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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 19, 2022

CORE SCIENTIFIC, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-40046
(Commission
File Number)

86-1243837
(I.R.S. Employer
Identification No.)

201 Barton Springs Road
Austin, Texas
(Address of principal executive offices)

78704
(Zip Code)

(425) 998-5300
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240-13e-4(c))

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	CORZ	The Nasdaq Global Select Market
Warrants, exercisable for shares of common stock	CORZW	The Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

EXPLANATORY NOTE

This Amendment No. 1 on Form 8-K/A (“Amendment No. 1”) amends the Current Report on Form 8-K filed by Core Scientific, Inc. (the “Company”) on January 24, 2022 (the “Original Report”), in which the Company reported, among other events, the completion of the Business Combination (as defined in the Original Report).

This Amendment No. 1 (i) amends the financial statements provided under Item 9.01(a) in the Original Report to include the audited financial statements of Core Scientific Holding Co., a Delaware corporation (“Legacy Core”) as of and for the years ended December 31, 2021 and 2020, (ii) includes the Management’s Discussion and Analysis of Financial Condition and Results of Operations of Legacy Core for the years ended December 31, 2021 and 2020, and (iii) includes the unaudited pro forma condensed combined financial information of the Company as of and for the year ended December 31, 2021.

This Amendment No. 1 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company or its subsidiaries subsequent to the filing date of the Original Report, except as indicated below under Item 9.01. The information previously reported in or filed with the Original Report is hereby incorporated by reference to this Amendment No. 1.

FORM 10 INFORMATION

Risk Factors

There have been no material changes with respect to the risk factors disclosed filed by Power & Digital Infrastructure Acquisition Corp. on December 30, 2021 (the “Proxy Statement/Prospectus”) in our Proxy Statement/Prospectus in the sections titled “Summary Risk Factors” and “Risk Factors” beginning on pages 29 and 31, respectively, of the Proxy Statement/Prospectus except as described below.

Legacy Core identified material weaknesses in its internal control over financial reporting. Such material weaknesses may result in material misstatements of Core’s financial statements or cause it to fail to meet its periodic reporting obligations. Core may also identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal control.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control over financial reporting. In connection with the audit of Legacy Core’s consolidated financial statements for the year ended December 31, 2021, Legacy Core and its independent registered public accounting firm identified material weaknesses in its internal control over financial reporting related to (i) insufficient accounting and supervision with respect to the appropriate level of technical accounting experience and appropriate processes and procedures to assess and apply the relevant accounting framework, particularly in new or non-routine areas, (ii) a lack of appropriate communication and recordkeeping, particularly related to equity transactions, (iii) design deficiencies in internal controls necessary to enforce appropriate segregation of duties for manual journal entries to Legacy Core’s books and records, and (iv) design deficiencies in internal controls necessary to enforce appropriate segregation of duties for Legacy Core’s digital asset wallets. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. With the oversight of our senior management and audit committee, we have instituted plans to remediate the material weakness and will continue to take remediation steps, including hiring additional key supporting accounting personnel with public company reporting and accounting operations experience. In addition, we are formalizing inter-departmental communication, including establishing appropriate standing and ad hoc committees and enhancing electronic document storage for key financial transactions. We believe the measures described above will remediate the material weaknesses identified and strengthen our internal control.

While we implement our plan to remediate the material weaknesses described above, we cannot predict the success of such plan or the outcome of its assessment of these plans at this time. If our steps are insufficient to remediate the material weaknesses successfully and otherwise establish and maintain an effective system of internal control over financial reporting, the reliability of our financial reporting, investor confidence, and the value of its common stock could be materially and adversely affected. We can give no assurance that the implementation of this plan will remediate these deficiencies in our internal control over financial reporting or that additional material weaknesses or significant deficiencies in our internal control over financial reporting will not be identified in the future. The failure to implement and maintain effective internal control over financial reporting could result in errors in our financial statements that could result in a restatement of its financial statements, causing us to fail to meet its reporting obligations.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of the applicable listing standards of the Nasdaq. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. In addition, changes in accounting principles or interpretations could also challenge our internal controls and require that we establish new business processes, systems and controls to accommodate such changes. We have limited experience with implementing the systems and controls that are necessary to operate as a public company, as well as adopting changes in accounting principles or interpretations mandated by the relevant regulatory bodies.

Additionally, if these new systems, controls or standards and the associated process changes do not give rise to the benefits that we expect or do not operate as intended, it could adversely affect our financial reporting systems and processes, our ability to produce timely and accurate financial report or the effectiveness of internal control over financial reporting. Moreover, our business may be harmed if we experience problems with any new systems and controls that result in delays in their implementation or increased costs to correct any post-implementation issues that may arise.

Further, in addition to the material weaknesses we currently have, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our business or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Common Stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the Nasdaq. We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. As a public company, we are required to provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report on Form 10-K.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until our first annual report filed with the SEC where we are an accelerated filer or a large accelerated filer, and do not qualify as an emerging growth company or smaller reporting company with revenues of less than \$100 million. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could harm our business and could cause a decline in the trading price of our Common Stock. For more information as it relates to the risk controls, please see “—Legacy Core identified material weaknesses in its internal control over financial reporting. Such material weaknesses may result in material misstatements of Core’s financial statements or cause it to fail to meet its periodic reporting obligations. Core may also identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal control.”

Market Price of and Dividends on the Registrant’s Common Equity and Related Stockholder Matters

Market Information and Holders

This Amendment No. 1 amends the Section entitled “Market Price of and Dividends on the Registrant’s Common Equity and Related Stockholder Matters—Market Information and Holders in the Original Report solely for the purpose of revising the second paragraph of such section with respect to the Company’s issued and outstanding warrants, to state that “...the Company had and 20,700,137 warrants (consisting of (i) 8,625,000 shares underlying XPDI’s public warrants, (ii) 6,266,667 shares underlying XPDI’s warrants issued in connection with a private placement at the time of its initial public offering and (iii) 6,808,470 shares underlying warrants held by Core Scientific investors) outstanding held of record by approximately 13 holders.”

Other than the revision discussed in this Amendment No. 1, no other changes have been made to the Original Report.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.

The audited financial statements of Legacy Core as of and for the years ended December 31, 2021 and 2020 and the related notes thereto are filed herewith as Exhibit 99.1 and incorporated herein by reference.

Also included herewith as Exhibit 99.2 and incorporated herein by reference is the Management's Discussion and Analysis of Financial Condition and Results of Operations of Legacy Core for the years ended December 31, 2021 and 2020.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial information of the Company as of and for the year ended December 31, 2021 is set forth in Exhibit 99.3 hereto and is incorporated herein by reference.

(d) Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>
99.1	<u>Audited financial statements of Core Scientific Holding Co. as of and for the years ended December 31, 2021 and 2020.</u>
99.2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Core Scientific Holding Co. for the years ended December 31, 2021 and 2020.</u>
99.3	<u>Unaudited pro forma condensed combined financial information of the Company as of and for the year ended December 31, 2021.</u>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURE

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 hereunto duly authorized.

Dated: March 31, 2022

CORE SCIENTIFIC, INC.

By: /s/ Todd M. DuChene _____

Todd M. DuChene
Executive Vice President, General Counsel,
Chief Compliance Officer and Secretary

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Core Scientific, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Core Scientific Holding Co. and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), changes in contingently redeemable convertible preferred stock and stockholders' equity and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2018.

Seattle, Washington
March 31, 2022

Core Scientific Holding Co.
Consolidated Balance Sheets
(in thousands, except par value)

	December 31,	
	2021	2020
Assets		
Current Assets:		
Cash and cash equivalents	\$ 117,871	\$ 8,671
Restricted cash	13,807	50
Accounts receivable, net of allowance of \$— and \$620, respectively	1,382	792
Accounts receivable from related parties	300	315
Deposits for equipment	358,791	54,818
Digital currency assets	234,298	63
Prepaid expenses and other current assets	30,111	6,210
Total Current Assets	756,560	70,919
Property, plant and equipment, net	597,304	85,244
Goodwill	1,055,760	58,241
Intangible assets, net	8,195	6,674
Other noncurrent assets	21,045	4,499
Total Assets	\$2,438,864	\$225,577
Liabilities, Redeemable Preferred Stock and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 11,617	\$ 3,057
Accrued expenses and other	67,862	3,585
Deferred revenue	63,417	38,113
Deferred revenue from related parties	72,945	6,730
Capital lease obligations, current portion	28,452	2,146
Notes payable, current portion	75,996	16,016
Total Current Liabilities	320,289	69,647
Capital lease obligations, net of current portion	62,145	2,263
Notes payable, net of current portion (includes \$557,007 and \$— at fair value)	652,213	19,864
Other noncurrent liabilities	18,531	103
Total Liabilities	1,053,178	91,877
Contingently redeemable preferred stock; \$0.00001 par value; 50,000 shares authorized; 6,766 shares issued and outstanding at December 31, 2021 and 2020, respectively; \$45,164 total liquidation preference for both December 31, 2021 and 2020	44,476	44,476
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Common stock; \$0.00001 par value; 300,000 and 200,000 shares authorized at December 31, 2021 and 2020, respectively; 169,719 and 98,607 shares issued and outstanding at December 31, 2021 and 2020, respectively	2	1
Additional paid-in capital	1,379,606	163,967
Accumulated deficit	(27,432)	(74,744)
Accumulated other comprehensive loss	(10,966)	—
Total Stockholders' Equity	1,341,210	89,224
Total Liabilities, Redeemable Preferred Stock and Stockholders' Equity	\$2,438,864	\$225,577

See accompanying notes to consolidated financial statements.

Core Scientific Holding Co.
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Year Ended December 31,	
	2021	2020
Revenue:		
Hosting revenue from customers	\$ 62,350	\$ 34,615
Hosting revenue from related parties	16,973	6,983
Equipment sales to customers	138,376	11,193
Equipment sales to related parties	109,859	1,402
Digital asset mining income	216,925	6,127
Total revenue	544,483	60,320
Cost of revenue:		
Cost of hosting services	77,678	36,934
Cost of equipment sales	177,785	11,017
Cost of digital asset mining	50,158	2,977
Total cost of revenue	305,621	50,928
Gross profit	238,862	9,392
(Loss) gain on legal settlements	(2,636)	5,814
Gain from sales of digital currency assets	4,814	69
Impairment of digital currency assets	(37,206)	(4)
Operating expenses:		
Research and development	7,674	5,271
Sales and marketing	4,062	1,771
General and administrative	60,604	14,556
Total operating expenses	72,340	21,598
Operating income (loss)	131,494	(6,327)
Non-operating expenses, net:		
Loss on debt from extinguishment	8,016	1,333
Interest expense, net	44,354	4,436
Other non-operating expenses, net	16,049	110
Total non-operating expense, net	68,419	5,879
Income (loss) before income taxes	63,075	(12,206)
Income tax expense	15,763	—
Net income (loss)	\$ 47,312	\$ (12,206)
Deemed dividend from common to preferred exchange	—	(10,478)
Net income (loss) attributable to common stockholders	\$ 47,312	\$ (22,684)
Net income (loss) per share (Note 13):		
Basic	\$ 0.37	\$ (0.23)
Diluted	\$ 0.32	\$ (0.23)
Weighted average shares outstanding:		
Basic	129,527	98,492
Diluted	145,802	98,492

See accompanying notes to consolidated financial statements.

Core Scientific Holding Co.
Consolidated Statements of Comprehensive Income (Loss)
(in thousands, except per share amounts)

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Net income (loss)	\$ 47,312	\$ (12,206)
Other comprehensive loss, net of income taxes:		
Change in fair value attributable to instrument-specific credit risk of convertible notes measured at fair value under the fair value option, net of tax effect of \$— and \$—	(10,966)	—
Total other comprehensive loss, net of income taxes	(10,966)	—
Comprehensive income (loss)	<u>\$ 36,346</u>	<u>\$ (12,206)</u>

See accompanying notes to consolidated financial statements.

Core Scientific Holding Co.
Consolidated Statements of Changes in Contingently Redeemable Convertible Preferred Stock and Stockholders' Equity
(in thousands)

	Contingently Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	4,421	\$ 29,526	99,141	\$ 1	\$ 168,866	\$ (62,538)	\$ —	\$ 106,329
Net loss	—	—	—	—	—	(12,206)	—	(12,206)
Stock-based compensation	—	—	—	—	3,037	—	—	3,037
Exchange of common stock for Series A contingently redeemable convertible preferred stock	1,802	12,308	(1,096)	—	(12,308)	—	—	(12,308)
Issuances of Series A contingently redeemable convertible preferred stock	229	1,545	—	—	—	—	—	—
Issuances of Series B contingently redeemable convertible preferred stock	314	1,097	—	—	—	—	—	—
Issuances of common stock- asset acquisition	—	—	562	—	1,967	—	—	1,967
Issuances of common stock- warrants and options	—	—	—	—	2,405	—	—	2,405
Balance at December 31, 2020	6,766	\$ 44,476	98,607	\$ 1	\$ 163,967	\$ (74,744)	\$ —	\$ 89,224
Net income	—	—	—	—	—	47,312	—	47,312
Stock-based compensation	—	—	25	—	38,937	—	—	38,937
Other comprehensive loss	—	—	—	—	—	—	(10,966)	(10,966)
Issuance of common stock- employee stock options	—	—	8	—	17	—	—	17
Issuances of common stock- business combination	—	—	70,929	1	1,173,753	—	—	1,173,754
Issuances of common stock- legal settlements	—	—	150	—	2,436	—	—	2,436
Issuances of common stock- warrants and options	—	—	—	—	496	—	—	496
Balance at December 31, 2021	<u>6,766</u>	<u>\$ 44,476</u>	<u>169,719</u>	<u>\$ 2</u>	<u>\$ 1,379,606</u>	<u>\$ (27,432)</u>	<u>\$ (10,966)</u>	<u>\$ 1,341,210</u>

See accompanying notes to consolidated financial statements.

Core Scientific Holding Co.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,	
	2021	2020
Cash flows from Operating Activities:		
Net income (loss)	\$ 47,312	\$(12,206)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	33,362	9,403
Stock-based compensation	38,937	3,037
Digital asset mining income	(216,925)	(6,127)
Deferred income taxes	9,528	—
Loss on legal settlements	2,636	—
Loss on debt extinguishment	8,016	1,333
Fair value adjustment on convertible notes	31,217	—
Amortization of debt discount and debt issuance costs	1,374	1,300
Losses on disposals of property, plant and equipment	118	2
Impairments of digital currency assets	37,206	4
Provision for doubtful accounts	—	616
Changes in working capital components:		
Accounts receivable, net	(7,421)	(1,303)
Accounts receivable from related parties	16	(243)
Digital currency assets	24,011	6,090
Deposits for equipment for sales to customers	(244,399)	(54,736)
Prepaid expenses and other current assets	(34,076)	(2,353)
Accounts payable	(21,991)	(1,770)
Accrued expenses and other	56,200	1,625
Deferred revenue	184,340	30,009
Other noncurrent assets and liabilities, net	(6,196)	1,554
Net cash used in operating activities	<u>(56,735)</u>	<u>(23,765)</u>
Cash flows from Investing Activities:		
Purchases of property, plant and equipment	(365,210)	(13,668)
Cash acquired (paid) in acquisitions	704	(1,568)
Deposits for self-mining equipment	(59,275)	—
Other	(59)	92
Net cash used in investing activities	<u>(423,840)</u>	<u>(15,144)</u>
Cash flows from Financing Activities:		
Proceeds from issuances of common stock options and warrants	513	2,642
Issuances of debt	670,750	45,178
Principal payments on debt	(57,049)	(7,097)
Payment for transaction cost	(10,682)	—
Net cash provided by financing activities	<u>603,532</u>	<u>40,723</u>
Increase in cash, cash equivalents, and restricted cash	122,957	1,814
Cash, cash equivalents and restricted cash—beginning of period	8,721	6,907
Cash, cash equivalents and restricted cash—end of period	<u>\$ 131,678</u>	<u>\$ 8,721</u>
Supplemental disclosure of other cash flow information:		
Cash paid for interest	\$ 38,180	\$ 2,903
Income tax payments	\$ 9,619	—
Supplemental disclosure of noncash investing and financing activities:		
Noncash consideration paid for acquisitions	\$1,138,838	\$ 1,966
Accrued capital expenditures	\$ 9,002	\$ 2,544
Increase in notes payable for acquisition of property, plant and equipment	\$ —	\$ 19,882
Decrease in notes payable in exchange for equipment	\$ 6,842	\$ 7,000
Property, plant and equipment acquired under capital leases	\$ 93,956	\$ —
Payment-in-kind interest	\$ 7,274	\$ —
Common stock issuances for acquisition of long-lived assets	\$ —	\$ 1,486

See accompanying notes to consolidated financial statements.

Core Scientific Holding Co.
Notes to Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

MineCo Holdings, Inc. was incorporated on December 13, 2017 in the State of Delaware and changed its name to Core Scientific, Inc. pursuant to an amendment to its Certificate of Incorporation dated June 12, 2018. On August 17, 2020 the Company engaged in a holdco restructuring to facilitate a borrowing arrangement by the Company pursuant to which Core Scientific Inc. was merged with and into a wholly owned subsidiary of the Company and became a wholly owned subsidiary of the Company and the stockholders of Core Scientific Inc. became the shareholders of Core Scientific Holding Co. (“Core Scientific” or the “Company”). As of December 31, 2021, the Company operated under a holding company structure with Core Scientific Holding Co. as parent and Core Scientific, Inc. as its operating subsidiary. The Company, headquartered in Austin, Texas, is an infrastructure, technology and services company that conducts, or plans to conduct, the following business activities:

- Owning and operating computer equipment used to process transactions conducted on one or more blockchain networks in exchange for transaction processing fees rewarded in digital currency assets, commonly referred to as mining;
- Owning and operating datacenter facilities in the U.S. to provide colocation and hosting services for distributed ledger technology, also commonly known as blockchain;
- Developing blockchain-based platforms and applications, including infrastructure management, security technologies, mining optimization, and recordkeeping;

Merger Agreement

On July 20, 2021, the Company entered into an Agreement and Plan of Merger and Reorganization with Power & Digital Infrastructure Acquisition Corp., a Delaware corporation (“XPDI”), with XPDI Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of XPDI (“First Merger Sub”), and XPDI Merger Sub 2, LLC, a Delaware limited liability company and wholly owned subsidiary of XPDI (“Second Merger Sub” and, together with First Merger Sub, the “Merger Subs” and, together with XPDI, the “XPDI Parties”). The Agreement and the transactions contemplated thereby were unanimously approved by the boards of directors of each of Core Scientific and XPDI.

Pursuant to the Agreement, and subject to the terms and conditions set forth therein, XPDI acquired the Company through a series of transactions, including (x) the merger of First Merger Sub with and into Core Scientific (the “First Merger”), with Core Scientific surviving the First Merger as a wholly owned subsidiary of XPDI, and (y) the merger of Core Scientific with and into Second Merger Sub (the “Second Merger” and, together with the First Merger, the “Mergers”), with Second Merger Sub surviving the Second Merger as a wholly owned subsidiary of XPDI. Immediately prior to the effective time of the First Merger, XPDI filed a Second Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware pursuant to which XPDI changed its name from “Power & Digital Infrastructure Acquisition Corp.” to “Core Scientific, Inc.”. As a result of the Mergers, among other things, each outstanding share of common stock, \$0.00001 per share, of Core Scientific (“Core Scientific Common Stock”) was cancelled in exchange for the right to receive a number of shares of Class A common stock, par value \$0.0001 per share, of XPDI in an amount that is approximately equal to the quotient obtained by dividing (a) an amount equal to (x) \$4.0 billion, divided by (y) the number of shares of Core Scientific Common Stock on a fully-diluted basis, by (b) \$10.00.

