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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2023

or

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

For the transition period from _______to______

001-36555
(Commission File Number)

MARATHON DIGITAL HOLDINGS, INC.
(Exact name of registrant as specified in charter)

Nevada	01-0949984
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
101 NE Third Avenue, Suite 1200, Fort Lauderdale, FL	33301
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 800-804-1690

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 $0.0001 per share	MARA	The Nasdaq Capital 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, 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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 222,625,063 shares of common stock are issued and outstanding as of November 6, 2023.

TABLE OF CONTENTS

OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, "Marathon", "we", "us", "our", "Company" and similar terms refer to Marathon Digital Holdings, Inc., a Nevada corporation, and its subsidiaries.

Item 1. Financial Statements

MARATHON DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2023 (unaudited)	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 101,210	$ 103,705
Restricted cash	—	8,800
Digital assets	286,801	121,842
Other receivable	1,193	18
Deposits	7,104	2,350
Prepaid expenses and other current assets	36,338	40,833
Total current assets	432,646	277,548
Property and equipment, net	741,659	273,026
Advances to vendors	23,964	488,299
Investments	103,038	37,000
Long-term deposits	57,820	40,903
Long-term prepaids	24,152	8,317
Right-of-use assets	501	1,276
Digital assets, restricted	—	68,875
Total long-term assets	951,134	917,696
TOTAL ASSETS	**$ 1,383,780**	**$ 1,195,244**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,219	$ 1,312
Accrued expenses	21,702	22,295
Legal reserve payable	—	1,171
Operating lease liabilities	150	326
Accrued interest	1,102	1,011
Total current liabilities	38,173	26,115
Long-term liabilities:		
Notes payable	325,266	732,289
Term loan	—	49,882
Operating lease liabilities	388	1,017
Total long-term liabilities	325,654	783,188
Stockholders' Equity:		
Preferred stock, 0.0001 par value, 50,000,000 shares authorized and no shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	—	—
Common stock, 0.0001 par value, 500,000,000 shares authorized; 210,184,718 and 145,565,916 issued and outstanding at September 30, 2023 and December 31, 2022, respectively	21	15
Additional paid-in capital	1,822,504	1,226,267
Accumulated deficit	(802,572)	(840,341)
Total stockholders' equity	1,019,953	385,941
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,383,780**	**$ 1,195,244**

The accompanying notes are an integral part to these unaudited condensed consolidated financial statements.

MARATHON DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
		(As Restated)		**(As Restated)**
Total revenues	$ 97,849	$ 12,690	$ 230,740	$ 89,336
Costs and expenses				
Cost of revenues				
Cost of revenues - energy, hosting and other	(59,628)	(13,773)	(148,227)	(42,981)
Cost of revenues - depreciation and amortization	(53,548)	(26,295)	(108,556)	(64,882)
Total cost of revenues	(113,176)	(40,068)	(256,783)	(107,863)
Operating expenses				
General and administrative expenses	(20,141)	(12,144)	(55,977)	(38,127)
Impairment of digital assets	(11,885)	(1,375)	(26,399)	(156,500)
Gains on digital assets and gains (losses) on digital assets loan receivable	31,720	—	72,689	(14,460)
Losses on digital assets held within investment fund	—	—	—	(85,017)
Gain on sale of equipment, net of disposals	—	29,819	—	83,879
Legal reserves	—	(24,960)	—	(24,960)
Impairment of deposits due to vendor bankruptcy filing	—	(7,987)	—	(7,987)
Impairment of patents	—	—	—	(919)
Total operating expenses	(306)	(16,647)	(9,687)	(244,091)
Operating loss	(15,633)	(44,025)	(35,730)	(262,618)
Net gain from extinguishment of debt	82,600	—	82,267	—
Equity in net earnings of unconsolidated affiliate	(647)	—	(647)	—
Impairment of loan and investment due to vendor bankruptcy filing	—	(31,013)	—	(31,013)
Interest expense	(2,536)	(3,752)	(9,136)	(10,314)
Other non-operating income	426	238	1,366	620
Income (loss) before income taxes	64,210	(78,552)	38,120	(303,325)
Income tax benefit (expense)	(73)	6,090	(351)	901
Net income (loss)	64,137	(72,462)	37,769	(302,424)
Series A Preferred Stock accretion to redemption value	—	—	(2,121)	—
Net income (loss) attributable to common stockholders	$ 64,137	$ (72,462)	$ 35,648	$ (302,424)
Net income (loss) attributable to common stockholders per common stock - basic	$ 0.36	$ (0.62)	$ 0.21	$ (2.76)
Weighted average common stock outstanding - basic	179,602,722	116,533,816	169,162,821	109,492,865
Net income (loss) attributable to common stockholders per common stock - diluted	$ 0.35	$ (0.62)	$ 0.21	$ (2.76)
Weighted average common stock outstanding - diluted	189,506,521	116,533,816	169,162,821	109,492,865

The accompanying notes are an integral part to these unaudited condensed consolidated financial statements.

MARATHON DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share and per share data)
(unaudited)

For the Three Months Ended September 30, 2023

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Capital	Deficit	Equity
Balance as of June 30, 2023	**174,209,038**	**$ 17**	**$ 1,461,188**	**$ (866,709)**	**$ 594,496**
Stock-based compensation, net of tax withholding	70,963	—	5,598	—	5,598
Issuance of common stock, net of offering costs/At-the-market offering	4,182,300	1	36,950	—	36,951
Exchange of convertible notes for common stock	31,722,417	3	318,768	—	318,771
Net income	—	—	—	64,137	64,137
Balance as of September 30, 2023	**210,184,718**	**$ 21**	**$ 1,822,504**	**$ (802,572)**	**$ 1,019,953**

For the Nine Months Ended September 30, 2023

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Capital	Deficit	Equity
Balance as of December 31, 2022	**145,565,916**	**$ 15**	**$ 1,226,267**	**$ (840,341)**	**$ 385,941**
Stock-based compensation, net of tax withholding	590,831	—	13,807	—	13,807
Issuance of common stock, net of offering costs/At-the-market offering	32,305,554	3	265,783	—	265,786
Series A Preferred Stock accretion to redemption value	—	—	(2,121)	—	(2,121)
Exchange of convertible notes for common stock	31,722,417	3	318,768	—	318,771
Net Income	—	—	—	37,769	37,769
Balance as of September 30, 2023	**210,184,718**	**$ 21**	**$ 1,822,504**	**$ (802,572)**	**$ 1,019,953**

For the Three Months Ended September 30, 2022

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Capital	Deficit	Equity
Balance as of June 30, 2022 (As Restated)	**113,865,235**	**$ 11**	**$ 1,016,722**	**$ (376,281)**	**$ 640,452**
Stock-based compensation, net of tax withholding	41,650	—	3,417	—	3,417
Issuance of common stock, net of offering costs/At-the-market offering	2,903,520	1	37,659	—	37,660
Net loss	—	—	—	(72,462)	(72,462)
Balance as of September 30, 2022 (As Restated)	**116,810,405**	**$ 12**	**$ 1,057,798**	**$ (448,743)**	**$ 609,067**

For the Nine Months Ended September 30, 2022

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Capital	Deficit	Equity
Balance as of December 31, 2021 (As Restated)	**102,733,273**	**$ 10**	**$ 835,694**	**$ (146,319)**	**$ 689,385**
Stock-based compensation, net of tax withholding	417,380	—	18,824	—	18,824
Issuance of common stock, net of offering costs/At-the-market offering	13,459,752	2	198,700	—	198,702
Common stock issued for long term service contract	200,000	—	4,580	—	4,580
Net loss	—	—	—	(302,424)	(302,424)
Balance as of September 30, 2022 (As restated)	**116,810,405**	**$ 12**	**$ 1,057,798**	**$ (448,743)**	**$ 609,067**

The accompanying notes are an integral part to these unaudited condensed consolidated financial statements.

MARATHON DIGITAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022 (As Restated)
OPERATING ACTIVITIES		
Net income (loss)	$ 37,769	$ (302,424)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	108,556	64,882
Amortization of prepaid service contract	—	22,781
Deferred tax expense	351	(908)
Losses on digital assets held within investment fund	—	85,017
(Gains) on digital assets and (gains) losses on digital assets loan receivables	(72,689)	14,460
Impairment of digital assets	26,399	156,500
Gain on sale of equipment, net of disposals	—	(83,879)
Stock-based compensation	13,907	18,876
Amortization of debt issuance costs	2,780	2,956
Equity in net earnings of unconsolidated affiliate	647	—
Impairment of patents	—	919
Impairment of assets related to vendor bankruptcy filing	—	39,000
Gain on extinguishment of debt, net	(82,267)	—
Other adjustments from operations, net	609	1,406
Changes in operating assets and liabilities:		
Revenues from digital asset production	(230,740)	(89,330)
Deposits	(21,671)	(13,629)
Prepaid expenses and other assets	(11,588)	(31,434)
Accounts payable and accrued expenses	3,359	7,888
Legal reserve payable	—	21,200
Accrued interest	91	1,976
Net cash used in operating activities	(224,487)	(83,743)
INVESTING ACTIVITIES		
Advances to vendors	(87,315)	(482,098)
Purchase of property and equipment	(25,813)	(19,829)
Sale of property and equipment	—	177,371
Proceeds from sale of digital assets	179,509	—
Investments in joint venture	(66,754)	—
Purchase of equity investments	—	(44,000)
Sale of digital currencies in investment fund	—	483
Deconsolidation of fund	—	(500)
Net cash used in investing activities	(373)	(368,573)
FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of issuance costs	265,786	198,701
Proceeds from issuance of preferred stock, net of issuance costs	13,629	—
Redemption of preferred stock	(15,750)	—
Net change in revolving credit agreement borrowings	—	—
Proceeds from term loan borrowings, net of issuance costs	—	49,250
Repayment of term loan borrowings	(50,000)	
Value of shares withheld for taxes	(100)	(52)
Net cash provided by financing activities	213,565	247,899
Net decrease in cash, cash equivalents and restricted cash	(11,295)	(204,417)
Cash, cash equivalents and restricted cash — beginning of period	112,505	268,556
Cash, cash equivalents and restricted cash — end of period	$ 101,210	$ 64,139

The accompanying notes are an integral part to these unaudited condensed consolidated financial statements.

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Marathon Digital Holdings, Inc. and subsidiaries (the "Company" or "Marathon") is a digital asset technology company that produces or "mines" digital assets with a focus on the blockchain ecosystem and the generation of digital assets. The Company incorporated in the State of Nevada on February 23, 2010 under the name Verve Ventures, Inc. In October 2012, the Company commenced its IP licensing operations, at which time the Company's name was changed to Marathon Patent Group, Inc. The Company purchased digital asset mining machines and established a data center in Canada to mine digital assets in 2017. The Company ceased operations in Canada in 2020 and consolidated all operations in the U.S. at the time. The Company has since expanded bitcoin mining activities across the U.S. and internationally. The Company changed its name to Marathon Digital Holdings, Inc. on March 1, 2021. As of September 30, 2023, the Company is focused on the mining of bitcoin and ancillary opportunities within the Bitcoin ecosystem.

Ancillary businesses are those that relate to the Bitcoin ecosystem but are not directly related to the self-mining of bitcoin. The ancillary businesses that relate directly to mining may include, but will not be limited to, management of bitcoin mining facilities for third party owners, advisory and consulting services to third parties seeking to set up and operate bitcoin mining facilities and joint ventures for bitcoin mining projects in domestic and international jurisdictions such as the Company's project in Abu Dhabi, United Arab Emirates. The Company also seeks to be involved in Bitcoin related projects including, but not limited to, development of technologies in immersion, hardware, firmware, mining pools and side chains that use the blockchain cryptography. The Company may also become involved in electricity generation from renewable energy resources or methane gas capture to power bitcoin mining projects.

The term "Bitcoin" with a capital "B" is used to denote the Bitcoin protocol which implements a highly available, public, permanent, and decentralized ledger. The term "bitcoin" with a lower case "b" is used to denote the token, bitcoin.

NOTE 2 – VOLUNTARY CHANGE IN ACCOUNTING PRINCIPLE

During the quarter ended March 31, 2023 and effective January 1, 2023, the Company enacted a voluntary change in accounting principle from last-in-first-out ("LIFO") to first-in-first-out ("FIFO") in order to more accurately reflect the disposition of its digital assets. The change from LIFO to FIFO impacted the carrying value of digital asset loans made in August 2021 and December 2021, which was terminated at the point of repayment in kind for both loans in June 2022. The change in accounting principle resulted in a decrease in the carrying value of digital assets loaned and increased the gain on loaned digital assets for the year ended December 31, 2021. The change in accounting principle resulted in additional impairment of digital assets during the quarters ended March 31 and June 30, 2023. In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), the change has been reflected in the consolidated statements of operations through retrospective application to the quarter ended March 31, 2022.

The impacts of the voluntary change in accounting principle from LIFO to FIFO are as follows:

	As of December 31, 2021 (Restated)
Condensed Consolidated Balance Sheet Impact	
Accumulated deficit	7,284

	Three months ended (unaudited)		
	March 31, 2022 (Restated)	June 30, 2022 (Restated)	September 30, 2022 (Restated)
Consolidated Statements of Comprehensive Income (Loss) Impact			
Impairment of digital assets	$ (5,660)	$ (4,017)	$ —
Income tax benefit (expense)	1,412	(380)	232
Net income (loss) impact	$ (4,248)	$ (4,397)	$ 232
Net income (loss) per share, basic and diluted impact	$ (0.04)	$ (0.04)	$ —

	Six months ended (unaudited)	Nine months ended (unaudited)	Year ended
	June 30, 2022 (Restated)	September 30, 2022 (Restated)	December 31, 2022 (Restated)
Consolidated Statements of Comprehensive Income (Loss) Impact			
Impairment of digital assets	$ (9,677)	$ (9,677)	$ (9,677)
Income tax benefit (expense)	1,032	1,264	2,393
Net income (loss) impact	$ (8,645)	$ (8,413)	$ (7,284)
Net income (loss) per share, basic and diluted impact	$ (0.08)	$ (0.08)	$ (0.06)

	As of (unaudited)		
	March 31, 2022	June 30, 2022	September 30, 2022 (Restated)
Condensed Consolidated Balance Sheet Impact			
Digital assets	$ 4,017	$ —	$ —
Deferred tax liabilities	981	1,361	1,129
Accumulated deficit	3,036	(1,361)	(1,129)

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The Company has prepared the condensed consolidated financial statements in accordance with U.S. GAAP and regulations of the U.S. Securities and Exchange Commission applicable to interim financial information, which permit the omission of certain disclosure to the extent they have not changed materially since the latest annual financial statements. These condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for any future fiscal periods in 2023 or for the full year ending December 31, 2023.

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 16, 2023.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include, but are not limited to, estimates of the useful lives of property and equipment, realization of long-lived assets, deferred income taxes, unrealized tax positions and realization of digital assets.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments and other short-term investments with a maturity of three months or less, when purchased, to be cash equivalents. The Company maintains cash and cash equivalent balances at financial institutions that are insured by the FDIC. During March 2023, the Company began to participate, to the extent practicable, in insured cash sweep programs which "sweep" its deposits across multiple FDIC insured accounts, each with deposits of no more than $250. As of September 30, 2023, substantially all of the Company's cash and cash equivalents were FDIC insured.

