

**Report Date:** July 6, 2023  
**Company:** Applied Blockchain Digital Corp.  
**Ticker:** APLD US  
**Industry:** Other Financial Services  
**Stock Price (USD):** \$8.97  
**Market Cap (USD, Millions):** \$860.3



## **APLD: AN EMBARRASSING AND PREDICTABLE STOCK PROMOTION**

Applied Digital, Inc (APLD), a potato farm turned failed bitcoin miner, pumped up its stock in May by claiming to pivot from a floundering business hosting bitcoin miners, to becoming a low-cost AI Cloud service provider. The explosion of interest in AI after the emergence of Chat GPT has predictably attracted the worst promoters and scumbags to peddle fake AI wares to credulous investors, and our analysis indicates that APLD is one of these grifters because it is not an AI company.

One clue that this is a stock promotion is the heavy involvement of our favorite bottom feeding investment bank, B. Riley, whose insiders (including Wes Cummins who simultaneously serves as the President of B. Riley Asset Management and the CEO of APLD) own 48.4% of APLD.<sup>1</sup> These B. Riley insiders, coincidentally registered 95% of their shares for sale<sup>2</sup> the same day APLD's stock rose 320% due to a press release announcing that a mystery customer had signed a deal potentially worth **up to** \$180 million.<sup>3</sup> We expect the B. Riley insiders to exit their position with perfect timing, potentially *en masse* before as it becomes evident that the claims of APLD, which has failed at nearly every business it has tried, make no sense:

- Our research indicates that APLD's biggest prospective AI customer is Stability AI,<sup>4</sup> who we think is one of the most dubious AI start-ups in a field awash with speculative promotions. An in-depth article by Forbes insinuated that the founder of Stability AI is a liar who exaggerated his academic credentials and mislead investors.<sup>5</sup> Stability AI is reportedly burning through cash<sup>6</sup> and is losing executives.<sup>7</sup> These two companies make quite the pair, as we think Stability AI is pretending it can continue to afford an AI Cloud service, and we believe APLD is pretending it has one.
- APLD's CEO boldly announced in April that the company was ordering over 7,000 A100 GPUs (last year's model) for its AI Cloud service. By June APLD claimed to have ordered 26,000 GPUs,<sup>8</sup> except the CEO went on twitter and bragged to his 154 followers that these were going be the top-tier H100 GPUs,<sup>9</sup> which are selling for \$40,000 apiece.<sup>10</sup> Our research indicates that a purchase this size would allow them to jump to the top of the pile in high performance computing, alongside Google, Meta and AWS.<sup>11</sup> We estimate the total price tag to purchase the equipment would be over \$1 billion more than APLD's market cap.<sup>12</sup>

- APLD has just [eight](#) subdomains. We spoke with an expert who said, “*there is no fucking way you can run a digital cloud platform on eight subdomains.*”<sup>13</sup> Technology companies, especially cloud providers, typically use many subdomains to help direct web-traffic, manage security, and provide redundancies. A private datacenter in Saskatchewan called Blacksun, that has 20 employees<sup>14</sup> and is much smaller than APLD, has [235 subdomains](#). CoreWeave is a data center cloud provider that, like APLD, has three datacenters<sup>15</sup> in the U.S. has [nearly](#) 2,000 subdomains.
- APLD’s subsidiary, Sai Computing,<sup>16</sup> which is the entity that supposedly struck deals with two AI customers, only has [one](#) subdomain. Even more embarrassingly, its website only has two pages, and can only capture emails.<sup>17</sup>
- APLD’s current power capacity is contracted out to bitcoin miners,<sup>18</sup> so it does not even have the physical infrastructure to host 26,000 GPUs. APLD’s assertion that it has 200MW of high-power computing space in the pipeline<sup>19</sup> is extremely misleading considering that APLD has not even named a site to start building.<sup>20</sup>
- The board is highly conflicted and, in our opinion, incompetent. Bryant Riley owns over 2 million shares of APLD,<sup>21</sup> and his underlings include Wes Cummins the CEO; Chuck Hastings, an “independent” director who also serves as the CEO of B. Riley Wealth Management;<sup>22</sup> and Andy Moore, the CEO of B. Riley Securities, whose wife, Virginia Moore, also serves on the board as an “independent” director.<sup>23</sup>
- B. Riley’s transparently self-serving rating on APLD is a BUY with an \$18 price target, which would increase the wealth of the B. Riley insiders holding the stock by ~\$400 million.<sup>24</sup> Yet the insiders have filed a shelf registration to sell 95% of their shares, and Bryant Riley’s underlings on APLD’s board have launched a \$125 million at the market equity offering (ATM), in part to repay the company’s \$36.5 million loan from B. Riley.<sup>25</sup>
- The fact that the board has essentially remained unchanged,<sup>26</sup> despite the fact that APLD has switched its business model every few months since it remerged in 2021, indicates that the board lacks competence. One of the board members seems to have no pertinent experience in datacenters or bitcoin mining whatsoever, having primarily spent her time dedicated to early childhood education.<sup>27</sup>
- The board’s incompetence was only highlighted when the CEO was caught in an embarrassing sex scandal, where the board [appears](#) to not have hired outside counsel to investigate, but used its Audit Committee instead. APLD’s Audit Committee, which is comprised of two old white men and one of the CEO’s fellow executives at B. Riley, decided the accusations were “unfounded” because the relationship with a balloon-display entrepreneur turned CMO<sup>28</sup> had been “consensual.”

## APLD's \$460 MILLION DEAL IS WITH STABILITY AI, A STRUGGLING AND QUESTIONABLE ACTOR IN AN ARENA AWASH WITH HYPE

APLD has supposedly struck two deals, one for *up to* \$180 million and another for *up to* \$460 million for AI customers that have sent the stock soaring over 320%.<sup>29,30</sup> The language in the press releases is very squishy, so retail investors don't know who the deal is with, when it would start, or how much it would really be worth.