XPDI’s stockholders approved the transactions contemplated by the Merger Agreement at a special meeting of stockholders held on January 19, 2022. In connection with the Special Meeting and the Business Combination, holders of 12.3 million of the 34.5 million then-outstanding shares of Class A common stock of XPDI exercised their right to redeem their shares for cash at a redemption price of approximately \$10.00 per share, for an aggregate redemption amount of \$123.5 million.

The Transaction provides gross proceeds of approximately \$221.6 million from the XPDI trust account, resulting in approximately \$200.7 million in net cash proceeds to Core Scientific, after the payment of transaction expenses paid at the close of the transaction. As a result of the Transaction, former Core Scientific stockholders own 90.7%, former XPDI public stockholders own 6.7% and XPDI’s sponsor owns 2.6% of the issued and outstanding shares of common stock, respectively, of the Company, excluding the impact of unvested restricted stock units and options. The proceeds from the Transaction will be used to fund mining equipment purchases and infrastructure build-out as the Company expands its leadership position. See Note 16 for more information about the closing of the merger with XPDI.

Core Scientific Holding Co.
Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the consolidated financial statements.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Some of the more significant estimates include the valuation of the Company’s common shares, the determination of the grant date fair value of stock-based compensation awards, the valuation of goodwill and intangibles, the fair value of convertible debt, acquisition purchase price accounting, and income taxes. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from management’s estimates.

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less from the date of acquisition. As of December 31, 2021, cash equivalents included \$100.0 million of highly liquid money market funds, which are classified as Level 1 within the fair value hierarchy. Restricted cash consists of cash held in escrow to pay for construction and development activities.

The following table provides a reconciliation of the amount of cash, cash equivalents, and restricted cash reported on the consolidated balance sheets to the total of the same amount shown in the consolidated statements of cash flows (in thousands):

	December 31,	
	2021	2020
Cash and cash equivalents	\$117,871	\$8,671
Restricted Cash	13,807	50
Total cash, cash equivalents and restricted cash	<u>\$131,678</u>	<u>\$8,721</u>

Accounts Receivable and Allowance for Doubtful Accounts

The Company records accounts receivable at the amount billed to the customer based on the contractual terms, net of the allowance for doubtful accounts.

The Company records an allowance for doubtful accounts based on an estimate of amounts that are not collectible. The Company’s credit risk is mitigated by certain customer prepayments, and for transactions that are not prepaid, the relatively short collection period. The Company does not require collateral for accounts receivable, however, the Company’s hosting customer agreements allow the Company to use customer equipment for processing transactions on digital asset networks until the Company has recovered the past due receivables. Accounts receivable also includes sales tax receivable.

The Company records adjustments to the allowance when new information becomes available that indicates they are required. The Company writes off accounts receivable in the period in which it deems the receivable to be uncollectible. The Company records recoveries of accounts receivable previously written off when it is known that they will be received. The Company had no allowance for doubtful accounts as of December 31, 2021. The Company’s allowance for doubtful accounts was \$0.6 million as of December 31, 2020.

Valuation of Common Stock

The Company determined the fair value of its common stock using the most observable inputs available, including quoted prices of XPDI’s common stock and sales the Company’s Series A and Series B Contingently Redeemable Convertible Preferred

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Stock, discussed in Note 9. The Company also uses the market approach, which estimates the value of the Company's business by applying valuation multiples derived from the observed valuation multiples of comparable public companies to the Company's expected financial results. The Company retained the services of certified valuation specialists to assist with the valuation of the Company's common stock.

Applying these valuation and allocation approaches involves the use of estimates, judgments and assumptions that are highly complex and subjective, such as those regarding the Company's expected future revenue, expenses, valuation multiples, the selection of comparable public companies and the probability of future events. Changes in any or all of these estimates and assumptions, or the relationships between these assumptions, impact the Company's valuation as of each valuation date and may have a material impact on the valuation of the Company's common stock and common stock warrants issued with the Company's debt and equity instruments.

Fair Value Measurements

The Company measures certain assets and liabilities at fair value on a recurring or non-recurring basis in certain circumstances. Fair value is defined as 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. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

Level 1 — Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Company uses observable market data when determining fair value whenever possible and relies on unobservable inputs only when observable market data is not available.

Recurring fair value measurements

As discussed in Note 8 below, in April 2021, the Company entered into a Secured Convertible Note Purchase Agreement (the "Secured Convertible Notes") and issued \$215.0 million of Secured Convertible Notes to new and existing lenders. In addition, the Company issued \$299.8 million of convertible notes in August through November 2021 under substantially the same terms and conditions as the original April 2021 notes except that the August through November 2021 notes have a minimum payoff based on the face value plus accrued interest rather than two times the outstanding face amount plus accrued interest. In addition, the August through November 2021 notes were unsecured until an IPO or SPAC merger and then became secured pari passu with the Secured Convertible Notes in January 2022 upon the closing of the Merger Agreement with XPDI (the "Unsecured Convertible Notes"). Payment in Kind (PIK) interest is recorded quarterly by increasing the outstanding principal amount of the notes. As a result, the principal balance of the convertible notes increased by \$7.3 million during the year ended December 31, 2021. The Company has elected to measure its convertible notes at fair value on a recurring basis because the Company believes it better reflects the underlying economics of the convertible notes, which contain multiple embedded derivative features. The Company presents changes in fair value of the convertible notes during the period as follows: (1) the 10% contractual rate of interest on the convertible notes (consisting of 4% cash interest and 6% PIK interest) is presented as interest expense, net on the Consolidated Statements of Operations; (2) changes in fair value attributable to the Company's own credit risk are presented within accumulated other comprehensive loss on the Consolidated Balance Sheets and as a component of other comprehensive loss on the Consolidated Statements of Comprehensive Income (Loss); and (3) other fair value changes are presented within other non-operating expense, net on the Consolidated Statements of Operations.

The Company's convertible notes had a fair value of \$557.0 million compared to a principal amount of \$522.1 million at December 31, 2021. The principal amount of the Secured Convertible Notes and Unsecured Convertible Notes as of December 31, 2021 reflects the proceeds received plus any PIK interest added to the principal balance of the notes. Upon the closing of the Merger Agreement with XPDI in January 2022, the conversion price for both the Secured and Unsecured Convertible Notes became fixed at 80% of the financing price (\$8.00 per share of common stock) and the holders now have the right to convert at any time until maturity. At maturity, any Secured Convertible Notes not converted will be owed two times the original face value plus accrued interest; any Unsecured Convertible Notes not converted will be owed the original face value plus accrued interest. In addition, at any time (both before and after the merger with XPDI), the Company has the right to prepay the Secured and Unsecured Notes at the minimum payoff of two times the outstanding face value plus accrued interest for the Secured Convertible Notes and the outstanding face value plus accrued interest for the Unsecured Convertible Notes. The total amount that would be owed on the Secured Convertible Notes plus Unsecured Convertible Notes if prepaid as of December 31, 2021 was \$756.1 million.

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The following presents the levels of the fair value hierarchy for the Company's convertible notes by issuance date measured at fair value on a recurring basis as of December 31, 2021 (in thousands):

	Principal	Fair value hierarchy			Fair value
		Level 1	Level 2	Level 3	
Convertible notes:					
April 19, 2021 ¹	\$ 91,430	\$ —	\$ —	\$101,078	\$101,078
April 21, 2021 ¹	5,137	—	—	5,674	5,674
April 23, 2021 ¹	46,229	—	—	51,062	51,062
April 26, 2021 ¹	78,075	—	—	86,165	86,165
August 20, 2021 ²	50,597	—	—	50,941	50,941
September 10, 2021 ²	16,110	—	—	16,472	16,472
September 23, 2021 ²	76,051	—	—	77,559	77,559
September 24, 2021 ²	60,016	—	—	61,179	61,179
September 27, 2021 ²	1,974	—	—	2,012	2,012
October 1, 2021 ²	86,655	—	—	87,150	87,150
November 10, 2021 ²	9,823	—	—	9,819	9,819
Accrued PIK interest ^{1,2,3}	—	—	—	7,896	7,896
Total convertible notes	<u>\$522,097</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$557,007</u>	<u>\$557,007</u>

¹ Secured Convertible Notes (includes principal balance at issuance and PIK interest) which considers the minimum payoff at maturity of two times the face value of the note plus accrued interest.

² Unsecured Convertible Notes which considers the minimum payoff at maturity of one times the face value of the note plus accrued interest.

³ Represents PIK interest accrued as of December 31, 2021 which will be recorded as additional principal for each respective convertible note on January 1, 2022.

The following presents a rollforward of the activity for the Company's convertible notes measured at fair value on a recurring basis as of December 31, 2021 (in thousands):

	Level 1	Level 2	Level 3	Total
Balance at December 31, 2020	\$ —	\$ —	\$ —	\$ —
Convertible notes issued (including PIK principal recorded)	—	522,097	—	522,097
Transfers to level 3	—	(522,097)	522,097	—
Change in fair value from inception	—	—	34,910	34,910
Balance at December 31, 2021	<u>\$ —</u>	<u>\$ —</u>	<u>\$557,007</u>	<u>\$557,007</u>

The fair value of the Company's convertible notes payable is determined using a market approach based on observable market prices for similar securities when available. When observable market data is not available, the Company uses an as-converted value plus risk put option model that includes certain unobservable inputs that may be significant to the fair value measurement such as probability of a financing event occurring (e.g., a SPAC merger or qualified financing), expected term, volatility and the negotiation discount. The fair value of the Secured Convertible Notes considers the minimum payoff at maturity of two times the face value of the note plus accrued interest, as well as the opportunity for appreciation if the value of the Company's stock increases 60% or more relative to the pricing at the financing event (since the conversion price is set at 80% of the stock price at the financing event, a stock price appreciation of 60% would match the minimum payoff of two times the face value plus accrued interest). The fair value of the Unsecured Convertible Notes considers the minimum payoff at maturity of one times the face value of the note plus accrued interest, as well as the opportunity for appreciation if the value of the Company's stock falls no more than 20% relative to the pricing at the financing event (since the conversion price is set at 80% of the stock price at the financing event, a stock price decline of 20% would match the minimum payoff of one times the face value plus accrued interest).

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Securities are transferred from Level 2 to Level 3 when observable market prices for similar securities are no longer available and unobservable inputs becomes significant to the fair value measurement. All transfers into and out of level 3 are assumed to occur at the beginning of the quarterly reporting period in which they occur. As of December 31, 2021, Level 3 financial instruments included all the Secured Convertible Notes and all the Unsecured Convertible Notes as the effect of unobservable inputs became significant to the fair value measurement due to the time lapse between the issuance of the notes and the reporting date.

The following presents significant Level 3 unobservable inputs used to measure fair value of certain convertible notes December 31, 2021 (dollars in thousands):

	<u>Fair value</u>	<u>Unobservable Input</u>	<u>Low</u>	<u>High</u>	<u>Weighted Average</u> ¹
Convertible notes (Level 3)	\$557,007	Probability of financing event	100.0%	100.0%	100.0%
		Expected term (years)	0.04	0.50	0.27
		Volatility	40.3%	40.8%	40.6%
		Negotiation discount	43.4%	54.0%	48.3%

¹ Weighted average based on the fair value of convertible notes. In addition, expected term and volatility are also weighted based on 95% probability of a SPAC merger occurring and 5% probability of a qualified financing occurring.

The probability of a financing event occurring refers to the probability of a SPAC merger or qualified financing occurring that would give the holders of the convertible notes the option to convert the instrument into shares of the Company's common stock. An increase in the probability of a conversion event occurring would, in isolation, result in an increase in the fair value measurement of the convertible notes. As of December 31, 2021, the Company's valuation of the convertible notes assumed a 95% probability of a SPAC merger occurring and a 5% probability of a qualified financing occurring.

Expected term is an input into the risk put option model that measures the length of time the instrument is expected to be outstanding before it is exercised or terminated. An increase in expected term, in isolation, would generally result in an increase in the fair value measurement of the convertible notes.

Volatility is an input into the risk put option model that measures the variability in possible returns for the convertible notes based on how much the price of underlying shares change in value over time. An increase in volatility, in isolation, would generally result in an increase in the fair value measurement of the convertible notes.

The negotiation discount is a calibration adjustment which reflects the illiquidity of the instruments and the Company's negotiating position. Since the transaction was an orderly transaction, the Company deemed that the fair value equaled the transaction price at initial recognition. A decrease in the negotiation discount, in isolation, would generally result in an increase in the fair value measurement of the convertible notes.

The increase or decrease in the fair value of the convertible notes resulting from changes to the probability of a financing event, expected term or volatility assumptions would be largely mitigated by interrelated changes to the negotiation discount. However, other changes, such as a decrease to the negotiation discount resulting from the occurrence of a financing event, are not interrelated to other inputs and could result in a significant increase in the fair value of the convertible notes.

The Company presents separately in other comprehensive income (loss) the portion of the total change in the fair value of the convertible notes that resulted from a change in the instrument-specific credit risk on the convertible notes. The amount of change in the fair value attributable to instrument-specific credit risk is determined by comparing the amount of the total change in fair value to the amount of change in fair value that would have occurred if the Company's credit risk had not changed during the period as reflected in the discount rates applied to the debt and risk put option.

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The following summarizes the fair value adjustments and debt issuance costs recognized on the convertible notes (in thousands):

	<u>Financial statement line item</u>	<u>Year ended December 31, 2021</u>
Cash interest payments	Interest expense, net	\$ 10,114
Payment-in-kind (PIK) interest	Interest expense, net	15,170
Instrument specific credit risk	Other comprehensive loss	10,966
Other fair value adjustments	Other non-operating expense, net	16,047
Total fair value adjustments		<u>\$ 52,297</u>
Debt issuance costs	Interest expense, net	<u>\$ 12,831</u>

Nonrecurring fair value measurements

The Company's non-financial assets, including digital currency assets, property, plant and equipment, goodwill, and intangible assets are measured at estimated fair value on a nonrecurring basis. These assets are adjusted to fair value only when an impairment is recognized, or the underlying asset is held for sale. Refer to the discussion of digital assets below for more information regarding fair value considerations when measuring the impairment of digital assets held.

No non-financial assets were classified as Level 3 as of December 31, 2021 or December 31, 2020.

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, net, accounts payable, notes payable and certain accrued expenses and other liabilities. The carrying amount of these financial instruments, other than notes payable discussed below, approximates fair value due to the short-term nature of these instruments.

The fair value of the Company's notes payable (excluding the Convertible Notes carried at fair value described above), which are carried at amortized cost, was determined based on a discounted cash flow approach using market interest rates of instruments with similar terms and maturities and an estimate for our standalone credit risk. We classified the other notes payable as Level 3 financial instruments due to the considerable judgment required to develop assumptions of the Company's standalone credit risk and the significance of those assumptions to the fair value measurement. The estimated fair value of the Company's other notes payable, including both the current and noncurrent portion, was \$184.7 million at December 31, 2021 and \$39.0 million at December 31, 2020. The carrying values of the notes payable, including both the current and noncurrent portion, was \$171.2 million and \$35.9 million at December 31, 2021 and December 31, 2020, respectively.

Digital Assets

The Company's digital asset policy prior to the Blockcap acquisition on July 30, 2021 included selling all digital assets and converting them into fiat currency shortly after they are mined, typically within 1-3 days, in order to fund the growth of the Company's operations. Following the Blockcap acquisition, the Company significantly expanded its self-mining operation and consequently reevaluated its digital asset investment policy and began holding a more significant portion of its digital assets mined on its balance sheet. Sales of digital currency assets awarded to the Company through its self-mining activities are classified as cash flows from operating activities regardless of the length of time for which the digital assets are held.

The Company classifies digital currency assets primarily as Level 1. The Company's digital currency assets are accounted for as intangible assets with indefinite useful lives. The Company initially recognizes digital currency assets that are received as digital asset mining income based on the fair value of the digital currency assets. Digital currency assets that are purchased in an exchange of one digital currency asset for another digital currency asset are recognized at the fair value of the asset surrendered. Impairment exists when the carrying amount exceeds its fair value, which is measured using the quoted price of the digital currency asset at the time its fair value is being measured, which is measured on a daily basis. To the extent that an impairment loss is recognized, the loss establishes the new costs basis of the digital asset. In the years ended December 31, 2021 and 2020, the Company recognized impairments of digital currency assets of \$37.2 million and a nominal amount, respectively. For the years ended December 31, 2021 and 2020, the Company recognized net gains of \$4.8 million and \$0.1 million, respectively, on sales of digital currency assets. Digital currency assets are available for use, if needed, for current operations and are classified as current assets on the Consolidated Balance Sheets, the details of which are presented below.

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	December 31 2021	December 31 2020
Bitcoin (BTC)	\$ 224,843	\$ 51
Ethereum (ETH)	4,665	—
Siacoin (SC)	803	—
Polygon (MATIC)	1,085	—
Dai (DAI)	1,353	—
Other	1,549	12
Total digital currencies	<u>\$ 234,298</u>	<u>\$ 63</u>

The Company does not have any off-balance sheet holdings of digital currency assets.

Property, Plant and Equipment, Net

Property, plant and equipment includes land, buildings and improvements for datacenter facilities and leasehold improvements for the Company's corporate headquarters. Property and equipment consists of computer, mining, network, electrical and other equipment, including property and equipment under capital leases. Property, plant and equipment, net is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized at cost and amortized over the shorter of their estimated useful lives or the lease term. Future obligations related to capital leases are presented as Capital lease obligations, current portion and Capital lease obligations, net of current portion in the Company's Consolidated Balance Sheets. Depreciation expense, including amortization of assets held under capital leases, is primarily included in Cost of Revenue in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss).

Self-mining computer equipment that is subsequently contracted for sale to customers is valued at the lower of cost or net realizable value, with any write-down recognized as Cost of Equipment Sales in the Company's Consolidated Statements of Operations.

Business Combinations and Goodwill

The total purchase price of any of the Company's acquisitions is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over those fair values is recorded as goodwill. When stock is issued as consideration, the fair value assigned to the tangible and intangible assets acquired and liabilities assumed are based on estimates and assumptions around the valuation of the Company's common stock at the time of the acquisition.

The Company does not amortize goodwill, but tests it for impairment annually as of October 31, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The Company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of its reporting units are less than their carrying amounts as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or chooses not to perform a qualitative assessment, then the quantitative goodwill impairment test will be performed. The quantitative test compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the excess of the carrying amount over the fair value is recognized as an impairment loss, and the resulting measurement of goodwill becomes its new cost basis. As of December 31, 2021 and 2020, the carrying amount of Goodwill was \$1.06 billion and \$58.2 million, respectively. There were no accumulated impairment losses as of December 31, 2021, and no impairment losses were recorded for the years ended December 31, 2021 and 2020.

Long-Lived Assets

The Company tests long-lived assets for recoverability whenever events or changes in circumstances have occurred that may affect the recoverability or the estimated useful lives of long-lived assets. Long-lived assets include intangible assets subject to amortization. A long-lived asset may be impaired when the estimated future undiscounted cash flows are less than the carrying amount of the asset. If that comparison indicates that the asset's carrying value may not be recoverable, the impairment is measured based on the difference between the carrying amount and the estimated fair value of the asset. This evaluation is performed at the lowest level for which separately identifiable cash flows exist. Long-lived assets to be disposed of are reported at the lower of the carrying amount or estimated fair value less costs to sell.

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Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the associated debt. Debt issuance costs are presented in the balance sheet as a direct deduction from the carrying amount of the debt liability consistent with the debt discount.

