borrowed the remaining $5 million in funds available under the existing AI Bridge Loan. This additional borrowing brings the total outstanding under the AI Bridge loan to $20.0 million.

On March 27, 2024, concurrent with the Yorkville Promissory Notes, the Company and the Lender entered into a Waiver, Consent and Amendment with respect to certain provisions of the AI Bridge Loan as set forth above (the “Amendment and Waiver”). Pursuant to the terms and conditions of the Amendment and Waiver, (i) the Lender agreed to waive the prepayment obligations of the Company that otherwise would have been triggered upon closing of the PPA and Promissory Notes described below, and (ii) the Company’s obligations with respect to the repayment fee due to the Lender were amended so that upon repayment the Lender would receive an aggregate amount equal to 1.30x the aggregate principal amount funded as loans by the Lender to the Company in accordance with the terms and provisions of the AI Bridge Loan.

*Sale of Garden City Facility*

On March 14, 2024, APLD – Rattlesnake Den I LLC, a Delaware limited liability company and a subsidiary of the Company, entered into a purchase and sale agreement with Mara Garden City LLC, a Delaware limited liability company

**APPLIED DIGITAL CORPORATION AND SUBSIDIARIES**
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and a subsidiary of Marathon Digital Holdings, Inc., pursuant to which Rattlesnake Den I LLC agreed to sell to Mara Garden City LLC its datacenter facility located in Garden City, Texas (the "Garden City Transaction"). The Garden City Transaction closed on April 1, 2024.

*Yorkville Convertible Notes*

On March 27, 2024, the Company entered into a Prepaid Advance Agreement (the "PPA") with YA II PN, LTD., a Cayman Islands exempt limited partnership (the "Investor"). In accordance with the terms of the PPA, the Investor has agreed to advance up to $50.0 million to the Company pursuant to two convertible unsecured promissory notes (the "Promissory Notes"). The Company issued the first Promissory Note on March 27, 2024, in the principal amount of $40.0 million, in consideration of a cash payment from the Investor of approximately $38.0 million, representing a five percent original issue discount. The second Promissory Note will be issued in the principal amount of $10.0 million, less a five percent original issue discount, within two trading days after a resale registration statement relating to the shares of common stock underlying the Promissory Notes is declared effective. The Promissory Notes are convertible into shares of the Company's common stock, which have a par value of $0.001 per share.

**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 sensitivity to general economic conditions including changes in disposable income levels and consumer spending trends;
- 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 the high-performance compute hosting ("HPC hosting"), cloud services ("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 on Form 10-K and our subsequent Quarterly Reports on Form 10-Q.

***Business Update***

*Datacenter Hosting*

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

The Company's 100 MW facility in Jamestown, North Dakota operated at full capacity during the quarter ended February 29, 2024; however, the Company's 180 MW facility in Ellendale, North Dakota experienced a power outage starting in January. In response to these challenges, our utility provider installed transformers to enable us to selectively power-down the affected portions of our site. Upon re-energization we have determined the failures were due to transformers not meeting industry standards. The Company has successfully procured new transformers and related components from North American manufacturers. As of the date of this report, the Ellendale facility has begun energization and has been re-energized to approximately 14% of its full capacity, or 25 MW. In addition, the Company anticipates that as new transformers are received and installed, the Ellendale facility will target operating capacity of approximately 65%-75% of full capacity by the end of May 2024.

During the quarter ended February 29, 2024, the Company increased its energy capacity at its 200 MW Garden City, Texas facility up to 132 MW. As of February 29, 2024, the Company determined the Garden City facility met the criteria for classification as held for sale. On March 14, 2024, the Company entered into a purchase and sale agreement (the "Purchase and Sale Agreement") with Mara Garden City LLC, a Delaware limited liability company and a subsidiary of Marathon Digital Holdings, Inc. ("Marathon"), pursuant to which the Company and related subsidiaries agreed to sell to Mara Garden City LLC the Garden City hosting facility ("the Transaction") for total cash consideration of up to of $87.3 million. The Company will also receive approximately $10.0 million in additional consideration at the closing of the Transaction (the "Closing") in connection with the surrender of certain of Marathon's revenue prepayments under its existing service agreements with the Company. The Company recognized a loss of approximately $21.7 million in connection with the classification of assets held for sale to recognize the assets at fair value less costs to sell, which was less than the asset's carrying value at February 29, 2024.

The Purchase and Sale Agreement contains customary representations and warranties made by the parties, covenants and agreements, and Closing conditions and post-Closing obligations. In addition, in the event the full intended additional megawatt energization for the Facility is not conditionally approved by the applicable regulatory authority within 120 days of the Closing, the total cash consideration is subject to a reduction of up to $34.0 million, depending on the amount of the additional megawatt energization that is not conditionally approved.