Restricted cash as of December 31, 2022, principally represented those cash balances that support commercial letters of credit and are restricted from withdrawal. During March 2023, the Company eliminated its outstanding letters of credit. The following table provides a reconciliation of the total cash, cash equivalents and restricted cash reported on the condensed consolidated balance sheets to the corresponding amounts reported on the condensed consolidated statements of cash flows.

	September 30, 2023	December 31, 2022	September 30, 2022
Cash and cash equivalents	$ 101,210	$ 103,705	$ 55,339
Restricted cash	—	8,800	8,800
Cash, cash equivalents and Restricted cash	$ 101,210	$ 112,505	$ 64,139

Digital Assets and Digital Assets, Restricted

Digital assets are included in current assets in the condensed consolidated balance sheets due to the Company's ability to sell bitcoin in a highly liquid marketplace and the selling of bitcoin to fund operating expenses to support operations. In addition, digital assets provided as collateral for long-term loans were reported as Digital assets, restricted at December 31, 2022 and classified as long-term assets in the condensed consolidated balance sheets. The proceeds from the sale of digital assets are included within investing activities in the accompanying condensed consolidated statements of cash flows and any gains or losses from such sales are included in operating expenses in the condensed consolidated statements of operations. The Company measures gains or losses on the disposition of digital assets in accordance with the first-in-first-out ("FIFO") method of accounting.

Digital assets are accounted for as indefinite-lived intangible assets, and are initially measured in accordance with FASB Accounting Standards Codification ("ASC") Topic 350 – *Intangibles-Goodwill and Other*. Digital assets are not amortized, but are assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived intangible asset is impaired. Whenever the exchange-traded price of digital assets declines below its carrying value, the Company has determined that an impairment exists and records an impairment equal to the amount by which the carrying value exceeds the fair value. Refer to **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** ***Out-of-Period Adjustment,*** for a discussion of an adjustment related to impairment of digital assets.

During the first quarter of 2023, the term loan was terminated and the restrictions on digital assets lapsed (refer to **NOTE 11 – DEBT**, for further discussion).

The following table presents the activities of digital assets and digital assets, restricted for the nine months ended September 30, 2023:

Digital assets and digital assets, restricted at December 31, 2022	$	190,717
Additions of digital assets		230,391
Digital assets received as dividends		342
Impairment of digital assets		(26,399)
Proceeds from sale of digital assets		(179,509)
Gain on digital assets		72,689
Payment of advisory fees		(1,430)
Digital assets at September 30, 2023	$	286,801

As of September 30, 2023, the Company held approximately 13,716 bitcoin classified on the condensed consolidated balance sheets as “Digital assets”, with a carrying value of $286,801. As of September 30, 2023, the Company had earned 10 bitcoin that were pending distribution from the Company’s equity method investee, the ADGM Entity.

At September 30, 2023, the fair market value of the Company’s bitcoin holdings was approximately $369,797 based on Level 1 inputs. As of December 31, 2022, the Company held approximately 12,232 bitcoin, relating to digital assets and digital assets, restricted, with a carrying value of $190,717 and a fair value of $202,199 based on Level 1 inputs.

Digital assets held in fund

On January 25, 2021, the Company entered into a limited partnership agreement with NYDIG Digital Assets Fund III, LP (the “Fund”) pursuant to which the Fund purchased 4,813 bitcoin for an aggregate purchase price of $150,000. The Company owned 100% of the limited partnership interests and consolidated the Fund under a voting interest model. The consolidated assets in the investment fund were included in current assets in the condensed consolidated balance sheets under the caption “Digital assets held in fund.”

The Fund qualified and operated as an investment company for accounting purposes pursuant to the accounting and reporting guidance under ASC 946 – *Financial Services – Investment Companies*, which requires fair value measurement of the Fund’s investments in digital assets. The Company retains the Fund’s investment company specific accounting principles under ASC 946 upon consolidation. The Company recorded changes in the fair value of the assets in the condensed consolidated statements of operations under the caption “Losses on digital assets held within Investment Fund.”

On June 10, 2022, the Company redeemed 100% of its limited partnership interest in the Fund in exchange for approximately 4,769 bitcoin with a fair market value of approximately $137,844. This bitcoin was transferred from the Fund’s custodial wallet to the Company’s digital wallet. Upon redemption, the Company no longer had a majority voting interest in the Fund and therefore deconsolidated the Fund in accordance with ASC 810 – *Consolidation*. The Company did not record any gain or loss upon deconsolidation as the digital assets in the Fund were measured at fair value. Subsequent to the transfer, the bitcoin transferred to the Company’s digital wallet was accounted for at cost less impairment in line with its digital assets measurement policy as described under “Digital Assets and Digital assets, restricted.”

Embedded Derivatives

The Company evaluates its financing and service arrangements to determine whether certain arrangements contain features that qualify as embedded derivatives requiring bifurcation in accordance with ASC 815 - *Derivatives and Hedging*. Embedded derivatives that are required to be bifurcated from the host instrument or arrangements are accounted for and valued as separate financial instruments. For derivatives that are assets or liabilities, the derivative instrument is initially recorded at its fair value and is then remeasured at each reporting date with changes in the fair value reported in the statements of operations. The Company classifies derivative assets or liabilities in the condensed consolidated balance sheets as current or non-current based on whether settlement of the instrument could be required within 12 months of the condensed consolidated balance sheet date. The Company had no derivative assets or liabilities as of September 30, 2023 and December 31, 2022.

Deposits

The Company contracts with service providers for hosting of its equipment and operational support in data centers where the Company’s equipment is deployed. These arrangements require advance payments to vendors in conjunction with the contractual obligations associated with these services. The Company classifies these payments as “Long-term deposits” on the condensed consolidated balance sheets.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment, as applicable. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Company's property and equipment is primarily composed of bitcoin mining rigs which are largely homogeneous and have approximately the same useful lives. Accordingly, the Company utilizes the group method of depreciation for its bitcoin mining rigs. The Company will update the estimated useful lives of its bitcoin mining server group periodically as information on the operations of the mining equipment indicates changes are required. The Company will assess and adjust the estimated useful lives of its mining equipment when there are indicators that the productivity of the mining assets is longer or shorter than the assigned estimated useful lives.

Investments

Investments, which may be made from time to time for strategic reasons (and not to engage in the business of investments), are included in non-current assets in the condensed consolidated balance sheets. Investments without a readily determinable fair value are recorded at cost minus impairment, plus or minus changes from observable price changes in orderly transactions for identical or similar investments of the same issuer, in accordance with the measurement alternative described in ASC 321 - *Investments – Equity Securities*. As part of the Company's policy to maximize return on strategic investment opportunities, while preserving capital and limiting downside risk, the Company may at times enter into equity investments or simple agreements for future equity ("SAFE"). The nature and timing of the Company's investments will depend on available capital at any particular time and the investment opportunities identified and available to the Company.

On February 3, 2022, the Company purchased convertible preferred stock of Compute North Holdings, Inc. with a purchase price of approximately $10,000. The acquisition of convertible preferred stock was accounted for as investments in equity securities without readily determinable fair value at cost minus impairment, as adjusted for observable price changes in orderly transactions for identical or similar investment of the same issuer, pursuant to ASC 321. The Company impaired this investment by approximately $10,000 following Compute North's Chapter 11 Bankruptcy filing during September 2022 (See **NOTE 9 – COMPUTE NORTH BANKRUPTCY**).

On May 3, 2022, the Company converted $2,000 from its prior Auradine, Inc. SAFE investment into preferred stock while purchasing additional Auradine preferred stock with a purchase price of $3,500. At the same time, the Company entered into a commitment to acquire additional shares of Auradine preferred stock with a purchase price of $30,000. This forward contract was accounted for under ASC 321 as an equity security.

On September 27, 2022, the Company purchased additional shares of Auradine preferred stock with a purchase price of $30,000, bringing its total carrying amount of investment in Auradine, Inc. preferred stock to $35,500, with no noted impairments or other adjustments. The preferred stock is accounted for as investments in equity securities without a readily determinable fair value at cost minus impairment, as adjusted for observable price changes in orderly transactions for identical or similar investments from the same issuer, pursuant to ASC 321 (refer to **NOTE 14 – RELATED PARTY TRANSACTIONS**).

During the third quarter ended September 30, 2023, the Company entered into an agreement with Auradine to secure certain rights to future purchases by the Company from Auradine for which the Company paid $15,000, which is included in Long-term prepaids in the condensed consolidated balance sheets.

As of the nine months ended September 30, 2023 and year ended December 31, 2022, the Company has one remaining SAFE investment with a carrying value of $1,000, with no noted impairments or other adjustments.

Equity Method Investments

The Company accounts for investments in which it owns between 20% and 50% of the common stock or has the ability to exercise significant influence, but not control, over the investee using the equity method of accounting in accordance with ASC 323 - *Equity Method Investments and Joint Ventures*. Under the equity method, an investor initially records an investment in the stock of an investee at cost and adjusts the carrying amount of the investment to recognize the investor's share of the earnings or losses of the investee after the date of acquisition.

On January 27, 2023, the Company and Zero Two (formerly known as FS Innovation, LLC) entered into a Shareholders' Agreement regarding the formation of an Abu Dhabi Global Markets company (the "ADGM Entity") in which the Company has a 20% ownership interest. The Company accounts for this investment under the equity method. The ADGM Entity started mining operations during the quarter ended September 30, 2023. The Company's share of net losses was $647 for the three and nine months ended September 30, 2023. As of September 30, 2023, the Company's investment in the ADGM Entity was $66,038 and is included in Investments in the condensed consolidated balance sheets.

Stock-based Compensation

The Company expenses stock-based compensation to employees and non-employees over the requisite service period based on the grant date fair value of the awards.

Impairment of Long-lived Assets

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Revenues From Contracts with Customers

The Company recognizes revenue under ASC 606 – *Revenue from Contracts with Customers*. The core principle of the revenue standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Refer to **NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS**, for further discussion.

Income Taxes

Effective Tax Rate

The effective tax rate ("ETR") from continuing operations was 0.11% and 0.92% for the three and nine months ended September 30, 2023, respectively, and 7.75% and 0.30% for the three and nine months ended September 30, 2022, respectively. The difference between the US statutory tax rate of 21% was primarily due to the change in valuation allowance as a result of current year activity.

Income Tax in Interim Periods

The Company records its tax expense or benefit on an interim basis using an estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period. The income tax effects of unusual or infrequent items are excluded from the estimated annual effective tax rate and are recognized in the impacted interim period.

Adjustments to the estimated annual effective income tax rate are recognized in the period when such estimates are revised.

Uncertainties

The Company files federal and state income tax returns. The 2019-2021 tax years generally remain subject to examination by the IRS and various state taxing authorities, although the Company is not currently under examination in any jurisdiction.

The Company does not currently expect any of its remaining unrecognized tax benefits to be recognized in the next twelve months.

Recent Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability. When it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequences of the change to its condensed consolidated financial statements and assures that there are proper controls in place to ascertain that the Company's condensed consolidated financial statements properly reflect the change.

Recently Issued Accounting Pronouncements

On March 28, 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-01, Leases (Topic 842): *Common Control Arrangements*. The amendments in ASU 2023-01 improve current GAAP by clarifying the accounting for leasehold improvements associated with common control leases, thereby reducing diversity in practice. Additionally, the amendments provide investors and other allocators of capital with financial information that better reflects the economics of those transactions. The new standard is effective for the Company for its fiscal year beginning January 1, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting the standard.

On June 30, 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurement of Equity Securities* Subject to Contractual Sale Restrictions. ASU 2022-03 clarifies that a contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security and is not included in the equity security's unit of account. The new standard is effective for the Company for its fiscal year beginning January 1, 2024, with early adoption permitted. The Company adopted ASU 2022-03 on July 1, 2023, which adoption did not have a material impact on the Company's condensed consolidated financial statements.

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company recognizes revenue in accordance with ASC 606. The core principle of the revenue standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the Company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, an entity must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct); and
- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, an entity must consider the effects of all of the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Noncash consideration
- Consideration payable to a customer

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized under the accounting contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The transaction price is allocated to each performance obligation on a relative standalone selling price basis.

The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time, as appropriate.

Application of the five-step model to the Company's mining operations

The Company's ongoing major or central operation is to provide bitcoin transaction verification services to the bitcoin network through a Company-operated mining pool as the operator ("Operator") (such activity, "mining") and to provide computing power to perform hash calculations to pool operators alongside collectives of third-party bitcoin miners (such collectives, "mining pools") as a participant ("Participant"). The Company currently mines in a self-operated pool, which was previously open to third-party pool participants from September 2021 until May 2022.

The following table presents the Company's revenues disaggregated for those arrangements in which the Company is the Operator and Participant:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues from contracts with customers				
Operator - Block rewards	92,779	10,495	197,200	81,818
Operator - Transaction fees	2,378	106	9,787	3,898
Participant	2,677	2,089	23,404	$ 3,620
Other revenue	15	—	349	$ —
Total revenues	$ 97,849	$ 12,690	$ 230,740	$ 89,336

Operator

As Operator, the Company provides transaction verification services. Transaction verification services are an output of the Company's ordinary activities; therefore, the Company views the transaction requestor as a customer and accounts for the transaction fees it earns as revenue from a contract with a customer under ASC 606. The bitcoin network is not an entity such that it may not meet the definition of a customer; however, the Company has concluded it is appropriate to apply ASC 606 by analogy to block rewards earned from the network. The Company is currently entitled to the block reward of 6.25 bitcoin from the bitcoin network for each successful block. The Company is also entitled to the transaction fee paid by the transaction requester payable in bitcoin for each successful block. A contract exists under ASC 606 at the point the Company successfully validates a transaction to the distributed ledger. At this point, the performance obligation to validate the requested transaction has been satisfied and a contract is deemed to exist as follows:

- The transaction requester, the bitcoin network, and the Company have approved the contract and have evidenced they are committed to the transaction at the point of successfully validating and adding the transaction to the distributed ledger. The parties' rights, the consideration to be transferred, and the payment terms are clear. The transaction has commercial substance and collection of the block reward and transaction fees to which the Company is entitled is probable because they are transferred to the Company as part of closing a successful block.

- By successfully mining a block, the Company satisfies its lone performance obligation of providing transaction verification services and, thus, earns revenue at that point in time. The amount to which the Company is entitled for successfully validating a block of transactions is fixed at the point in time the contract is deemed to exist and the performance obligation is satisfied. Thus, there is no variable consideration.

The Company engaged unrelated third-party mining enterprises ("pool participants") to contribute computing power, and in exchange, remitted transaction fees and block rewards to pool participants on a pro rata basis according to each respective pool participant's contributed computing power ("hash rate"). The MaraPool wallet (owned by the Company as Operator) is recorded on the distributed ledger as the winner of proof of work block rewards and assignee of all validations and, therefore, the transaction verifier of record. The pool participants entered into contracts with the Company as Operator; they did not directly enter into contracts with the network or the requester and were not known verifiers of the transactions assigned to the pool. As Operator, the Company delegated mining work to the pool participants utilizing software that algorithmically assigned work to each individual miner. By virtue of its selection and operation of the software, the Company as Operator controlled delegation of work to the pool participants. This indicated that the Company directed the mining pool participants to contribute their hash rate to solve in areas that the Company designates. Therefore, the Company determined that it controlled the service of providing transaction verification services to the network and requester. Accordingly, the Company recorded all of the transaction fees and block rewards earned from transactions assigned to MaraPool as revenue, and the portion of the transaction fees and block rewards remitted to MaraPool participants as cost of revenues. The Company operated a mining pool that engaged third-party pool participants from September 2021 until May 2022.