Revenue From Contracts With Customers

The Company primarily generates revenue from contracts with customers from hosting services and, sales of computer equipment. The Company generally recognizes revenue when the promised service is performed, or control of the promised equipment is transferred to customers. Revenue excludes any amounts collected on behalf of third parties, including sales and indirect taxes.

Performance Obligations

The Company's performance obligations primarily relate to hosting services and equipment sales, which are described below. The Company has performance obligations associated with commitments in customer hosting contracts for future services and commitments to acquire and deploy customer equipment that have not yet been recognized in the financial statements. For contracts with original terms that exceed one year (typically ranging from 18 to 48 months), those commitments not yet recognized as of December 31, 2021 and 2020 were \$1.05 billion and \$303.7 million, respectively.

Hosting Services

The Company performs hosting services that enable customers to run blockchain and other high-performance computing operations. The Company's performance obligation related to these services is satisfied over time. The Company recognizes revenue for services that are performed on a consumption basis, such as the amount of electricity used in a period, based on the customer's use of such resources. The Company recognizes variable usage at its estimate of the stand-alone selling price of its hosting services. As a result, the Company's hosting revenue is sensitive to changes in the market prices of digital currency assets. As the market prices of digital currency assets are volatile, the Company cannot reasonably estimate the future price of its hosting services for such contracts over the contract term such that a significant revenue reversal is not probable. Therefore, the Company's best estimate of the transaction price in these contracts is based on the current market price of the digital currency asset. The Company constrains recognition of revenue from contracts with hosting customers with variable pricing to the contractual price determined by the market price of the digital currency asset in the current period.

The Company generally bills its customers in advance based on estimated consumption or the fixed quantity for the period under the contract. The Company recognizes revenue based on actual consumption in the period and invoices adjustments in subsequent periods or retains credits toward future consumption. The term between invoicing and when payment is due typically does not exceed 30 days.

Equipment Sales

The Company recognizes revenue from sales of computer equipment to customers at the point in time when control of the equipment is transferred to the customer, which generally occurs upon deployment of the equipment. Customers make a series of deposits on equipment purchases with the final payment typically being due at least one month prior to deployment.

Self-mining computer equipment that is subsequently sold to customers is recognized as Equipment Sales to Customers in the Company's Consolidated Statements of Operations.

Deferred Revenue

The Company records contract liabilities in Deferred Revenue on the consolidated balance sheets when cash payments are received in advance of performance and recognizes them as revenue when the performance obligations are satisfied. The Company's deferred revenue balance as of December 31, 2021 and 2020 was \$136.4 million and \$44.8 million, respectively, all from advance payments received during the years then ended.

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In the year ended December 31, 2021, the Company recognized \$44.5 million of revenue that was included in the deferred revenue balance as of the beginning of the year, primarily due to the deployment of customer equipment for which advanced payment had been received from customers prior to January 1, 2021. In the year ended December 31, 2020, the Company recognized \$7.8 million of revenue that was included in the deferred revenue balance as of the beginning of the year, primarily due to the performance of hosting services for which advance payments had been received from customers prior to January 1, 2020. Advanced payments for hosting services are typically recognized in the following month and advanced payments for equipment sales are generally recognized within one year.

Digital Asset Mining Income

The Company derives its digital asset mining income from operating its owned computer equipment as part of a pool of users, facilitated by a pool operator, that processes transactions conducted on one or more blockchain networks. The contracts with pool operators are terminable at any time by either party. In exchange for providing computing power to the pool, the Company is entitled to receive digital currency assets from the mining pool operator which is a variable amount based on either (a) the amount of computing power the Company has contributed to the mining pool and current network difficulty or (b) a fractional share of the digital currency asset award the mining pool operator receives from the blockchain network upon successfully adding a block to the blockchain, 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 processing the block.

Providing computing power in digital asset transaction verification services is an output of the Company's ordinary activities. Providing such computing power is the only performance obligation in the Company's arrangements with mining pool operators. The transaction consideration the Company receives, if any, is noncash consideration that may be either fixed or variable depending on the payout methodology used by the pool operator. In certain arrangements, the Company does not have a reliable means to estimate its relative share of the rewards until they are paid to it and the variable consideration is constrained until the Company receives the consideration, at which time revenue is recognized. The Company measures consideration at fair value on the date received, which is typically not materially different than the fair value at inception of the arrangement or the time the Company has earned the award from the pools. The Company's digital asset mining income is sensitive to changes in the market prices of digital currency assets which may be significant.

Deposits for Equipment

The Company has entered into agreements with vendors to supply equipment for its customers and for the Company's own digital asset mining operations. These agreements generally require significant refundable deposits payable months in advance of delivery and additional advance payments in monthly installments thereafter.

The Company classifies deposits for digital asset mining equipment based on the expected predominant source and use of the cash flows for the equipment that has been contracted for purchase. Prior to the acquisition of Blockcap on July 30, 2021 described in Note 3, the Company expected that the predominant source and use of the cash flows for orders of digital asset mining equipment would be related to customer sales. Beginning with orders placed subsequent to July 30 2021, the Company expects that the predominant source and use of cash flows for digital asset mining equipment will be related to the Company's own self-mining operations. Therefore, the Company has classified deposits for equipment related to orders prior to July 30, 2021 as cash flow from operating activities and has classified deposits for equipment related to orders made subsequent to July 30, 2021 as cash flows from investing activities.

Costs of Revenue

The Company's Cost of Hosting Services and Cost of Digital Asset Mining primarily consist of electricity costs, salaries, stock-based compensation depreciation of property, plant and equipment used to perform hosting services and mining operations and other related costs. Cost of Equipment Sales includes represents costs of computer equipment sold to customers.

Research and Development

The Company's research and development expenses primarily include personnel costs associated with technology and product development and data science research. Research and development costs are expensed as incurred.

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Stock-Based Compensation

The Company recognizes the cost of services received in exchange for awards of equity instruments based upon the fair value of those awards on the grant date. For the years ended December 31, 2021 and 2020, the Company's consolidated operating results included \$0.9 million and \$0.4 million of stock-based compensation expense related to restricted stock units issued to employees, respectively, and \$5.8 million and \$2.6 million of stock-based compensation expense related to stock options issued to employees and consultants, respectively. In addition, for the year ended December 31, 2021, the Company recognized \$32.2 million of post-combination expense for share-based compensation awards related to the Blockcap acquisition described in Note 3. The total tax benefit related to stock-based compensation was \$6.1 million and \$0.7 million for the years ended December 31, 2021 and 2020, respectively.

Stock-based compensation expense for the years ended December 31, 2021 and 2020 is included in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) as follow:

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Cost of revenue	\$ 4,084	\$ —
Research and development	1,140	—
Sales and marketing	836	—
General and administrative	32,877	3,038
Total stock-based compensation expense	<u>\$ 38,937</u>	<u>\$ 3,038</u>

Stock-based compensation expense is measured at the grant date based on the value of the equity award. The fair value of stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model. The fair value of restricted stock unit awards is estimated on the date of grant using the estimated fair value of the Company's common stock on the date of grant.

For awards with only service conditions, primarily stock options and certain restricted stock units, the estimated fair value of the equity awards are recognized as expense on a straight-line basis, less actual forfeitures as they occur, over the requisite service period for the entire award, which is generally the vesting period.

For awards with service and performance conditions, primarily restricted stock unit awards, the compensation expense is recognized separately for each tranche of each award as if it were a separate award with its own vesting date (i.e., on an accelerated attribution basis) and the estimated fair value of the equity awards are recognized as expense when it is probable that the performance conditions will be achieved. If the performance conditions become probable of being achieved before the end of the requisite service period, the unrecognized compensation costs for which the requisite service have been provided is recognized in the period in which achievement becomes probable and the remaining unrecognized compensation costs for which requisite service has not been provided is recognized as expense prospectively on an accelerated attribution basis over the remaining requisite service period for the entire award, less actual forfeitures as they occur. See Note 11 for more information about the service and performance conditions associated with the Company's equity awards.

Employee Benefit Plan

The Company currently maintains a defined contribution retirement and savings plan for the benefit of our employees who satisfy certain eligibility requirements (the "401(k) Plan"). The U.S. Internal Revenue Code allows eligible employees to defer a portion of their compensation, within prescribed limits, on a pre-tax basis through contributions to the 401(k) Plan. Prior to January 1, 2022, the Company did not match contributions made by participants in the 401(k) Plan.

Earnings Per Share

The Company computes earnings per share ("EPS") following Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 260, *Earnings per share*. Basic EPS is measured as the income or loss available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per-share basis from the potential conversion of convertible securities or the exercise of options and or warrants; the dilutive impacts of potentially convertible securities are calculated using the if-converted method; the potentially dilutive effect of options or warrants are computed using the treasury stock method. Securities that are potentially an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from diluted EPS calculation.

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Income Taxes

The Company is subject to income taxes mainly in the jurisdictions in which it provides various infrastructure, technology and colocation and hosting services. The Company's tax position requires significant judgment in order to properly evaluate and quantify tax positions and to determine the provision for income taxes.

The Company uses the assets and liabilities method to account for income taxes, which requires that deferred tax assets and deferred tax liabilities be determined based on the differences between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the years in which the differences are expected to be reversed. The Company estimates its actual current tax expense, including permanent charges and benefits, and the temporary differences resulting from differing treatment of items, for tax and financial accounting purposes.

The Company assesses whether it is more likely than not that its deferred tax assets will be realized by considering both positive and negative evidence. If the Company believes that recovery of these deferred tax assets is not more likely than not, the Company establishes a valuation allowance. Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, the Company considered all available evidence, including recent operating results, projections of future taxable income, the reversal of taxable temporary differences, and the feasibility of tax planning strategies.

GAAP sets forth a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. Interest and penalties related to unrecognized tax benefits are included within Income Tax Expense. Accrued interest and penalties are included in the related tax liability line in the consolidated balance sheets. No penalties or interest have been recognized or accrued for unrecognized tax benefits for the years ended December 31, 2021 and 2020.

The Company adjusts its reserves for tax positions in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate based on new facts or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, the differences are recorded as adjustments to the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

The Company's future effective tax rates could be adversely affected by changes in the valuation of the Company's deferred tax assets or liabilities, or changes in tax laws, regulations, accounting principles or interpretations thereof. In addition, the Company is subject to examination of income tax returns by various tax authorities. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provisions for income taxes.

Recently Adopted Accounting Standards

In August 2020, the FASB issued ASU No. 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which amends the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity's own equity. This standard can be adopted using either a modified retrospective or a fully retrospective method of transition. This standard is effective for the Company beginning January 1, 2022, with early adoption permitted. We elected to adopt the standard effective January 1, 2021 using the modified retrospective transition method. Adoption of the standard had no impact on the Company's prior period financial statements.

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In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The standard amends ASC 805 such that contract assets and contract liabilities acquired in a business combination are added to the list of exceptions to the recognition and measurement principles such that they are recognized and measured in accordance with ASC 606. The standard is effective for the Company beginning January 1, 2023. Early adoption of the standard is permitted, including adoption in an interim period. An entity that early adopts in an interim period must apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application. We have elected to early adopt the standard effective October 1, 2021 which resulted in an increase to both goodwill and deferred revenue of \$0.4 million due to the retrospective application of the standard to the Company's acquisition of Blockcap on July 30, 2021 discussed in Note 3.

Accounting Standards not yet adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Measurement of Credit Losses on Financial Instruments*, which will require an entity to measure credit losses for certain financial instruments and financial assets, including trade receivables. Under this update, on initial recognition and at each reporting period, an entity will be required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. This update will be effective for the Company with the annual reporting period beginning January 1, 2022, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impacts the adoption of this standard will have on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by removing the exceptions to the incremental approach for intra-period tax allocation in certain situations, the requirement to recognize a deferred tax liability for a change in the status of a foreign investment, and the general methodology for computing income taxes in an interim period when year-to-date loss exceeds the anticipated loss for the year. The amendments also simplify the accounting for income taxes with regard to franchise tax, the evaluation of step up in the tax basis goodwill in certain business combinations, allocating current and deferred tax expense to legal entities that are *not* subject to tax and enacted change in tax laws or rates. The standard is effective for the Company beginning January 1, 2022. The Company is currently evaluating the impacts the adoption of this standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases-(Topic 842)*. Under this new guidance, lessees will be required to recognize for all leases (with the exception of short-term leases): 1) a lease liability equal to the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis and 2) a right-of-use asset which will represent the lessee's right to use, or control the use of, a specified asset for the lease term ("ROU asset"). Topic 842 is effective for the Company's annual and interim reporting periods beginning January 1, 2022. The adoption of Topic 842 will require the Company to recognize non-current assets and liabilities for right-of-use assets and operating lease liabilities on its consolidated balance sheet, but it is not expected to have a material effect on the Company's results of operations or cash flows. Topic 842 will also require additional footnote disclosures to the Company's consolidated financial statements.

A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The Company expects to adopt the new standard on January 1, 2022 and use the effective date as the date of initial application. Consequently, financial information will not be updated, and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2022.

The new standard provides a number of optional practical expedients in transition. The Company expects to elect the 'package of practical expedients', which permits the Company not to reassess prior conclusions about lease identification, lease classification and initial direct costs under the new standard. The Company does not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to the Company.

The Company does not expect that this standard will have a material effect on the financial statements. While the Company continues to assess all of the effects of adoption, the Company currently believes the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on the balance sheet for operating leases; and (2) providing significant new disclosures about the Company's leasing activities. The Company does not expect a significant change in leasing activities between now and adoption.

The new standard also provides practical expedients for the Company's ongoing accounting. The Company currently expects to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also currently expects to elect the practical expedients to not separate lease and non-lease components for all of the Company's leases.

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There are no other new accounting pronouncements that are expected to have a significant impact on the Company's consolidated financial statements.

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3. ACQUISITIONS

In June 2020, Core Scientific entered into an Asset Purchase Agreement with Atrio Inc. (“Atrio”) to acquire certain assets of Atrio in exchange for \$1.2 million cash consideration and 0.3 million shares of the Company’s common stock. The Company and Atrio contemplated a valuation for the transaction of approximately \$2.4 million based on an estimate of the fair value of the Company’s common stock of \$3.50 per share which was allocated to cost of the acquired software intangible assets.

In a separate transaction in June 2020, the Company entered into an agreement with RStor, Inc. (“RStor”) to obtain a non-exclusive license to three specific patents held by RStor for consideration of 0.3 million shares of the Company’s common stock. The Company and RStor contemplated a valuation for the transaction of approximately \$0.9 million based on an estimate of the fair value of the Company’s common stock of \$3.50 per share which was allocated to the cost of the acquired patent intangible assets.

The software acquired from Atrio and the acquired patents from RStor are not businesses under ASC 805, *Business Combinations*, because substantially all the fair value of the acquired assets is concentrated in a single intellectual property asset. Accordingly, the asset purchases are accounted for as asset acquisitions where the cost of the acquisition, measured as the fair value of the cash consideration transferred and the common stock issued by the Company, is allocated to the assets acquired.

Description of Blockcap Acquisition

On July 30, 2021, the Company acquired 100% of the equity interest in Blockcap, one of its largest hosting customers. Blockcap is a blockchain technology company with industrial scale digital asset mining operations. Blockcap’s primary historical business was the mining of digital asset coins and tokens, primarily Bitcoin and, to a lesser extent, Siacoin and Ethereum. While Blockcap did sell or exchange the digital assets it mined to fund its growth strategies or for general corporate purposes from time to time, it generally retained its digital assets as investments in anticipation of continued adoption of digital assets as a “store of value” and a more accessible and efficient medium of exchange than traditional fiat currencies. In addition to mining, holding and exchanging digital assets, Blockcap also evaluated and completed investments in related technologies and ancillary businesses, including RADAR, an early stage company focused on technology enhancement and development in the digital asset industry that it acquired on July 1, 2021. The acquisition of Blockcap significantly expanded the Company’s self-mining operations and increased the number of miners it owns. The Company intends to utilize RADAR’s business assets and the technical expertise of its principals in enhancing the Company’s existing blockchain mining technology and software and in further strengthening the Company’s leadership position and value creation potential through the development of products and services that utilize blockchain technologies.

Consideration consisted of the issuance of 71.2 million shares of the Company’s common stock, approximately 4.3 million shares of the Company’s restricted stock and approximately 4.6 million options to purchase shares of the Company’s common stock. The acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the net assets acquired and the liabilities assumed were recorded at fair value. The Company and Blockcap had preexisting relationships which were settled on the acquisition date. Using the estimated purchase price for the transaction, the Company has allocated the purchase price to identifiable assets and liabilities based upon preliminary fair value estimates. The excess of the purchase price over the fair value of the net identifiable assets acquired was allocated to goodwill.

In a business combination, the initial allocation of the purchase price is considered preliminary and therefore subject to change until the end of the measurement period (not to exceed one year from the acquisition date). Because the measurement period is still open, certain fair value estimates may change once all information necessary to make a final fair value assessment has been received. Specifically, the measurement period is still open for consideration transferred, property, plant and equipment, net and deferred tax liabilities as the Company is still in the process of obtaining information about certain shares allocated to Blockcap shareholders and certain transactions between Blockcap and Core that were outstanding as of July 30, 2021.

The following table summarizes the fair values for each major class of assets acquired and liabilities assumed at the acquisition date. The Company retained the services of certified valuation specialists to assist with assigning estimated values to certain acquired assets and assumed liabilities. Amounts initially disclosed for the estimated values of certain acquired assets and liabilities assumed were adjusted through December 31, 2021 based on information arising after the initial preliminary valuation.

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Notes to Consolidated Financial Statements

PPA Allocation

Consideration <i>(in thousands)</i> :	
71.2 million common shares valued at \$16.18 per share ^{1,2}	\$1,151,985
Fair value of replaced Blockcap share-based payments attributable to pre-combination service ³	21,768
Settlement of Blockcap debt ⁴	25,607
Settlement of preexisting contracts ⁵	(60,522)
Total Consideration	<u>\$1,138,838</u>
Fair value of assets acquired, and liabilities assumed:	
Cash and cash equivalents	\$ 704
Digital assets-Bitcoin	73,304
Digital assets-Ethereum	365
Digital assets-Bitcoin cash	8
Digital assets-Siacoin	554
Digital assets-Other	3,329
Other current assets	633
Intangible assets, net	2,925
Property, plant and equipment, net	97,964
Other noncurrent assets	1,293
Total assets acquired	181,079
Accounts payable	492
Accrued expenses and other	22,647
Deferred revenue	414
Other current liabilities	7,204
Deferred tax liability	9,003
Total liabilities assumed	\$ 39,760
Total identifiable net assets	\$ 141,319
Goodwill on acquisition	\$ 997,519

- 1 71.2 million common shares represent the equivalent Core Scientific common shares issued to Blockcap shareholders as consideration for the purchase.
- 2 The price per share of our common shares was estimated to be \$16.18. As the Core Scientific common shares were not listed on a public marketplace, the calculation of the fair value of the common shares was subject to a greater degree of estimation. Given the absence of a public market, an estimate of the fair value of the common shares was required at the time of the Blockcap Acquisition. Objective and subjective factors were considered in determining the estimated fair value and because there was no active trading of the Core Scientific equity shares on an established securities market, an independent valuation specialist was engaged. The valuation was determined by weighting the outcomes of scenarios estimating share value based on both public company valuations and private company valuations. Both a market approach and common stock equivalency model were used to determine a range of outcomes, which were weighted based on probability to determine the result.
- 3 Reflects the estimated fair value of replaced Blockcap share-based payments allocated to purchase price based on the proportion of service related to the pre-combination period
- 4 Reflects the fair value of loans issued by the Company in July 2021 that were effectively used to settle debt that had previously been held by Blockcap. Refer to Note 8 for further discussion of the debt issuance.
- 5 Blockcap had preexisting hosting and equipment contracts with the Company that were effectively settled by the Company's acquisition of Blockcap. As a result, the consideration transferred to Blockcap has been adjusted by the deferred revenue balances that were settled at the time of acquisition.