APLD seems to have taken pains not to disclose the identity of the companies in the press releases in its SEC filings and has not disclosed any material contracts. However, the CEO seems eager to promote the deals anyways. APLD executives have apparently been sharing details with the sell-side analysts at Craig-Hallum, who said the \$460 million deal was struck with a *London-based* AI company in its research note.<sup>31</sup>

The deal announced Friday is for a London-based AI large language model; the deal will include the

The CEO, Wes Cummins also told his 153 followers on twitter that both clients were included in a [list](#) of 10 startup AI companies to watch.



Stability AI is the only company on this list that is based in London, leading us to firmly conclude that APLD's supposed \$460 million customer is Stability AI.

In June, a Forbes [article](#) excoriated the founder of Stability AI, and reported that he had exaggerated his education credentials and had generated hype and enthusiasm about this company with false or misleading claims:

- He reportedly claimed that Stability AI had a partnership with Amazon, but that claim had reportedly been walked back by the company's spokesperson.
- He reportedly claimed that Stability AI was working with the WHO, OECD and the World Bank, but these organizations reportedly denied having any dealings with the company.

The founder wrote a [lengthy blog post](#) attempting to rebut many of the claims in the article; we found the Forbes article far more credible and invite investors to read both pieces.

A separate article by [Semafor](#), published in April, reported that Stability AI was “burning through cash” and “slow to generate revenue,” which has caused the company to start looking around for executives who could generate revenue.

According to [Forbes](#), a very large chunk of the \$100 million Stability AI raised in October of last year went to pay off overdue bills from Amazon:

Three former Stability employees said that prior to its venture capital injection, Amazon had threatened to revoke the company's access to some of its GPUs because it had racked up millions in bills that had gone unpaid for months.

In April, [Semafor reported](#) that the financial condition of Stability was so poor that venture investors were having second thoughts about pouring more money into the struggling company.

Stability has burned through a significant chunk of the \$100 million it raised late last year, and two venture investors who spoke to Semafor on condition of anonymity are having second thoughts about participating in a fundraising round that would quadruple the firm's valuation to \$4 billion, according to people briefed on the plans.

On June 28<sup>th</sup>, [Bloomberg reported](#) that Stability AI struggled to raise funds at a \$4 billion valuation and ended up raising just \$25 million this spring with a convertible note.

There have been other signs of distress, the company's head of AI research, David Ha, [reportedly](#) resigned in June. The company's chief operating officer was reportedly let go earlier in the month.

In short, it looks like Stability AI doesn't have the money for this deal. Craig Hallum's research note stated that the deal with the supposed \$460 million customer (Stability AI) was for eight thousand GPUs, which we estimate would cost \$320 million, an absurd sum for a company that struggled to raise a \$25 million convertible note.

We are not surprised to see that these two companies have found each other. It's a match made in heaven since Stability AI does not seem to have the money to purchase the GPUs it wants, and APLD does not have the infrastructure to place them. Yet, by partnering up, they can potentially generate more hype and drive more fundraising, which appears to be the primary method of producing income for both companies.

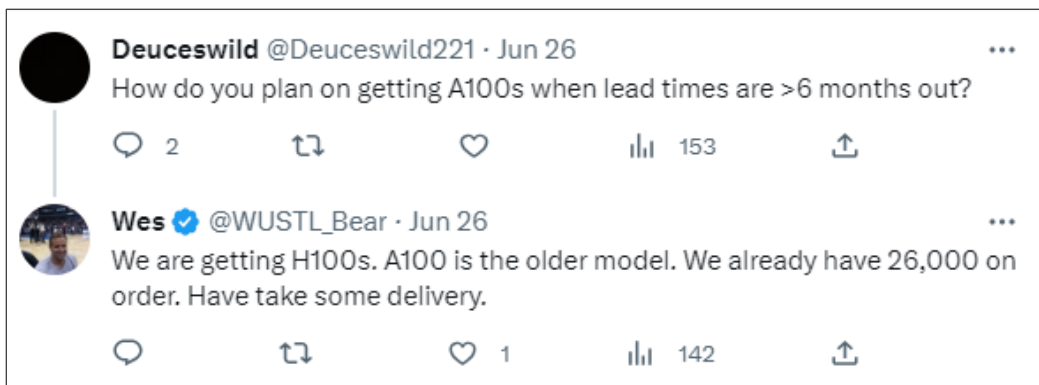
### **APLD'S PIVOT FROM CRYPTOCURRENCY MINING TO AI CLOUD SERVICES IS NOT CREDIBLE AND ITS CEO CANNOT KEEP THE STORY STRAIGHT**

On APLD's 3Q23 earnings call on April 6, 2023, CEO Wes Cummins made the following statement about the company's pivot into HPC Hosting in his prepared remarks:

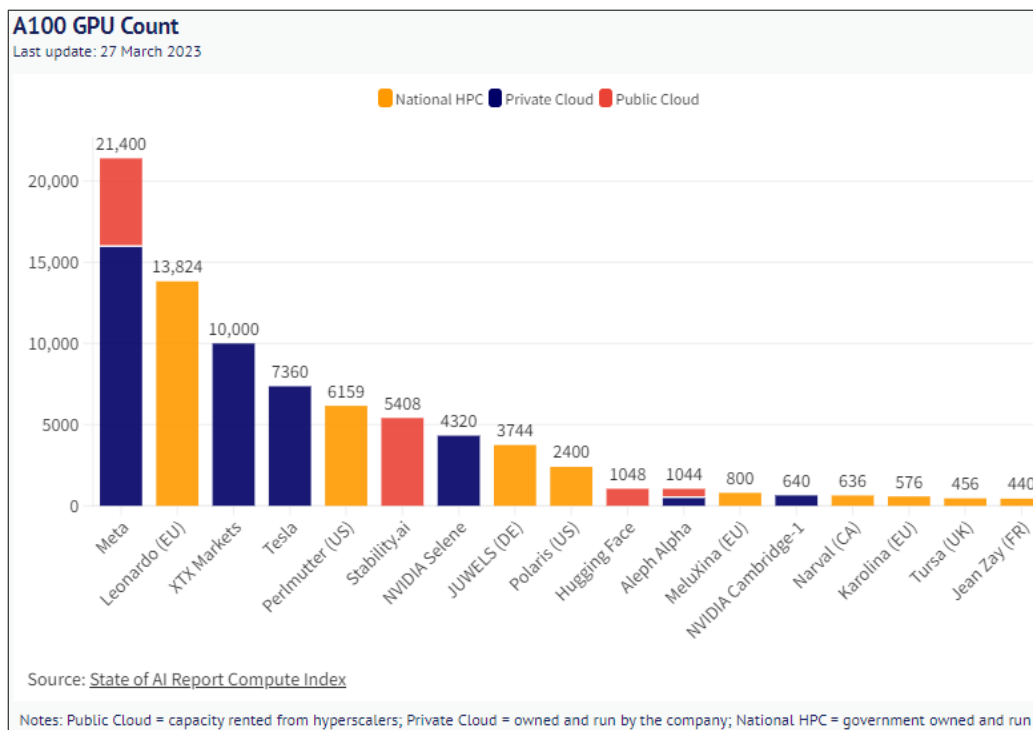
*"When finalized, we expect to have over 7,000 NVIDIA A100 class GPUs in the building, making it one of the largest GPU clusters of its kind in the world."*

This was apparently not impressive enough, so just a few months later APLD declared that it had ordered 26,000 GPUs and that its AI Cloud business could generate \$1.3 billion over three years.<sup>32</sup>

On twitter, he bragged to his 154 followers that these were not going to be last year's NVIDIA A100 GPUs, but this year's top-tier NVIDIA H100 GPUs:



Our research shows that when Wes Cummings stated that 7,000 A100 GPUs would give them one of the largest GPU clusters in the world, he was actually telling the truth, as only a handful of entities have access to that many of last year's A100's according to the [State of AI Report Compute Index](#).<sup>33</sup>



H100 GPUs are even more expensive and harder to come by. Only the biggest and wealthiest tech firms can aspire to collect these top-tier servers in quantities.

For example, 26,000 H100 GPUs is the [upper limit](#) on what Google says it could have for its new high end supercomputer.

Amazon and NVIDIA [announced](#) a collaboration in March that would allow Amazon customers to scale up to over 20,000 H100 GPUs.

NVIDIA's H100 GPUs are selling for \$40,000 apiece.<sup>34</sup> At that price, APLD's 26,000 GPU order<sup>35</sup> would cost over \$1 billion, or \$140 million more than APLD's entire market cap.

APLD GPU Cost Estimate		
GPUs "ordered"		26,000
Low-end price of an H100 GPU	\$	40,000
<b>Est. GPU cost</b>	<b>\$</b>	<b>1,040,000,000</b>

*NVIDIA H100 Tensor Core GPU*



NVDA makes a pre-built cluster that includes 8 H100 GPUs called the [NVIDIA DGX H100](#). According to Scan AI, one of these can be ordered today for around \$400,000.<sup>36</sup> This means that in order to have the equivalent of 26,000 H100 GPUs in enterprise grade clusters, APLD would need to buy 3,250 of them, costing \$1.3 billion, about \$500 million more than APLD's entire market cap.<sup>37</sup>

APLD Data Center Cluster Cost Estimate		
DGXs required to obtain 26,000 H100 GPUs		3,250
Current cost of one DGX H100	\$	400,000
<b>Est. HPC Server Cost</b>	<b>\$</b>	<b>1,300,000,000</b>

*NVIDIA DGX H100 for Enterprise AI Applications*

APLD does not have this kind of money, in fact it seems the only thing APLD knows how to do is lose money:

- APLD raised \$40 million in a November 2021 equity offering, which it has swiftly burned through with -\$101.2 million of cumulative FCF in the 5 quarters since.
- APLD's shareholders have endured constant dilution, as its share count has grown from 76.85 million at the end of its fiscal 2022 to 94.12 million in its fiscal Q3 2023 (+22.5%).
- APLD launched a \$125 million at the market (ATM) equity offering via Craig-Hallum on the back of its purported AI deals in late June 2023. If APLD is able to fully execute its ATM facility at its current stock price, APLD's share count would increase by another ~14 million shares, instantly diluting current shareholders by an additional 14.9% (bringing the total dilution in fiscal 2023 to a horrifying 40.5%).
- At the end of its fiscal 3Q23, APLD had just \$22.9 million in cash, \$24.4 million of total current assets and \$108.6 million of current liabilities on its balance sheet (*i.e.*, -\$84.2 million of net working capital).
- At the end of APLD's fiscal 3Q23, its TTM FCF was -\$73.9 million.
- APLD's market cap is only ~\$860 million, even after pumping its stock 388% YTD on HPC hype that is little more than a mirage.

### **APLD's Dilutive \$125 Million Shelf Is Needed to Help the Company Tread Water and Repay Its Loan to B. Riley**

Investors could be forgiven for believing that APLD's \$125 million ATM is going to be used to start purchasing these GPUs, because the announcements were essentially simultaneous, but that is not what the company states in its [prospectus](#).