In accordance with ASC 606-10-32-21, the Company measures the estimated fair value of noncash consideration at contract inception, which is at the time the block reward and transaction fee is earned and the performance obligation to the requester and the network is fulfilled by successfully validating the applicable block of transactions. The Company applies the quoted spot rate for bitcoin determined using the Company's primary trading platform for bitcoin at the time the block reward and transaction fee is earned to measure revenues.

Expenses associated with providing the bitcoin transaction verification services to the customers, such as hosting fees, electricity costs, and related fees are recorded as cost of revenues. Depreciation on digital asset mining equipment is also recorded as a component of cost of revenues.

Participant

The Company participates in multiple third-party operated mining pools only when the Company-operated mining pool is not available. The payout methodologies differ depending on the type of third-party operated mining pool. Pay-Per-Share ("PPS") and Full-Pay-Per-Share ("FPPS") pools pay rewards based on a contractual formula, which primarily calculates the hash rate provided by the Company to the mining pool as a percentage of total network hash rate, and other inputs. For PPS and FPPS pools, the Company is entitled to consideration even if a block is not successfully placed by the mining pool operator. The Company also participates in third-party mining pools that pay rewards only when the pool successfully mines a block. For these pools, the Company only earns a reward when the third-party pool successfully mines a block and its reward is the fractional share of the successfully mined block and transaction fees based on the proportion of computing power the Company contributed to the mining pool operator to the total computing power contributed by all mining pool participants in solving the algorithm.

When the Company is a Participant in a third-party operated mining pool, the Company provides hash rate that is an output of the Company's ordinary activities in exchange for consideration. The Company considers the third-party mining pool operators to be its customers under Topic 606. These contracts are period-to-period contracts because they are terminable at any time by either party without compensation. A new contract is determined to exist each period (e.g., second, minute, hour) that neither the Company, nor the pool operator, terminates the arrangement. Such implied renewal option is not a material right because the pricing in the renewal periods is the same as the initial contract and there are no upfront or incremental fees in the initial contract or the terms, conditions, and compensation amounts for the renewal options are at the then market rates.

When the Company participates in PPS and FPPS pools, which pay rewards based on a contractual formula, the Company recognizes revenue based on the Company's daily contributed hash rate and other network-driven inputs, such as the total hash rate contributed by all pool participants. The variable consideration (reward) the Company will be entitled to for its contribution of hash rate can be reasonably estimated based on the contribution of hash rate and other network inputs such as total contributed hash rate. The Company measures revenue earned based on the average daily spot rate of bitcoin determined using the Company's primary trading platform for bitcoin.

When the Company participates in third-party pools that pay rewards only when the pool successfully mines a block, the Company recognizes its fractional share of the block and transaction fees using the spot rate of bitcoin at the time that the block is successfully mined.

Providing computing power on mining rigs to solve complex cryptographic algorithms in support of blockchain mining (in a process known as "solving a block") is the primary output of the Company's ordinary activities. The provision of computing power is the only performance obligation under the Company's arrangements with third-party mining pool operators. The transaction consideration the Company receives is non-cash (i.e., bitcoin) and variable. For third-party pools that pay rewards only when the pool successfully mines a block, the consideration to which the Company will be entitled to for its efforts remain variable and is not estimable until the pool successfully solves a block, at which point in time the Company can then estimate its fractional share of the bitcoin to which it is entitled to for its contribution to the pool's successful efforts. For PPS and FPPS pools, which pay rewards based on a contractual formula that does not depend on the pool successfully mining any blocks during the period in which the Company contributes computing power, the Company can reasonably estimate the variable consideration to which it will be entitled to for providing computing power as such power is being provided based on the contributed hash rate and other inputs.

The Company satisfies its performance obligation to provide computing power to the pool operator over time as described in FASB ASC 606-10-25-27(a) as the pool operator simultaneously consumes and receives benefits from the Company's provision of computing power, which it uses continuously as an input to the pool's efforts to solve a block.

Expenses associated with providing computing power services to third-party operated mining pools, such as hosting fees, electricity costs, and related fees, are recorded as cost of revenues. Depreciation on digital asset mining equipment is also recorded as a component of cost of revenues.

NOTE 5 – ADVANCES TO VENDORS AND DEPOSITS

The Company contracts with bitcoin mining equipment manufacturers in procuring equipment necessary for the operation of its bitcoin mining operations. A typical agreement calls for a certain percentage of the total order to be paid in advance at specific intervals, usually within several days of execution of a specific contract and periodically thereafter with final payments due prior to each shipment date. The Company accounts for these payments as "Advances to vendors" on the condensed consolidated balance sheets.

As of September 30, 2023 and December 31, 2022, such advances totaled approximately $23,964 and $488,299, respectively.

In addition, the Company contracts with other service providers for the hosting of its equipment and operational support in data centers where the Company's equipment is deployed. These arrangements also call for advance payments to be made to vendors in conjunction with the contractual obligations associated with these services. The Company classifies these payments as "Short-term prepaids" and "Long-term deposits" on the condensed consolidated balance sheets.

NOTE 6 – PROPERTY AND EQUIPMENT

The components of property and equipment as of September 30, 2023 and December 31, 2022 are:

	Useful life (Years)	September 30, 2023	December 31, 2022
Mining rigs	3	$ 679,196	$ 116,634
Containers	10	5,611	1,614
Other	7	240	206
Construction in progress	—	181,790	171,194
Total gross property, equipment		866,837	289,648
Less: Accumulated depreciation		(125,178)	(16,622)
Property and equipment, net		$ 741,659	$ 273,026

The Company's depreciation expense related to property and equipment for the three months ended September 30, 2023 and 2022 was $53,548 and $26,295, respectively. The Company's depreciation expense related to property and equipment for the nine months ended September 30, 2023 and 2022 was $108,556 and $64,882, respectively.

NOTE 7 – FAIR VALUE MEASUREMENT

The Company measures certain financial and non-financial assets and liabilities at fair value on a recurring or non-recurring basis. The Company uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price 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, essentially an exit price, based on the highest and best use of the asset or liability. The levels of the fair value hierarchy are:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, restricted cash, other receivable, deposits, prepaid expenses and other current assets, property and equipment, advances to vendors, accounts payable, accrued expenses, and legal reserve payable, approximate their estimated fair market value based on the short-term maturity of these instruments.

Financial assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level of input that is significant to their fair value measurement. The Company measures the fair value of its marketable securities and investments by taking into consideration valuations obtained from third-party pricing sources. The pricing services utilize industry standard valuation models, including both income and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs included reported trades and broker-dealer quotes on the same or similar securities, issuer credit spreads, benchmark securities and other observable inputs.

Recurring measurement of fair value

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis and the Company's estimated level within the fair value hierarchy of those assets and liabilities as of December 31, 2022, respectively:

	Recurring fair value measured at September 30, 2023			
(in thousands)	Total carrying value at September 30, 2023	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents [1]	45,988	45,988	—	—

	Recurring fair value measured at December 31, 2022			
	Total carrying value at December 31, 2022	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents [1]	$ 92,044	$ 92,044	$ —	$ —

(1) Represents money market accounts. Excludes $55,222 and $11,661 of cash and cash equivalents as of September 30, 2023 and December 31, 2022, respectively.

There were no transfers among Levels 1, 2 or 3 during the nine months ended September 30, 2023.

Non-recurring measurement of fair value

The following tables present information about the Company's assets and liabilities measured at fair value on a non-recurring basis and therefore, not included in the tables above. These assets include (a) digital assets and digital assets, restricted that are initially recorded at cost and subsequently impaired as the fair value falls below its carrying value and (b) mining rigs and advances to vendors that are written down to fair value due to the decrease in the cost of bitcoin mining rigs that was driven by the drop in bitcoin prices during the fourth quarter ended December 31, 2022. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., impairment). The Company's estimated level within the fair value hierarchy of these assets and liabilities as of September 30, 2023 and December 31, 2022, respectively, are:

	Non-recurring fair value measured at September 30, 2023			
	Total carrying value at September 30, 2023	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Digital assets	$ 286,801	$ 369,797	$ —	$ —

	Non-recurring fair value measured at December 31, 2022			
	Total carrying value at December 31, 2022	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Digital assets	121,842	—	129,201	—
Property and equipment, net [1]	271,280	—	271,280	—
Advances to vendors	488,299	—	488,299	—
Digital assets, restricted	68,875	—	72,998	—

(1) Represents mining rigs. Excludes $1,746 of Property and equipment relating to containers, website and leasehold improvements.

During the three months ended March 31, 2023, the fair value of digital assets were transferred from Level 2 to Level 1, as a result of using the quoted price in the active market in accordance with ASC 820. There were no other transfers among Levels 1, 2 or 3 during the nine months ended September 30, 2023. In addition, as of September 30, 2023 and December 31, 2022, the Company had convertible notes outstanding with carrying values of $325,266 and $732,289 and fair values of $237,980 and $166,842, respectively, based on Level 1 quoted prices in active markets. As of September 30, 2023 and December 31, 2022, there were no other assets and liabilities measured at fair value on a non-recurring basis.

NOTE 8 – NET INCOME (LOSS) PER SHARE

Net income per common share is calculated in accordance with ASC Topic 260 – *Earnings Per Share*. Basic income per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. For the three and nine months ended September 30, 2023, the Company recorded net income and as such, the Company calculated the impact of dilutive common stock equivalents for dilutive earnings per share. For the three and nine months ended September 30, 2022, the Company had net losses and as such, the computation of diluted net loss per share does not include dilutive common stock equivalents in the weighted average shares outstanding, as they would be anti-dilutive.

Securities that could potentially dilute loss per share in the future that were not included in the computation of diluted loss per share are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Warrants to purchase common stock	324,375	324,375	324,375	324,375
Restricted stock units	—	1,113,132	3,753,431	1,113,132
Convertible notes to exchange common stock	—	9,812,955	4,341,422	9,812,955
Total dilutive shares	**324,375**	**11,318,601**	**6,459,630**	**11,235,430**

The following table sets forth the computation of basic and diluted loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (As Restated)	2023	2022 (As Restated)
Basic earnings per common share:				
Net income (loss) attributable to common shareholders - basic	$ 64,137	$ (72,462)	$ 35,648	$ (302,424)
Weighted average common shares - basic	179,602,722	116,533,816	169,162,821	109,492,865
Net income (loss) attributable to common stockholders per common stock - basic	$ 0.36	(0.62)	0.21	(2.76)
Diluted earnings per common share:				
Net income (loss) attributable to common shareholders - basic	$ 64,137	$ (72,462)	$ 35,648	$ (302,424)
Add: Notes interest expense, net of tax	2,451	—	—	—
Net income (loss) attributable to common stockholders per common stock - diluted	$ 66,588	$ (72,462)	$ 35,648	$ (302,424)
Weighted average common shares - basic	179,602,722	116,533,816	169,162,821	109,492,865
Restricted stock awards	1,413,329	—	—	—
Convertible Notes	8,475,470	—	—	—
Preferred stock	15,000	—	—	—
Weighted average common shares - diluted	189,506,521	116,533,816	169,162,821	109,492,865
Net income (loss) attributable to common stockholders per common stock - diluted	$ 0.35	$ (0.62)	$ 0.21	$ (2.76)

NOTE 9 – COMPUTE NORTH BANKRUPTCY

On September 22, 2022, Compute North Holdings, Inc. (along with its affiliated debtors, collectively, "Compute North", filed for chapter 11 bankruptcy protection in the U.S. Bankruptcy Court for the Southern District of Texas under Chapter 11 of the U.S. Bankruptcy Code (11 U.S. Code section 101 et seq.). Marathon's financial exposure to Compute North at the time of the bankruptcy filing included:

– Approximately $10,000 in Convertible Preferred Stock of Compute North Holdings, Inc.

– Approximately $21,000 related to an unsecured Senior Promissory note with Compute North LLC.

– Approximately $50,000 in operating deposits with Compute North primarily related to the King Mountain and Wolf Hollow hosting facilities.

The Company recorded an impairment charge of $39,000 for the nine months ended September 30, 2022 and $55,674 for the year ended December 31, 2022. On February 16, 2023, the Bankruptcy Court approved the Debtors Plan of Reorganization, pursuant to which Marathon's claim was fixed at $40,000 as an unsecured claim to be paid out according to the timing and percentages within the approved Debtor's plan. The Company has yet to receive the settlement funds.

NOTE 10 – STOCKHOLDERS' EQUITY

Common Stock

On July 27, 2023, the Company's shareholders approved an amendment to the Company's articles of incorporation that increased the amount of common stock authorized for issuance to 500,000,000 with a par value of $0.0001 per share.

Shelf Registration Statement on Form S-3 and At-The-Market Offering Agreement

On February 11, 2022, the Company entered into an At-The-Market Offering Agreement, or sales agreement, with H.C. Wainwright & Co., LLC relating to shares of the Company's common stock. In accordance with the terms of the sales agreement, the Company may offer and sell shares of its common stock having an aggregate offering price of up to $750,000 from time to time through Wainwright acting as its sales agent. As of September 30, 2023, the Company has sold 74,447,287 shares of common stock for an aggregate purchase price of $627,272, net of offering costs, pursuant to this At-The-Market Offering Agreement.

In February 2022, the Company commenced an At The Market offering program with H.C. Wainwright & Co., LLC, as sales agent, which allowed it to sell and issue shares of up to approximately $750,000 of its Common Stock from time-to-time. During the first three quarters of 2023, the Company issued 32,305,554 shares of Common Stock under the 2022 At The Market offering program for total proceeds of $265,786, net of commissions and other offering related expenses.

Common Stock Warrants

A summary of the Company's issued and outstanding stock warrants and changes during the period ended September 30, 2023 is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding as of December 31, 2022	324,375	$ 25.00	2.5
Issued	—	0.00	0.0
Expired	—	0.00	0.0
Exercised	—	0.00	0.0
Outstanding as of September 30, 2023	324,375	$ 25.00	2.0

Restricted Stock

A summary of the restricted stock award activity (represented by restricted stock units ("RSUs")) for the nine months ended September 30, 2023 is as follows:

	Number of Units		Weighted Average Grant Date Fair Value
Nonvested at December 31, 2022	1,255,648	$	22.60
Granted	3,350,763		8.33
Vested	(679,947)		20.02
Forfeited	(173,033)	$	9.42
Nonvested at September 30, 2023	3,753,431	$	10.93

Series A Preferred Stock

On June 5, 2023, the Company entered into a securities purchase agreement for the purchase of 15,000 shares of Series A redeemable convertible preferred stock. On June 8, 2023, upon closing of the offering, the Company issued 15,000 shares of Series A Preferred Stock for total gross proceeds of $14,286 before deducting the placement agent's fees and other estimated offering expenses. Each share of Series A Preferred Stock had a purchase price of $952.38, representing an original issue discount of approximately 5% of the $1,000 stated value of each share. Each share of Series A Preferred Stock was convertible into shares of the Company's common stock at an initial conversion price of $14.52 per share, at the option of the holder, at any time following the Company's receipt of stockholder approval for an increase in its authorized shares of common stock.