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The following table provides the reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period (in thousands):

	<u>Goodwill</u>
Balance as of December 31, 2020	\$ 58,241
Acquisitions	1,048,727
Subsequent measurement period adjustment	\$ (51,208)
Balance as of December 31, 2021	<u>\$1,055,760</u>

After the September 30, 2021 financial statements were issued, we determined that the following measurement period adjustments to the accounting for the Blockcap acquisition were necessary based upon obtaining updated information:

- \$16.0 million decrease to consideration transferred, resulting in a 16.0 million decrease to goodwill, related to shares that were allocated to settle a liability of Blockcap.
- \$0.2 million decrease to consideration transferred, resulting in a \$0.2 million decrease to goodwill, related to Blockcap share-based payment replacement awards that were attributed to pre-combination services.
- \$25.6 million increase to consideration transferred and a \$70.9 million increase to property, plant, and equipment, net acquired, resulting in a \$45.3 million decrease to goodwill, related to a transaction entered into in contemplation of the Blockcap acquisition whereby the Company effectively settled \$25.6 million of debt held by Blockcap in exchange for acquiring digital asset mining equipment with a fair value of \$70.9 million. The adjustment resulted in an increase to cost of revenue related to additional depreciation expense of \$6.3 million for the year ended December 31, 2021.
- \$0.4 million increase to deferred revenue, resulting in a \$0.4 million increase to goodwill, related to acquired customer contracts.
- \$0.8 million increase other current liabilities and \$9.0 million increase to deferred tax liabilities, resulting in a \$9.8 million increase to goodwill, as a result of tax adjustments.

Intangible Assets and Liabilities

Goodwill with an assigned value of \$1.00 billion represents the excess of the consideration transferred over the estimated fair values of assets acquired and liabilities assumed. The goodwill recognized includes the assembled workforce of Blockcap and intangible assets that do not qualify for separate recognition. None of the goodwill resulting from the acquisition is deductible for tax purposes. All of the goodwill acquired is allocated to the Mining segment. Management believes the acquisition of Blockcap strengthens its presence in the data mining market due to the scale of its operations. These factors are the basis for the excess purchase price paid over the value of the assets acquired and liabilities assumed, resulting in goodwill.

Other intangible assets acquired in the Blockcap acquisition consisted of \$2.8 million developed technology intangibles and \$0.1 million of customer relationships with a weighted-average useful life of 3 years.

Transaction Costs

The Company recognized transaction costs of \$1.1 million for the year ended December 31, 2021, respectively. These costs were associated with legal and professional services and were recognized as General and administrative expenses in the Company's Consolidated Statements of Operations.

Unaudited Pro Forma Information

The following unaudited pro forma financial information gives effect to the Blockcap acquisition as if it had been completed on January 1, 2020. The unaudited pro forma information was prepared in accordance with the requirements of ASC 805, *Business Combinations*, which is a different basis than pro forma information prepared under Article 11 of Regulation S-X ("Article 11"). As such, they are not directly comparable with historical results for stand-alone Core Scientific prior to July 30, 2021, historical results for Core Scientific from July 30, 2021 that reflect the acquisition and are inclusive of the results and operations of Blockcap, nor our previously provided pro forma financials prepared in accordance with Article 11. The pro forma results for the year ended December 31, 2021 and 2020 include the impact of several significant nonrecurring pro forma adjustments to previously reported operating results. The pro forma adjustments are based on historically reported transactions by the respective companies. The pro forma results do not include any anticipated synergies or other expected benefits of the acquisition (in thousands).

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	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Total revenue	\$ 586,991	\$ 70,948
Operating income (loss)	\$ 137,109	\$ (23,354)

Significant pro forma adjustments include:

- Transaction costs of \$1.9 million are assumed to have occurred on the pro forma close date of January 1, 2020, and are recognized as if incurred in the first quarter of 2020;
- Tangible and intangible assets are assumed to be recorded at their estimated fair values as of January 1, 2020 and are depreciated or amortized over their estimated useful lives; and
- Accounting policies of Blockcap are conformed to those of Core Scientific including depreciation for mining equipment.
- Share-based compensation awards of Blockcap for which the performance condition of the award is assumed to be probable of being met as of January 1, 2020 and expensed as they are earned based on the service condition.
- The elimination of \$19.2 million of expense recognized by Blockcap in July 2021 for the acceleration of certain equity awards of its CEO and others. Because this acceleration was deemed to be in contemplation of the Merger, Core Scientific has recorded \$23.3 million of compensation expense for the acceleration in its financial statements for the period ending December 31, 2021, which was determined based on the fair value of the awards at the time of the Merger. This adjustment is necessary to avoid duplication of the expense attributable to the combined company related to the acceleration of the same awards.

The selected unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations would have been had the acquisition actually occurred on January 1, 2020, nor do they purport to project the future consolidated results of operations.

For the periods subsequent to the acquisition, Blockcap contributed total revenues of \$42.6 million for the year ended December 31, 2021 and operating income of \$15.5 million for the year ended December 31, 2021 that were included in our Consolidated Statements of Operations and Other Comprehensive income (loss).

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Notes to Consolidated Financial Statements

4. OTHER ASSETS

Other current assets as of December 31, 2021 and 2020 consist of the following (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Prepaid expenses	\$ 27,055	\$ 1,212
Security deposits	355	2,230
Prepaid rent	453	—
Other	2,248	2,768
Total other current assets	<u>\$ 30,111</u>	<u>\$ 6,210</u>

Prepaid expenses include prepayments of insurance premiums, rent expense, licenses, and subscriptions. Security deposits represent payments by the Company primarily associated with utilities and leases.

Other noncurrent assets as of December 31, 2021 and 2020 consist of the following (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Security deposits	\$ 2,079	\$ 1,150
Utility construction contributions	2,453	3,000
Prepaid rent	4,478	—
Capitalized transaction costs	10,682	—
Other	1,354	349
Total other noncurrent assets	<u>\$ 21,045</u>	<u>\$ 4,499</u>

Security deposits represents payments by the Company primarily associated with utilities and leases. Utility construction contributions include amounts contributed to utilities for the construction of assets that allow the Company to obtain utility services, primarily electricity.

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Notes to Consolidated Financial Statements

5. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net as of December 31, 2021 and 2020 consist of the following (in thousands):

	December 31,		Estimated Useful Lives
	2021	2020	
Land and improvements ¹	\$ 12,995	\$ 5,458	20 years
Building and improvements	93,064	46,811	12 to 39 years
Computer, mining and network equipment ²	475,331	20,270	1 to 5 years
Electrical equipment ³	59,253	24,681	5 to 10 years
Other property, plant and equipment ⁴	1,156	1,243	5 to 7 years
Total	641,799	98,463	
Less accumulated depreciation and amortization ⁵	44,495	13,219	
Property, plant and equipment, net ⁶	<u>\$597,304</u>	<u>\$85,244</u>	

¹ Estimated useful life of improvements. Land is not depreciated.

² Includes capital lease assets of \$103.9 million and \$3.3 million at December 31, 2021 and 2020, respectively.

³ Includes capital lease assets of \$12.6 million and \$2.6 million at December 31, 2021 and 2020, respectively.

⁴ Includes capital lease assets of \$0.4 million and \$0.4 million at December 31, 2021 and 2020, respectively.

⁵ Includes accumulated amortization for assets under capital leases of \$10.3 million and \$1.8 million at December 31, 2021 and 2020, respectively.

⁶ Includes construction in progress of \$42.6 million and \$10.5 million for the year ended December 31, 2021 and 2020, respectively.

Depreciation expense, including amortization of capital lease assets, for the years ended December 31, 2021 and 2020 was \$31.8 million and \$8.6 million, respectively. Depreciation for the year ended December 31, 2021 and 2020 allocated to costs of revenue was \$31.7 million and was \$8.5 million, respectively.

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Notes to Consolidated Financial Statements

6. INTANGIBLE ASSETS, NET

Intangible assets, net as of December 31, 2021 and 2020 consist of the following (in thousands):

	December 31, 2021			Estimated Useful Lives
	Gross	Accumulated Amortization	Net Carrying Amount	
Acquired software	\$10,093	\$ (2,503)	\$ 7,590	3-8 years
Patents	423	(9)	414	20 years
Customer relationships	150	(21)	129	3 years
Trademarks	73	(11)	62	8 years
Total intangible assets, net	<u>\$10,739</u>	<u>\$ (2,544)</u>	<u>\$ 8,195</u>	

	December 31, 2020			Estimated Useful Lives
	Gross	Accumulated Amortization	Net Carrying Amount	
Acquired software	\$7,318	\$ (954)	\$ 6,364	5-8 years
Patents	260	(4)	256	20 years
Trademarks	59	(5)	54	8 years
Total intangible assets, net	<u>\$7,637</u>	<u>\$ (963)</u>	<u>\$ 6,674</u>	

The Company amortizes intangible assets subject to amortization over their estimated useful lives. Amortization of intangible assets is included within general and administrative expenses in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss). Amortization expense for intangible assets was \$1.6 million and \$0.8 million for the years ended December 31, 2021 and 2020, respectively. The future five-year amortization of intangibles subject to amortization as of December 31, 2021 was as follows (in thousands):

	Amortization
2022	\$ 2,145
2023	2,145
2024	1,743
2025	843
2026	507
Thereafter	812
Total	<u>\$ 8,195</u>

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Notes to Consolidated Financial Statements

7. ACCRUED EXPENSES AND OTHER

Accrued expenses and other as of December 31, 2021 and 2020 consist of the following (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Accrued expenses and other	\$ 25,332	\$ 653
Accrued taxes	5,736	1,645
Vendor payable	21,313	—
Customer deposits ¹	5,570	—
Accrued interest	5,521	283
Other current liabilities	4,390	1,004
Total accrued expenses and other	<u>\$ 67,862</u>	<u>\$ 3,585</u>

- ¹ Consists of amounts deposited by the Company's customers relating to future tax estimates. Should the deposits be unnecessary once the customer units are owned and deployed, the deposits are either applied against an existing equipment balance due, or applied against future hosting invoices.

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8. NOTES PAYABLE

Notes payable as of December 31, 2021 and 2020 consist of the following (in thousands):

	December 31 2021	December 31 2020
Kentucky note	\$ 1,032	\$ 1,511
PPP loan	—	2,154
Silverpeak loan	—	22,260
Stockholder loan	10,000	—
Genesis loan	552	4,648
NYDIG loan	67,435	718
Trinity loan	19,641	—
Celsius loan	—	6,842
Bremer	15,066	—
Blockfi	60,000	—
Secured Convertible Notes ¹	220,871	—
Unsecured Convertible Notes ²	301,226	—
Other	663	581
Total	696,486	38,714
Unamortized discount and debt issuance costs	(3,187)	(2,834)
Fair value adjustments to convertible notes	34,910	—
Total notes payable, net	<u>\$ 728,209</u>	<u>\$ 35,880</u>

- 1 Secured Convertible Notes (includes principal balance at issuance and PIK interest) which considers the minimum payoff at maturity of two times the face value of the note plus accrued interest. The minimum payoff at maturity related to the principal balance was \$441.7 million December 31, 2021.
- 2 Unsecured Convertible Notes which considers the minimum payoff at maturity of one times the face value of the note plus accrued interest.

Kentucky Note - In December 2018, the Company entered into a five-year secured promissory note agreement for \$2.4 million in connection with the acquisition of property in Kentucky for datacenter development (“Kentucky note”). The note bears interest at a rate per annum of 5% and the Company is required to make monthly payments of principal and interest. Interest expense on the notes has been recognized based on an effective interest rate of 5%.

Executive Notes – In March and April 2020, the Company issued an aggregate of \$4.0 million of notes to the Company’s president and chief executive officer and a member of the Board of Directors. The notes are unsecured and bear interest at 7% per annum, with all principal and interest accrued due at the earlier of 12 months from issuance or the occurrence of a financing of at least \$20.0 million of gross proceeds. The Company granted common stock warrants to the noteholders for the purchase of 4.0 million shares of common stock at an exercise price of \$1.00 per share. The exercise price was subsequently amended to \$1.34 per share. The Company allocated proceeds of \$2.2 million to the notes and \$1.6 million to the warrants on a relative fair value basis and recognized a derivative liability of \$0.2 million equal to the fair value of the contingent repayment feature. Interest expense on the notes was recognized based on an effective interest rate of 98%. The notes were repaid in full in May 2020 from the proceeds of the Silverpeak Loan described below. This resulted in an extinguishment loss of \$1.3 million based on the carrying amount of the related party notes and the contingent repayment derivative.

PPP Loan - In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (“CARES”) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

It also allocated funds for the U.S. Small Business Administration’s (“SBA”) Paycheck Protection Program (“PPP”) loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. In April 2020, the Company received a loan of \$2.2 million from the PPP through the SBA. The loan was unsecured and bore interest at a rate per annum of 1% and monthly payments of principal were to begin in July 2021. The loan was due in full in April 2022. Under the PPP, all or a portion of the loan may be forgiven if the Company uses the proceeds of the loan for its payroll costs and other expenses in accordance with the requirements of the PPP. Interest expense on the note was recognized based on an effective interest rate of 1%. On July 13, 2021, the Company repaid the loan in full.

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Silverpeak Loan - In May 2020, the Company issued a \$21.0 million senior secured loan to Silverpeak Credit Partners LP. The loan was secured by substantially all of the assets of the Company. The loan bears interest at a rate per annum of 15%, interest payments due monthly. The Company received proceeds from the loan issuance of \$19.8 million, which were net of an original issuance discount and issuance costs of \$1.2 million. In addition, the issuance costs also included common stock options issued to advisors with an exercise price of \$1.00 per share and a fair value of \$0.8 million on the issuance date. The loan also included a non-refundable exit fee of \$1.3 million due upon maturity or early payment which was included as part of the debt discount. Interest expense on the loan was recognized based on an effective interest rate of 21%, which includes the amortization of the discount and debt issuance costs. In May 2020, the Company used \$4.0 million of the proceeds from the loan issuance to repay the outstanding principal and interest on the promissory notes to the Company's president and chief executive officer and a member of the Board of Directors, as discussed above. In February 2021, the Company entered in an amendment of the Silverpeak loan that included the issuance of an additional \$9.0 million tranche of senior secured loans. This loan, including the additional tranche issued in February 2021, was paid off in full in April 2021. A loss on debt extinguishment of \$8.0 million was recognized for the year ended December 31, 2021.

Genesis Loan - In July 2020, the Company entered into a credit facility with Genesis Global Capital, LLC that provides capacity of up to \$13.0 million to finance the Company's acquisition of blockchain computing equipment ("Genesis Loan"). The Company borrowed \$5.3 million in three installments and the borrowing capacity of the facility was reduced via an amendment in September 2020 to equal the actual amounts borrowed. The loans under the credit facility are secured by the blockchain computing equipment and the Company is required to comply with an approved mining strategy and other restrictions on use of the collateral. Loans under the credit facility have terms of 20 months, bear interest at a rate per annum of 16% plus a fixed risk premium, and require monthly payments. Interest expense on the loans have been recognized based on an effective interest rate of 28%, which includes the amortization of a debt discount.

NYDIG Loan - In October 2020, the Company entered into a master equipment finance agreement with NYDIG and received a loan of \$0.8 million to finance the Company's acquisition of blockchain computing equipment. In March 2021, the Company received \$3.8 million of additional loans under the master equipment finance agreement with NYDIG to finance the Company's acquisition of blockchain computing equipment. The loan bears an interest rate of 15% and has a term of 24 months from issuance. Interest expense on the loan has been recognized based on an effective interest rate of 16%.

In May 2021, the Company received \$13.4 million of additional loans under the master equipment finance agreement with NYDIG to finance the Company's acquisition of blockchain computing equipment that bear an interest rate of 14.25% and have a term of 24 months from issuance. Interest expense on the loans issued in May 2021 has been recognized based on an effective interest rate of 17%.

In July 2021, the Company received blockchain computing equipment from NYDIG (which had been concurrently acquired by NYDIG from Blockcap in exchange for settlement of Blockcap's debt with NYDIG) in exchange for \$26.1 million of additional loans under the master equipment finance agreement with NYDIG that bear an interest rate of 14.25% and have a term of 24 months from issuance. Interest expense on the loans issued in July 2021 has been recognized based on an effective interest rate of 16%.

In November 2021, the Company received blockchain computing equipment from NYDIG in exchange for \$33.4 million of additional loans under the master equipment finance agreement with NYDIG that bear an interest rate of 11% and have a term of 24 months from issuance. Interest expense on the loans issued in November 2021 has been recognized based on an effective interest rate of 11%.

Celsius Loan - In November 2020 the Company entered into an equipment lending agreement with Celsius Networks Lending, LLC to borrow up to \$27.7 million in five tranches through May 20, 2021 for the purchase of blockchain mining equipment. The Company borrowed the first two tranches totaling \$13.8 million in November and December 2020. The loans bear interest at 13.5% annually and are due at the earlier of the date of sale of the underlying mining equipment or 24 months from issuance. Interest expense on the loans has been recognized based on an effective interest rate of 13.5%. In December 2020, the Company repaid \$7.0 million of the loan and in January 2021, the Company repaid the remaining balance of \$6.8 million. No gain or loss was recognized upon loan extinguishment.

Stockholder loan—In January 2021, the Company borrowed \$10.0 million from a stockholder for the purchase of bitcoin mining equipment. The loan bears interest at 10% per annum over a two-year term. The loan was issued with a warrant to purchase 120,000 shares of common stock at an exercise price of \$6.74 per share. The warrant has a two-year term. The Company allocated proceeds of \$9.5 million to the notes and \$0.5 million to the warrants on a relative fair value basis. Interest expense on the loan has been recognized based on an effective interest rate of 20%.

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Convertible Notes—In April 2021, the Company entered into a Secured Convertible Note Purchase Agreement and issued \$215.0 million of Secured Convertible Notes to new and existing lenders. In August through November 2021, the Company issued an additional \$299.8 million of Unsecured Convertible Notes under substantially the same terms and conditions as the original April 2021 notes except that the August through November 2021 notes were unsecured until an IPO or SPAC merger and then became secured pari passu with the Secured Convertible Notes in January 2022 upon the closing of the Merger Agreement with XPDI with the Secured Convertible Notes. In addition, the Company also issued \$7.3 million during the year ended December 31, 2021 as payment-in-kind interest on convertible notes outstanding during the period. The convertible notes have a maturity date of April 2025 and bear interest at a rate of 10% per annum, of which 4% is payable in cash and 6% is payable in kind. Upon the closing of the Merger Agreement with XPDI in January 2022, the convertible notes became convertible into common shares at the option of the holder at a conversion price equal to \$8.00 per share. The proceeds from the convertible notes were used, in part, to repay the Silverpeak loan described above. As discussed in Note 2, the Company has elected to measure its convertible notes at fair value and accordingly during the year ended December 31, 2021 recognized \$13.1 million of debt issuance costs as incurred within Interest Expense, Net in the Company's Consolidated Statements of Operations and Comprehensive income (loss). See Note 2 for further information on fair value measurement of the convertible notes. As of December 31, 2021, the Company is not in violation of any of its covenants.