*Cloud Services*

Applied Digital's Cloud Services business provides high-performance computing power for artificial intelligence and machine learning applications. The Company continues to seek and sign additional customers and the pipeline remains robust. Near the end of the quarter, equipment began generating revenue, which the Company expects will make a positive impact on the financial performance of this segment in the fiscal fourth quarter.

*HPC Hosting*

Applied Digital's HPC hosting business designs, builds, and operates next-generation data centers, which are designed to provide massive computing power and support high-performance computing applications within a cost-effective model. During the fiscal second quarter, the Company broke ground on its first 100 MW high-performance compute facility in Ellendale, North Dakota. The new 342,000-square-foot building will provide ultra-low cost and highly efficient liquid-cooled infrastructure for HPC applications.

The Company has entered into exclusivity and executed an letter of intent with a US-based hyperscaler for a 400 MW capacity lease, inclusive of our current 100 MW facility and two forthcoming buildings in Ellendale, North Dakota. The Company is in advanced discussions with traditional financing counterparties for this investment-grade tenant. The exclusive negotiation period with the initial HPC anchor tenant identified for our Ellendale campus expired at the end of March.

**Results of Operations**

***Comparative Results for the Three and Nine Months Ended February 29, 2024 and February 28, 2023:***

The following table sets forth key components of the results of operations (in thousands) during the three and nine months ended February 29, 2024 and February 28, 2023.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | February 29, 2024 | February 28, 2023 | February 29, 2024 | February 28, 2023 |
| Revenues | | | | |
| Revenue | $ 40,284 | $ 10,054 | $ 110,993 | $ 23,139 |
| Related party revenue | 3,064 | 4,036 | 10,883 | 10,215 |
| Total revenue | 43,348 | 14,090 | 121,876 | 33,354 |
| Costs and expenses: | | | | |
| Cost of revenues (1) | 47,061 | 10,533 | 102,051 | 28,450 |
| Selling, general and administrative (2) | 30,386 | 10,546 | 67,142 | 42,779 |
| Loss on classification as held for sale | 21,723 | — | 21,723 | — |
| Loss from legal settlement | — | — | 2,380 | — |
| Total costs and expenses | 99,170 | 21,079 | 193,296 | 71,229 |
| Operating loss | (55,822) | (6,989) | (71,420) | (37,875) |
| Interest expense, net (3) | 4,404 | 352 | 8,836 | 1,061 |
| Loss on change in fair value of related party debt | 2,612 | — | 2,612 | — |
| Loss on extinguishment of debt (4) | — | — | 2,353 | 94 |
| Net loss before income tax expenses | (62,838) | (7,341) | (85,221) | (39,030) |
| Income tax benefit | — | — | — | (280) |
| Net loss | (62,838) | (7,341) | (85,221) | (38,750) |
| Net loss attributable to noncontrolling interest | — | (316) | (397) | (577) |
| Net loss attributable to Applied Digital Corporation | $ (62,838) | $ (7,025) | $ (84,824) | $ (38,173) |
| | | | | |
| Basic and diluted net loss per share attributable to Applied Digital Corporation | $ (0.52) | $ (0.07) | $ (0.77) | $ (0.41) |
| Basic and diluted weighted average number of shares outstanding | 121,426,622 | 94,119,944 | 110,500,556 | 93,545,687 |
| | | | | |
| **Adjusted Amounts (5)** | | | | |
| Adjusted operating loss | $ (24,507) | $ (1,017) | $ (26,021) | $ (7,613) |
| Adjusted operating margin | (57) % | (7) % | (21) % | (23) % |
| Adjusted net loss | $ (28,911) | $ (1,401) | $ (34,857) | $ (8,552) |
| Adjusted net loss per diluted share | $ (0.24) | $ (0.01) | $ (0.32) | $ (0.09) |
| **Other Financial Data (5)** | | | | |
| EBITDA | $ (32,230) | $ (5,062) | $ (28,721) | $ (33,338) |
| as a percentage of revenues | (74) % | (36) % | (24) % | (100) % |
| Adjusted EBITDA | $ (2,346) | $ 909 | $ 17,423 | $ (3,076) |
| as a percentage of revenues | (5) % | 6 % | 14 % | (9) % |

(1) Includes cost of revenues attributable to related party revenues of $2.5 million and $3.1 million for the three months ended February 29, 2024 and February 28, 2023, respectively, and $6.6 million and $8.8 million for the nine months ended February 29, 2024 and February 28, 2023, respectively.

(2) Includes related party selling, general and administrative expense of $0.1 million and $0.5 million for the three and nine months ended February 29, 2024, respectively. There was no related party selling, general and administrative expense incurred during the three and nine months ended February 28, 2023.

(3) Includes related party interest expense of $0.2 million and $0.8 million for the three months ended and nine months ended February 29, 2024, respectively. There was no related party debt issued during three and nine months ended February 28, 2023 and as such, no interest expense was incurred related to related party debt.