The Series A Preferred Stock was recorded outside of stockholder's equity as mezzanine equity. At June 30, 2023, the Company increased the carrying value of Series A Preferred Stock to its redemption value and recorded the difference to additional paid-in capital.

During the third quarter ended September 30, 2023, all of the outstanding Series A Preferred Stock were redeemed at 105% of the $1,000 stated value per share for $15,750.

NOTE 11 – DEBT

On November 18, 2021, the Company issued $650,000 principal of its 1.0% Convertible Senior Notes due 2026 (the "Notes"). The Notes were issued pursuant to, and are governed by, an indenture (the "Indenture"), dated as of November 18, 2021, between the Company and U.S. Bank National Association, as trustee (the "Trustee").

On November 23, 2021, pursuant to terms of the Notes, the initial purchasers of the Notes purchased an additional $97,500 principal of Notes for an aggregate principal amount of Notes purchased of $747,500. All references in this disclosure to "Notes" includes the Notes issued on both November 18, 2021 and November 23, 2021.

The Notes accrue interest at a rate of 1.00% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2022. The Notes will mature on December 1, 2026, unless earlier repurchased, redeemed or converted, which scenarios the Company is currently contemplating and may consummate in advance of the maturity date. Before the close of business on the business day immediately before September 1, 2026, noteholders will have the right to convert their Notes only upon the occurrence of certain events. From and after September 1, 2026, noteholders may convert their Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date. The Company will settle conversions by paying or delivering, as applicable, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election. The initial conversion rate is 13.1277 shares of common stock per one thousand dollar principal amount of Notes, which represents an initial conversion price of approximately $76.17 per share of common stock. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a "Make-Whole Fundamental Change" (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

In September 2023, the Company entered into privately negotiated exchange agreements with certain holders of its Notes. In total, the Company exchanged $416,793 principal amount of Notes for an aggregate 31,722,417 shares of Company common stock. The Company evaluated the exchange of debt to determine if it was an extinguishment or a modification of the debt. Due to the addition of a substantive conversion feature, the Company determined that the exchange was an extinguished of debt. The Company measured the gain on extinguishment of debt based on the carrying value of the Notes, the fair value of the Company's common stock issued in the exchange and related transaction costs. The Company recorded a gain on the exchange of Notes for the Company's common stock in the amount of $82,600 to "Net gain from extinguishment of debt" on the Condensed Consolidated Statements of Operations.

As of September 30, 2023 and December 31, 2022, Notes outstanding, net of unamortized discounts of approximately $5,441 and $15,211, respectively, were $325,266 and $732,289, respectively.

On July 28, 2022, the Company entered into a Revolving Credit and Security Agreement (the "Agreement") with Silvergate Bank (the "Bank") pursuant to which Silvergate had agreed to loan the Company up to $100,000 on a revolving basis pursuant to the terms of the Agreement. This facility refinanced and replaced an existing $100,000 facility the Company had in place with the Bank. On the same date, the Company also entered into a $100,000 principal term loan facility (the "Term Loan") with Silvergate. See Form 10-K for the year ended December 31, 2022 for the terms of the facilities set forth in the Agreement and the Term Loan.

On February 6, 2023, the Company provided Silvergate Bank with the required 30-day notice stating the Company's intent to prepay the outstanding balance on its term loan facility as well as the Company's intent to terminate the term loan facility. The Company and Silvergate subsequently agreed to also terminate the revolving line of credit ("RLOC") facility. On March 8, 2023, the term loan prepayment was completed, and the Company's term loan and RLOC facilities with Silvergate Bank were terminated and the Company recorded a loss in the amount of $333 to "Net gain on extinguishment of debt" on the Condensed Consolidated Statements of Operations.

NOTE 12 – LEASES

Leases

The Company leases office space in the United States under operating lease agreements. The Company also entered into an arrangement with Applied Blockchain for the use of energized cryptocurrency mining facilities under which the Company pays for electricity per megawatt based on usage. The Company has determined that it has embedded operating leases at two of the facilities governed by this arrangement that commenced in January and March 2023, and has elected not to separate lease and non-lease components. Payments made for these two operating leases are entirely variable and are based on usage of electricity, and the Company therefore does not record a right-of-use asset or lease liability associated with the leases. Variable lease cost during the nine months ended September 30, 2023 are disclosed in the table below. Office space and mining facilities comprise the Company's material underlying asset classes under operating lease agreements. The Company has no material finance leases.

As of September 30, 2023, the Company's right-of-use ("ROU") assets and total lease liabilities were $501 and $538, respectively. As of December 31, 2022, the Company's ROU assets and total lease liabilities were $1,276 and $1,343, respectively. The Company has amortized right-of-use assets totaling $57 and $79 for the three months ended September 30, 2023 and 2022, respectively. The Company has amortized right-of-use assets totaling $224 and $178 for the nine months ended September 30, 2023 and 2022, respectively.

Operating lease costs are recorded on a straight-line basis within operating expenses. The Company's total lease expense is comprised of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating leases				
Operating lease cost	$ 65	$ 114	$ 250	$ 214
Operating lease expense	65	114	250	214
Short-term lease rent expense	8	7	28	22
Variable lease cost	26,263	—	46,201	—
Total rent expense	$ 26,336	$ 121	$ 46,479	$ 236

Additional information regarding the Company’s leasing activities as a lessee is as follows:

	For the Nine Months Ended September 30,	
	2023	2022
Operating cash flows from operating leases	$ 319	$ 261
Weighted-average remaining lease term – operating leases	3.3	3.9
Weighted-average discount rate – operating leases	5%	5%

Year	Amount
2023 (remaining)	$ 66
2024	166
2025	143
2026	147
2027	63
Thereafter	—
Total	$ 585

NOTE 13 – LEGAL PROCEEDINGS

Compute North Bankruptcy

On September 22, 2022, Compute North Holdings, Inc. (currently d/b/a Mining Project Wind Down Holdings, Inc.) and certain of its affiliates (collectively, “Compute North”) filed for chapter 11 bankruptcy protection. Compute North provided operating services to the Company and hosted its mining rigs at multiple facilities. The Company delivered miners to Compute North, which then installed the mining rigs at those facilities, operated and maintained the mining rigs, and provided energy to keep the miners operating. During the course of the chapter 11 cases, Compute North sold substantially all of their assets in a series of 363 sale transactions, including Compute North’s ownership interests in non-debtor entities that own or partially-own facilities that house the Company’s miners.

On November 23, 2022, the Company and certain of its affiliates timely filed proofs of claim asserting various claims against Compute North, including: (i) claims arising under hosting agreements between the Company and Compute North LLC; (ii) claims arising under that certain Senior Promissory Note, dated as of July 1, 2022, by and between the Company, as Lender, and Compute North LLC, as Borrower; (iii) claims arising from the breach of a letter of intent between us and Compute North LLC; and (iv) claims for daily lost revenue, profits and other damages against Compute North.

On February 9, 2023, the Bankruptcy Court approved a settlement stipulation between the Company and Compute North, pursuant to which the proofs of claim filed by the Company and certain of its affiliates were resolved, and the Company received a single allowed unsecured claim against Compute North LLC in the amount of $40,000 and its Preferred Equity Interests in Compute North Holdings, Inc. in the amount of 39,597 shares of Series C Preferred Stock was confirmed. In exchange, the Company agreed to vote in favor of Compute North’s chapter 11 plan.

On February 16, 2023, the Bankruptcy Court confirmed Compute North’s chapter 11 plan (the “Plan”), pursuant to which Compute North will liquidate its remaining assets and distribute proceeds arising therefrom in accordance with the waterfall set forth in the Plan. In its disclosure statement filed on December 19, 2022, the Compute North Debtors projected that holders of allowed general unsecured claims could recover anywhere between 8% to 65% on their claims, while holders of preferred equity interests are expected to recover nothing on their interests. The Plan became effective on March 31, 2023. At this time, the Company cannot predict the quantum of its potential recovery on account of its allowed general unsecured claim and preferred equity interests or the timing of when it would receive any distributions under the Plan on account of its claims and interests.

Putative Class Action Complaint

On March 30, 2023, a putative class action complaint was filed in the United States District Court for the District of Nevada, against the Company and present and former senior management, alleging claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") arising out of the Company's announcement of accounting restatements on February 28, 2023. The defendants' time to respond has been extended until after the appointment of a lead plaintiff. To date, no lead plaintiff has been appointed.

Derivative Complaints

On June 22, 2023, a shareholder derivative complaint was filed in the Circuit Court of the 17th Judicial Circuit for Broward County, Florida, against current members of the Company's board of directors and senior management, alleging claims for breach of fiduciary duty and unjust enrichment based on allegations substantially similar to the allegations in the March 30, 2023 putative class action complaint.

On July 8, 2023, a second shareholder derivative complaint was filed in the United States District Court for the District of Nevada, against current and former members of the Company's board of directors and senior management, alleging claims under Sections 14(a), 10(b), and 21D of the Exchange Act, and for breach of fiduciary duty, unjust enrichment, and waste of corporate assets, based on allegations substantially similar to the allegations in the March 30, 2023 putative class action complaint.

On July 12, 2023, a third shareholder derivative complaint was filed in the United States District Court for the District of Nevada, against current and former members of the Company's board of directors and senior management, alleging claims under Section 14(a) of the Exchange Act and for breach of fiduciary duty, based on allegations substantially similar to the allegations in the March 30, 2023 putative class action complaint.

On July 13, 2023, a fourth shareholder derivative complaint was filed in the Circuit Court of the 17th Judicial Circuit for Broward County, Florida, against current members of the Company's board of directors and senior management, alleging claims for breach of fiduciary duty, unjust enrichment, and waste of corporate assets, based on allegations substantially similar to the allegations in the March 30, 2023 putative class action complaint.

On August 14, 2023, the two derivative actions pending in the United States District Court for the District of Nevada were consolidated (the "Nevada Derivative Action"). On October 16, 2023, the parties to the derivative actions pending in the Circuit Court of the 17th Judicial Circuit for Broward County, Florida filed an agreed order to stay both actions pending completion of the Nevada Derivative Action.

Information Subpoenas

On October 6, 2020, the Company entered into a series of agreements with multiple parties to design and build a data center for up to 100-megawatts in Hardin, Montana. In conjunction therewith, the Company filed a Current Report on Form 8-K on October 13, 2020. The 8-K discloses that, pursuant to a Data Facility Services Agreement, the Company issued 6,000,000 shares of restricted Common Stock, in transactions exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. During the quarter ended September 30, 2021, the Company and certain of its executives received a subpoena to produce documents and communications concerning the Hardin, Montana data center facility described in the Company's Form 8-K dated October 13, 2020. The Company received an additional subpoena from the SEC on April 10, 2023, relating to, among other things, transactions with related parties. The Company understands that the SEC may be investigating whether or not there may have been any violations of the federal securities law. The Company is cooperating with the SEC.

Ho v. Marathon

On January 14, 2021, Plaintiff Michael Ho ("Plaintiff" or "Ho") filed a Civil Complaint for Damages and Restitution ("Complaint") against the Company. The Complaint alleges six causes of action against the Company, (1) Breach of Written Contract; (2) Breach of Implied Contract; (3) Quasi-Contract; (4) Services Rendered; (5) Intentional Interference with Prospective Economic Relations; and (6) Negligent Interference with Prospective Economic Relations. The claims arise from the same set of facts. Ho alleges that the Company profited from commercially-sensitive information he shared with the Company and then it refused to compensate him for his role in securing the acquisition of a supplier of energy for the Company. On February 22, 2021, the Company responded to Mr. Ho's Complaint with a general denial and the assertion of applicable affirmative defenses. Then, on February 25, 2021, the Company removed the action to the United States District Court in the Central District of California, where the action remains pending. The Company filed a motion for summary judgment/adjudication of all causes of action. On February 11, 2022, the Court granted the motion and dismissed Ho's 2nd, 5th and 6th causes of action. Discovery is substantially closed. The Court held a pre-trial conference on February 24, 2022, where it vacated the March 3, 2022 trial date and ordered the parties to meet and confer on a new trial date. The Court discussed the various theories of damages maintained by the parties. In its ruling on the summary judgment motion and at the pre-trial conference on February 24, 2022, the Court noted that a jury is more likely to accept $150 as an appropriate damages amount if liability is found, as opposed to the various theories espoused by Ho that result in multi-million-dollar recoveries. Due to outstanding issues of fact and law, it is impossible to predict the outcome at this time; however, after consulting legal counsel, the Company is confident that it will prevail in this litigation, since it did not have a contract with Mr. Ho and he did not disclose any commercially-sensitive information under any mutual nondisclosure agreement that was used to structure any joint venture with energy providers. The trial has been rescheduled for January 29, 2024, and is scheduled for four days, including jury selection.

NOTE 14 – RELATED PARTY TRANSACTIONS

On September 23, 2022, the Company made an incremental $30,000 investment in Auradine, Inc., bringing its total holdings in Auradine to $35,500 based upon a previously issued and disclosed SAFE instrument. Said Ouissal, a director of the Company, currently owns approximately 5% of the issued and outstanding shares of Auradine, and Fred Thiel, the Company's Chairman and CEO, sits on Auradine's Board of Directors.

NOTE 15 – SUPPLEMENTAL CONSOLIDATED FINANCIAL INFORMATION

The following table provides supplemental disclosure of Condensed Consolidated Statements of Cash Flows information:

	Nine Months Ended September 30,	
	2023	**2022**
Supplemental information		
Cash paid during the year for:		
Income taxes	$ 785	$ 7
Interest	6,200	5,382
Supplemental schedule of non-cash investing and financing activities:		
Series A Preferred Stock accretion to redemption value	$ 2,121	$ —
Operating lease assets obtained in exchange for new operating lease liabilities	—	1,539
Digital currencies transferred from fund	—	137,845
Unpaid proceeds from sale of property and equipment	—	1,000
Reclassifications from advances to vendor to property and equipment upon receipt of equipment	551,650	260,575
Common stock issued for service and license agreements	—	4,580
Exchange of convertible notes for common stock	318,771	—

NOTE 16 – SUBSEQUENT EVENTS

The Company has evaluated other subsequent events through the date the consolidated financial statements were available to be issued and has concluded that no such events or transactions took place that would require disclosure and in this Note 16 other than as disclosed below.

On October 24, 2023, the Company commenced a new At The Market offering program with H.C. Wainwright & Co., LLC, acting as sales agent, under which it may offer and sell shares of its Common Stock from time to time through the sales agent having an aggregate offering price of up to $750,000. The sales agent will be compensated at a commission rate equal to up to 3.0% of the gross sales price per share sold. As of November 8, 2023, the Company had sold no shares under this program.

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

Unless otherwise indicated or the context otherwise requires, references to "Marathon," and the "Company" refer to Marathon Digital Holdings, Inc. and its consolidated subsidiaries. All dollar amounts referenced in this Item 2 are in thousands, except per share, bitcoin, and per bitcoin amounts.