Trinity Loans—In August 2021, the Company entered into a \$30.0 million master equipment finance facility agreement with Trinity Capital Inc. ("Trinity") to finance the Company's acquisition of blockchain computing equipment and received a loan of \$1.0 million at close. The loan has a term of 36 months from issuance. Interest expense on the loan has been recognized based on an effective interest rate of 11.0%. In November and December 2021, the Company borrowed \$14.0 million and \$5.0 million, respectively. The remaining balance of \$10.0 million can be drawn, at the Company's option, no later than twelve months after the initial close.

Bremer Loan – In October 2021, the Company entered into a lending agreement with Bremer Bank, National Association to borrow up to \$16.2 million in two tranches through May 22, 2022 for the purchase of blockchain mining equipment and improvements to data center and infrastructure. In December 2021, the Company entered into an additional term loan to borrow up to \$9.6 million. The Company borrowed \$15.2 million in October through December 2021. The loans bear interest at 5.5% annually and are due at the earlier of the date of sale of the underlying mining equipment or 60 months from issuance. Interest expense on the loans has been recognized based on an effective interest rate of 5.6%. The loans require the Company to maintain the following financial covenants: (1) a minimum debt service coverage ratio (defined in the agreement as EBITDA divided by scheduled principal and interest payments) of not less than 1.2:1, measured annually beginning December 31, 2022; and (2) a fixed charge coverage ratio (defined in the agreement as EBITDA minus net distributions divided by scheduled principal and interest payments) of 1:1, measured annually beginning December 31, 2022. The loans are secured by a first priority security interest in certain of the assets financed by the loans.

Additionally, an interest buydown agreement was made between Grand Forks Growth Fund and the Bank of North Dakota acting on behalf of the PACE Program for the purpose of a buydown on the interest for certain the Company's loans financed through Bremer Bank. The total amount of interest buydown over the term of the loan is \$0.8 million and payments will begin to be received beginning when principal payments are due from the Company beginning May 2022. In order to receive the interest buydown incentive, the Company must (a) continue operation in the jurisdiction for a minimum of five years from the benefit date, (b) employ 13 new full-time employees within two years of receiving the incentive and continue to keep them employed for the duration of the agreement and (c) continue to make debt payments and no event of default should occur. If the Company discontinues operation in the jurisdiction within the next five years, it is obligated to repay the incentive back to the Bank of North Dakota. If after two years, the Company does not employ 13 new full-time employees, the interest buydown will be prorated to reflect any partial fulfillment and the Company, at a minimum, is required to pay back the value of the incentive to the Bank of North Dakota (prorated to reflect any partial fulfillment of the goal). For the years ended December 31, 2021 and 2020, there was no interest buydown.

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Blockfi – In December 2021, the Company entered into two lending agreements with Blockfi Lending, LLC to borrow up to \$110.0 million for the purchase of blockchain mining equipment. The first agreement consists of \$10.0 million and bears interest at 9.7% with a term of 24 months from issuance. Interest expense on the loans issued in December 2021 has been recognized based on an effective interest rate of 10.1%. The second agreement consists of \$100.0 million and bears interest at 13.1% with a term of 24 months from issuance. The company borrowed the first tranche totaling \$60.0 million across the two loans in December 2021 and has until March 2022 to borrow the remaining \$50.0 million. Interest expense on the loans issued in December 2021 has been recognized based on an effective interest rate of 13.1%.

Maturities of notes payable as of December 31, 2021 are as follows (in thousands):

Year ending December 31,	
2022	\$ 78,597
2023	80,202
2024	11,249
2025 ¹	524,378
2026	1,522
Thereafter	538
Total	696,486
Unamortized discount and debt issuance costs	(3,187)
Fair value adjustments to convertible notes	34,910
Total maturities	<u>\$728,209</u>

- ¹ Includes \$220.9 million for the face value of the Secured Convertible Notes which have payoff at maturity of two times the face value of the note plus accrued interest. The total amount that would be owed on the Secured Convertible Notes outstanding as of December 31, 2021 if held to maturity was \$441.7 million.

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9. CONTINGENTLY REDEEMABLE CONVERTIBLE PREFERRED STOCK

The Company is authorized to issue 50.0 million shares of preferred stock, \$0.00001 par value. As of both December 31, 2021 and 2020, 6.8 million shares of preferred stock were issued and outstanding (the below table is in thousands, except per share amounts).

	For Both December 31, 2021 and 2020				
	Shares Authorized	Shares Issued and Outstanding	Issuance Price per Share	Net Proceeds	Liquidation preference
Contingently Redeemable Convertible Preferred Stock:					
Series A	14,641	6,452	\$ 6.83	\$ 31,070	\$ 44,064
Series B	14,327	314	3.50	1,097	1,100
Undesignated	21,032	—		—	—
Total contingently redeemable convertible preferred stock	<u>50,000</u>	<u>6,766</u>		<u>\$ 32,167</u>	<u>\$ 45,164</u>

There were no additional contingently redeemable convertible preferred stock issuances in 2021.

At various dates during the year ended December 31, 2020, the Company issued a total of 4.4 million shares of \$0.00001 par value Series A Contingently Redeemable Convertible Preferred Stock ("Series A Preferred Stock") at \$6.83 per share in private placement offerings. The aggregate proceeds from the offerings were \$29.5 million, which were net of offering costs of \$0.7 million.

In February and March 2020, the Company issued a total of 0.2 million shares of Series A Preferred Stock at \$6.83 per share in private placement offerings. The aggregate proceeds from the offerings were \$1.5 million.

In February 2020, the Company completed an exchange of 1.1 million shares of common stock that were originally issued in the private placement offering from October 2018 to December 2019 for 1.8 million newly issued shares of Series A Preferred Stock. The shares of common stock were retired upon reacquisition by the Company. The Company received no net proceeds from the exchange and recognized a deemed dividend of \$10.5 million based on the incremental fair value of the preferred stock received by the stockholders compared to the fair value of the common stock exchanged. The difference between the fair value of the Preferred Stock issued and common stock retired is accounted for as a deemed dividend and is reflected as an increase to the amount of the net loss attributable to common shareholders.

In June 2020, the Company issued 0.3 million shares of \$0.00001 par value Series B Contingently Redeemable Convertible Preferred Stock ("Series B Preferred Stock") at \$3.50 per share in a private placement offering. The aggregate proceeds from the offering was \$1.1 million.

Each share of Series A and Series B Preferred Stock has a liquidation value of \$6.83 and \$3.50, respectively. Holders may elect at any time to convert each share of preferred stock into one share of the Company's common stock. Unless earlier converted, each share of preferred stock will automatically convert to shares of the Company's common stock upon the earlier of an initial public offering of the Company's common stock for aggregate proceeds of not less than \$100.0 million, or an agreement to convert by the holders of a majority of the outstanding shares of preferred stock. In the event of an initial public offering, the number of shares of the Company's common stock issuable on conversion of each share of preferred stock will be either (i) the amount determined by dividing the liquidation value by the public offering price if such offering price is less than the liquidation value per share, or (ii) one share. In the event of an agreement to convert by the holders of a majority of the outstanding shares of preferred stock, one share of the Company's common stock is issuable on conversion of each share of preferred stock.

In addition to the conversion rights, the Series A and B Preferred Stock is redeemable upon the occurrence of a deemed liquidation event, the definition of which includes a transaction that results in a change in control of the Company or a sale or transfer by the Company of substantially all its assets. In the event of a deemed liquidation, the holders of shares of Preferred Stock are entitled to a cash distribution equal to the liquidation value per share. The closing of the Merger Agreement with XPDI in January 2022 did not meet the definition of a deemed liquidation event. As of December 31, 2021 and 2020 the Series A and B preferred stock was not redeemable because no deemed liquidation event had occurred. Furthermore, the Company has not made any adjustments to the carrying value of the Series A and B Preferred Stock to reflect the liquidation value of the shares because the Company has determined that a deemed liquidation event is not probable of occurring.

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All outstanding shares of Series A and B Preferred Stock have one vote per share. Dividends on Series A and Series B Preferred Stock are payable when, as, and if declared by the Company's Board of Directors. Series A and B Preferred Stock rank in parity to each other and rank senior to the Company's common stock, including capital stock established in the future, unless the terms of such capital stock expressly provide otherwise, and junior to existing and future indebtedness and other liabilities with respect to dividend rights and distribution rights upon liquidation, winding-up, and dissolution.

The Series A and B Preferred Stock is classified as contingently redeemable because it is redeemable upon the occurrence of a deemed liquidation event, and such a redemption triggering event is not solely within the control of the Company. The Series A and B Preferred Stock is therefore presented separate from and outside of stockholders' equity in a manner consistent with temporary equity.

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10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings—The Company is subject to legal proceedings arising in the ordinary course of business. The Company accrues losses for a legal proceeding when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to reasonably estimate the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued and could materially adversely affect the Company's business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, the Company is unable to estimate reasonably possible losses in excess of any amounts accrued. As of December 31, 2021 and 2020, there were no loss contingency accruals for legal matters.

(Loss) gain on legal settlements—The Company recognized a loss of \$2.6 million during the year ended December 31, 2021 related to a settlement with a former customer. The Company recognized a gain of \$5.8 million during the year ended December 31, 2020 with respect to the resolution of legal actions for damages resulting from the early termination of agreements by former customers.

Operating Leases—The Company has entered into non-cancellable operating leases for office and data facilities, with original lease periods expiring through 2028. In addition, certain leases contain bargain renewal options extending through 2051. The Company recognizes lease expense for these leases on a straight-line basis over the lease term, which includes any bargain renewal options. The Company recognizes rent expense on a straight-line basis over the lease period. Rent expense was \$0.7 million and \$0.3 million for the years ended December 31, 2021 and 2020, respectively.

The Company's minimum payments under noncancelable operating leases having initial terms and bargain renewal periods in excess of one year are as follows at December 31, 2021, and thereafter (in thousands):

2022	\$ 460
2023	170
2024	170
2025	170
2026	170
Thereafter	1,254
Total minimum lease payments	<u>\$2,394</u>

In addition to the above, in December 2021, the Company entered into an agreement to lease office space for its new corporate headquarters that the Company anticipates will commence in the second half of 2022. The lease includes base rent of approximately \$14 million to be paid over a period of 130 months.

Capital Leases—The Company has entered into arrangements with various parties to finance the acquisition of computer and networking equipment, electrical infrastructure, and office equipment. These arrangements include options exercisable by the Company at the end of the initial terms to renew, purchase the equipment, or to terminate. These arrangements are classified as capital leases and as of December 31, 2021 and 2020, the related capital lease obligations were \$90.6 million and \$4.4 million, respectively.

In December 2021, the Company entered into capital lease agreements with Liberty Commercial Finance LLC totaling \$40.9 million for the purchase of bitcoin mining equipment, with a weighted average term of 3.2 years. The leases bear interest at a weighted average rate per annum of 12.6% and the Company is required to make monthly payments of principal and interest. Interest expense on the lease has been recognized based on a weighted average effective interest rate of 12.6%.

In December 2021, the Company entered into capital lease agreements with MassMutual Asset Finance LLC totaling \$50.0 million for the purchase of bitcoin mining equipment, with a weighted average term of 3 years. The leases bears interest at a rate per annum of 10% and the Company is required to make monthly payments of principal and interest. Interest expense on the leases has been recognized based on an effective interest rate of 10%.

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As of December 31, 2021, the future minimum lease payments and present value of the net minimum lease payments under these capital leases are as follows (in thousands):

2022	\$ 35,531
2023	34,897
2024	33,913
2025	1,823
2026	2
Total minimum lease payments	<u>106,166</u>
Less: interest	<u>15,569</u>
Present value of net minimum lease payments	<u>\$ 90,597</u>

Purchase obligations—As of December 31, 2021, the Company had outstanding agreements to purchase blockchain mining equipment totaling approximately \$583.7 million of which approximately \$326.2 million was paid as deposits for blockchain mining equipment scheduled to be delivered in 2022. As of the date that the financial statements were available to be issued, the aggregate amount of the Company's purchase obligations totaled approximately \$257.5 million, substantially all of which are expected to be settled within one year of the date that the financial statements were available to be issued.

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11. STOCKHOLDERS' EQUITY

Authorized Capital—As of December 31, 2021, the Company was authorized to issue 300.0 million shares of common stock, \$0.00001 par value. The holders of the Company's common stock are entitled to one vote per share.

As discussed in Note 9, In February 2020, the Company completed an exchange of 1.1 million shares of common stock that were originally issued in the private placement offering from October 2018 to December 2019 for 1.8 million newly issued shares of Preferred Stock.

As discussed in Note 3, in June 2020, the Company issued 0.6 million shares of the Company's common stock valued at \$3.50 per share, or \$2.0 million as part of the consideration for certain assets acquired from Atrio and RStor.

In March 2020, in connection with the Executive Notes described in Note 8, the Company issued warrants to the Company's president and chief executive officer and a member of the Board of Directors to purchase up to 4.0 million shares of the Company's common stock at an exercise price of \$1.00 per share. The exercise price was subsequently amended to \$1.34 per share. The warrants expire in March 2023 and are exercisable and unexercised as of December 31, 2021.

In March 2020, the Company issued warrants to service providers in exchange for services provided related to the issuance of Series A Convertible Preferred Stock. The warrants are for an aggregate of 0.1 million shares at an exercise price of \$6.83. The warrants expire in March 2022 and are exercisable and unexercised as of December 31, 2021. In February 2022, 0.1 million of the warrants were exercised.

In January 2021, in connection with the stockholder loan described in Note 8, the Company issued a warrant to the stockholder to purchase up to 0.1 million shares of common stock at an exercise price of \$6.74 per share. The warrant is set to expire in January 2023 and is exercisable and unexercised as of December 31, 2021.

Equity Incentive Plans

The Company has outstanding awards under the 2018 Omnibus Incentive Plan (the "2018 Plan"), which has a 10-year life for granting up to 82.5 million shares of common stock for awards. Awards granted under the 2018 Plan may be incentive stock options (must meet all statutory requirements), non-qualified stock options, stock appreciation rights, restricted stock and stock units, performance awards and other cash-based or stock-based awards. Awards granted under the 2018 Plan are subject to a minimum vesting period of at least one year commencing from the date of grant. Additionally, options granted under the plan must expire within ten years of the grant date and must be granted with exercise prices of no less than the fair value of the common stock on the grant date, as determined by the Company's Board of Directors.

As of December 31, 2021, the Company had reserved shares of common stock for future issuances under the 2018 Plan as follows (in thousands):

Options outstanding	19,962
Unvested restricted stock units outstanding	55,370
Vested restricted stock units outstanding	1,617
Available for future stock option and restricted stock units and grants	5,551
Total outstanding and reserved for future issuance	<u>82,500</u>

Stock Options

Stock options granted under the 2018 Plan are granted at a price per share not less than the fair value at date of grant. Options granted to date generally vest over 4 years and are exercisable for up to 10 years. Determining the fair value of stock options at the grant date requires judgment, including estimating the expected term, expected volatility, risk-free interest rate, and expected dividends.

Expected Term—The Company's expected term is determined using the simplified method and represents the midpoint between the vesting period and the contractual term of the awards.

Expected Volatility—The Company's volatility factor is estimated using comparable public company volatility for similar terms.

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Risk-Free Interest Rate—The Company bases the risk-free interest rate used in the Black-Scholes option-pricing model on the implied yield currently available on US Treasury zero coupon issues with an equivalent remaining term. Where the expected term of the Company’s stock-based awards does not correspond with the term for which an interest rate is quoted, the Company performs a straight-line interpolation to determine the rate from the available term maturities.

Expected Dividends—The Company has no history of paying cash dividends and has no present intention to pay common stock cash dividends in the future; as a result, the expected dividend yield is 0% as of December 31, 2021 and 2020.

The weighted-average assumptions for options granted for the years ended December 31, 2021 and 2020, are as follows:

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Dividend yield	0.00%	0.00%
Expected volatility	72.57%	36.26%
Risk-free interest rate	1.39%	0.70%
Expected life (years)	6.22	10.00

A summary of stock option activity for the years ended December 31, 2021 and 2020 is as follows (amounts in thousands, except per share amounts):

	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding - December 31, 2020	2,530	9.41		
Granted	17,790	14.53		
Exercised	(8)	1.97		
Forfeited	(200)	6.83		
Expired	(150)	6.83		
Options outstanding - December 31, 2021	<u>19,962</u>	<u>\$ 14.02</u>	<u>8.8</u>	<u>\$ 75,712</u>
Options vested and expected to vest as of December 31, 2021	<u>19,962</u>	<u>\$ 14.02</u>	<u>8.8</u>	<u>\$ 75,712</u>
Options vested and exercisable as of December 31, 2021	<u>4,464</u>	<u>\$ 7.66</u>	<u>6.6</u>	<u>\$ 45,057</u>

The weighted-average grant date fair value of options granted for the year ended December 31, 2021 and 2020 was \$10.92 and \$2.56, respectively. The total fair value of stock options vested during the year ended December 31, 2021 and 2020 was \$35.6 million and \$2.2 million, respectively.

As of December 31, 2021, total unrecognized stock-based compensation expense related to unvested stock options was approximately \$157.2 million, which is expected to be recognized over a weighted-average time period of 3.9 years.

Restricted Stock Units—Restricted stock units (“RSUs”) granted in 2018 required that the holder elect before the date of grant whether the RSUs will vest either

- Over a 4-year service period, or
- Over a 4-year service period and upon either i) completion of an initial public offering of the Company’s common stock, or ii) upon consummation of a transaction resulting in a change in control of the Company.

RSUs granted in 2021, 2020 and 2019 generally vest over a 4-year service period and upon either i) completion of an initial public offering of the Company’s common stock, or ii) upon consummation of a transaction resulting in a change in control of the Company. RSUs granted as replacement awards in the Blockcap acquisition on July 30, 2021 vest based on a service period only and are not subject to any transaction-based vesting conditions.

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A summary of RSU activity for the years ended December 31, 2021 and 2020 is as follows (amounts in thousands, except per share amounts):

	<u>Number of Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Unvested - December 31, 2019	35,047	\$ 9.39
Granted	8,056	4.46
Vested	(802)	11.23
Forfeited	(5,157)	6.83
Unvested - December 31, 2020	37,144	\$ 8.55
Granted	26,499	17.23
Vested	(815)	16.24
Forfeited	(7,458)	10.41
Unvested - December 31, 2021	<u>55,370</u>	<u>\$ 12.39</u>

As of December 31, 2021, the Company had approximately \$679.5 million of unrecognized stock-based compensation expense, of which \$48.5 million is expected to be recognized over a weighted-average time period of 3.3 years and \$631.0 million is related to RSUs for which some or all of the requisite service had been provided under the service condition but had performance conditions that had not yet been achieved. For RSUs subject to both the service and performance conditions, the unrecognized compensation expense will be recognized as expense when it is probable that the performance conditions will be achieved. The performance conditions for the RSUs are satisfied upon the earlier of a change in control or an initial public offering. The closing of the Merger Agreement with XPDI in January 2022 did not meet the definition of a change in control or an initial public offering. The performance condition can be met in future years only with respect to a change in control or waiver of the condition by the Company's board of directors and is not expected to occur, if at all, prior to expiration of the applicable lock-up period. If the performance conditions become probable of being achieved before the end of the requisite service period, the unrecognized compensation expense for which requisite service has not been provided will be recognized as expense prospectively on an accelerated attribution basis over the remaining requisite service period.

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12. INCOME TAXES

Current income tax expense represents the amount expected to be reported on the Company's income tax returns, and deferred tax expense or benefit represents the change in net deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Valuation allowances are recorded as appropriate to reduce deferred tax assets to the amount considered likely to be realized. The Company had \$15.8 million of income tax expense for the year ended December 31, 2021 and no income tax expense for the year ended December 31, 2020.