(4) Amounts included in the nine months ended February 29, 2024 are related to the extinguishment of related party debt.

(5) 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 MD&A.

***Commentary on Results of Operations Comparative Results for the Three Months Ended February 29, 2024 compared to the Three Months Ended February 28, 2023***

Revenue

Revenue increased $30.2 million, or 301%, from $10.1 million for the three months ended February 28, 2023 to $40.3 million for the three months ended February 29, 2024 driven by increased capacity across the Company's three Datacenter hosting facilities between periods as well as the Company recognizing revenue under its Cloud services segment during the three months ended February 29, 2024 due to the launch of the service during the current fiscal year.

Related party revenue decreased $.9 million, or 24%, from $4.0 million for the three months ended February 28, 2023 to $3.1 million for the three months ended February 29, 2024 driven by reduced uptime and pricing compared to the prior year comparable period.

Cost of revenues

Cost of revenues increased $36.5 million, or 347%, from $10.5 million for the three months ended February 28, 2023 to $47.1 million for the three months ended February 29, 2024. The increase was primarily driven by the growth in the business as more facilities were energized and as additional services were provided to customers compared to the three months ended February 28, 2023. The change in cost of revenues is categorized as follows:

- approximately $18.3 million increase in energy costs used to generate revenue;
- approximately $13.8 million increase in depreciation and amortization expense due to an increase in owned and leased assets in-service directly supporting revenue;
- approximately $2.0 million increase in personnel expenses for employee costs directly attributable to generating revenue resulting from increased headcount supporting revenue;
- approximately $1.2 million increase in lease and related expenses for the use of datacenter space to support the Company's cloud services business; and
- approximately $1.2 million increase in other expenses directly attributable to generating revenue.

Selling, general and administrative expense

Selling, general and administrative expense increased $19.9 million, or 188%, from $10.5 million for the three months ended February 28, 2023 to $30.4 million for the three months ended February 29, 2024. The increase was primarily due to the overall growth in the business. The change in selling, general and administrative expense is categorized as follows:

- approximately $10.4 million increase in depreciation and amortization expense due to an increase in owned and leased assets that are not currently being used to generate revenue;
- approximately $4.5 million increase in lease and related expenses for datacenter space not yet being used to generate revenue;
- approximately $3.9 million increase in professional service expenses incurred related to legal services provided on discrete transactions and projects as well as general support of the business;
- approximately $0.7 million increase in other selling, general, and administrative expenses such as insurance premiums and computer and software expenses; and
- approximately $0.3 million increase in personnel expense to support the growth of the business.

Loss on classification of held for sale

Loss on classification of held for sale was $21.7 million for the three months ended February 29, 2024 due to the write down of the Garden City assets to their fair market value as a result of the planned sale of that facility. There were no such losses recorded in the prior year comparative period.

Interest expense, net

Interest expense, net increased $4.1 million, or 1151%, from $0.4 million for the three months ended February 28, 2023 to $4.4 million for the three months ended February 29, 2024. The increase was driven by an increase in finance leases and interest-bearing loans between periods.

Loss on change in fair value of related party debt

Loss on change in fair value of related party debt was $2.6 million for the three months ended February 29, 2024 due to the valuation associated with the Company's borrowings under the AI Bridge Loan. There were no such losses recorded in the prior year comparative period.

***Commentary on Results of Operations Comparative Results for the Nine Months Ended February 29, 2024 compared to the Nine Months Ended February 28, 2023***

Revenues

Revenue increased $87.9 million, or 380%, from $23.1 million for the nine months ended February 28, 2023 to $111.0 million for the nine months ended February 29, 2024 driven by increased capacity across the Company's three Datacenter hosting facilities between periods as well as the Company recognizing revenue under its Cloud services segment due to the launch of the service during the current fiscal year.

Related party revenue increased $0.7 million, or 7%, from $10.2 million for the nine months ended February 28, 2023 to $10.9 million for the nine months ended February 29, 2024 driven by increased uptime at the Company's Jamestown, North Dakota facility throughout the period.

Cost of revenues

Cost of revenues increased by $73.6 million, or 259%, from $28.4 million for the nine months ended February 28, 2023 to $102.1 million for the nine months ended February 29, 2024. The increase was primarily driven by the growth in the business as more facilities were energized and more services were provided to customers compared to the nine months ended February 28, 2023. The changes in cost of revenues are categorized as follows:

- approximately $39.3 million increase in energy costs used to generate revenue;
- approximately $24.8 million increase in depreciation and amortization expense due to an increase in owned and leased assets directly supporting revenue;
- approximately $5.0 million increase in personnel expenses for employee costs directly attributable to generating revenue resulting from increased headcount supporting revenue;
- approximately $2.7 million increase in lease and related expenses for the use of datacenter space to support the Company's cloud services business; and
- approximately $1.9 million increase in other expenses directly attributable to generating revenue.