APLD intends to use these funds to repay its \$36.5 million term loan from B. Riley. Diluting investors to repay this loan early seems to be in the best interests of B. Riley, not APLD's shareholders, but this decision is not a surprise considering that half of APLD's board is tied to B. Riley.

#### USE OF PROCEEDS

We may issue and sell shares of our common stock having aggregate sales proceeds of up to \$125,000,000 from time to time. Because there is no minimum offering amount required as a condition to close this offering, the actual total public offering amount, commissions and proceeds to us, if any, are not determinable at this time. There can be no assurance that we will sell any shares under or fully utilize the sales agreement as a source of financing.

Except as otherwise set forth in a prospectus or in other offering materials, we intend to use the net proceeds from the sale of our securities to repay our term loan with B. Riley Commercial Capital, LLC and B. Riley Securities, Inc., for construction of our data centers and for general corporate purposes. The term loan has approximately \$36,500,000 outstanding, a maturity date of May 23, 2025 and an interest rate of 9.00% per annum.

The amounts and timing of our actual expenditures will depend on numerous factors, including the factors described under "Risk Factors" in this prospectus supplement, the accompanying prospectus and in the documents incorporated by reference herein and therein, as well as the amount of cash used in our operations. We may find it necessary or advisable to use the net proceeds for other purposes.

If APLD is able to fully execute this ATM offering at its current stock price, its shareholders will suffer ~14.9% of additional dilution.

### **APLD'S AI BUSINESS HAS NO SUBSTANCE AND INSIDERS HAVE REGISTERED THEIR SHARES FOR SALE**

#### **APLD Does Not Have the Physical Infrastructure to Pivot to AI Because Its Datacenters Are Full of Bitcoin Miners**

APLD has not even selected a site yet for the 200MW of HPC it says is "in development," and it cannot retrofit its existing facilities because the 500 MW it is almost finished developing has been contracted out to bitcoin miners.<sup>38</sup> APLD's contracts with these bitcoin miners run for three to five years, as is the case with Marathon's five year contract, so these facilities will not be converted into high performance computing centers anytime soon.

#### **APLD's Lack of Subdomains Indicates that the Company does not have the IT Infrastructure to Be an AI Cloud Service Provider.**

Technology companies typically have many subdomains, and they are used for a variety of purposes. They can control traffic, create redundancies, and assist with security. Cloud providers typically have hundreds or even thousands of them, as do most other semi-sophisticated technology companies. Our research indicates that APLD's peers have a range of subdomains from several hundred to several thousand depending on the scale of the company, while APLD has just eight:

Cloud Hosting Competitors - Subdomain Count		Number of	
Company Name	Company URL	Subdomains	Source
Applied Digital Corp	applieddigital.com	8	<a href="#">Link</a>
Sai Computing (AI Cloud Services JV)	saicomputing.com	1	<a href="#">Link</a>
Blacksun (small Canadian Co.)	blacksun.ca	235	<a href="#">Link</a>
CoreWeave Inc.	coreweave.com	1,952	<a href="#">Link</a>
GoDaddy.com LLC	godaddy.com	10,211	<a href="#">Link</a>
Oracle Corp. (ORCL)	oracle.com	15,499	<a href="#">Link</a>