This report on Form 10-Q ("Report") and other written and oral statements made from time to time by us may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. Forward-looking statements can be identified by the use of words such as "expects," "plans," "will," "forecasts," "projects," "intends," "estimates," and other words of similar meaning. One can identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results and product and development programs. One must carefully consider any such statement and should understand that many factors could cause actual results to differ from the Company's forward-looking statements. These factors may include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed, and actual future results may vary materially.

Information regarding market and industry statistics contained in this Report is included based on information available to the Company that the Company believes is accurate. It is generally based on industry and other publications that are not produced for purposes of securities offerings or economic analysis. The Company has not reviewed or included data from all sources and cannot assure investors of the accuracy or completeness of the data included in this Report. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. The Company does not assume any obligation to update any forward-looking statement. As a result, investors should not place undue reliance on these forward-looking statements.

The following discussion and analysis are intended as a review of significant factors affecting the Company's financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with the Company's consolidated financial statements and the notes presented herein. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from those expressed, implied or anticipated in these forward-looking statements as a result of certain factors discussed herein and any other periodic reports filed and to be filed with the Securities and Exchange Commission.

Business Overview

Marathon is a digital asset technology company dedicated to securing and supporting the Bitcoin ecosystem. The business is focused on producing or "mining" bitcoin using one of the largest and most efficient fleets of highly specialized computers in the industry. The Company successfully leverages technology across the value chain to improve efficiency and increase market share. The Company is also committed to carbon neutrality and growing operations through predominately renewable sources of energy. The Company's "asset-light" capital strategy has fueled significant market share gains while also helping build one of the largest bitcoin positions on the balance sheet among its North American publicly traded peers. As of September 30, 2023, the Company had nearly 180,000 mining rigs in operation and owned 13,716 bitcoin. With its strong balance sheet and significant scale, the Company's strategy has recently evolved beyond "asset-light" to include joint ventures with the Company's landmark project located in Abu Dhabi.

Recent Developments

On October 24, 2023, the Company commenced a new At The Market offering program with H.C. Wainwright & Co., LLC, acting as sales agent, under which it may offer and sell shares of its Common Stock from time to time through the sales agent having an aggregate offering price of up to $750,000. As of November 8, 2023, the Company had sold no shares under this program.

During September 2023, the Company entered into privately negotiated exchange agreements with certain holders of its 1.00% Convertible Senior Notes due 2026 (the "Notes"). In total, the Company exchanged $416,793 aggregate principal amount of Notes for an aggregate 31,722,417 shares of Company common stock. The Company recorded a gain on the exchange of Notes for the Company's common stock in the amount of $82,600 to "Net gain from extinguishment of debt" on the Condensed Consolidated Statements of Operations.

The Company issued 15,000 shares of Series A Preferred Stock for total gross proceeds of $14,286 before deducting the placement agent's fees and other estimated offering expenses on June 5, 2023. During the third quarter ended September 30, 2023, all of the outstanding Series A Preferred Stock were redeemed at 105% of the $1,000 stated value per share for $15,750.

On July 27, 2023, the Company's shareholders approved an amendment to the Company's articles of incorporation that increased the amount of common stock authorized for issuance to 500,000,000 with a par value of $0.0001 per share.

The Company has continued its focus on expanding its operational capabilities during the period both domestically and internationally.

- On January 27, 2023, Marathon Digital Holdings, Inc. (the "Company") and Zero Two (formerly known as FS Innovation, LLC) entered into a Shareholders' Agreement (the "Agreement") regarding the formation of an Abu Dhabi Global Markets company (the "ADGM Entity"), whose purpose shall be to jointly (a) establish and operate one or more mining facilities for digital assets; and (b) mine digital assets (collectively, the "Business").

- The Company also made progress in installing and energizing its operations at various locations throughout the US, and in particular its two North Dakota sites. Additionally, the Garden City, TX site was fully installed and began to come online during October 2023.

Bitcoin production increased to 3,490 bitcoin, including 23 bitcoin earned through the Company's equity method investee, during the three months ended September 30, 2023, an average of 37.9 bitcoin per day. During the three months ended September 30, 2022, the Company produced 616 bitcoin, an average of 6.7 bitcoin per day. The 467% increase in production was primarily the result of increasing the scale of the Company's operations.

Bitcoin prices also rebounded significantly during the 2023 period, increasing from $16,530 per bitcoin at December 31, 2022 to $26,961 per bitcoin at September 30, 2023. This increase in the market value of bitcoin resulted in lower levels of impairment recorded during the nine month period ended September 30, 2023, and a higher market value of the Company's bitcoin holdings at September 30, 2023, as compared to December 31, 2022.

The Company has continued to sell some of its bitcoin as a means of offsetting monthly cash operating costs. The Company sold 7,054 bitcoin for total proceeds of $179,509, realizing gains on sales of bitcoin of $70,686 during the nine months ended September 30, 2023. There were no such sales in the prior-year period.

The Company terminated its credit facilities with Silvergate Bank and responded to the closure of Signature Bank by diversifying its cash management services among multiple institutions. Key activities during the period related to these efforts included the following:

- On February 6, 2023, the Company provided Silvergate Bank with the required 30-day notice stating the Company's intent to prepay the outstanding balance on its term loan facility as well as the Company's intent to terminate the term loan facility. The Company and Silvergate Bank subsequently agreed to terminate the RLOC facility. On March 8, 2023, the Company prepaid the term loan and terminated the RLOC facility with Silvergate Bank.

- On March 12, 2023, Signature Bank was closed by the New York State Department of Financial Services. On that same date the FDIC was appointed as receiver and transferred all the deposits and substantially all of the assets of Signature Bank to Signature Bridge Bank, N.A., a full-service bank that was being operated by the FDIC. The Company held approximately $142,000 of cash deposits at Signature Bridge Bank, N.A. when normal banking activities resumed on March 13, 2023. The Company reduced its balances at Signature Bridge Bank and its successor institution by transferring funds to other financial institutions and through other treasury management activities. The Company no longer has any deposits at Signature Bank or its successor.

Critical Accounting Policies and Estimates

The following accounting policies relate to the significant areas involving management's judgments and estimates in the preparation of the Company's financial statements, and are those that it believes are the most critical to aid the understanding and evaluation of this management discussion and analysis:

- Digital assets

- Revenue from contracts with customers
- Long-lived assets
- Income taxes

Digital assets

Digital assets (bitcoin) are included in current and other assets in the accompanying condensed consolidated balance sheets due to the Company's ability to sell bitcoin in a highly liquid marketplace and the selling of bitcoin to fund operating expenses to support operations. Digital assets awarded to the Company through its mining activities are accounted for in accordance with the Company's revenue recognition policy below.

Digital assets are accounted for as intangible assets with indefinite useful lives and are recorded at cost less impairment in accordance with ASC 350 – *Intangibles-Goodwill and Other*. An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Whenever the exchange-traded price of digital assets declines below its carrying value, the Company has determined that it is more likely than not that an impairment exists and records impairment equal to the amount by which the carrying value exceeds the fair value at that point in time. The Company has deemed the price of digital assets to be a Level 1 input under the ASC 820 - *Fair Value Measurement* hierarchy as these were based on observable quoted prices in the Company's principal market for identical assets. Subsequent reversal of impairment losses is not permitted.

Digital assets awarded to the Company through its mining activities are included as a reconciling item within operating activities on the accompanying condensed consolidated statements of cash flows. The sales of digital assets are included within investing activities in the accompanying condensed consolidated statements of cash flows and any gains or losses from such sales are included in operating expenses in the condensed consolidated statements of operations.

Revenues from contracts with customers

The Company recognizes revenue in accordance with FASB ASC Topic 606 – *Revenue from Contracts with Customers*. The core principle of the revenue standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize the revenue when the Company satisfies a performance obligation

In order to identify the performance obligations in a contract with a customer, an entity must assess the promised goods or services in the contract and identify each promised good or service that is distinct. A performance obligation meets ASC 606's definition of a "distinct" good or service (or bundle of goods or services) if both of the following criteria are met:

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e., the good or service is capable of being distinct); and
- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract).

If a good or service is not distinct, the good or service is combined with other promised goods or services until a bundle of goods or services is identified that is distinct.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. When determining the transaction price, an entity must consider the effects of all of the following:

- Variable consideration
- Constraining estimates of variable consideration
- The existence of a significant financing component in the contract
- Noncash consideration
- Consideration payable to a customer

Variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized under the accounting contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The transaction price is allocated to each performance obligation on a relative standalone selling price basis. The transaction price allocated to each performance obligation is recognized when that performance obligation is satisfied, at a point in time or over time, as appropriate.

The Company's ongoing major or central operation is to provide bitcoin transaction verification services to the bitcoin network through a Company-operated mining pool as the operator ("Operator") (such activity, "mining") and to provide computing power to perform hash calculations to pool operators alongside collectives of third-party bitcoin miners (such collectives, "mining pools") as a participant ("Participant"). The Company currently mines in a self-operated pool, which was previously open to third-party pool participants from September 2021 until May 2022.

Operator

As Operator, the Company provides transaction verification services. Transaction verification services are an output of the Company's ordinary activities; therefore, the Company views the transaction requestor as a customer and accounts for the transaction fees it earns as revenue from a contract with a customer under ASC 606. The bitcoin network is not an entity such that it may not meet the definition of a customer; however, the Company has concluded it is appropriate to apply ASC 606 by analogy to block rewards earned from the network. The Company is currently entitled to the block reward of 6.25 bitcoin from the bitcoin network for each successful block. The Company is also entitled to the transaction fee paid by the transaction requester payable in bitcoin for each successful block. A contract exists under ASC 606 at the point the Company successfully validates a transaction to the distributed ledger. At this point, the performance obligation to validate the requested transaction has been satisfied and a contract is deemed to exist.

The Company engaged unrelated third-party mining enterprises ("pool participants") to contribute computing power, and in exchange, remitted transaction fees and block rewards to pool participants on a pro rata basis according to each respective pool participant's contributed computing power ("hash rate"). The Company determined that it controlled the service of providing transaction verification services to the network and requester as the Company's wallet as Operator was recorded on the distributed ledger as the transaction verifier of record, the pool participants entered into contracts with the Company and not the network or requester, and the Company delegated mining work to pool participants. Therefore, the Company recorded all of the transaction fees and block rewards earned from transactions assigned to MaraPool as revenue, and the portion of the transaction fees and block rewards remitted to MaraPool participants as cost of revenues.

In accordance with ASC 606-10-32-21, the Company measures the estimated fair value of noncash consideration at contract inception, which is at the time the block reward and transaction fee is earned and the performance obligation to the requester and the network is fulfilled by successfully validating the applicable block of transactions. The Company applies the quoted spot rate for bitcoin determined using the Company's primary trading platform for bitcoin at the time the block reward and transaction fee is earned to measure revenues.

Participant

The Company participates in multiple third-party operated mining pools only when the Company-operated mining pool is not available. The payout methodologies differ depending on the type of third-party operated mining pool. Pay-Per-Share (“PPS”) and Full-Pay-Per-Share (“FPPS”) pools pay rewards based on a contractual formula, which primarily calculates the hash rate provided by the Company to the mining pool as a percentage of total network hash rate, and other inputs. For PPS and FPPS pools, the Company is entitled to consideration even if a block is not successfully placed by the mining pool operator. The Company also participates in third-party mining pools that pay rewards only when the pool successfully mines a block. For these pools, the Company only earns a reward when the third-party pool successfully mines a block and its reward is the fractional share of the successfully mined block and transaction fees based on the proportion of computing power the Company contributed to the mining pool operator to the total computing power contributed by all mining pool participants in solving the algorithm.

When the Company is a Participant in a third-party operated mining pool, the Company provides hash rate that is an output of the Company’s ordinary activities in exchange for consideration. The Company considers the third-party mining pool operators to be its customers under Topic 606. These contracts are period-to-period contracts because they are terminable at any time by either party without compensation. A new contract is determined to exist each period (i.e., second, minute, hour) that neither the Company, nor the pool operator, terminates the arrangement. Such implied renewal option is not a material right because the pricing in the renewal periods is the same as the initial contract and there are no upfront or incremental fees in the initial contract or the terms, conditions, and compensation amounts for the renewal options are at the then market rates.

When the Company participates in PPS and FPPS pools, which pay rewards based on a contractual formula, the Company recognizes revenue based on the Company’s daily contributed hash rate and other network-driven inputs, such as the total hash rate contributed by all pool participants. The variable consideration (reward) the Company will be entitled to for its contribution of hash rate can be reasonably estimated based on the contribution of hash rate and other network inputs such as total contributed hash rate. The Company measures revenue earned based on the average daily spot rate of bitcoin determined using the Company’s primary trading platform for bitcoin.

When the Company participates in third-party pools that pay rewards only when the pool successfully mines a block, the Company recognizes its fractional share of the block and transaction fees using the spot rate of bitcoin at the time that the block is successfully mined.

Providing computing power on mining rigs to solve complex cryptographic algorithms in support of blockchain mining (in a process known as “solving a block”) is the primary output of the Company’s ordinary activities. The provision of computing power is the only performance obligation under the Company’s arrangements with third-party mining pool operators. The transaction consideration the Company receives is non-cash (i.e., bitcoin) and variable. For third-party pools that pay rewards only when the pool successfully mines a block, the consideration to which the Company will be entitled to for its efforts remain variable and is not estimable until the pool successfully solves a block, at which point in time the Company can then estimate its fractional share of the bitcoin to which it is entitled to for its contribution to the pool’s successful efforts. For PPS and FPPS pools, which pay rewards based on a contractual formula that does not depend on the pool successfully mining any blocks during the period in which the Company contributes computing power, the Company can reasonably estimate the variable consideration to which it will be entitled to for providing computing power as such power is being provided based on the contributed hash rate and other inputs.

The Company satisfies its performance obligation to provide computing power to the pool operator over time as described in FASB ASC 606-10-25-27(a) as the pool operator simultaneously consumes and receives benefits from the Company’s provision of computing power, which it uses continuously as an input to the pool’s efforts to solve a block.

Expenses associated with providing computing power services to third-party operated mining pools, such as hosting fees, electricity costs, and related fees are recorded as cost of revenues. Depreciation on digital asset mining equipment is also recorded as a component of cost of revenues.

Long-lived assets

The Company has long-lived assets that consist primarily of property and equipment stated at cost, net of accumulated depreciation and impairment, as applicable. The depreciation charge is calculated on a straight-line basis and depends on the estimated useful lives of each type of asset and, in certain circumstances, estimates of fair values and residual values. The Company’s property and equipment is primarily composed of bitcoin mining rigs, which are largely homogeneous and have approximately the same useful lives. Accordingly, the Company utilizes the group method of depreciation for its bitcoin mining rigs. The Company updates the estimated useful lives of its asset group of bitcoin mining rigs periodically as information on the operations of the mining rigs indicates changes are required. The Company assesses and adjusts the estimated useful lives of its mining rigs when there are indicators that the productivity of the mining assets are higher or lower than the assigned estimated useful lives.

Management reviews the Company's long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset group) may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of their carrying amount to the undiscounted future cash flows expected to be generated thereby. If such assets are not recoverable based on that test, impairment is recorded in the amount by which the carrying amount of the assets exceeds their fair value as determined in accordance with ASC 820.