Selling, general and administrative expense

Selling, general and administrative expense increased by $24.4 million, or 57%, from $42.8 million for the nine months ended February 28, 2023 to $67.1 million for the nine months ended February 29, 2024. The increase was primarily due to the overall growth in the business. The change in selling, general and administrative expense is categorized as follows:

- approximately $18.3 million increase in depreciation and amortization expense due to an increase in owned and leased assets that are not currently being used to generate revenue;
- approximately $6.6 million increase in other expenses such as operating leases expense for datacenter space not yet being used to generate revenue;
- approximately $4.6 million increase in professional service expenses related to legal services provided on discrete transactions and projects as well as general support of the business; and
- approximately $3.6 million increase in other selling, general, and administrative expense such as insurance premiums and computer and software expenses.

This increase was partially offset by a decrease of approximately $8.6 million in personnel expenses largely driven by a decrease stock-based compensation expense, as the Company recognized a cumulative catch-up in stock-based compensation expense in the comparative period upon the Company's registration statement for the award shares being declared effective.

Loss on classification of held for sale

Loss on classification of held for sale was $21.7 million for the nine months ended February 29, 2024 due to the write down of the Garden City assets to their fair market value as part of the planned sale of that facility. There were no such losses recorded in the prior year comparative period.

Loss from Legal Settlement

Loss from legal settlement was $2.4 million for the nine months ended February 29, 2024 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. There were no such losses recorded in the prior year comparative period.

Interest expense, net

Interest expense, net increased $7.8 million, or 733% , from $1.1 million for the nine months ended February 28, 2023 to $8.8 million for the nine months ended February 29, 2024 driven by increases in finance leases and debt obligations between periods.

Loss on change in fair value of related party debt

Loss on change in fair value of related party debt was $2.6 million for the nine months ended February 29, 2024 due to the valuation associated with the Company's borrowings under the AI Bridge Loan. There were no such losses recorded in the prior year comparative period.

Loss on extinguishment of debt

Loss on extinguishment of debt increased $2.3 million, or 2401%, from $0.1 million for the nine months ended February 28, 2023 to $2.4 million for the nine months ended February 29, 2024. The increase was driven by the termination fees to extinguish the B. Riley related party loan during the nine months ended February 29, 2024.

Income tax benefit

Income tax benefit decreased $0.3 million or 100% from a $0.3 million benefit for the nine months ended February 28, 2023 to zero for the nine months ended February 29, 2024. This change was driven by a change in valuation allowance for the nine months ended February 29, 2024 compared to the nine months ended February 28, 2023.

***Comparative Segment Data for the Three and Nine Months Ended February 29, 2024 and February 28, 2023:***

The following table sets forth the Company's operating profit for each of our segments for the three and nine months ended February 29, 2024 and February 28, 2023 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **February 29, 2024** | **February 28, 2023** | **February 29, 2024** | **February 28, 2023** |
| **Segment loss:** | | | | |
| Datacenter hosting segment | (24,443) | (3,117) | (4,647) | (18,218) |
| Cloud services segment | $ (21,565) | $ (741) | $ (40,694) | $ (741) |
| HPC hosting segment | (1,445) | (18) | (3,106) | (18) |
| Total segment loss | $ (47,453) | $ (3,876) | $ (48,447) | $ (18,977) |

***Commentary on Segment Data Comparative Results for the Three Months Ended February 29, 2024 compared to the Three Months Ended February 28, 2023***

**Datacenter Hosting Segment**

*Operating Loss*

Datacenter hosting operating loss increased $21.3 million, or 684% from a loss of $3.1 million for the three months ended February 28, 2023 to a loss of $24.4 million for the three months ended February 29, 2024. The change was primarily driven by the loss on classification of held for sale which the Company recognized in association with the planned sale of the Garden City facility, as well as accelerated depreciation and amortization recognized in relation to outage incidents at the Ellendale, North Dakota facility. This loss was partially offset by an increase in MW capacity across the Company's three Datacenter hosting facilities during the three months ended February 29, 2024, compared to operations only at the Company's Jamestown facility during the the three months ended February 28, 2023, as well as a decrease in stock-based compensation between the periods.

**Cloud Services Segment**

*Operating Loss*

Cloud services operating loss increased $20.8 million, from a loss of $0.7 million for the three months ended February 28, 2023 to a loss of $21.6 million for the three months ended February 29, 2024 primarily driven by amortization expense on finance leases on computing equipment, occupancy costs from operating leases, and an increase stock-based compensation expense attributable to the segment as the Company ramps up its Cloud services operations.

**HPC Hosting Segment**

*Operating Loss*

HPC hosting operating loss increased $1.4 million, or 7928% from a loss of $18 thousand to a loss of $1.4 million. The loss was largely comprised of stock-based compensation expense, payroll, and amortization expense related to finance leases as the Company ramps up its HPC hosting operations.