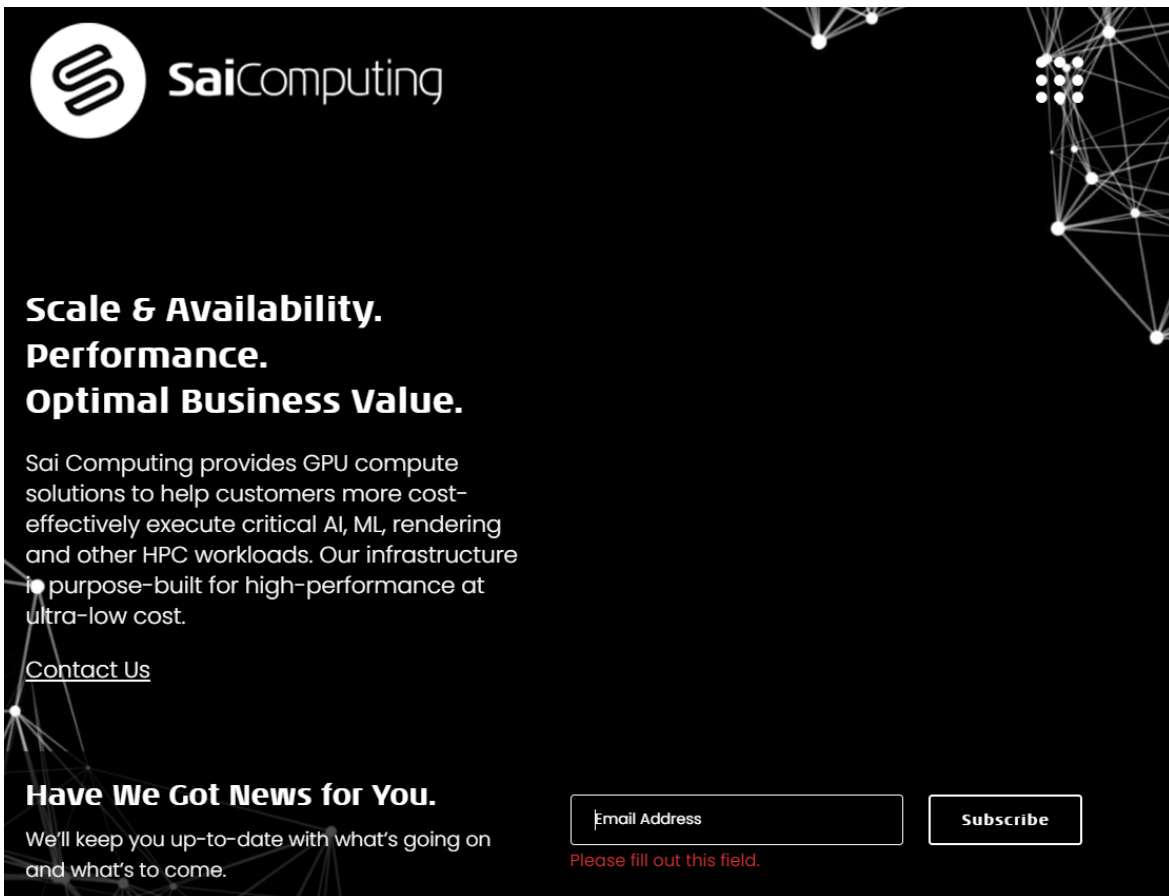


Result of applieddigital.com

https://subdomainfinder.c99.nl/scans/2023-06-30/applieddigital.com

Scan date	2023-06-30 22:18:42
Domain Country:	Worldwide (COM)
Subdomains found:	8
Most used IP:	52.45.31.171 (2x)

There are other signs that APLD is simply not a serious company. Its AI Services subsidiary, Sai Computing, which is supposedly signing deals for hundreds of millions of dollars, has a rudimentary [website](#) that appears to have no function at all, aside from collecting your contact information:



[Saicomputing.com](#) also has only one subdomain:

Result of saicomputing.com

https://subdomainfinder.c99.nl/scans/2023-07-01/saicomputing.com

Scan date	2023-07-01 17:42:58
Domain Country:	Worldwide (COM)
Subdomains found:	1
Most used IP:	104.236.199.5 (1x)

One of APLD's few subdomains is for its [IR page](#), which indicates to us that APLD is a company more intent on delivering press releases that pump up the stock price than on creating a substantial company. It appears to us that APLD's stock is the real product here.

### APLD Keeps Posting Meaningless Press Releases

In one such [press release](#) on June 30<sup>th</sup>, the company provided more specificity about the machines it intends to use for HPC by touting a strategic collaboration with Hewlett Packard to use its HPE Cray XD supercomputers, featuring NVIDIA H100 GPUs.

A collaboration with HPE sounds serious, but when you take a closer look at what the HPE representative said, it doesn't seem as impressive as APLD would like it to sound:

*"We are committed to making our leadership supercomputers accessible through the cloud and look forward to collaborating with Applied Digital to extend the HPE Cray supercomputers to its AI cloud service."*

It seems HPE is *looking forward to collaborating*, but this is contingent on receiving some money of course. What vendor isn't excited to collaborate with paying customers once they send them some money? HPE is not sounding the trumpet for this partnership; we found no mention of it in the company's [press releases](#).

The key here is that APLD has filed yet another press release that appears promising but upon closer inspection, means nothing. APLD's entire pivot could vanish like a mirage.

### The B. Riley Insiders at APLD Registered Their Shares for Sale the Same Day APLD's Stock Jumped 320% on a Press Release Boasting its First "AI Services" Contract

The insiders at APLD all registered their shares for sale on the May 16<sup>th</sup>, or the same day APLD's shares shot up 320% after the announcement of a deal with an unnamed AI customer. B. Riley insiders controlled 48.4% of APLD's shares as of 5/16/2023 according to APLD's registration statement, and they have registered to sell ~95% of these shares. Based on the trading volume we have seen since these share were registered, we could surmise that these shares are already being dumped. We guess we will see when RILY files its 2Q23 13-F.

APLD 424B3 filed 5/16/2023 p. 12-14					
Name of Selling Stockholder	Shares Beneficially Owned Prior to Sale (b)	Shares Registered for Sale	% Owned Prior to Sale of Registered Shares	Shares Owned After Sale of Registered Shares (a)	% Owned After Sale of Registered Shares (a)
B. Riley Securities, Inc	613,163	613,163	*	-	*
PFSI Custodian FBO Carla Cummins IRA Account	423,833	423,833	*	-	*
Cummins Family Ltd. Partnership	17,590,238	17,590,238	18.3%	-	*
Wesley Cummins	23,300,868	21,196,849	24.3%	2,104,019	2.2%
Wesley Cummins IRA Account	742,166	742,166	*	-	*
Virginia/Andrew Moore	1,076,055	930,780	1.1%	145,275	*
Pamela L. Hastings Living Trust	35,833	35,833	*	-	*
Bryant and Carleen Riley JTWROS	2,169,130	2,139,584	2.3%	29,546	*
Riley Investment Partners, LP	427,833	427,833	*	-	*
<b>Totals</b>	<b>46,379,119</b>	<b>44,100,279</b>	<b>48.4%</b>	<b>2,278,840</b>	<b>2.4%</b>

% owned based on shares outstanding as of 5/1/23 95,908,964

(a) Assumes that the Selling Stockholders will have sold all of the securities covered by this prospectus upon the completion of the offering.

(b) Adjusted to reflect shares of which the Selling Stockholder has sole dispositive power over.

\* Less than 1% of shares outstanding

## APLD KEEPS CHANGING ITS BUSINESS MODEL

### APLD appears to have been the Cummins family potato farm before becoming a bitcoin mining company

According to the company's correspondence with the SEC, it had been listed as early as 2002 as Flight Safety Technologies, Inc (FSTO), and in 2005, B. Riley took a significant position in the company. It was later delisted in July 2009, but not before it purchased Cummins Family Produce in January 2009. It [appears](#) Wes Cummins was working for B. Riley as a President of the firm at the time.