Income taxes

The primary objectives of accounting for income taxes are (i) to recognize the amount of income taxes payable or refundable for the current year, and (ii) to recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. The Company accounts for income taxes in accordance with ASC 740 - *Income Taxes*, using the asset and liability method. Under this method, deferred tax assets and liabilities are calculated based on enacted tax rates and are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities and for operating losses and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. Management must make assumptions, judgments and estimates to determine the income tax benefit or expense and deferred tax assets and liabilities. The Company recognizes tax positions when they are more likely than not of being sustained. Recognized tax positions are measured at the largest amount of benefit greater than 50% likely of being realized. Each period, the Company evaluates tax positions and adjust related tax assets and liabilities in light of changing facts and circumstances.

The Company recorded a valuation allowance to reduce deferred tax assets to the net amount that the Company believes is more likely than not to be realized. Accordingly, the need to establish such allowance is assessed periodically by considering matters such as future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and results of recent operations.

Recent Issued Accounting Standards

See **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** to the condensed consolidated financial statements for a discussion of recent accounting standards and pronouncements.

Non-GAAP Financial Measures

In addition to the Company's results determined in accordance with GAAP, the Company also provides adjusted EBITDA and total margin excluding depreciation and amortization, which are non-GAAP measures. The Company provides investors with reconciliations from net loss to adjusted EBITDA and total margin to total margin excluding depreciation and amortization as components of Management's Discussion and Analysis. The Company defines adjusted EBITDA as (a) GAAP net income (loss) plus (b) adjustments to add back the impacts of (1) depreciation and amortization, (2) interest expense, (3) income tax expense (benefit) and (4) adjustments for non-cash and non-recurring items which currently include (i) stock compensation expense, (ii) impairments of patents and (iii) gains and losses on extinguishment of debt. The Company defines total margin excluding depreciation and amortization as (a) GAAP total margin less (b) depreciation and amortization.

Adjusted EBITDA and total margin excluding depreciation and amortization are not financial measures of performance under GAAP and, as a result, these measures may not be comparable to similarly titled measures of other companies. Non-GAAP financial measures are subject to material limitations as they are not in accordance with, or a substitute for, measurements prepared in accordance with GAAP. These non-GAAP measures are not meant to be considered in isolation and should be read only in conjunction with the Company's Interim Reports on Form 10-Q and its Annual Reports on Form 10-K as filed with the Securities and Exchange Commission. Management uses adjusted EBITDA, total margin excluding depreciation and amortization, and the supplemental information provided herein as a means of understanding, managing, and evaluating business performance and to help inform operating decision making. The Company relies primarily on its condensed consolidated financial statements to understand, manage, and evaluate its financial performance and use the non-GAAP financial measures only supplementally.

Results of Operations – Three months ended September 30, 2023 compared to the three months ended September 30, 2022

Financial Summary Table:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022 (As Restated)	Favorable (Unfavorable)
Total revenues	$ 97,849	$ 12,690	$ 85,159
Costs and expenses			
Cost of revenues			
Cost of revenues - energy, hosting and other	(59,628)	(13,773)	(45,855)
Cost of revenues - depreciation and amortization	(53,548)	(26,295)	(27,253)
Total cost of revenues	(113,176)	(40,068)	(73,108)
Operating expenses			
General and administrative expenses	(20,141)	(12,144)	(7,997)
Impairment of digital assets	(11,885)	(1,375)	(10,510)
Gains on digital assets and gains (losses) on digital assets loan receivable	31,720	—	31,720
Gain on sale of equipment, net of disposals	—	29,819	(29,819)
Legal reserves	—	(24,960)	24,960
Impairment of deposits due to vendor bankruptcy filing	—	(7,987)	7,987
Total operating expenses	(306)	(16,647)	16,341
Operating loss	(15,633)	(44,025)	28,392
Net gain from extinguishment of debt	82,600	—	82,600
Equity in net earnings of unconsolidated affiliate	(647)	—	(647)
Impairment of loan and investment due to vendor bankruptcy filing	—	(31,013)	31,013
Interest expense	(2,536)	(3,752)	1,216
Other non-operating income	426	238	188
Income (loss) before income taxes	64,210	(78,552)	142,762
Income tax benefit (expense)	(73)	6,090	(6,163)
Net income (loss)	$ 64,137	$ (72,462)	$ 136,599
Supplemental information:			
bitcoin ("BTC") production during the period, in whole BTC (1)	3,490	616	2,874
Average BTC per day, in whole BTC	37.9	6.7	31.2
General and administrative expenses excluding stock-based compensation	$ (14,630)	$ (8,721)	$ (5,909)
Installed Hash Rate (Exahashes per second) - at end of period (2)	23.1	3.8	19.3
Energized Hash Rate (Exahashes per second) - at end of period (2)	19.1	3.8	15.3
Average operational Hash Rate (Exahashes per second) (3)	12.1	N/A	N/A

(1) Includes 23 bitcoin produced by the Company's equity method investee for the three months ended September 30, 2023.

(2) The Company defines Energized Hash Rate as the total hash rate that could be generated if all installed and energized machines were running at 100% of manufacturers specifications. The Company uses this metric only as an indicator of progress in bringing mining rigs online. The Company defines Installed Hash Rate as the total hash rate that could be generated if all installed machines were running at 100% of manufacturers specifications. The Company uses this metric only as an indicator of progress in deploying mining rigs at its production sites. The Company believes that these metrics are useful as an indicator of potential bitcoin production. However, these metrics cannot be tied directly to any production level expected to be actually achieved as (a) there may be delays in the energization of Installed Hash Rate (b) the Company cannot predict when installed and energized mining rigs may be offline for any reason, including curtailment or machine failure and (c) the Company cannot predict Global Hash Rate (and therefore the Company's share of the Global Hash Rate), which has a significant impact on the Company's ability to generate bitcoin in any given period.

(3) Defined as the daily Average Operational Hash Rate online during the period. Data not available for prior periods.

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022 (As Restated)	Favorable (Unfavorable)
Reconciliation to Total margin excluding depreciation and amortization:			
Total revenues	$ 97,849	$ 12,690	$ 85,159
Total cost of revenues	(113,176)	(40,068)	(73,108)
Total margin (total revenues less total cost of revenues)	(15,327)	(27,378)	12,051
Exclude: Depreciation and amortization	53,548	26,295	27,253
Total margin excluding depreciation and amortization	$ 38,221	$ (1,083)	$ 39,304
Reconciliation to Adjusted EBITDA:			
Net income (loss)	$ 64,137	$ (72,462)	$ 136,599
Exclude: Interest expense	2,536	3,752	(1,216)
Exclude: Income tax expense (benefit)	73	(6,090)	6,163
EBIT	66,746	(74,800)	141,546
Exclude: Depreciation and amortization (1)	54,032	26,295	27,737
EBITDA	120,778	(48,505)	169,283
Exclude: Stock compensation expense	5,511	3,423	2,088
Exclude: Net gain from extinguishment of debt	(82,600)	—	(82,600)
Exclude: Impairment of deposits due to vendor bankruptcy filing	—	7,987	(7,987)
Exclude: Impairment of loan and investment due to vendor bankruptcy filing	—	31,013	(31,013)
Adjusted EBITDA	$ 43,689	$ (6,082)	$ 49,771

(1) Includes approximately $484 of depreciation and amortization as the Company's share in the results of its equity method investee reported in Equity in net earnings of unconsolidated affiliate for the three months ended September 30, 2023.

Revenues: The Company generated revenues of $97,849 for the three months ended September 30, 2023 as compared with $12,690 in the prior-year period. The $85,159 or approximately 671% increase in revenue was primarily driven by an increase in production year-over-year of $59,186 and $25,973 from the increase in bitcoin prices in the current year period. Average daily bitcoin production was 37.9 bitcoin in the current year period compared with 6.7 in the prior-year period, reflecting the increasing scale of the Company's operations.

Cost of revenues*:* Cost of revenues – energy, hosting and other during the three months ended September 30, 2023 totaled $59,628 as compared with $13,773 in the prior-year period. The $45,855 or approximately 333% increase was driven by the impact of increased bitcoin production of $54,800, partially offset by lower production costs of $3,245 and the absence of accelerated costs associated with the exit of the Hardin, Montana facility in the prior-year period of $5,700. Cost of revenues – depreciation and amortization during the three months ended September 30, 2023, totaled $53,548 as compared with $26,295 in the prior-year period. The $27,253 or approximately 104% increase in depreciation was primarily due to an increase in mining rigs in operation related to the increased scale of the business, partially offset by the absence of accelerated depreciation of $15,100 recorded in the prior-year period related to the exit of the Hardin, Montana facility.

Total Margin: Total margin was a loss of $15,327 in the current three months ended September 30, 2023 as compared with a loss of $27,378 in the prior-year period, an improvement of $12,051 or approximately 44%. The following table summarizes the factors that impacted the increase in total margin for the three months ended September 30, 2023 compared to the prior-year period:

Revenue:		
● Higher production activity	$	59,186
● Higher bitcoin market prices		25,973
Cost of revenue – energy, hosting and other:		
● Lower unit costs		3,245
● Accelerated cost recognition from Hardin exit		5,700
● Higher production activity		(54,800)
Cost of revenue – depreciation and amortization:		
● Accelerated cost recognition from Hardin exit		15,100
● Other, primarily increased mining rigs in operation		(42,353)
	$	12,051

General and administrative expenses: General and administrative expenses were $20,141 for the three months ended September 30, 2023 as compared with expenses of $12,144 in the prior-year period, an increase of $7,997 or approximately 66%. General and administrative expenses included stock-based (non-cash) compensation expense of $5,511 in the current period and $3,423 in the prior-year period. The increase in stock-based compensation is primarily related to additional restricted stock unit issuances associated with increases in headcount. General and administrative expenses excluding stock-based compensation was $14,630 in the current period as compared with $8,721 in the prior-year period. This $5,909 or approximately 68% increase in expense was primarily due to the increasing scale of business, including payroll and benefits, professional fees, and other costs. The Company's headcount increased from 20 employees in the prior-year period to 48 employees in 2023.

Impairment of digital assets: The Company incurred impairments of digital assets during the three months ended September 30, 2023 of $11,885 as compared with impairments of $1,375 in the prior-year period, an increase of $10,510 or approximately 764%. This increase in impairment is primarily related to the increased holdings of bitcoin compared to the prior-year period.

Gains on digital assets and gains on digital assets loan receivable: The Company recognized gains of $29,717 on the sale of approximately 2,300 bitcoin during the three months ended September 30, 2023. There were no such sales in the prior-year period. The Company also recognized a gain of $2,003 during the three months ended September 30, 2023 as a result of an increase in fair value of digital assets that were derecognized as collateral and was repaid in September 2023.

Net gain on extinguishment of debt: On September 7, 2023, the Company entered into agreements with certain holders of Convertible Notes due 2026 (the "Notes") to exchange an aggregate $416,793 principal amount of Notes for 31,722,417 shares of the Company's common stock and recorded a gain in the amount of $82,600.

Equity in net earnings of unconsolidated affiliate: During the three months ended September 30, 2023, the Company recorded its share of net losses for its 20% interest in the ADGM Entity in the amount of $647, which began mining operations during the quarter. The Company's share of the ADGM Entity's results included earnings of 23 bitcoin and approximately $484 of depreciation and amortization during the three months ended September 30, 2023.

Interest expense: Interest expense decreased $1,216 or 32% from the prior-year period as a result of lower interest costs primarily as a result of the exchange of $416,793 aggregate principal amount of Notes during the three months ended September 30, 2023 as compared with the prior-year period. Additionally, the Company terminated its revolving line of credit and term loan facilities during the three months ended March 31, 2023.

Other non-operating income: Other non-operating income was $426 during the three months ended September 30, 2023 as compared with $238 in the prior-year period. The $188 favorable variance was primarily due to increased interest income.

Income tax benefit (expense): The Company recorded an income tax expense of $73 for the three months ended September 30, 2023 as compared with an income tax benefit of $6,090 in the prior-year period. The tax variance of $6,163 or approximately 101% was primarily due to the establishment of a valuation allowance in the year ended December 31, 2022, as the Company determined it was more likely than not that they would not have sufficient future taxable income to realize the Company's federal and state deferred tax assets.

Net income (loss): The Company recorded net income of $64,137 for the three months ended September 30, 2023 as compared with a net loss of $72,462 in the prior-year period. This $136,599 or approximately 189% improvement was primarily driven by the impact of the gain on extinguishment of debt, gain on sale of digital assets, and the lack, during the current year, of impairments due to vendor bankruptcy filing, legal reserves, partially offset by net gain on sale of equipment in the prior-year period.

Adjusted EBITDA: Adjusted EBITDA was $43,689 in the three months ended September 30, 2023 as compared with an adjusted EBITDA loss of $6,082 in the prior-year period. The $49,771 or approximately 818% increase in adjusted EBITDA was primarily driven by higher revenues of $85,159 and positive impact of gains on digital assets of $31,720.

Results of Operations – Nine months ended September 30, 2023 compared to the nine months ended September 30, 2022

Financial Summary Table:

	Nine Months Ended September 30, 2023	2022 (As Restated)	Favorable (Unfavorable)
Total revenues	$ 230,740	$ 89,336	$ 141,404
Costs and expenses			
Cost of revenues			
Cost of revenues - energy, hosting and other	(148,227)	(42,981)	(105,246)
Cost of revenues - depreciation and amortization	(108,556)	(64,882)	(43,674)
Total cost of revenues	(256,783)	(107,863)	(148,920)
Operating expenses			
General and administrative expenses	(55,977)	(38,127)	(17,850)
Impairment of digital assets	(26,399)	(156,500)	130,101
Gains on digital assets and gains (losses) on digital assets loan receivable	72,689	(14,460)	87,149
Losses on digital assets held within investment fund	—	(85,017)	85,017
Gain on sale of equipment, net of disposals	—	83,879	(83,879)
Legal reserves	—	(24,960)	24,960
Impairment of deposits due to vendor bankruptcy filing	—	(7,987)	7,987
Impairment of patents	—	(919)	919
Total operating expenses	(9,687)	(244,091)	234,404
Operating loss	(35,730)	(262,618)	226,888
Net gain from extinguishment of debt	82,267	—	82,267
Equity in net earnings of unconsolidated affiliate	(647)	—	(647)
Impairment of loan and investment due to vendor bankruptcy filing	—	(31,013)	31,013
Interest expense	(9,136)	(10,314)	1,178
Other non-operating income	1,366	620	746
Income (loss) before income taxes	38,120	(303,325)	341,445
Income tax benefit (expense)	(351)	901	(1,252)
Net income (loss)	$ 37,769	$ (302,424)	$ 340,193
Supplemental information:			
bitcoin ("BTC") production during the period, in whole BTC (1)	8,610	2,582	6,028
Average BTC per day, in whole BTC	31.5	9.5	22.1
General and administrative expenses excluding stock-based compensation	$ (42,070)	$ (19,251)	$ (22,819)
Installed Hash Rate (Exahashes per second) - at end of period	23.1	3.8	19.3
Energized Hash Rate (Exahashes per second) - at end of period	19.1	3.8	15.3
Average operational Hash Rate (Exahashes per second)	12.1	N/A	N/A

(1) Includes 23 bitcoin produced by the Company's equity method investee for the nine months ended September 30, 2023.