***Commentary on Segment Data Comparative Results for the Nine Months Ended February 29, 2024 compared to the Nine Months Ended February 28, 2023***

**Datacenter Hosting Segment**

*Operating Loss*

Datacenter hosting operating loss decreased $13.6 million, or 74% from a loss of $18.2 million for the nine months ended February 28, 2023 to a loss of $4.6 million for the nine months ended February 29, 2024. The change was driven by a full nine 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, as well as a decrease in stock-based compensation between the periods. These changes were partially offset by the loss on classification of held for sale which the Company recognized in association with the sale of the Garden City facility, and by accelerated depreciation and amortization in relation to outage incidents at the Ellendale, North Dakota facility.

**Cloud Services Segment**

*Operating Loss*

Cloud services operating loss increased $40.0 million, from a loss of $0.7 million for the nine months ended February 28, 2023 to a loss of $40.7 million for the nine months ended February 29, 2024 primarily due to amortization expense on finance leases on computing equipment, occupancy costs from operating leases, and stock-based compensation expense as the Company ramps up its Cloud services operations.

**HPC Hosting Segment**

*Operating Loss*

HPC hosting operating loss increased $3.1 million, or 17156% from a loss of $18 thousand to loss of $3.1 million. The loss was largely comprised of stock-based compensation expense, payroll, and amortization expense related to finance leases as the Company ramps up its HPC hosting operations.

***Non-GAAP Measures***

To supplement our consolidated financial statements presented under GAAP, we are presenting certain non-GAAP financial measures. We are providing these non-GAAP financial measures to disclose additional information to facilitate the comparison of past and present operations by providing perspective on results absent one-time or significant non-cash items. We utilize these measures in the business planning process to understand expected operating performance and to evaluate results against those expectations. We believe that these non-GAAP financial measures, when considered together with our GAAP financial results, provide management and investors with an additional understanding of our business operating results regarding factors and trends affecting our business and provide a reasonable basis for comparing our ongoing results of operations

These non-GAAP financial measures are providedas supplemental measures to the Company's performance measures calculated in accordance with GAAP and therefore, are not intended to be considered in isolation or as a substitute for comparable GAAP measures. Further, these non-GAAP measures have no standardized meaning prescribed by GAAP and are not prepared under any comprehensive set of accounting rules or principles. Because of the non-standardized definitions of non-GAAP financial measures, we caution investors that the non-GAAP financial measures as used by us in this Quarterly Report on Form 10-Q have limits in their usefulness to investors and may be calculated differently from, and therefore may not be directly comparable to, similarly titled measures used by other companies. Further, investors should be aware that when evaluating these non-GAAP financial measures, these measures should not be construed as an inference that the Company's future results will be unaffected by unusual or non-recurring items. In addition, from time to time in the future there may be items that we may exclude for purposes of our non-GAAP financial measures and we may in the future cease to exclude items that we have historically excluded for purposes of our non-GAAP financial measures. Likewise, we may determine to modify the nature of the adjustments to arrive at our non-GAAP financial measures. Investors should review the non-GAAP reconciliations provided below and not rely on any single financial measure to evaluate the Company's business.

***Change in Presentation***

Beginning in the third quarter of 2024, the Company updated its presentation of non-GAAP measures. As a result of this updated presentation, the Company no longer excludes start-up costs as an adjustment to Operating loss, Net loss, or EBITDA in our calculation of Adjusted operating loss, Adjusted net loss, Adjusted net loss per diluted share, and Adjusted EBITDA. EBITDA, Adjusted EBITDA, Adjusted net loss, and Adjusted net loss per diluted share are non-GAAP measures and are defined below.

***Adjusted Operating Loss, Adjusted Net Loss, and Adjusted Net Loss per Diluted Share***

"Adjusted Operating Loss" and "Adjusted Net Loss" are non-GAAP measures that represent operating loss and net loss, respectively, excluding stock-based compensation, litigation expenses, non-recurring professional service costs, non-recurring research and development costs, loss on classification of held for sale, loss on abandonment of assets, and loss on legal settlement. Adjusted net loss is further adjusted for the loss on the change in fair value of related party debt and the loss on extinguishment of debt. We define "Adjusted Net Loss per Diluted Share" as Adjusted net loss divided by weighted average diluted share count.

***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, litigation expenses, non-recurring professional service costs, non-recurring research and development costs, loss on classification of of held for sale, loss on abandonment of assets, loss on the change in fair value of related party debt, loss of extinguishment of debt, and loss on legal settlement.