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current tax:		
Federal	\$ —	\$ —
State	6,235	—
Total current tax	<u>6,235</u>	<u>—</u>
Deferred tax:		
Federal	11,218	—
State	(1,690)	—
Total deferred tax	<u>9,528</u>	<u>—</u>
Total income tax expense	<u>\$ 15,763</u>	<u>\$ —</u>

The reconciliation between the U.S. statutory tax rate and the Company's effective tax rate is presented as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
U.S. federal statutory income tax expense (benefit) applied to loss before income taxes	\$ 13,246	\$ (2,563)
State income taxes, net of federal benefit	3,591	(410)
Stock compensation	141	—
Non-deductible interest	5,310	—
Fair value adjustment - convertible notes	3,370	—
Non-deductible expenses	(702)	—
Valuation allowance	(9,180)	1,106
Deferred tax adjustments	—	1,827
Other permanent items	(13)	40
Total income tax expense	<u>\$ 15,763</u>	<u>\$ —</u>

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The Company's deferred tax assets and liabilities are detailed as follows (in thousands):

	Year Ended December 31,	
	2021	2020
Deferred tax assets:		
Net operating loss carryforward	\$ 29,837	\$ 10,674
Research tax credit carryforward	404	—
Interest expense limitation	—	137
Reserves and accruals	148	159
Stock-based compensation	15,190	3,579
Unrealized capital loss	—	548
Digital asset impairment loss	8,368	61
Debt extinguishment loss	2,558	406
Intangibles (other than goodwill)	2,270	3,015
Leases	5,231	—
Other	3	—
Gross deferred tax assets	<u>64,009</u>	<u>18,579</u>
Valuation allowance	<u>(6,781)</u>	<u>(15,961)</u>
Deferred tax assets, net of valuation allowance	<u>57,228</u>	<u>2,618</u>
Deferred tax liabilities:		
Property, plant and equipment, net	<u>(75,759)</u>	<u>(2,618)</u>
Deferred tax liabilities, net	<u>(75,759)</u>	<u>(2,618)</u>
Total net deferred tax assets (liabilities)	<u>\$ (18,531)</u>	<u>\$ —</u>

The changes in the Company's valuation allowance were as follows (in thousands):

	Year Ended December 31,	
	2021	2020
Beginning Balance	\$ 15,961	\$ 14,855
Change related to current net operating losses	20,680	2,238
Net change related to generation of tax attributes	(695)	695
Change related to deferred tax adjustments	(20,025)	(1,827)
Change related to prior period adjustments	(137)	—
Acquisition deferred tax liabilities	(9,003)	—
Ending Balance	<u>\$ 6,781</u>	<u>\$ 15,961</u>

Realization of deferred tax assets is dependent upon the generation of future taxable income, if any, the timing and amount of which are uncertain. The assessment regarding whether a valuation allowance is required on deferred tax assets considers the evaluation of both positive and negative evidence when concluding whether it is more likely than not that deferred tax assets are realizable. After reviewing the positive and negative evidence available, the Company has recorded a valuation allowance of \$6.8 million. The valuation allowance primarily relates to deferred tax assets for digital asset impairment and net operating loss carryforward.

In connection with the Blockcap and Radar acquisition on July 30, 2021, the Company recognized a deferred tax liability of \$9.0 million during the year. As a result, the Company recorded an income tax benefit of \$9.0 million for the release of the valuation allowance on the existing deferred tax assets because of the offset of the deferred tax liabilities established for fixed and intangible assets from the acquisition.

As of December 31, 2021, the Company has federal and state net operating loss carryforwards in the amount of \$142.3 million and \$16.0 million, respectively. As of December 31, 2020, the Company had federal and state net operating loss carryforwards in the amount of \$46.6 million and \$32.7 million, respectively. The federal net operating loss can be carried forward indefinitely, however the utilization of the federal net operating loss for a tax year is equal to the lesser of (1) the aggregate of the net operating loss carryovers to such year, plus the net operating carrybacks to such tax year, or (2) 80% of taxable income determined without regard to the deduction. The Company's state net operating loss carryforwards range from 2035 to indefinite.

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In addition, the Company's net operating loss may be subject to utilization limitations due to changes of control, as defined by tax law under Internal Revenue Code Sections 382. The Company completed a Section 382 study related to the acquired Blockcap tax attributes and determined there are no limitations on future utilization of the acquired attributes.

The Company had no unrecognized income tax benefits for the years ended December 31, 2021 and 2020. To date, no interest and penalties have been recognized related to the underpayment of income taxes. The Company continues to believe its positions are supportable; however, due to uncertainties in any tax audit outcome, the Company's estimates of the ultimate settlement of uncertain tax positions may change and the actual tax benefits may differ from the estimates.

The Company files income tax returns in the U.S. federal and various state jurisdictions. The Company's 2018 through 2020 tax years are subject to U.S. federal and state examination.

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13. NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

Basic EPS is measured as the income or loss available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per-share basis from the potential conversion of convertible securities or the exercise of options and or warrants; the dilutive impacts of potentially convertible securities are calculated using the if-converted method; the potentially dilutive effect of options or warrants are computed using the treasury stock method. Securities that are potentially an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from diluted EPS calculation.

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Net income (loss)	\$ 47,312	\$ (12,206)
Deemed dividend from common to preferred exchange	—	(10,478)
Net income (loss) attributable to common stockholders	\$ 47,312	\$ (22,684)
Weighted average shares outstanding - basic	129,527	98,492
Add: Dilutive share-based compensation awards	16,275	—
Weighted average shares outstanding - diluted	145,802	98,492
Net income (loss) per share - basic	\$ 0.37	\$ (0.23)
Net income (loss) per share - diluted	\$ 0.32	\$ (0.23)

Potentially dilutive securities not included in the calculation of diluted net loss per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares):

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Stock options	4,197	2,530
Preferred stock	—	6,766
Warrants	—	4,135
Restricted stock	52,517	37,946
Share settled liability	1,214	—
Total potentially anti-dilutive shares	<u>57,928</u>	<u>51,377</u>

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14. SEGMENT REPORTING

The Company's operating segments are aggregated into reportable segments only if they exhibit similar economic characteristics and have similar business activities.

The Company has two operating segments: "Equipment Sales and Hosting" which consists primarily of its blockchain infrastructure and third-party hosting business and equipment sales to customers, and "Mining" consisting of digital asset mining for its own account. The blockchain hosting business generates revenue through the sale of consumption-based contracts for its hosting services which are recurring in nature. Equipment sales revenue is derived from its ability to leverage its partnership with leading equipment manufacturers to secure equipment in advance, which is then sold to its customers when they are unable to obtain them otherwise. The digital asset mining operation segment generates revenue from operating owned computer equipment as part of a pool of users that process transactions conducted on one or more blockchain networks. In exchange for these services, the Company receives digital currency assets.

The primary financial measures used by the CODM to evaluate performance and allocate resources are revenue and gross profit. The CODM does not evaluate performance or allocate resources based on segment asset or liability information; accordingly, the Company has not presented a measure of assets by segment. The segments' accounting policies are the same as those described in the summary of significant accounting policies. The Company excludes certain operating expenses and other expense from the allocations to operating segments. The following table presents revenue and gross profit by reportable segment for the periods presented (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Equipment Sales and Hosting Segment		
Revenue:		
Hosting revenue	\$ 79,323	\$ 41,598
Equipment sales	248,235	12,595
Total revenue	327,558	54,193
Cost of revenue:		
Cost of hosting services	77,678	36,934
Cost of equipment sales	177,785	11,017
Total Cost of revenue	\$ 255,463	\$ 47,951
Gross profit	\$ 72,095	\$ 6,242
Mining Segment		
Digital asset mining income	\$ 216,925	\$ 6,127
Total revenue	216,925	6,127
Cost of revenue	50,158	2,977
Gross profit	\$ 166,767	\$ 3,150
Consolidated total revenue	\$ 544,483	\$ 60,320
Consolidated cost of revenue	\$ 305,621	\$ 50,928
Consolidated gross profit	\$ 238,862	\$ 9,392

For both the years ended December 31, 2021 and 2020, cost of revenue included depreciation expense of \$7.4 million for the Equipment Sales and Hosting segment. For the years ended December 31, 2021 and 2020, cost of revenue included depreciation expense of \$24.3 million and \$1.1 million, respectively for the Mining segment.

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Concentrations of Revenue and Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Credit risk with respect to accounts receivable is concentrated with a small number of customers. The Company places its cash and cash equivalents with major financial institutions, which management assesses to be of high credit quality, in order to limit the exposure to credit risk. As of December 31, 2021 and 2020, all of the Company's fixed assets were located in the United States. For the years ended December 31, 2021 and 2020, all of the Company's revenue was generated in the United States.

For the years ended December 31, 2021 and 2020, the concentration of customers comprising 10% or more of the Company's total revenue, Equipment Sales and Hosting segment revenue and accounts receivable was as follows:

	<u>Year Ended December 31,</u>		<u>Year Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	Percent of total revenue:		Percent of Equipment Sales and Hosting segment:		Percent of accounts receivable, net:	
Customer						
A	15%	N/A	26%	N/A	N/A	N/A
B	14%	N/A	23%	N/A	N/A	N/A
C ¹	N/A	24%	N/A	27%	N/A	N/A
D	N/A	13%	N/A	14%	N/A	N/A
E	N/A	N/A	N/A	N/A	N/A	26%

¹ Customer terminated its hosting contracts with the Company effective April 2020.

A reconciliation of the reportable segment gross profit to income (loss) before income taxes included in the Company's consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2021 and 2020 is as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Reportable segment gross profit	\$ 238,862	\$ 9,392
(Loss) gain on legal settlement	(2,636)	5,814
Gain from sales of digital currency assets	4,814	69
Impairment of digital currency assets	(37,206)	(4)
Operating expense:		
Research and development	7,674	5,271
Sales and marketing	4,062	1,771
General and administrative	60,604	14,556
Total operating expense	<u>72,340</u>	<u>21,598</u>
Operating income (loss)	131,494	(6,327)
Non-operating expense, net:		
Loss on debt extinguishment and other	8,016	1,333
Interest expense, net	44,354	4,436
Other non-operating expenses, net	16,049	110
Total non-operating expense, net	<u>68,419</u>	<u>5,879</u>
Income (loss) before income taxes	<u>\$ 63,075</u>	<u>\$ (12,206)</u>

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15. RELATED-PARTY TRANSACTIONS

In the ordinary course of business, the Company enters into various transactions with related parties.

During the year ended December 31, 2019, the Company entered into agreements to provide hosting services to various entities that are managed and invested in by individuals that are directors and executives of the Company. For the years ended December 31, 2021 and 2020, the Company recognized hosting revenue from the contracts with these entities of \$17.0 million and \$7.0 million, respectively. In addition, for the years ended December 31, 2021 and 2020, there were equipment sales revenue recognized of \$109.9 million and \$1.4 million to these same various entities. As of both December 31, 2021 and 2020, the Company had accounts receivable of \$0.3 million, respectively, from these entities.

During the year ended December 31, 2021, the Company entered various promissory notes with Blockcap, a related party entity that was managed by individuals that are directors and executives of the Company. The Company had existing contracts for equipment sales and hosting services with Blockcap prior to the Company acquiring Blockcap on July 30, 2021 as described above. The promissory notes deferred \$32.7 million of amounts originally due in June through July 2021 from Blockcap contracts until August 2021. The promissory notes were effectively settled by the Company's acquisition of Blockcap.

During the year ended December 31, 2021, Company paid \$0.1 million for management and professional fees from an affiliated company that had been accrued by Blockcap prior to being acquired on July 30, 2021.

The Company reimburses its president and chief executive officer for use of a personal aircraft for flights taken on Company business. For the years ended December 31, 2021 and 2020, the Company incurred reimbursements of \$1.3 million and \$0.1 million, respectively. A nominal amount was payable at December 31, 2021. No amount was payable at December 31, 2020.

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16. SUBSEQUENT EVENTS

Merger with XPDI

As previously announced, Power & Digital Infrastructure Acquisition Corp., a Delaware corporation (“XPDI”), entered into a certain Agreement and Plan of Reorganization and Merger, dated as of July 20, 2021, as amended on October 1, 2021, and as further amended on December 29, 2021, by and among Core Scientific Holding Co., a Delaware corporation (“Core Scientific”), XPDI Merger Sub Inc., a Delaware corporation and wholly owned subsidiary of XPDI (“Merger Sub”), and XPDI (the “Merger Agreement”). XPDI’s stockholders approved the transactions contemplated by the Merger Agreement (collectively, the “Business Combination”) at a special meeting of stockholders held on January 19, 2022 (the “Special Meeting”).

Pursuant to the terms of (a) the Merger Agreement and (b) that certain Agreement and Plan of Merger, dated as of October 1, 2021, as amended on January 14, 2022, by and among XPDI, Core Scientific, XPDI Merger Sub 3, LLC, a Delaware limited liability company and wholly owned subsidiary of XPDI (“Merger Sub 3”), and Blockcap, Inc., a Nevada corporation and wholly owned subsidiary of Core Scientific (“Blockcap”), the Business Combination was effected by (i) the merger of Merger Sub with and into Core Scientific (the “First Merger”), which occurred on January 19, 2022 (the “Closing Date”), with Core Scientific surviving the First Merger as a wholly owned subsidiary of XPDI, (ii) the merger of Core Scientific with and into XPDI (the “Second Merger”), which occurred on January 20, 2022, with XPDI surviving the Second Merger, and (iii) following the closing of the Second Merger on January 20, 2022, the merger of Blockcap with and into Merger Sub 3 (the “Third Merger”), with Merger Sub 3 surviving the Third Merger as a wholly owned subsidiary of XPDI under the name “Core Scientific Acquired Mining LLC.” Immediately prior to the effective time of the First Merger (such effective time of the First Merger, the “Effective Time”), XPDI filed a Second Amended and Restated Certificate of Incorporation (the “Post-Combination Charter”) with the Secretary of State of the State of Delaware pursuant to which XPDI changed its name from “Power & Digital Infrastructure Acquisition Corp.” to “Core Scientific, Inc.” (hereinafter referred to as the “Company” or “New Core”) and redesignated its Class A common stock, par value \$0.0001 per share (“XPDI Class A Common Stock”), and Class B common stock, par value \$0.0001 per share (“XPDI Class B Common Stock”), as common stock, par value \$0.0001, of the Company (“New Core Common Stock”). The Exchange Ratio (as defined in the Merger Agreement) was 1.6001528688 of a share of New Core Common Stock per fully-diluted share of Core Scientific Common Stock.

In connection with the Special Meeting and the Business Combination, holders of 12.3 million of the 34.5 million then-outstanding shares of Class A common stock of XPDI exercised their right to redeem their shares for cash at a redemption price of approximately \$10.00 per share, for an aggregate redemption amount of \$123.5 million.

The Transaction provides gross proceeds of approximately \$221.6 million from the XPDI trust account, resulting in approximately \$200.7 million in net cash proceeds to Core Scientific, after the payment of transaction expenses. As a result of the Transaction, former Core Scientific stockholders own 90.7%, former XPDI public stockholders own 6.7% and XPDI’s sponsor owns 2.6% of the issued and outstanding shares of common stock, respectively, of the Company, excluding the impact of unvested restricted stock units and options. The proceeds from the Transaction will be used to fund mining equipment purchases and infrastructure build-out as the Company expands its leadership position. See Note 16 for more information about the closing of the merger with XPDI.

The Transaction is accounted for as a reverse recapitalization with the Company being the accounting acquirer. As of December 31, 2021, the Company recorded \$10.7 million of deferred transaction costs, which consist of legal, accounting, and other professional services directly related to the Merger. These costs are included in other noncurrent assets on the consolidated balance sheet. The cash outflows related to these costs are presented as financing activities on the Company’s consolidated statement of cash flows. These transaction costs will be allocated to all instruments assumed or issued in the merger on a relative fair value basis as of the date of the merger. Transaction costs allocated to equity-classified instruments will be recognized as an adjustment to additional paid-in capital within total stockholders’ equity while transaction costs allocated to liability-classified instruments that are subsequently measured at fair value through earnings will be expensed in the first quarter of 2022.

Immediately prior to the Effective Time, each share of Series A convertible preferred stock, par value \$0.00001, of Core Scientific automatically converted into one share of Core Scientific common stock, par value \$0.00001 per share (“Core Scientific Common Stock”), and each share of Series B convertible preferred stock, par value \$0.00001, of Core Scientific automatically converted into one share of Core Scientific Common Stock.

In addition, immediately prior to the Effective Time, each share of XPDI Class B Common Stock automatically converted into one share of New Core Common Stock.

All share-based compensation awards were converted into comparable equity awards that are settled or exercisable for shares of New Core Common Stock. As a result, each stock option and warrant was converted into an option or warrant to purchase shares New Core Common Stock based on an exchange ratio of 1.6001528688. Each award of the Company’s RSUs was converted into RSUs of New Core based on an exchange ratio of 1.6001528688.

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Each convertible note is convertible into New Core Common Stock in accordance with the terms of such convertible promissory note; provided, however, that with respect to outstanding convertible promissory notes for which Core Scientific received a duly executed exercise of conversion in accordance with such convertible promissory note, exercising the right of such holder to convert such convertible promissory note subject to and conditioned upon the occurrence of the Effective Time, the outstanding principal amount and accrued interest as of the Effective Time with respect to such convertible promissory note was converted into shares of New Core Common Stock, equal to the product (rounded down to the nearest whole number) of (i) the number of shares of Core Scientific Common Stock issuable upon the conversion of such convertible promissory note in accordance with such convertible promissory note immediately prior to the Effective Time and (ii) the Exchange Ratio.

2021 Equity Incentive Plan

At the Special Meeting, the stockholders of XPDI approved the Core Scientific, Inc. 2021 Equity Incentive Plan (the “2021 Plan”). Following the consummation of the Business Combination, New Core expects that its board of directors will make grants of awards under the Incentive Plan to eligible participants. The maximum number of shares of Core common stock that may be issued under the 2021 Plan is 45.0 million shares.

Employee and Director RSU grants

In January 2022, following the consummation of the Business Combination, the Company granted 7.4 million RSUs to various employees and directors of the Company. In addition, in March 2022, the Company approved 1.4 million RSUs to be granted to various employees of the Company.

Financing transactions

In January 2022, the Company borrowed an additional \$20.0 million under its lending agreement with Blockfi. The loan bears interest at 13.1% with a term of 24 months from issuance.

In January 2022, the Company entered into an arrangement to finance the acquisition of computer and networking equipment with a lease term of 3 years and fixed payments over the non-cancelable lease term of \$0.9 million.

The Company borrowed an additional \$4.9 million in January and February of 2022 under its lending arrangement with Bremer Bank for the purchase of blocking mining equipment and improvements to data center and infrastructure. The loans bear interest at 5.5% annually and are due at the earlier of the date of sale of the underlying mining equipment or 60 months from issuance.

In February 2022, the Company borrowed an additional \$10.0 million from Trinity to finance the Company’s acquisition of blockchain computing equipment.

In March 2022, the Company borrowed \$20.0 million from Anchorage Lending CA, LLC to finance the Company’s acquisition of blockchain computing equipment.