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022 (As Restated)	Favorable (Unfavorable)
Reconciliation to Total margin excluding depreciation and amortization:			
Total revenues	$ 230,740	$ 89,336	$ 141,404
Total cost of revenues	(256,783)	(107,863)	(148,920)
Total margin (total revenues less total cost of revenues)	(26,043)	(18,527)	(7,516)
Exclude: Depreciation and amortization	108,556	64,882	43,674
Total margin excluding depreciation and amortization	$ 82,513	$ 46,355	$ 36,158
Reconciliation to Adjusted EBITDA:			
Net income (loss)	$ 37,769	$ (302,424)	$ 340,193
Exclude: Interest expense	9,136	10,314	(1,178)
Exclude: Income tax expense (benefit)	351	(901)	1,252
EBIT	47,256	(293,011)	340,267
Exclude: Depreciation and amortization (1)	109,040	64,882	44,158
EBITDA	156,296	(228,129)	384,425
Exclude: Stock compensation expense	13,907	18,876	(4,969)
Exclude: Net gain from extinguishment of debt	(82,267)	—	(82,267)
Exclude: Impairment of deposits due to vendor bankruptcy filing	—	7,987	(7,987)
Exclude: Impairment of loan and investment due to vendor bankruptcy filing	—	31,013	(31,013)
Exclude: Impairment of patents	—	919	(919)
Adjusted EBITDA	$ 87,936	$ (169,334)	$ 257,270

(1) Includes approximately $484 of depreciation and amortization as the Company's share in the results of its equity method investee reported in Equity in net earnings of unconsolidated affiliate for the nine months ended September 30, 2023.

Revenues: The Company generated revenues of $230,740 for the nine months ended September 30, 2023 as compared with $89,336 in the prior-year period. The $141,404 or approximately 158% increase in revenue was primarily driven by an increase in production year-over-year of $208,566, partially offset by a $67,162 decrease in revenue resulting from lower bitcoin prices in the current year period. Average daily bitcoin production was 31.5 bitcoin in the current year period compared with 9.5 in the prior-year period, reflecting the increasing scale of the Company's operations.

Cost of revenues*:* Cost of revenues – energy, hosting and other during the nine months ended September 30, 2023 totaled $148,227 as compared with $42,981 in the prior-year period. The $105,246 or approximately 245% increase was driven by the impact of increased bitcoin production of $121,967 and higher production costs of $1,470, partially offset by the absence of accelerated costs associated with the exit of the Hardin, Montana facility in the prior-year period of $18,191. Cost of revenues – depreciation and amortization during the nine months ended September 30, 2023, totaled $108,556 as compared with $64,882 in the prior-year period. The $43,674 or approximately 67% increase was primarily due to an increase in mining rigs in operation related to the increased scale of the business, partially offset by the absence of accelerated depreciation of $35,035 recorded in the prior-year period related to the exit of the Hardin, Montana facility.

Total Margin: Total margin was a loss of $26,043 in the current nine months ended September 30, 2023 as compared with a loss of $18,527 in the prior-year period, a decrease of $7,516 or approximately 41%. The following table summarizes the factors that impacted the decline in total margin for the nine months ended September 30, 2023 as compared to the prior-year period:

Revenue:		
● Higher production activity	$	208,566
● Lower bitcoin market prices		(67,162)
Cost of revenue – energy, hosting and other:		
● Higher unit costs		(1,470)
● Accelerated cost recognition from Hardin exit		18,191
● Higher production activity		(121,967)
Cost of revenue – depreciation and amortization:		
● Accelerated cost recognition from Hardin exit		35,035
● Other, primarily increased mining rigs in operation		(78,709)
	$	(7,516)

General and administrative expenses: General and administrative expenses were $55,977 for the nine months ended September 30, 2023 as compared with expenses of $38,127 in the prior-year period, an increase of $17,850 or approximately 47%. General and administrative expenses included stock-based (non-cash) compensation expense of $13,907 in the current period and $18,876 in the prior-year period. The decrease in stock-based compensation is primarily related to generally lower value of the Company's stock when compared to the prior-year, partially offset by additional restricted stock unit issuances associated with increases in headcount. General and administrative expenses excluding stock-based compensation was $42,070 in the current period as compared with $19,251 in the prior-year period. This $22,819 or approximately 119% increase in expense was primarily due to the increasing scale of business, including payroll and benefits, professional fees, higher property taxes, and other third party costs. The Company's headcount increased from 20 employees in the prior-year period to 48 employees in 2023.

Impairment of digital assets: The Company incurred impairments of digital assets during the nine months ended September 30, 2023 of $26,399 as compared with $156,500 in the prior-year period. This $130,101 or approximately 83% decrease in impairment is primarily related to bitcoin prices that have generally been increasing during the current year period compared with prices that were generally decreasing during the prior-year period.

Gains on digital assets and losses on digital assets loan receivable: The Company recognized gains of $70,686 on the sale of approximately 7,054 bitcoin during the nine months ended September 30, 2023. There were no such sales in the prior-year period. The Company recognized a loss of $14,460 in the prior-year period as a result of a decrease in fair value of digital asset loan receivable that was repaid in September, 2022. The Company also recognized a gain of $2,003 during the three months ended September 30, 2023 as a result of an increase in fair value of digital assets that were derecognized as collateral and was repaid in September 2023.

Losses on digital assets held within Investment Fund: The Company exited the investment fund in June 2022 and as such, there were no such gains or losses in the current year period. Total changes in the fair value of the Company's investment fund during the nine months ended September 30, 2022 resulted in a loss of $85,017.

Gain on sale of equipment, net of disposals: The Company recorded a net gain on the sale of equipment of $83,879 in the prior-year period.

Legal reserves: The Company recorded an reserve for a dispute in the amount of $24,960 in the prior-year period that has been paid.

Impairment of deposits due to vendor bankruptcy filing: The Company recorded an impairment charge related to the Compute North vendor bankruptcy filing in the amount of $7,987 in the prior year period.

Impairment of loan and investment due to vendor bankruptcy filing: *The Company recorded an impairment charge related to the Compute North vendor bankruptcy filing in the amount of $31,013 in the prior year period.*

Impairment of patents: The Company recorded an impairment of $919 in the prior-year period related to certain patents no longer utilized in its business operations.

Other non-operating income: Other non-operating income was $1,366 during the nine months ended September 30, 2023 as compared with $620 in the prior-year period. The $746 favorable variance was primarily due to increased interest income.

Net gain on extinguishment of debt: On February 6, 2023, the Company provided Silvergate Bank with the required 30-day notice stating the Company's intent to prepay the outstanding balance on its term loan facility as well as the Company's intent to terminate the term loan facility. The Company and Silvergate subsequently agreed to also terminate the revolving line of credit ("RLOC") facility. On March 8, 2023, the term loan prepayment was completed, and the Company's term loan and RLOC facilities with Silvergate Bank were terminated and the Company recorded a loss in the amount of $333 to "Net gain from extinguishment of debt" on the Condensed Consolidated Statements of Operations. On September 7, 2023, the Company entered into agreements with certain holders of Convertible Notes due 2026 (the "Notes") to exchange an aggregate $416,793 principal amount of Notes for 31,722,417 shares of the Company's common stock and recorded a gain in the amount of $82,600.

Interest expense: Interest expense was $9,136 for the nine months ended September 30, 2023 as compared to $10,314 in the prior year period as a result of lower interest costs primarily as a result of the exchange of $416,793 aggregate principal amount of Notes during the nine months ended September 30, 2023 as compared with the prior-year period. Additionally, the Company terminated its revolving line of credit and term loan facilities during the three months ended March 31, 2023.

Income tax benefit (expense): The Company recorded income tax expense of $351 for the nine months ended September 30, 2023 as compared with income tax benefit of $901 in the prior-year period. The tax variance of 1,252 or approximately 139% was primarily due to the establishment of a valuation allowance in the year ended December 31, 2022, as the Company determined it was more likely than not that they would not have sufficient future taxable income to realize the Company's federal and state deferred tax assets.

Net income (loss): The Company recorded net income of $37,769 for the nine months ended September 30, 2023 as compared with net loss of $302,424 in the prior-year period. This $340,193 or approximately 112% favorable variance was primarily driven by the impact of the gain on sale of digital assets, net gain on extinguishment of debt, favorable variances related to lower impairment of digital assets and the absence of losses on digital assets held within the investment fund, losses on digital assets loan receivable, partially offset by net gain on sales of equipment in the prior year period.

Adjusted EBITDA: Adjusted EBITDA was $87,936 in the nine months ended September 30, 2023 as compared with an adjusted EBITDA loss of $169,334 in the prior-year period. The $257,270 increase in adjusted EBITDA was primarily driven by positive impacts of gains on digital assets of $72,689 and lower impairment of digital assets of $130,101. Adjusted EBITDA also benefited from the absence of several expenses recorded in the prior-year period, including losses on digital assets held within the investment fund of $85,017, legal reserves of $24,960 and losses on digital assets loan receivable of $14,460, partially offset by the net gain on sale of equipment of $83,879.

Financial Condition and Liquidity

The following table presents a summary of the Company's cash flow activity for the nine months ended September 30, 2023 and 2022.

	Nine Months Ended September 30,	
	2023	**2022**
Net cash used in operating activities	$ (224,487)	$ (83,743)
Net cash used in investing activities	(373)	(368,573)
Net cash provided by financing activities	213,565	247,899
Net decrease in cash, cash equivalents and restricted cash	(11,295)	(204,417)
Cash, cash equivalents and restricted cash — beginning of period	112,505	268,556
Cash, cash equivalents and restricted cash — end of period	$ 101,210	$ 64,139

Cash flows: Cash, cash equivalents and restricted cash totaled $101,210 at September 30, 2023, a decrease of $11,295 from December 31, 2022. Restricted cash was $0 at September 30, 2023 as the Company replaced cash-collateralized letters of credit with cash deposits which removed restrictions on $8,800 of restricted cash during the quarter ended March 31, 2023, as a result of the closure of Signature Bank.

Cash flows from operating activities resulted in a use of funds of $224,487, as cash provided from operating activities before changes in operating assets and liabilities of $36,062 was more than offset by a use of cash of $260,549 from changes in operating assets and liabilities. Changes in cash flow from operating assets and liabilities were driven by a use of funds associated with changes in digital assets ($230,740 due to the non-cash adjustment for bitcoin mining revenues), deposits ($21,671 resulting from increased deposits associated with hosting agreements), prepaid expenses of $11,588 and accounts payable of $3,359.

Cash flows from investing activities resulted in a use of funds of $373, primarily resulting from investments made as part of the establishment of the ADGM Entity (a $66,754 use of funds), advances to vendors of $87,315, and capital expenditures of $25,813, partially offset by proceeds from the sale of bitcoin of $179,509.

Cash flows from financing activities resulted in a source of cash of $213,565, primarily from proceeds from the issuance of common stock under the Company's At-The-Market facility of $265,786 was partially offset by the repayment of the Company's term loan facility of $50,000. On March 8, 2023, the Company terminated both its term loan and its RLOC facilities with Silvergate Bank.

Bitcoin holdings as of September 30, 2023: At September 30, 2023, the Company held approximately 13,716 bitcoin on its balance sheet with a carrying value of $286,801. The Company's holdings as of September 30, 2023 excluded 10 bitcoins earned and pending distribution from the Company's equity method investee, the ADGM Entity. The fair value of a single bitcoin was approximately $26,961. As a result, the fair market value of the Company's bitcoin holdings at September 30, 2023 was approximately $369,797. The Company expects that its future bitcoin holdings will generally increase but will fluctuate from time-to-time, both in number of bitcoin held and fair value in US dollars, depending upon operating and market conditions. The Company intends to add to its bitcoin holdings primarily through its production activities and will also continue to sell bitcoin as a means of generating cash to fund monthly operating costs and for general corporate purposes. The Company does not intend to make any significant purchases of bitcoin on the open market as means of increasing its bitcoin holdings, although it may buy and sell bitcoin from time-to-time (separately from what is outlined above) for treasury management purposes.

During the quarter ended September 30, 2023, the Company hedged a portion of its bitcoin holdings to mitigate near-term volatility while maintaining a long-term strategy of maximizing the size and value of the Company's treasury. Gains and losses on hedging activity will impact earnings; however, the Company believe the strategy provides resiliency to the organization and downside risk during volatile market conditions due to the upcoming halving while maximizing the Company's bitcoin valuation potential.

Company's At The Market Offering Programs and Proceeds: In February 2022, the Company commenced an At The Market offering program with H.C. Wainwright & Co., LLC, as sales agent, which allowed it to sell and issue shares of up to approximately $750,000 of its Common Stock from time-to-time. During the first three quarters of 2023, the Company issued 32,305,554 shares of Common Stock under the 2022 At The Market offering program for total proceeds of $265,786, net of commissions and other offering related expenses.

During October 2023, the Company completed its 2022 At The Market Offering Program, and on October 24, 2023, the Company filed a new registration statement for a new At The Market Program for up to $750,000, with H.C. Wainwright & Co., LLC. This facility provides the Company with additional access to capital, as needed, subject to market conditions. As of October 23, 2023, the Company issued 12,374,713 shares of Common Stock under its original At The Market offering program for total proceeds of $100,656, net of commissions and other offering related expenses, completing its 2022 At The Market Offering Program. As of November 8, 2023, the Company had not sold shares under the new program.

Liquidity outlook: Cash and cash equivalents totaled $101,210 and fair value of bitcoin holdings was $369,797 at September 30, 2023. The combined value of cash and cash equivalents and bitcoin was $471,007. The Company expects to have sufficient liquidity, including cash on hand, cash received from sales of its bitcoin holdings, and access to public capital markets, to support ongoing operations. The Company will continue to seek to fund its business activities, and especially its growth opportunities, through the public capital markets, primarily through periodic equity issuances using its At The Market facility.

The risks to the Company's liquidity outlook would include events that materially diminish its access to capital markets and/or the value of its bitcoin holdings and production capabilities, including:

- Failure to effectively execute the Company's growth strategies.
- Challenges in the bitcoin mining space and/or additional contagion events (like the FTX collapse) that would damage the credibility of, and therefore investor confidence in, companies engaged in the digital assets space.
- Declines in bitcoin prices and/or production, which would impact both the value of the Company's bitcoin holdings and its ongoing profitability.
- Significant increases in electricity costs if these cost increases were not accompanied by increases in the price of bitcoin, as this would also reduce profitability.

- Deteriorating macroeconomic conditions (for example a recession in 2023 that is deeper or longer than current expectations).

Off-balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The following discussion about the Company's market risk exposures involves forward-looking statements. Actual results could differ materially from those discussed in the forward-looking statements.

Market Price Risk of Bitcoin. The Company holds a significant amount of bitcoin; therefore, it is exposed to the impact of market price changes in bitcoin on its bitcoin holdings. This exposure would generally manifest itself in the following areas:

- The Company accounts for its bitcoin holdings as indefinite lived intangible assets and records impairment charges whenever the carrying value of bitcoin holdings on the balance sheet exceeds their fair market value. Subsequent recovery of bitcoin prices would not impact the carrying value of bitcoin on the balance sheet, as recovery of previously recorded impairment charges are not allowed under current U.S. GAAP.

- Declines in the fair market value of bitcoin will impact the cash value that would be realized if the Company were to sell its bitcoin for cash, therefore having a negative impact on its liquidity.