*"The purpose of the acquisition was to acquire a cash generating business to further fund the development of plasma-based products at our other subsidiary"*

Unable to run the potato farm (which was a real business after all), the farm ceased operations in 2013, and APPLD was completely defunct, and was just a shell by 2014.<sup>39</sup>

#### **Cummins Family Produce General Information**

##### Description

Producer of potatoes located in Twin Falls, Idaho. The company through its own production and packing plants supplies fresh produce directly to the consumers.

##### Contact Information

**Website**

[www.firstprizepotatoes.com](http://www.firstprizepotatoes.com)

**Primary Industry**

Horticulture

**Primary Office**

2570 Eldridge Avenue

Twin Falls, ID 83301

United States

**Ownership Status**

Acquired/Merged

**Acquirer**

[Applied Blockchain \(Dallas\)](#)

### **March 2021: Wes Cummins transitioned the potato farm into a Ethereum and Bitcoin miner**

In March 2021, even before it changed its name, Applied Science Products Inc, was [purchasing](#) Ethereum miners from SparkPool.

BY QUINCY PRESTON AND ALEX EDWARDS • JUN 2, 2021

**Dallas-based Applied Blockchain is moving forward with its first cryptocurrency mining deployment with the help of a purchase agreement with Sparkpool, the largest Ethereum mining pool in the world.**

By the time it filed its initial S-1 in August, 2021 APPLD's primary business appeared to be Bitcoin and Ethereum mining, and had signed a deal with [Bitmain](#) to purchase miners, and also had a deal to have these miners hosted at [Coinmint](#) because did not have its own facility yet.

## October 2021: APLD announced plans to become an Ethereum pool operator

[APLD announced](#) plans for its Ethereum operation to grow more ambitious by becoming a pool operator through a strategic partnership. Pool operators typically aggregate the resources of a large number of miners and takes a 2% fee of all crypto earned by the mining pool. This is a completely different business model than crypto mining.

### Applied Blockchain, Inc. Adds Pool Services Through Significant Partnership Expansion

October 19, 2021 09:00 ET | Source: [Applied Blockchain, Inc.](#)

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DALLAS, Oct. 19, 2021 (GLOBE NEWSWIRE) -- Applied Blockchain, Inc. ("Applied Blockchain" or the "Company") (PINK: APLD) today announced a significant expansion of their services agreement with a strategic partner to include access to technology and resources for mining pool services.

## December 2021: APLD ditched its crypto mining for crypto hosting.

In one of the many S-1/A's<sup>40</sup> filed, APLD dramatically changed its business description, apparently losing all interest in mining crypto or creating a pool service for crypto miners:

- **Scaling Hosting Operations:** leveraging partnerships to support scalable, low-cost mining solutions to support crypto and blockchain infrastructure.
- **Mining Cryptoassets:** the company currently self-mines Ethereum. Operations will not expand.
- **Fleet Management:** value-add services where from time to time we may facilitate the sale of blockchain mining equipment.

APLD ended up selling any miners it had purchased.

## January 2022: APLD starts joint venture with Bitmain to build datacenters

In January, 2022, APLD signed a new [agreement](#) with Bitmain's subsidiary Antpool, creating a joint venture, 1.21 Gigawatts LLC, to select and build 730 MW capacity for datacenters by January 2023.

By July 2022, APLD was able to sign a [five-year agreement with Marathon](#) to host its bitcoin miners at the facilities it was planning to build. Marathon's previous partner, Compute North, went bankrupt earlier in 2022.

DALLAS, TX – July 18, 2022 – [Applied Blockchain, Inc.](#) (Nasdaq: APLD) ("Applied Blockchain" or the "Company") has entered into a five-year hosting contract with [Marathon Digital Holdings, Inc.](#) (Nasdaq: MARA) ("Marathon") for 200-Megawatts ("MW") of Bitcoin mining capacity. The Company will provide comprehensive hosting services for Marathon's Bitcoin miners at Applied Blockchain's owned and operated co-hosting datacenters.

### November 2022: [APLD changes its name](#) to reflect shift away from bitcoin mining.

#### Applied Blockchain Announces Official Name Change to Applied Digital

The Name Change Reflects the Company's Diversified Offerings Focusing on High-Power Computing (HPC) Applications

November 17, 2022 08:00 ET | Source: [Applied Digital Corporation](#)

[Follow](#)

### November 2021: [APLD launches a fund to purchase distressed crypto assets](#)

On November 21<sup>st</sup>, 2022, APLD [announced](#) that it was launching a new \$100 million fund to purchase crypto miners and other assets from other crypto companies. This was going to be a 50/50 joint venture with GMR limited, a subsidiary of Bitmain.

#### Applied Digital Launches Independent Fund to Acquire Distressed Cryptocurrency Assets

November 21, 2022 8:00am EST

[Download as PDF](#)

### May 2023: [APLD pivots to AI and signs up a customer](#)

On May 16<sup>th</sup> 2023, [APLD announced](#) that had secured its first major AI customer, worth up to \$180 million over a two-year period. Investors took this as a sign that the company was successfully pivoting away from bitcoin mining and towards broader application. The stock jumped 320% that day.

#### Applied Digital Signs First Major Customer for Latest Artificial Intelligence Cloud Service

*\$180M Agreement With Customer to Support the Company's Cutting-Edge Vision in Reinforcing Demand for Artificial Intelligence (AI) Applications*

This agreement was signed with Sai Computing, which is primarily owned by APLD, with 2% held by Foundry, another Bitmain affiliate.

## June 2023: APLD pivots to AI Cloud service as datacenter broker

On June 26<sup>th</sup>, 2023, [APLD announced](#) its latest business plan. It was now purchasing 26,000 GPUs to launch a fully-fledged, AI Cloud service.