**Reconciliation of GAAP to Non-GAAP Measures**

| $ in thousands | Three Months Ended February 29, 2024 | Three Months Ended February 28, 2023 | Nine Months Ended February 29, 2024 | Nine Months Ended February 28, 2023 |
|---|---|---|---|---|
| **Adjusted operating loss** | | | | |
| Operating loss (GAAP) | $ (55,822) | $ (6,989) | $ (71,420) | $ (37,875) |
| Stock-based compensation | 3,194 | 4,480 | 13,634 | 26,878 |
| Non-recurring professional service costs [a] | 2,355 | 365 | 3,442 | 1,437 |
| Non-recurring research and development costs [b] | — | 778 | — | 893 |
| Loss on classification as held for sale | 21,723 | — | 21,723 | — |
| Accelerated depreciation and amortization [c] | 4,043 | — | 4,220 | — |
| Loss on legal settlement | — | — | 2,380 | — |
| Other non-recurring costs [d] | — | 349 | — | 1,054 |
| Adjusted operating loss (Non-GAAP) | $ (24,507) | $ (1,017) | $ (26,021) | $ (7,613) |
| Adjusted operating margin | (57)% | (7)% | (21)% | (23)% |
| **Adjusted net loss** | | | | |
| Net loss (GAAP) | $ (62,838) | $ (7,341) | $ (85,221) | $ (38,750) |
| Stock-based compensation | 3,194 | 4,480 | 13,634 | 26,878 |
| Non-recurring professional service costs [a] | 2,355 | 365 | 3,442 | 1,437 |
| Non-recurring research and development costs [b] | — | 778 | — | 893 |
| Loss on classification as held for sale | 21,723 | — | 21,723 | — |
| Accelerated depreciation and amortization [c] | 4,043 | — | 4,220 | — |
| Loss on change in fair value of related party debt | 2,612 | — | 2,612 | — |
| Loss on extinguishment of debt | — | — | 2,353 | 94 |
| Loss on legal settlement | — | — | 2,380 | — |
| Other non-recurring costs [d] | — | 317 | — | 896 |
| Adjusted net loss (Non-GAAP) | $ (28,911) | $ (1,401) | $ (34,857) | $ (8,552) |
| Adjusted net loss per diluted share (Non-GAAP) | $ (0.24) | $ (0.01) | $ (0.32) | $ (0.09) |
| **EBITDA and Adjusted EBITDA** | | | | |
| Net loss (GAAP) | $ (62,838) | $ (7,341) | $ (85,221) | $ (38,750) |
| Interest expense, net | 4,404 | 352 | 8,836 | 1,061 |
| Income tax benefit | — | — | — | (280) |
| Depreciation and amortization [c] | 26,204 | 1,927 | 47,664 | 4,631 |
| EBITDA (Non-GAAP) | $ (32,230) | $ (5,062) | $ (28,721) | $ (33,338) |
| Stock-based compensation | 3,194 | 4,480 | 13,634 | 26,878 |
| Non-recurring professional service costs [a] | 2,355 | 365 | 3,442 | 1,437 |
| Non-recurring research and development costs [b] | — | 778 | — | 893 |
| Loss on classification as held for sale | 21,723 | — | 21,723 | — |
| Loss on change in fair value of related party debt | 2,612 | — | 2,612 | — |
| Loss on extinguishment of debt | — | — | 2,353 | 94 |
| Loss on legal settlement | — | — | 2,380 | — |
| Other non-recurring costs [d] | — | 348 | — | 960 |
| Adjusted EBITDA (Non-GAAP) | $ (2,346) | $ 909 | $ 17,423 | $ (3,076) |

(a) Non-recurring professional service costs represents legal, accounting, and consulting services costs related to discrete transactions and projects, as well as legal fees associated with the Company’s defense of class action lawsuits and legal fees related to matters with certain former employees. The Company does not expect to incur these expenses on a regular basis.

[b] Non-recurring research and development costs represents specific research and development activities related to the Company's business expansion that the Company does not expect to incur on a regular basis.

[c] Accelerated depreciation and amortization represents the acceleration of expense related to transformers that were abandoned by the Company due to operational failure or other reasons. Depreciation and amortization in this amount is included in Depreciation and Amortization expense within the Company's calculation of EBITDA, and therefore is not added back as a management adjustment in the Company's calculation Adjusted EBITDA.

[d] Other non-recurring costs represent expenses that are not representative of the Company's expected ongoing costs.

**Sources of Liquidity**

As of February 29, 2024, the Company had unrestricted cash and cash equivalents of $4.4 million and negative working capital of $243.5 million, inclusive of assets held for sale. 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 and related party loans, issuance of common stock, and the receipt of contractual deposits and revenue payments from customers.

See Note 5 - Related Party Transactions and Note 6 - Debt in the notes to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information on our term and related party 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. During the nine months ended February 29, 2024, the Company sold approximately 18.9 million shares in total. Net proceeds, less commission and legal fees of approximately $4.0 million, were approximately $121.0 million. The at the market offering was completed in December 2023.