Convertible note valuation and change in presentation

As discussed in Note 2, the fair value of the Company’s convertible notes as of December 31, 2021 included the effect of a negotiation discount, which is a calibration adjustment that reflects the illiquidity of the instruments and the Company’s negotiating position. Since the transaction was an orderly transaction, the Company deemed that the fair value equaled the transaction price at initial recognition. However, the closing of the merger of XPDI (which represents the occurrence of a qualified financing event) in January 2022 resulted in the elimination of the negotiation discount along with other changes in fair value which is expected to result in a significant increase in the fair value of the convertible notes, with a corresponding increase to Other Non-operating Expenses, net, in excess of \$300 million for the three months ended March 31, 2022. The final valuation adjustment to the convertible note in the three months ended March 31, 2022 could differ materially from this preliminary estimate based changes in the share price and other factors.

Share issuance for liability assumed in Blockcap acquisition

In March 2022, the Company issued 1.6 million shares of the Company’s common stock related to a liability that had been assumed as part of the Blockcap acquisition.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context otherwise requires, all references in this section to “we,” “us,” “our,” the “Company” or “Core Scientific” refer to Core Scientific Holding Co. and its subsidiaries prior to the consummation of the merger.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes included as an exhibit to the amendment to the current report on Form 8-K, which was originally filed with the Securities and Exchange Commission on January 24, 2022 (as originally filed, the “Super 8-K” and, as amended hereby, the “8-K/A”). This discussion and analysis contains forward-looking statements that reflect our plans, estimates and beliefs that involve risks and uncertainties that may be outside our control. As a result of many factors, such as those set forth under the headings “Risk Factors” in the Proxy Statement/Prospectus filed on December 30, 2021 by Power & Digital Infrastructure Acquisition Corp., “Forward-Looking Statements” in the Super 8-K and elsewhere in this 8-K/A, our actual results may differ materially from those anticipated in these forward-looking statements. All dollar amounts are in thousands, unless otherwise specified.

Overview

Core is a best-in-class large-scale operator of dedicated, purpose-built facilities for digital asset mining and a premier provider of blockchain infrastructure, software solutions and services. We mine digital assets for our own account and provide hosting services for other large-scale miners. We are one of the largest blockchain infrastructure, hosting provider and digital asset mining companies in North America, with approximately 457MW of power as of December 31, 2021 and 497MW as of January 31, 2022. We mine Bitcoin, Ethereum and other digital assets for third-party hosting customers and for our own account at our six fully operational data centers in North Carolina (2), Georgia (2), North Dakota (1) and Kentucky (1). In addition, in October 2021, we announced the entry of an agreement with the City of Denton, Texas which became operational in February 2022 with an initial operating capacity approaching 22 MW and an affiliate of Tenaska Energy, Inc. to develop our seventh facility, a blockchain data center in Denton, Texas, which became operational in February 2022 with an initial operating capacity approaching 22 MW and is expected to have 300MW of power when completed. In February 2022, the Muskogee City County Port Authority announced an agreement with us to develop a 500MW data center at the Port of Muskogee John T. Griffin Industrial Park.

In July 2021 we completed the acquisition of Blockcap, one of our largest hosting customers. Blockcap is a blockchain technology company with industrial scale digital asset mining operations. Blockcap’s primary historical business was the mining of digital asset coins and tokens, primarily Bitcoin and, to a lesser extent, Siacoin and Ethereum. At the time of its acquisition, Blockcap claimed to be the largest independent cryptocurrency mining operator in North America. While Blockcap did sell or exchange the digital assets it mined to fund its growth strategies or for general corporate purposes from time to time, it generally retained its digital assets as investments in anticipation of continued adoption of digital assets as a “store of value” and a more accessible and efficient medium of exchange than traditional fiat currencies. In addition to mining, holding and exchanging digital assets, Blockcap also evaluated and completed investments in related technologies and ancillary businesses, including RADAR, an early stage company focused on technology enhancement and development in the digital asset industry that it acquired on July 1, 2021. The acquisition of Blockcap significantly expanded our self-mining operations and increased the number of miners we own. We intend to utilize RADAR’s business assets and the technical expertise of its principals in enhancing our existing blockchain mining technology and software and in further strengthening our leadership position and value creation potential through the development of DeFi products and services.

Our total revenue was \$544.5 million and \$60.3 million for the years ended December 31, 2021 and 2020, respectively. We had operating income of \$131.5 million and an operating loss of \$6.3 million for the years ended December 31, 2021 and 2020, respectively. We had net income of \$47.3 million and a net loss of \$12.2 million for the years ended December 31, 2021 and 2020, respectively. Our Adjusted EBITDA was \$238.9 million and \$6.1 million for the years ended December 31, 2021 and 2020, respectively. Adjusted EBITDA is a non-GAAP financial measure. See “Key Business Metrics and Non-GAAP Financial Measure” below for our definition of, and additional information related to, Adjusted EBITDA.

Our Business Model

Company Overview

Core is a blockchain technology company with industrial scale digital asset mining, equipment sales and hosting operations. Our operations are currently conducted in the United States at state-of-the-art facilities specifically designed and constructed for housing advanced mining equipment, which utilize non- or low carbon emitting sources for over 50% of our energy requirements as of December 31, 2021. The Company's primary business is self-mining and hosting third-party equipment used in mining of digital asset coins and tokens, including bitcoin. Core continues to evaluate investments in related blockchain technologies and ancillary businesses.

Our rapidly growing digital asset mining operation is focused on the generation of digital assets by solving complex cryptographic algorithms to validate transactions on specific digital asset network blockchains, which is commonly referred to as "mining." Our digital asset self-mining activity competes with myriad mining operations throughout the world to complete new blocks in the blockchain and earn the reward in the form of an established unit of a digital asset. While the Company sells or exchanges a portion of the digital assets it mines to fund its growth strategies or for general corporate purposes, we will hold a portion of our digital assets as investments in anticipation of continued adoption of digital assets as a "store of value" and a more efficient medium of exchange than traditional fiat currencies. Following the Blockcap acquisition, Core significantly expanded its self-mining operation and consequently reevaluated its digital asset investment policy. In 2021, the Company adopted an investment policy pursuant to which an investment committee consisting of corporate officers use common risk management techniques to manage our assets in light of specified liquidity criteria. Liquidity will be maintained through management of a portfolio of money market instruments, obligations of the U.S. government, bank deposits, commercial paper, and certain digital asset currencies and digital asset instruments, each of which must satisfy certain risk criteria. The investment committee will retain the discretion to manage these approved investment instruments, including digital asset currencies and instruments, in accordance with the investment policy, which may involve opportunistic sales or conversions of digital asset currencies and instruments in light of market and other conditions.

As one of the largest blockchain hosting providers in North America, we focus on clients with large-scale deployments and provide power, racks, proprietary thermodynamic management (heat dissipation and airflow management), redundant connectivity, 24/7 security as well as our proprietary software platforms, Minder™ and MinderOS™, which provide infrastructure management and custom firmware that boost performance and energy efficiency. Our blockchain business is one of the only large-scale vertically integrated digital asset mining and blockchain infrastructure and hosting solutions business in North America.

Our proprietary data centers in North Carolina, Georgia, Kentucky and North Dakota are purpose-built facilities optimized for the unique requirements of high density blockchain computer servers. These facilities have long-term power contracts at approximately 457MW of power as of December 31, 2021 and 497MW as of January 31, 2022. In addition, we opened a new facility in Denton, Texas in February 2022 with an initial operating capacity approaching 22 MW and expect to achieve full capacity of 300MW when completed. In February 2022, the Muskogee City County Port Authority announced an agreement with us to develop a 500MW data center at the Port of Muskogee John T. Griffin Industrial Park. Our existing completed facilities leverage our specialized construction proficiency by employing high-density, low-cost engineering and power designs. Our North Dakota facility is expected to benefit from our operational mining experience and techniques to maximize operational efficiency. As the demand for digital assets increases and digital assets become more widely accepted, there is an increasing demand for professional-grade, scalable infrastructure to support growth of the blockchain ecosystem. We continually evaluate our mining performance, including our ability to access additional megawatts of electric power and to expand our total self-mining and customer and related party hosting hash rates. We may explore additional mining facilities and mining arrangements in connection with our short-, medium- and long-term strategic planning.

Segments

We have two operating segments: "Equipment Sales and Hosting" which consists primarily of our blockchain infrastructure and third-party hosting business and equipment sales to customers, and "Mining" consisting of digital asset mining for our own account. The blockchain hosting business generates revenue through the sale of consumption-based contracts for our hosting services which are recurring in nature. Equipment sales revenue is derived from our ability to leverage our partnerships with leading equipment manufacturers to secure equipment in advance, which is then sold to our customers when they are unable to obtain them otherwise. The digital asset mining operation segment generates revenue from operating owned computer equipment as part of a pool of users that process transactions conducted on one or more blockchain networks. In exchange for these services, we receive digital currency assets.

Mining Equipment

We own and host specialized computers (“miners”) configured for the purpose of validating transactions on multiple digital asset network blockchains (referred to as, “mining”), predominantly the Bitcoin network. Substantially all of the miners we own and host were manufactured by Bitmain and incorporate application-specific integrated circuit (“ASIC”) chips specialized to solve blocks on the bitcoin blockchains using the 256-bit secure hashing algorithm (“SHA-256”) in return for bitcoin digital asset rewards.

We have entered into and facilitated agreements with vendors to supply mining equipment for our and our users’ digital asset mining operations. We prepay a significant portion of the purchase price for these new miners as partially refundable deposits, with delivery scheduled to occur in monthly installments through December 2022, and the remainder of the purchase price for these new miners is payable in installments, with payment due in advance of the scheduled delivery dates set forth in the applicable purchase agreement.

As of December 31, 2021, we had deployed approximately 141,000 bitcoin miners, which number consists of approximately 67,000 self-miners and approximately 74,000 hosted miners, which represented 6.6 EH/s and 6.9 EH/s for self-miners and hosted miners, respectively. In addition, as of December 31, 2021 we had 117,000 and 118,000 additional self-miners and hosted miners, respectively, expected to be deployed in 2022 and the first fiscal quarter of 2023, which are expected to increase our hash rate and our customers and related parties hash rate by approximately 11.7 EH/s and 11.8 EH/s respectively. As of December 31, 2021, the remaining payments due on the bitcoin miners on order is approximately \$257.5 million, of which substantially all is expected to be paid in 2022. We allocate in advance our mining equipment orders between our self-mining operations and our hosting operations conducted on behalf of customers based on our estimates of where such equipment can most profitably and efficiently be used and in accordance with contractual arrangements with our customers.

The first table below summarizes the total number of self- and hosted miners in operation as of December 31, 2021. The second table below summarizes the total number of self- and hosted miners for delivery and deployment in 2022 and Q1 of 2023, (Miners in thousands).

Mining Equipment	Bitcoin Miners in Operation	
	Hash rate (EH/s)	Number of Miners
Self-miners ¹	6.6	66.8
Hosted miners	6.9	73.9
Total mining equipment	13.5	140.7

Mining Equipment	Bitcoin Miners to be Deployed	
	Hash rate (EH/s)	Number of Miners
Self-miners ¹	11.7	116.5
Hosted miners	11.8	118.0
Total mining equipment	23.5	234.5
Total in operation and to be deployed	37.0	375.2

¹ Blockcap’s hash rate and number of miners is included in self-miners in the table above.

Performance Metrics

Hash Rate

Miners perform computational operations in support of digital asset blockchains measured in “hash rate” or “hashes per second.” A “hash” is the computation run by mining hardware in support of the blockchain; therefore, a miner’s “hash rate” refers to the rate at which it is capable of solving such computations. The original equipment used for mining bitcoin utilized the Central Processing Unit (“CPU”) of a computer to mine various forms of digital assets. Due to performance limitations, CPU mining was rapidly replaced by the Graphics Processing Unit (“GPU”), which offers significant performance advantages over CPUs. General purpose chipsets like CPUs and GPUs have since been replaced as the standard in the mining industry by ASIC chips such as those found in the S17 and S19 miners we and our customers use to mine bitcoin. These ASIC chips are designed specifically to maximize the rate of hashing operations.

In digital assets mining, hash rate is a measure of the processing speed by a mining computer for a specific digital asset. A participant in a blockchain network's mining function has a hash rate total of its miners seeking to mine a specific digital asset and, system-wide, there is a total hash rate of all miners seeking to mine each specific type of digital asset. A higher total hash rate relative to the system-wide total hash rate generally results over time in a corresponding higher success rate in digital asset rewards as compared to mining participants with relatively lower total hash rates.

However, as the relative market price for a digital asset, such as bitcoin, increases, more users are incentivized to mine that digital asset, which increases the network's overall hash rate. As a result, a mining participant must increase its total hash rate in order to maintain its relative possibility of solving a block on the network blockchain. Achieving greater hash rate power by deploying increasingly sophisticated miners in ever greater quantities has become one of the Bitcoin mining industry's great sources of competition. Our goal is to deploy a powerful fleet of self- and hosted-miners, while operating as energy-efficiently as possible.

The Merger and Public Company Costs

We entered into a merger agreement with XPDI and Merger Subs on July 20, 2021. Pursuant to the merger agreement, Legacy Core became a wholly owned subsidiary of XPDI at the closing of the Business Combination on January 19, 2022. The merger is accounted for as a reverse recapitalization and XPDI is treated as the "acquired" company for financial reporting purposes. Legacy Core has been deemed the predecessor and Core, the post-combination company, is the successor SEC registrant, meaning that Legacy Core's financial statements for periods prior to the consummation of the merger will be disclosed in Core's future periodic reports.

As a consequence of the merger, we and XPDI collectively incurred an aggregate of \$39.0 million in professional fees associated with, legal services, M&A advisor fees, financial advice, due diligence, and other deal-related costs. These transaction costs will be allocated to all instruments assumed or issued in the merger on a relative fair value basis as of the date of the merger. Transaction costs allocated to equity-classified instruments will be recognized as an adjustment to additional paid-in capital within total stockholders' equity while transaction costs allocated to liability-classified instruments that are subsequently measured at fair value through earnings will be expensed in the first quarter of 2022.

Core is registered with the SEC and listed on Nasdaq as of January 19, 2022, which requires us to hire additional personnel and implement procedures and processes to address public company regulatory requirements and customary practices. We expect to incur additional annual expenses as a public company for, among other things, internal controls compliance and public company reporting obligations, directors' and officers' liability insurance, director fees and additional internal and external accounting and legal and administrative resources, including increased audit and legal fees.

Impact of COVID-19

In March 2020, the World Health Organization declared the global outbreak of COVID-19 to be a pandemic. We continue to closely monitor the impact of COVID-19. COVID-19 has had and continues to have an adverse impact on our business and operations, particularly as a result of preventive and precautionary measures that we, other businesses, and governments are taking. Refer to "Risk Factors" identified in our Annual Report on Form 10-K for the year ended December 31, 2021 for more information.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security ("CARES") Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property.

It also allocated funds for the U.S. Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. In April 2020, we received a loan of \$2.2 million from the PPP through the SBA. The loan was unsecured and bore interest at a rate per annum of 1% and monthly payments of principal were to begin in July 2021. The loan was due in full in April 2022, however in July 2021, we repaid the loan in full.

We are unable to predict the full impact that the COVID-19 pandemic, including variant strains of COVID-19, will have on our future results of operations, liquidity and financial condition due to numerous uncertainties, including the duration of the pandemic and the actions that may be taken by government authorities across the United States. However, COVID-19, including variant strains of COVID-19, is not expected to result in any significant changes in costs going forward. We will continue to monitor the performance of our business and assess the impacts of COVID-19 and the emergence of new variant strains of COVID-19, including potential constraints on the supply of new miners.

Key Factors Affecting Our Performance

Market Price of Digital Assets

Our business is heavily dependent on the spot price of bitcoin, as well as other digital assets. The prices of digital assets, specifically bitcoin, have experienced substantial volatility, which may reflect “bubble” type volatility, meaning that high or low prices may have little or no relationship to identifiable market forces, may be subject to rapidly changing investor sentiment, and may be influenced by factors such as technology, regulatory void or changes, fraudulent actors, manipulation, and media reporting. Bitcoin (as well as other digital assets) may have value based on various factors, including their acceptance as a means of exchange by consumers and others, scarcity, and market demand.

Our financial performance and continued growth depend in large part on our ability to mine for digital assets profitably and to attract customers for our hosting services. Increases in power costs, inability to mine digital assets efficiently and to sell digital assets at favorable prices will reduce our operating margins, impact our ability to attract customers for our services, may harm our growth prospects and could have a material adverse effect on our business, financial condition and results of operations. Over time, we have observed a positive trend in the total market capitalization of digital assets which suggests increased adoption. However, historical trends are not indicative of future adoption, and it is possible that the adoption of digital assets and blockchain technology may slow, take longer to develop, or never be broadly adopted, which would negatively impact our business and operating results.

Network Hash Rate

Our business is not only impacted by the volatility in digital asset prices, but also by increases in the digital asset, primarily Bitcoin blockchain’s network hash rate resulting from the growth in the overall quantity and quality of miners working to solve blocks on the Bitcoin blockchain and the difficulty index associated with the secure hashing algorithm employed in solving the blocks.

Difficulty

The increase in digital assets, primarily, Bitcoin difficulty and hash rate reduces the mining proceeds of the equipment proportionally and eventually requires Bitcoin miners to upgrade their mining equipment to remain profitable and compete effectively with other miners.

The table below provides a summary of the impact to revenue from the increase or decrease in the market price of Bitcoin, difficulty and our hash rate. The impact to revenue in each scenario assumes only one driver increases or decreases and all others are held constant.

Driver	Impact to Revenue	
	Increase in Driver	Decrease in Driver
Market Price of Bitcoin	Favorable	Unfavorable
Difficulty	Unfavorable	Favorable
Core Scientific Hash Rate	Favorable	Unfavorable

Halvening

Further affecting the industry, and particularly for the Bitcoin blockchain, the digital asset reward for solving a block is subject to periodic incremental halvening. Halvening is a process designed to control the overall supply and reduce the risk of inflation in digital assets using a proof of work consensus algorithm. At a predetermined block, the mining reward is reduced by half, hence the term “halvening.”

For bitcoin, our most significant digital asset to which the majority of our mining power is devoted, the reward was initially set at 50 bitcoin currency rewards per block. The Bitcoin blockchain has undergone halvening three times since its inception as follows: (1) on November 28, 2012 at block 210,000; (2) on July 9, 2016 at block 420,000; (3) on May 11, 2020 at block 630,000, when the reward was reduced to its current level of 6.25 bitcoin per block. The next halvening for the Bitcoin blockchain is anticipated to occur in early 2024 at block 840,000. This process will repeat until the total amount of bitcoin currency rewards issued reaches 21 million and the theoretical supply of new bitcoin is exhausted, which is expected to occur around 2140. Many factors influence the price of bitcoin and the other digital assets we mine for, and potential increases or decreases in prices in advance of or following a future halvening are unknown.

Electricity Costs

Electricity cost is the major operating cost for the mining fleet, as well as for the hosting services provided to customers and related parties. Energy costs and availability are vulnerable to seasonality, with increased costs primarily in the summer months and risks of outages and power grid damage as a result of inclement weather, animal incursion, sabotage and other events out of our control.

Equipment Costs

As the market value of digital assets has increased, the demand for the newest, most efficient miners has also increased, leading to scarcity in the supply of and thereby a resulting increase in the price of miners. As a result, the cost of new machines can be unpredictable, and could also be significantly higher than our historical cost for new miners.

Similarly, as bitcoin prices have risen, we have observed a significant increase in the demand for miners. As a result, at times, we may obtain Bitmain miners and other hardware from Bitmain or from third parties at higher prices, to the extent they are available. For example, in the second half of 2020 and continuing into 2021, we have observed a significant appreciation in the market price of bitcoin, as well as an increase in the per-unit price of the new Bitmain Antminer model S19-Pro and S19j-Pro miners we purchased during this same period. While we cannot know definitively if these two phenomena are linked, we have seen a measurable increase in the prices for new miners offered by Bitmain.