*“To support our AI Cloud Services and contracts, we have ordered over 26,000 GPUs. Demand for our AI Cloud product is high. The pipeline of business opportunities we are exploring is large, with the top 11 opportunities having the estimated potential to provide us up to an aggregate of \$1.3 billion of revenue over 3 years.”*

According to Craig-Hallum’s research note, these 26,000 GPUs include 8,000 GPUs for customer #1 (Stability AI), as well as 5,000 GPUs ordered for the AI customer eyeing a \$180 million contract. Instead of hosting these GPUs in its own facilities, APLD will be using a third-party data center to host the GPUs. In our view, it appears APLD has switched business models once again to become a broker.

In some ways this pivot to the AI Cloud harkens back to APLD’s attempt to purchase its own Ethereum miners and become a pool operator in 2021. APLD quickly abandoned that plan, and we suspect that it will not be long before APLD jettisons this idea as well.

## **INCOMPETENCE AND INEXPERIENCE HAVE RESULTED IN DISAPPOINTMENTS AND DISASTERS FOR APLD**

### **APLD’s Has Experienced Repeated Delays in Building Its Data Centers**

Whether focusing on Bitcoin mining, or launching an AI Cloud Service, the one common ingredient for APLD’s many business plans has been the need for functioning data centers. The problem for investors is that when it comes to building out data centers, APLD does not seem to know what it is doing.

An earlier version of this business involved a joint venture with Bitmain (through its subsidiary Antpool). The plan, inked in January 2022, was to build five datacenters with 730 MW of power capacity, with a planned completion date of the final project by January 2023.

Location	MW Capacity	Project Completion
TX	200	May - Aug 2022
ND	100	June - Aug 2022
ND	200	Oct - Nov 2022
TX	180	Nov 2022 - Jan 2023
ND	50	Dec 2022 - Jan 2023

This probably looked like a profitable business on paper, but building five data centers is apparently not that easy. APLD was only able to complete its first datacenter, in Jamestown ND, by the end of 2022.

APLD’s plans to complete two more facilities by the end of June 2023 have run into significant roadblocks.



In its Texas location, APLD seems to have angered the regulator, ERCOT, that needs to sign-off on APLD operating “behind the meter,” as it has been waiting on final approval since December 2022. APLD’s management has been saying that approval is “weeks away” for months. The following exchange is from APLD’s 2Q23 earnings call on January 9, 2023:<sup>41</sup>

### Lucas Pipes, Analyst

Thank you very much operator, and good afternoon, everyone. Happy New Year everyone and congratulations on the progress on the HPC side. Thank you for taking my questions. My first question is in regards to Ellendale and Garden City. I wondered if for both sides you can walk us through the-- in more detail on the kind of the current status, if you were at the site today what would we see. And then more specifically to Garden City, what exactly is preventing the facility from being energized today? Thank you very much for your color on this.

### Wesley Cummins "Wes", Chairman/CEO

Sure. Thanks. Thanks, Lucas for the-- for the comments and the question. So, at Garden City what you would see is you can see pictures I think about our social media feed, but basically a fully constructed facility. There's some I think 6 of the buildings have miners racked in them, and so we're continuing to do that.

We very recently last week received the approvals that we need. The last pieces of the puzzle here are mostly technical around metering and instrumentation transformers and so we're finalizing that. And so we expect to finalize that obviously on the timeline that we said and energize before the end of February.

So, the way that Energization looks is like we've talked-- you light up the buildings that are available. But we expect that facility to be fully online by the May-June time frame. And recall, for our largest customer there, as you know there's 90. We expect to bring that online sooner than that time frame.

Marathon’s miners have apparently already been installed in this facility, increasing the likelihood that this could get very litigious and nasty if they have completely botch the regulatory approval process and approval from ERCOT continues to be delayed.

## **APLD’S MOAT FOR ITS CURRENT BUSINESS IS DOING SOMETHING STUPID AND UNPROFITABLE**

Despite all the noise that APLD has made about AI customers and AI Cloud service, the way that APLD currently makes money is primarily hosting bitcoin miners. If APLD can finally get regulatory approval in Texas, it should be able to bring on approximately 500 MW across its three facilities, and nearly all that capacity is spoken for by bitcoin miners.<sup>42</sup>

Hosting bitcoin miners is not a very profitable business. RIOT, for example, has a low-cost facility in Texas that was authorized by ERCOT a long time ago, and the hosting portion of RIOT’s business had negative gross margins in 2021 and 2022.<sup>43</sup> Core Scientific’s (CORZQ) losses on its hosting program contributed to its bankruptcy.<sup>44</sup> Compute North, Marathon’s previous data center provider, also went [bankrupt](#) in September 2022.

APLD does not stand to gain much from the recent rise in BTC prices. It takes a fixed fee for its services instead of getting BTC tokens. We think this is why APLD has stated it has no intention to continue growing its hosting business and is pivoting to AI instead.

## What Is a Good Stock Promotion Without a Sex Scandal?

Despite this dizzying pace of change on the business front, the board has remained remarkably insulated since the company uplisted in 2021. Wes Cummins, who is the largest shareholder and CEO, is the Chairman of the board. We are not sure of what qualifies someone to sit on the Board of APLD, but experience with either BTC mining<sup>45</sup> or data centers is clearly not required, and a close connection to B. Riley is preferred.

Wes Cummings works at B. Riley, along with fellow board member Chuck Hastings. Virginia Moore, another board member, appears to be married to Andy Moore, the president of B. Riley Securities. Douglas Miller, the lead independent director, has lots of board experience, including at CareDx Inc, which [received](#) a subpoena from the SEC for potential securities law violations and investigated by the DOJ for alleged violations of the False Claims Act.

It appears that the board is insulated because it rubberstamps every pivot by Wes Cummins. This appears to be what has happened with the sex scandal involving Wes Cummins. According to the company's press release, Wes Cummins engaged in a sexual relationship with the Chief Marketing Officer and there was a "threat" of a sexual harassment charge.