On March 14, 2024, APLD – Rattlesnake Den I LLC, a Delaware limited liability company and a subsidiary of the Company, entered into a purchase and sale agreement with Mara Garden City LLC, a Delaware limited liability company and a subsidiary of Marathon Digital Holdings, Inc., pursuant to which Rattlesnake Den I agreed to sell to Mara Garden City LLC its datacenter facility located in Garden City, Texas. The Garden City Transaction closed on April 1, 2024 and the Company received net cash proceeds of approximately $61.1 million.

During the nine months ended February 29, 2024, we received $129.0 million in payments for future datacenter hosting services.

Further, during March 2024, the Company received funding under the Cornerstone Bank Loan. The funding, net of issuance fees, totaled $15.7 million. See Note 6 - Debt for further discussion of the Cornerstone Bank Loan.

Funding Requirements

We have experienced net losses through the period ended February 29, 2024. 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, access to debt financing, 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 2025 as we continue construction of our HPC hosting facilities and acquire assets to support our Cloud services business.

**Summary of Cash Flows**

The following table provides information about the Company’s net cash flow for the nine months ended February 29, 2024 and February 28, 2023, respectively.

| | Nine Months Ended | |
|---|---|---|
| **$ in thousands** | **February 29, 2024** | **February 28, 2023** |
| Net cash provided by operating activities | $ 47,896 | $ 54,144 |
| Net cash used in investing activities | (122,518) | (96,314) |
| Net cash provided by financing activities | 72,028 | 18,792 |
| Net decrease in cash and cash equivalents | (2,594) | (23,378) |
| Cash, cash equivalents, and restricted cash at beginning of year | 43,574 | 46,299 |
| Cash, cash equivalents, and restricted cash at end of period | $ 40,980 | $ 22,921 |

***Commentary on the change in cash flows between the Nine Months Ended February 29, 2024 and Nine Months Ended February 28, 2023***

Operating Activities

The net cash provided by operating activities decreased by $6.2 million, or 12%, from $54.1 million for the nine months ended February 28, 2023 to $47.9 million for the nine months ended February 29, 2024. The primary reasons for the change were a decrease in revenue prepayments received relative to revenue earned during the nine months ended February 29, 2024 as well as an increase in payments associated with our operating leases, partially offset by a large increase in accounts payable.

Investing Activities

The net cash used in investing activities increased by $26.2 million, from $96.3 million for the nine months ended February 28, 2023 to $122.5 million for the nine months ended February 29, 2024. The primary reason for the change was an increase in lease prepayments made for leases on hosting equipment to support the Company’s Cloud services business during the nine months ended February 29, 2024.This increase was partially offset by a decrease in investments in property and equipment during the nine months ended February 29, 2024 as the Company’s payments in the comparative periods for construction of the Ellendale, North Dakota and Garden City, Texas datacenter hosting facilities outpaced current period construction payments for the Garden City hosting facility and the Company’s HPC datacenters.

Financing Activities

The net cash provided by financing activities increased by $53.2 million, or 283%, from $18.8 million for the nine months ended February 28, 2023 to $72.0 million for the nine months ended February 29, 2024. The primary reasons for the change was the receipt of net proceeds from the Company’s common stock offering and the increase in related party debt proceeds, which were partially offset by an increase in debt repayments and an increase in finance lease payments during the nine months ended February 29, 2024.

**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 February 29, 2024, 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. implementation of specific controls to effectively identify related party relationship and disclose the related transactions in our financial statements;
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 February 29, 2024, 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 defendants in a putative securities class action lawsuit in the matter styled, *McConnell v. Applied Digital Corporation, et al*., Case No. 3:23-cv-1805, filed in August 2023 in the U.S. District Court for the Northern District of Texas (the "Securities Lawsuit"). Specifically, the complaint asserts claims pursuant to Section 10(b) of the Securities and Exchange Act of 1934 based on allegedly false or misleading statements regarding the company's business, operations, and compliance policies, including claims 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 case is in an early stage, and the Court has not appointed a lead plaintiff nor has any class been certified. The Company has not yet responded to the complaint and no response is currently due. 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 currently expect 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 ultimately incur judgments or enter into settlements of claims that could have a material adverse effect our financial position, results of operations or cash flows.

On November 15, 2023, a derivative action was filed in the matter styled,*Weich v. Cummins, et al.*, Case No. A-23-881629-C in the District Court of Clark County, Nevada. The Weich complaint names as defendants certain members of the Company's Board of Directors and its Chief Executive Officer Wesley Cummins and purports to name chief Financial Officer David Rench as a defendant. The complaint asserts claims for breaches of fiduciary duties, unjust enrichment, and corporate waste against the individual defendants largely based on the same fact allegations as the Securities Lawsuit. On February 27, 2024, the plaintiff filed an amended complaint, asserting the same causes of action against the same defendants as the original complaint. The deadline to file or otherwise respond to the amended complaint is April 12, 2024. 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 currently 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 have a material adverse effect on our financial position, results of operations or cash flows.