At September 30, 2023, the Company held approximately 13,716 bitcoin and the fair value of a single bitcoin was approximately $26,961, meaning that the fair value of its bitcoin holdings on that date was approximately $369,797.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Interim Report to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on this evaluation, the Company's management concluded that its disclosure controls and procedures were not effective at the reasonable assurance level as of June 30, 2023 due to the following material weaknesses.

Material Weaknesses in Internal Control and Plan for Remediation

Based on its evaluation, management identified material weaknesses in internal control over financial reporting. These material weaknesses included:

- a material weakness related to the application and interpretation of generally accepted accounting principles ("GAAP") that resulted in errors in four specific accounting areas, including consolidation, impairment of digital assets, disposal of property and equipment and principal versus agent considerations in revenue recognition, and accounting for and reporting of digital assets.
- a material weakness related to the design and implementation of user access controls to ensure appropriate segregation of duties, or program change management controls for certain financially relevant systems impacting the Company's processes around revenue recognition and digital assets to ensure that IT program and data changes affecting the Company's (i) financial IT applications, (ii) digital currency mining equipment, and (iii) underlying accounting records, are identified, tested, authorized and implemented appropriately to validate that data produced by its relevant IT system(s) were complete and accurate. Automated process-level controls and manual controls that are dependent upon the information derived from such financially relevant systems were also determined to be ineffective as a result of such deficiency.
- a material weakness related to the ineffective design of a key manual control to detect material misstatements in revenue.

These material weaknesses create a reasonable possibility that a material misstatement to the Company's consolidated financial statements or disclosures would not be prevented or detected on a timely basis.

Remediation

The Company's Board of Directors and management take internal control over financial reporting and the integrity of its financial statements seriously. Management continues to work to improve its controls related to the material weaknesses described above. Management will continue to implement measures to remediate the material weaknesses, such that these controls are designed, implemented, and operating effectively. In order to achieve the timely implementation of the above, Management has commenced the following actions and will continue to assess additional opportunities for remediation on an ongoing basis:

- Continue the process that was started during 2022 of adding to the Company's internal resources to enhance its capabilities in the areas of technical accounting, financial reporting, and internal controls, including a full time person dedicated to internal controls
- Continue the process started during 2022 of utilizing external third-party technical accounting resources to supplement the Company's ability to interpret and apply GAAP as it continues to build its internal capabilities in these areas
- Continue to utilize external third-party audit and SOX 404 implementation firms to enable the Company to improve the Company's controls related to its material weaknesses.
- Continue to evaluate existing processes and implement new processes and controls where necessary in connection with remediating the Company's material weaknesses, such that these controls are designed, implemented, and operating effectively

The Company recognizes that the material weaknesses in its internal control over financial reporting will not be considered remediated until the remediated controls operate for a sufficient period of time and can be tested and concluded by management to be designed and operating effectively. Because the Company's remediation efforts are ongoing, it cannot provide any assurance that these remediation efforts will be successful or that its internal control over financial reporting will be effective as a result of these efforts.

The Company continues to evaluate and work to improve its internal control over financial reporting related to the identified material weaknesses, and management may determine to take additional measures to address control deficiencies or determine to modify the remediation plan described above. In addition, the Company will report the progress and status of the above remediation efforts to the Audit Committee on a periodic basis.

As part of the Company's ongoing program to implement changes and further improve its internal controls and in conjunction with its Code of Ethics, the Company's independent directors have been working with management to include protocols and measures aimed at ensuring quality of its internal controls. Among those measures is the implementation of a whistle blower hotline, which allows third parties to anonymously report noncompliant activity. The hotline may be accessed as follows:

To file a report, use the Client Code "MarathonPG" and pick one of the following options:

- Call: 1-877-647-3335

- Click: http://www.RedFlagReporting.com

Changes in Internal Controls.

There have been no changes in the Company's internal control over financial reporting during the nine months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting other than the ongoing remediation efforts undertaken by management.

The Company has engaged accounting consultants to aid it in remediating the issues identified in its Form 10-K for 2022 to ensure consistent and appropriate financial reporting in those areas identified.

PART II - OTHER INFORMATION (All dollar amounts expressed in PART II Items 1-4 are expressed in thousands unless otherwise indicated.)

Item 1. Legal Proceedings

Compute North Bankruptcy

On September 22, 2022, Compute North Holdings, Inc. (currently d/b/a Mining Project Wind Down Holdings, Inc.) and certain of its affiliates (collectively, "Compute North") filed for chapter 11 bankruptcy protection. Compute North provided operating services to the Company and hosted its mining rigs at multiple facilities. The Company delivered miners to Compute North, which then installed the mining rigs at those facilities, operated and maintained the mining rigs, and provided energy to keep the miners operating. During the course of the chapter 11 cases, Compute North sold substantially all of their assets in a series of 363 sale transactions, including Compute North's ownership interests in non-debtor entities that own or partially-own facilities that house the Company's miners.

On November 23, 2022, the Company and certain of its affiliates timely filed proofs of claim asserting various claims against Compute North, including: (i) claims arising under hosting agreements between the Company and Compute North LLC; (ii) claims arising under that certain Senior Promissory Note, dated as of July 1, 2022, by and between the Company, as Lender, and Compute North LLC, as Borrower; (iii) claims arising from the breach of a letter of intent between us and Compute North LLC; and (iv) claims for daily lost revenue, profits and other damages against Compute North.

On February 9, 2023, the Bankruptcy Court approved a settlement stipulation between the Company and Compute North, pursuant to which the proofs of claim filed by the Company and certain of its affiliates were resolved, and the Company received a single allowed unsecured claim against Compute North LLC in the amount of $40,000 and its Preferred Equity Interests in Compute North Holdings, Inc. in the amount of 39,597 shares of Series C Preferred Stock was confirmed. In exchange, the Company agreed to vote in favor of Compute North's chapter 11 plan.

On February 16, 2023, the Bankruptcy Court confirmed Compute North's chapter 11 plan (the "Plan"), pursuant to which Compute North will liquidate its remaining assets and distribute proceeds arising therefrom in accordance with the waterfall set forth in the Plan. In its disclosure statement filed on December 19, 2022, the Compute North Debtors projected that holders of allowed general unsecured claims could recover anywhere between 8% to 65% on their claims, while holders of preferred equity interests are expected to recover nothing on their interests. The Plan became effective on March 31, 2023. At this time, the Company cannot predict the quantum of its potential recovery on account of its allowed general unsecured claim and preferred equity interests or the timing of when it would receive any distributions under the Plan on account of its claims and interests.

Putative Class Action Complaint

On March 30, 2023, a putative class action complaint was filed in the United States District Court for the District of Nevada, against the Company and present and former senior management, alleging claims under Section 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") arising out of the Company's announcement of accounting restatements on February 28, 2023. The defendants' time to respond has been extended until after the appointment of a lead plaintiff. To date, no lead plaintiff has been appointed.

Derivative Complaints

On June 22, 2023, a shareholder derivative complaint was filed in the Circuit Court of the 17th Judicial Circuit for Broward County, Florida, against current members of the Company's board of directors and senior management, alleging claims for breach of fiduciary duty and unjust enrichment based on allegations substantially similar to the allegations in the March 30, 2023 putative class action complaint.

On July 8, 2023, a second shareholder derivative complaint was filed in the United States District Court for the District of Nevada, against current and former members of the Company's board of directors and senior management, alleging claims under Sections 14(a), 10(b), and 21D of the Exchange Act, and for breach of fiduciary duty, unjust enrichment, and waste of corporate assets, based on allegations substantially similar to the allegations in the March 30, 2023 putative class action complaint.

On July 12, 2023, a third shareholder derivative complaint was filed in the United States District Court for the District of Nevada, against current and former members of the Company's board of directors and senior management, alleging claims under Section 14(a) of the Exchange Act and for breach of fiduciary duty, based on allegations substantially similar to the allegations in the March 30, 2023 putative class action complaint.

On July 13, 2023, a fourth shareholder derivative complaint was filed in the Circuit Court of the 17th Judicial Circuit for Broward County, Florida, against current members of the Company's board of directors and senior management, alleging claims for breach of fiduciary duty, unjust enrichment, and waste of corporate assets, based on allegations substantially similar to the allegations in the March 30, 2023 putative class action complaint.

On August 14, 2023, the two derivative actions pending in the United States District Court for the District of Nevada were consolidated (the "Nevada Derivative Action"). On October 16, 2023, the parties to the derivative actions pending in the Circuit Court of the 17th Judicial Circuit for Broward County, Florida filed an agreed order to stay both actions pending completion of the Nevada Derivative Action.

Information Subpoenas

On October 6, 2020, the Company entered into a series of agreements with multiple parties to design and build a data center for up to 100-megawatts in Hardin, Montana. In conjunction therewith, the Company filed a Current Report on Form 8-K on October 13, 2020. The 8-K discloses that, pursuant to a Data Facility Services Agreement, the Company issued 6,000,000 shares of restricted Common Stock, in transactions exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended. During the quarter ended September 30, 2021, the Company and certain of its executives received a subpoena to produce documents and communications concerning the Hardin, Montana data center facility described in the Company's Form 8-K dated October 13, 2020. The Company received an additional subpoena from the SEC on April 10, 2023, relating to, among other things, transactions with related parties. The Company understands that the SEC may be investigating whether or not there may have been any violations of the federal securities law. The Company is cooperating with the SEC.

Ho v. Marathon

On January 14, 2021, Plaintiff Michael Ho ("Plaintiff" or "Ho") filed a Civil Complaint for Damages and Restitution ("Complaint") against the Company. The Complaint alleges six causes of action against the Company, (1) Breach of Written Contract; (2) Breach of Implied Contract; (3) Quasi-Contract; (4) Services Rendered; (5) Intentional Interference with Prospective Economic Relations; and (6) Negligent Interference with Prospective Economic Relations. The claims arise from the same set of facts. Ho alleges that the Company profited from commercially-sensitive information he shared with the Company and then it refused to compensate him for his role in securing the acquisition of a supplier of energy for the Company. On February 22, 2021, the Company responded to Mr. Ho's Complaint with a general denial and the assertion of applicable affirmative defenses. Then, on February 25, 2021, the Company removed the action to the United States District Court in the Central District of California, where the action remains pending. The Company filed a motion for summary judgment/adjudication of all causes of action. On February 11, 2022, the Court granted the motion and dismissed Ho's 2nd, 5th and 6th causes of action. Discovery is substantially closed. The Court held a pre-trial conference on February 24, 2022, where it vacated the March 3, 2022 trial date and ordered the parties to meet and confer on a new trial date. The Court discussed the various theories of damages maintained by the parties. In its ruling on the summary judgment motion and at the pre-trial conference on February 24, 2022, the Court noted that a jury is more likely to accept $150 as an appropriate damages amount if liability is found, as opposed to the various theories espoused by Ho that result in multi-million-dollar recoveries. Due to outstanding issues of fact and law, it is impossible to predict the outcome at this time; however, after consulting legal counsel, the Company is confident that it will prevail in this litigation, since it did not have a contract with Mr. Ho and he did not disclose any commercially-sensitive information under any mutual nondisclosure agreement that was used to structure any joint venture with energy providers. The trial has been rescheduled for January 29, 2024, and is scheduled for four days, including jury selection.

Item 1A. Risk Factors.

There are no updates or changes to the risk factors set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 except as set forth below.

Further significant disruptions in the crypto asset markets, such as those experienced in the second half of 2022, may cause further material impairment of the value and use of the Company's mining rigs.

During the fourth quarter of 2022, the per coin price of bitcoin reached a low of approximately $15,500 from a high of almost $21,500 earlier in the quarter. This decrease in the price of bitcoin, combined with the general market sentiment caused in large part by the FTX collapse and various bitcoin company related bankruptcies and restructurings, led to a material decline in the fair value of the Company's mining rigs and deposits for future mining rig purchases. As a result, the Company recorded an impairment charge of $332,933 on these assets during that period, although operations were unaffected and continued throughout the period in question. Furthermore, future decreases in the value of bitcoin could cause the Company to record additional impairments in the value of these and future mining rig assets.

In addition, if bitcoin prices dropped to levels below that experienced in 2022 and held at those levels for a significant period of time, it could impact the Company's profitability to the point that the Company would have to consider whether there would be less diminution of value if the Company were to leave certain of its mining rigs to idle until the price of bitcoin recovered.

Theoretically, there is a minimum bitcoin price that is so low that Marathon would want to turn off its mining rigs. However, this is a complex projection involving multiple ever-changing, dynamic variables. Marathon has multiple mining sites and hosting partners, all with different hosting prices, electricity prices, and contract structures. These costs, some fixed and some variable, would need to be compared to the current revenue being produced by the mining rigs.

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

In September 2023, the Company entered into privately negotiated exchange agreements with certain holders of its 1.00% Convertible Senior Notes due 2026 (the "Notes"). In total, the Company exchanged $416,793 aggregate principal amount of the Notes held by such holders for an aggregate 31,722,417 newly issued shares of Company common stock in private placement transactions exempt from registration under Section 3(a)(9) and 4(a)(2) of the Securities Act of 1933, as amended, and Rule 144, as amended, promulgated thereunder.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None. Furthermore, neither the Company nor any of its directors or Section 16 officers has adopted, modified or termination, any trading plans or arrangements that are intended to satisfy the affirmative defense conditions of Rule 10b5-1 or plans that are "non-Rule 10b5-1 plans," as defined in Item 408(c) of Regulation S-K.

Item 6. Exhibits.

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.ins	Inline XBRL Instance Document**
101.sch	Inline XBRL Taxonomy Schema Document**
101.cal	Inline XBRL Taxonomy Calculation Document**
101.def	Inline XBRL Taxonomy Linkbase Document**
101.lab	Inline XBRL Taxonomy Label Linkbase Document**
101.pre	Inline XBRL Taxonomy Presentation Linkbase Document**

104 Inline XBRL
* Furnished herewith
** Filed herein

SIGNATURES

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

Date: November 8, 2023

MARATHON DIGITAL HOLDINGS, INC.

By:	*/s/ Fred Thiel*
Name:	Fred Thiel
Title:	Chief Executive Officer (Principal Executive Officer)
By:	*/s/ Salman Khan*
Name:	Salman Khan
Title:	Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Fred Thiel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marathon Digital Holdings, Inc. for the period ended September 30, 2023;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls 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 for the period in which this quarterly 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;

    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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

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

    b) any fraud, whether material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 8, 2023

By: */s/ Fred Thiel*
Fred Thiel
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Salman Khan certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marathon Digital Holdings, Inc for the period ended September 30, 2023;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls 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 for the period in which this quarterly 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

    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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;end of the period covered by this report based on such evaluation;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

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

    b) any fraud, whether material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: November 8, 2023

By: */s/ Salman Khan*
Salman Khan
Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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

About the Quarterly Report of Marathon Digital Holdings, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Fred Thiel, Chief Executive Officer (Principal Executive Officer) of the Company, certifies, pursuant to 18 U.S.C. section 1350 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.

Dated: November 8, 2023

By: */s/ Fred Thiel*
Fred Thiel
Chief Executive Officer (Principal Executive Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 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 of Marathon Digital Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Salman Khan, Chief Financial Officer (Principal Financial Officer) of the Company, certifies, pursuant to 18 U.S.C. section 1350 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.

Dated: November 8, 2023

By: */s/ Salman Khan*
Salman Khan
Chief Financial Officer (Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.