The charge was supposedly investigated by the Audit Committee, a committee of three white men, which determined that the any claim was "unfounded" because the relations were "consensual." In our opinion, this is total bullshit. While a relationship can be consensual for a time, the power dynamics can rapidly change that relationship into one of harassment.

We also must question why the woman in question was brought on as an Executive Vice President, and then made the Chief Marketing Officer in August 2022,<sup>46</sup> when her prior experience was creating elaborate balloon displays.<sup>47</sup> Before that she worked full-time at Neiman Marcus while pursuing a masters.

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- <sup>1</sup> Wes Cummins bio, DEF 14A, 7; Shares were registered for sale on May 16<sup>th</sup> as part of two 424B3 prospectuses released on the same day, see pages 1 and 13 on both documents.
- <sup>2</sup> Two 424B3 prospectuses were issued on 5/16/2023. The parties registering for shares for sale are listed on pages 13
- <sup>3</sup> APLD, [8-K](#), 5/16/2023
- <sup>4</sup> As explained infra, we reached this inference because Craig Hallum stated the bigger customer was London-based, and the CEO said on twitter that both customers were on a list of 10 AI startups from Bloomberg that only included one London-based company: Stability AI. QED.
- <sup>5</sup> This Forbes [article](#), June 4, 2023 never directly calls him a liar, but states that “his recent success has been bolstered by exaggeration and dubious claims” and described one example where he stated he had a masters from Oxford when he only had a bachelors. From where we are sitting, it seems like Forbes is calling him a liar.
- <sup>6</sup> Semaphor [article](#), April 7, 2023.
- <sup>7</sup> Bloomberg [article](#), June 26, 2023
- <sup>8</sup> APLD, 8-K, 4/26/2023
- <sup>9</sup> See screenshot, infra, page 5
- <sup>10</sup> [Nvidia's top A.I. chips are selling for more than \\$40,000 on eBay – CNBC](#)
- <sup>11</sup> See infra, page 6
- <sup>12</sup> See analysis, infra, page 7
- <sup>13</sup> Expert call, made 7/5/2023
- <sup>14</sup> LinkedIn [Profile](#). Company [website](#) indicates it is a small cloud hosting company.
- <sup>15</sup> CoreWeave [homepage](#).
- <sup>16</sup> APLD, [10-Q](#), 4/6/2023, page 15
- <sup>17</sup> Look for yourself at [Saicomputing.com](#)
- <sup>18</sup> APLD [Q3 2023 10-Q](#), p. 14-15
- <sup>19</sup> Investor Presentation, May 2023, page 7.
- <sup>20</sup> APLD has yet to announce a location for the 200MW in development
- <sup>21</sup> APLD, 424B3 prospectuses were issued on 5/16/2023.
- <sup>22</sup> APLD, DEF 14A, 9/27/2022, page 9
- <sup>23</sup> APLD DEF 14A page 41 (footnote 7).
- <sup>24</sup> Share count of insiders as of 5/16/2023 as disclosed in the two prospectuses, was approximately 45 million. The current share price is ~\$9 a share, ~\$400 million value. If the share price doubled to \$18, then the value of those 45 million shares would increase by ~\$400 million.
- <sup>25</sup> RILY, 8-K, 6/26/2023
- <sup>26</sup> All current members of the board have served since at least 2021 according to DEF 14A, 9/27/2022
- <sup>27</sup> See bio of Kelli Macdonald, as disclosed page 8, DEF 14A, 9/27/2023.
- <sup>28</sup> See [LinkedIn](#) employment history of Regina Ingel.
- <sup>29</sup> [APLD 8-K filed 5/16/2023, ex. 99.2](#)
- <sup>30</sup> [APLD 8-K filed 6/23/2023, ex. 99.1](#)
- <sup>31</sup> Craig Hallum’s Research Note 6/26/2023
- <sup>32</sup> APLD 8-K 6/26/2023
- <sup>33</sup> This list should be taken with a grain of salt, as it is not a complete list. However, we believe the chart demonstrates how owning thousands of GPUs is uncommon and only done by well capitalized institutions.
- <sup>34</sup> [Nvidia's top A.I. chips are selling for more than \\$40,000 on eBay – CNBC](#)
- <sup>35</sup> [APLD 424B5](#), filed 6/26/2023, p. S-3
- <sup>36</sup> <https://www.youtube.com/watch?v=ktNZLLZnjbk>
- <sup>37</sup> Another option, according to [HPC Wire](#), is to rent the DGX H100 Cloud System for \$36,999 per month (~\$443,988 per year)
- <sup>38</sup> APLD [Q3 2023 10-Q](#), p. 14-15
- <sup>39</sup> SEC [Correspondence](#), Nov, 2, 2021. Pg. 8-9.
- <sup>40</sup> APLD S-1/A, filed 12/14/2021

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<sup>41</sup> APLD Q2 2023 Earnings Call Transcript, Accessed via Bloomberg LP

<sup>42</sup> APLD [Q3 2023 10-Q](#), p. 14-15

<sup>43</sup> RIOT March 24, 2023 [Investor Presentation](#), slide 21

<sup>44</sup> [CORZQ 2022 10-K](#)

<sup>45</sup> Jason Zhang appears to be the only exception to this rule. He was considered the co-founder of the company back when it was called Applied Blockchain and was eventually asked to sit on the board, even though he is/was just 30 at the time. Once the company moved away from bitcoin mining, he appears to have stepped back and is no longer on the board.

<sup>46</sup> APLD, 8-K 8/5/2023

<sup>47</sup> See [LinkedIn](#) employment history and posts from before her time at APLD for Regina Ingel

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