### Item 1A. Risk Factors

The Company is providing these additional risk factors to supplement the risk factors contained in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended May 31, 2023.

***We rely on third parties to manufacture the equipment and infrastructure we rely on, and if they are unable to do so on a timely basis or to satisfactory technical standards, our business could be materially adversely affected.***

We rely on third-party companies to provide equipment required for our business, including but not limited to electrical infrastructure for all of our businesses and GPUs for our HPC hosting business. The manufacture and testing of these items are not within our control, and there are limited sources for such items. If any of the equipment or infrastructure we purchase and rely on are not timely available to us or are found to be unreliable or sub-standard, we may not be able to provide the services we have contracted to provide to our customers, which could have a material adverse effect on our business.

***If we fail to maintain the efficiency of our supply chain, our business could be materially adversely affected.***

Our ability to meet customer demand for our products depends, in part, on our ability to deliver the services our customers seek from us on a timely basis. Accordingly, we rely on our supply chain for the timely availability of our facilities and, in some cases, equipment, to our customers. As we continue to grow our business and our facilities, expand to high-growth adjacent markets, acquire new customers and strengthen relationships with existing customers, our need to provide active and available facilities to our customers will rely on our ability to procure necessary infrastructure and equipment in relevant time-frames. If we are unable to do so, our customers may seek other providers, which could have a material adverse effect on our business.

Maintaining key supplier relationships is crucial to our business operations, as we rely on these partnerships to secure essential computing hardware, infrastructure components, and other materials. The complexity of developing high-performance computing and cloud services hardware at scale limits the number of suppliers capable of meeting our requirements. Consequently, we have established purchase orders with leading hardware manufacturers, which include extended delivery schedules spanning several months before the hardware is delivered to our facilities. These fluctuations in delivery timelines necessitate careful planning and advanced purchasing strategies to ensure we can acquire hardware well in advance of their anticipated deployment.

The development of our Ellendale, North Dakota facility demands significant quantities of electrical infrastructure components and construction raw material. To facilitate the deployment of hardware at scale and on accelerated timelines, we proactively procure these materials from our suppliers in sufficient quantities. To mitigate potential supply chain disruptions and ensure the smooth operation of our facilities, we have established long-term contracts and agreements with key suppliers. These arrangements provide us with greater certainty regarding the availability and pricing of essential components and materials. Furthermore, we continuously monitor market trends and maintain open lines of communication with our suppliers to anticipate and address any potential supply chain challenges that may arise. However, in spite of our attempts to anticipate and mitigate such issues, there can be no assurance that disruptions will not arise, which could adversely affect our business and financial results.

***Regulatory Developments May Impact our Business***

The regulatory landscape surrounding high-performance computing, artificial intelligence ("AI"), and blockchain hosting services is evolving rapidly, and we anticipate increased scrutiny and potential regulation in the near and long term. These developments may significantly impact on our business and operations in ways that are difficult to predict.

There are growing concerns about the ethical implications and potential misuse of the growing AI technologies and the AI landscape is facing challenges and uncertainties. The development of more advanced AI systems, such as large language models and generative AI, has raised concerns about potential misuse, bias, and the displacement of human workers. Governments and regulatory bodies are considering measures to ensure responsible development and deployment of AI systems, including guidelines for transparency, accountability, and fairness. In recent years, crypto mining has received increased attention from regulators with respect to technical and financial aspects of this industry. We expect that regulatory efforts in this area will continue to evolve and potentially impact our business.

As a company operating at the intersection of HPC, AI, and Blockchain hosting services, we are committed to maintaining a proactive and adaptive approach to regulatory compliance. We continue to monitor legislative and regulatory developments closely and engage in dialogue with relevant stakeholders to ensure our business practices align with the evolving legal and regulatory framework. However, there can be no assurance that our business will not be adversely impacted by future developments.

***The continuing commoditization of HPC hardware and software has resulted in increased pricing pressure and may adversely affect our operating results.***

The continuing commoditization of HPC hardware, such as processors, interconnects, flash storage and other infrastructure, and the growing commoditization of software, including plentiful building blocks and more capable open source software, as well as the potential for integration of differentiated technology into already-commoditized components, has resulted in, and may result in increased pricing pressure that may cause us to reduce our pricing in order to remain competitive, which can negatively impact our gross margins and adversely affect our operating results.

**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 |
|---|---|
| 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. |
| 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: | April 11, 2024 | By: | /s/ Wesley Cummins |
| | | | Wesley Cummins Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer) |
| Date: | April 11, 2024 | By: | /s/ David Rench |
| | | | David Rench Chief Financial Officer (Principal Financial Officer) |

**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 February 29, 2024 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: April 11, 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 February 29, 2024 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: April 11, 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 February 29, 2024 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: | April 11, 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 February 29, 2024 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: | April 11, 2024 | By: | /s/ David Rench |
| | | | Chief Financial Officer (Principal Financial and Accounting Officer) |