Our Customers

In addition to factors underlying our mining business growth and profitability, our success greatly depends on our ability to retain and develop opportunities with our existing customers and to attract new customers. On July 30, 2021, we acquired an existing hosting customer, Blockcap, and thereby increased our self-mining operations.

Our business environment is constantly evolving, and digital asset miners can range from individual enthusiasts to professional mining operations with dedicated data centers. The Company competes with other companies that focus all or a portion of their activities on mining activities at scale. We face significant competition in every aspect of our business, including, but not limited to, the acquisition of new miners, the ability to raise capital, obtaining low-cost electricity, obtaining access to energy sites with reliable sources of power, and evaluating new technology developments in the industry.

At present, the information concerning the activities of these enterprises may not be readily available as the vast majority of the participants in this sector do not publish information publicly or the information may be unreliable. Published sources of information include “bitcoin.org” and “blockchain.info”; however, the reliability of that information and its continued availability cannot be assured.

We believe, based on available data, that the trend of increasing market prices for bitcoin and other major digital assets we observed beginning in the third fiscal quarter of calendar year 2020 has resulted in an increase in the scale and sophistication of competition in the digital asset mining industry, with new entrants and existing competitors gaining access to substantial capital resources to build larger and larger mining operations. If this trend of increasing market prices for bitcoin and other digital assets continues, which has occurred (though with significant volatility) throughout calendar year 2021, we believe many new and existing competitors may be encouraged to build or expand their Bitcoin mining operations.

Despite this trend, we believe, based on available data and assuming full deployment of the miners we have ordered from Bitmain, we have and will continue to maintain a competitive hash rate capacity among both public and private Bitcoin miners. However, to remain competitive in our evolving industry, both against new entrants into the market and existing competitors, we anticipate that we will have to continue to expand our existing miner fleet by purchasing the latest generation of miners, as well as innovating to develop and implement new technologies and mining solutions.

We believe that our integrated blockchain service portfolio, as well as our differentiated customer experience and technology, are keys to retaining and growing revenue from existing customers and to acquiring new customers. For example, we believe our significant build-out and ready power along with our Minder™ software layer represent meaningful competitive advantages favorable to our business.

Differentiation, Innovation and Expansion of Our Platform

Our investments in research and development drive differentiation of our service offerings, core technology innovation and our ability to bring new products to market.

We believe that we differentiate ourselves by offering premium products and services including our ability to manage our electricity sourcing, construct proprietary passive cooled data centers, and enable the efficient performance of commercially available mining equipment through our management software.

We intend to continue to invest in our research and development capabilities to extend our platform management and software solutions across the blockchain in order to manage our mining fleet more efficiently, expand within existing accounts, and gain new customers by offering differentiated blockchain products and services.

Grow Our Go-to-Market and Partnership Ecosystem

In addition to the activities of our sales organization, our success in our mining business as well as in retaining and attracting new customers will depend on our ability to expand our ecosystem of strategic partners.

For blockchain, strategic partners include OEM manufacturers of mining equipment, including Bitmain and others. Our blockchain business requires access to the latest generation miners. Our management team constantly evaluates current and future hardware for reliability, performance, and cost efficiency. These partnerships enable at-scale access to new equipment at competitive prices, which in turn helps secure the profitability of our fleet for the long term as well as provide our customers access to leading-edge mining technology.

Regulation

Our financial prospects and continued growth depend in part on our ability to continue to operate in a compliant manner with all rules and regulations. Our business is subject to the oversight of numerous regulatory agencies in the United States and other jurisdictions. Our strategy is to continue to invest in our finance, legal, compliance, and security functions in order to remain at the forefront of crypto policy initiatives and regulatory trends. As the industry matures, we may experience fluctuations in our operating results as a result of changes in the law and regulations that are applicable to our business, which may limit our ability to support new blockchains and digital assets, onboard customers, and offer our products and services across jurisdictions.

Strategic Acquisitions and Investments

We intend to continue growing our platform through strategic acquisitions and investments. We plan to acquire and invest in companies with complementary products and technologies. Our strategic acquisitions may affect our future financial results. We will also continue to enter into strategic partnerships with various companies to scale our business, provide best-in-class blockchain infrastructure and hosting to our clients, grow our digital asset mining practice, and pioneer innovative financial products and services through blockchain technology.

Merger Agreement

On July 20, 2021, we entered into the merger agreement with XPDI and the Merger Sub. XPDI's stockholders approved the transactions contemplated by the merger agreement (collectively, the "Business Combination") at a special meeting of stockholders held on January 19, 2022 (the "Special Meeting"). Pursuant to the merger agreement, and subject to the terms and conditions set forth therein, XPDI acquired Legacy Core through a series of transactions, including (x) Merger Sub merging with and into Legacy Core, with Legacy Core surviving the First Merger as a wholly owned subsidiary of XPDI, and (y) following the closing of the First Merger, Legacy Core merging with and into XPDI, with XPDI surviving the Second Merger. In connection with the closing of the Business Combination, we changed our name from Power & Digital Infrastructure Acquisition Corp. to Core Scientific, Inc. As a result of the merger, among other things, each outstanding share of Legacy Core common stock was cancelled in exchange for the right to receive 1.6001528688 of a share of New Core common stock.

The Transaction provides gross proceeds of approximately \$221.6 million from the XPDI trust account, resulting in approximately \$200.7 million in net cash proceeds to Core Scientific, after the payment of transaction expenses. As a result of the Transaction, former Core Scientific stockholders own 90.7%, former XPDI public stockholders own 6.7% and XPDI's sponsor owns 2.6% of the issued and outstanding shares of common stock, respectively, of the Company, excluding the impact of unvested restricted stock units and options. The proceeds from the Transaction will be used to fund mining equipment purchases and infrastructure build-out as the Company expands its leadership position.

2021 Acquisitions

In July 2021, we acquired Blockcap, a Nevada corporation engaged in the business of digital asset mining and through its subsidiary, RADAR, an early stage company focused on technology enhancement and development in the digital asset industry. Pursuant to the Core/Blockcap merger agreement, each eligible share of Blockcap was converted into shares of Core common stock in accordance with a determined ratio, and Blockcap was merged with a wholly owned subsidiary of Legacy Core. As a result of the

merger we acquired for self-mining all of the digital asset mining machines owned by Blockcap and hosted by us in our facilities. As a result, the existing hosting agreement between Legacy Core and Blockcap was terminated. We intend to utilize RADAR's business assets and the technical expertise of its principals in enhancing our existing blockchain mining technology and software and in further strengthening our leadership position and value creation potential through the development of DeFi products and services.

2020 Acquisitions

Through December 31, 2020 we have completed and substantially integrated two asset acquisitions primarily related to software and patents, Atrio and RStor. We routinely evaluate potential acquisitions that align with our growth strategy. Our acquisitions in any period may impact the comparability of our results with prior and subsequent periods. The integration of acquisitions also requires dedication of substantial time and resources, and we may never fully realize synergies and other benefits that we expect.

Condensed Statement of Operations

The following table presents a condensed statement of operations for the years ended December 31, 2021 and 2020:

	Year Ended December 31,	
	2021	2020
	(in thousands)	
Total Revenue	\$544,483	\$ 60,320
Cost of revenue	305,621	50,928
Gross profit	238,862	9,392
(Loss) gain on legal settlements	(2,636)	5,814
Gain from sales of digital currency assets	4,814	69
Impairment of digital currency assets	(37,206)	(4)
Total operating expenses	72,340	21,598
Operating income (loss)	131,494	(6,327)
Total non-operating expense, net	68,419	5,879
Income (loss) before income taxes	63,075	(12,206)
Income tax expense	15,763	—
Net income (loss)	<u>\$ 47,312</u>	<u>\$ (12,206)</u>

Key Business Metrics and Non-GAAP Financial Measure

In addition to our financial results, we use the following business metrics and non-GAAP financial measures to evaluate our business, measure our performance, identify trends affecting our business, and make strategic decisions. For a definition of these key business metrics, see the section titled “Self-Mining Hash rate and Adjusted EBITDA.”

	Year Ended December 31,	
	2021	2020
Self-Mining Hash rate (Exahash per second)	6.60	0.35
Adjusted EBITDA (in millions)	\$238.9	\$ 6.1

Self-Mining Hash rate

We operate mining hardware which performs computational operations in support of the blockchain measured in “hash rate” or “hashes per second.” A “hash” is the computation run by mining hardware in support of the blockchain; therefore, a miner’s “hash rate” refers to the rate at which the hardware is capable of solving such computations. Our hash rate represents the hash rate of our miners as a proportion of the total Bitcoin network hash rate and drives the number of digital asset rewards that will be earned by our fleet. We calculate and report our hash rate in exahash per second (“EH/s”). One exahash equals one quintillion hashes per second.

We measure the hash rate produced by our mining fleet through our management software Minder™, which consolidates the reported hash rate from each miner. The method by which we measure our hash rate may differ from how other operators present such measure.

Our self-mining hash rate was 6.60 EH/s and 0.35 EH/s for the year ended December 31, 2021 and 2020, respectively representing a 1,772% increase year over year.

Our self-mining hash rate, inclusive of Blockcap (“combined self-mining”), for the year ended December 31, 2021 and 2020, was 6.60 EH/s and 1.13 EH/s, respectively.

Our combined self-mining and customer and related party hosting hash rate grew 495%, to 13.50 EH/s for the the year ended December 31, 2021 from 2.27 EH/s for the year ended December 31, 2020.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure defined as our net income or (loss), adjusted to eliminate the effect of (i) interest income, interest expense, and other income (expense), net; (ii) provision for income taxes; (iii) depreciation and amortization; (iv) stock-based compensation expense; and (v) certain additional non-cash and non-recurring items, that do not reflect our ongoing business operations. For additional information, including the reconciliation of net income (loss) to Adjusted EBITDA, please refer to the table below. We believe Adjusted EBITDA is an important measure because it allows management, investors, and our board of directors to evaluate and compare our operating results, including our return on capital and operating efficiencies, from period-to-period by making the adjustments described above. In addition, it provides useful information to investors and others in understanding and evaluating our results of operations, as well as provides a useful measure for period-to-period comparisons of our business, as it removes the effect of net interest income (expense), taxes, certain non-cash items, variable charges, and timing differences. Moreover, we have included Adjusted EBITDA in this 8-K/A because it is a key measurement used by our management internally to make operating decisions, including those related to operating expenses, evaluate performance, and perform strategic and financial planning.

The above items are excluded from our Adjusted EBITDA measure because these items are non-cash in nature, or because the amount and timing of these items is unpredictable, not driven by core results of operations and renders comparisons with prior periods and competitors less meaningful. However, you should be aware that when evaluating Adjusted EBITDA, we may incur future expenses similar to those excluded when calculating these measures. Our presentation of this measure should not be construed as an inference that its future results will be unaffected by unusual or non-recurring items. Further, this non-GAAP financial measure should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. We compensate for these limitations by relying primarily on GAAP results and using Adjusted EBITDA on a supplemental basis. Our computation of Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies because not all companies calculate this measure in the same fashion. You should review the reconciliation of net income (loss) to Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA for the years ended December 31, 2021 and 2020:

Adjusted EBITDA	Year Ended December 31,	
	2021	2020
Net income (loss)	\$ 47,312	\$(12,206)
Adjustments:		
Interest expense, net	44,354	4,436
Income tax expense	15,763	—
Depreciation and amortization	33,362	9,403
Loss on debt from extinguishment	8,016	1,333
Stock-based compensation expense	38,937	3,037
Loss on legal settlements	2,636	—
Fair value adjustment on convertible notes	16,047	—
Gain from sales of digital currency assets	(4,814)	(69)
Impairment of digital currency assets	37,206	4
Losses on disposals of property, plant and equipment	118	2
Other non-cash and non-recurring items	3	111
Adjusted EBITDA	<u>\$238,940</u>	<u>\$ 6,051</u>

Components of Results of Operations

Revenue

Our revenue consists primarily of returns from our hosting operations, including the sales of mining equipment to be hosted in our data centers and proceeds related to digital currency transaction processing (digital asset mining income) fees.

- **Hosting revenue from customers and related parties.** Hosting revenue from customers and related parties is based on consumption-based contracts with our customers and related parties. Most contracts are renewable, and our customers are generally billed on a fixed and recurring basis each month for the duration of their contract, which vary from one to three years in length. See “*Certain Relationships and Related Party Transactions—Core Scientific.*”
- **Equipment sales to customers and related parties.** Equipment sales to customers and related parties is derived from our ability to leverage our partnerships with leading equipment manufacturers to secure equipment in advance, which is then sold to our customers and related parties. Our equipment sales are typically in connection with a hosting contract.
- **Digital asset mining income.** We operate a digital asset mining operation using specialized computers equipped with application-specific integrated circuit (ASIC) chips (known as “miners”) to solve complex cryptographic algorithms in support of the Bitcoin blockchain (in a process known as “solving a block”) in exchange for digital asset rewards (primarily bitcoin). The Company participates in “mining pools” organized by “mining pool operators” in which we share our mining power (known as “hash rate”) with the hash rate generated by other miners participating in the pool to earn digital asset rewards. The mining pool operator provides a service that coordinates the computing power of the independent mining enterprises participating in the mining pool. Fees are paid to the mining pool operator to cover the costs of maintaining the pool. The pool uses software that coordinates the pool members’ mining power, identifies new block rewards, records how much hash rate each participant contributes to the pool, and assigns digital asset rewards earned by the pool among its participants in proportion to the hash rate each participant contributed to the pool in connection with solving a block. Revenues from digital asset mining are impacted by volatility in bitcoin prices, as well as increases in the Bitcoin blockchain’s network hash rate resulting from the growth in the overall quantity and quality of miners working to solve blocks on the Bitcoin blockchain and the difficulty index associated with the secure hashing algorithm employed in solving the blocks. The diagram below provides a simple illustration of the calculation of our annual digital asset mining income.



¹ Amount represents the average number of blocks mined per year, e.g., blocks are mined on average every 10 minutes, or 144 per day, 52,560 per year

Costs of Revenue

The Company’s Cost of Hosting Services and Cost of Digital Asset Mining primarily consist of electricity costs, salaries, stock-based compensation, depreciation of property, plant and equipment used to perform hosting services and mining operations and other related costs. Cost of Equipment Sales includes costs of computer equipment sold to customers.

Operating expense

Operating expense consists of research and development, sales and marketing, and general and administrative expenses. Each is outlined in more detail below.

- **Research and development.** We invest in research and development to build capabilities to extend our blockchain platform management and software solutions, in order to manage our mining fleet more efficiently, expand within existing accounts, and to gain new customers by offering differentiated blockchain hosting services. Research and development costs include compensation and benefits, stock-based compensation, other personnel related costs and professional fees.

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- **Sales and Marketing.** Sales and Marketing expenses consist of marketing expenses, trade shows and events, professional fees, compensation and benefits, stock-based compensation and other personnel related costs.
 - **General and administrative.** General and administrative expenses include compensation and benefits expenses for employees, who are not part of the research and development and sales and marketing organization, professional fees, and other personnel related expenses. Also included is stock-based compensation, insurance, amortization of intangibles, gain (loss) on disposals of property, plant and equipment, asset impairments, franchise taxes, and bank fees.

(Loss) gain on legal settlements

(Loss) gain on legal settlements represent amounts received as part of the resolution of legal actions for damages resulting from the early termination of agreements by former customers or stock disbursements for resolution of a legal settlement with a former customer.

Gain from sales of digital currency assets

Gain from sales of digital currency assets consist of gain on sales of digital currency assets and impairment charges for digital assets at the lower of cost or fair value.

Impairment of digital currency assets

We initially recognize digital currency assets that are received as digital asset mining income based on the fair value of the digital currency assets. Digital currency assets that are purchased in an exchange of one digital currency asset for another digital currency asset are recognized at the fair value of the asset received.

These assets are adjusted to fair value only when an impairment is recognized, or the underlying asset is held for sale. Impairment exists when the carrying amount exceeds its fair value, which is measured using the quoted price of the digital currency asset at the time its fair value is being measured, which is measured on a daily basis. To the extent that an impairment loss is recognized, the loss establishes the new costs basis of the digital asset.

Impairment losses are recognized in the period in which the impairment is identified. The impaired digital assets are written down to their fair value at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. See Note 2 in our audited financial statements under “Digital Assets” for further information.

Non-operating expenses, net

Non-operating expenses, net includes loss on debt extinguishment, interest income, interest expense and other non-operating expenses, net.

Income tax expense

Income tax expense consists of U.S. federal, state and local income taxes, if any. For the year ended December 31, 2021, our income tax expense was \$15.8 million. We had no income tax expense for the year ended December 31, 2020. A full valuation allowance is recorded against our net deferred tax assets, which are composed primarily of federal and state net operating loss carryforwards, stock-based compensation and non-goodwill intangibles. We evaluate our ability to recognize our deferred tax assets quarterly by considering all positive and negative evidence available as proscribed by the FASB under its general principles of ASC 740, Income Taxes.

Results of Operations

The following table sets forth our selected consolidated statements of operations for each of the periods indicated (in thousands, except percentages).

	Year Ended December 31,		Period over Period Change	
	2021	2020	Dollar	Percentage
Revenue:				
Hosting revenue from customers	\$ 62,350	\$ 34,615	\$ 27,735	80%
Hosting revenue from related parties	16,973	6,983	9,990	143%
Equipment sales to customers	138,376	11,193	127,183	NM
Equipment sales to related parties	109,859	1,402	108,457	NM
Digital asset mining income	216,925	6,127	210,798	NM
Total revenue	544,483	60,320	484,163	803%
Cost of revenue:				
Cost of hosting services	77,678	36,934	40,744	110%
Cost of equipment sales	177,785	11,017	166,768	NM
Cost of digital asset mining	50,158	2,977	47,181	NM
Total cost of revenue	305,621	50,928	254,693	500%
Gross profit	238,862	9,392	229,470	NM
(Loss) gain on legal settlements	(2,636)	5,814	(8,450)	NM
Gain from sales of digital currency assets	4,814	69	4,745	NM
Impairment of digital currency assets	(37,206)	(4)	(37,202)	NM
Operating expenses:				
Research and development	7,674	5,271	2,403	46%
Sales and marketing	4,062	1,771	2,291	129%
General and administrative	60,604	14,556	46,048	316%
Total operating expenses	72,340	21,598	50,742	235%
Operating income (loss)	131,494	(6,327)	137,821	NM
Non-operating expenses, net:				
Loss on debt from extinguishment	8,016	1,333	6,683	501%
Interest expense, net	44,354	4,436	39,918	900%
Other non-operating expenses, net	16,049	110	15,939	NM
Total non-operating expense, net	68,419	5,879	62,540	NM
Income (loss) before income taxes	63,075	(12,206)	75,281	NM
Income tax expense	15,763	—	15,763	NM
Net income (loss)	\$ 47,312	\$ (12,206)	\$ 59,518	NM

NM - Not Meaningful

Revenue

	Year Ended December 31,		Period over Period Change	
	2021	2020	Dollar	Percentage
Revenue:	(in thousands, except percentages)			
Hosting revenue from customers	\$ 62,350	\$ 34,615	\$ 27,735	80%
Hosting revenue from related parties	16,973	6,983	9,990	143%
Equipment sales to customers	138,376	11,193	127,183	NM
Equipment sales to related parties	109,859	1,402	108,457	NM
Digital asset mining income	216,925	6,127	210,798	NM
Total revenue	<u>\$ 544,483</u>	<u>\$ 60,320</u>	<u>\$ 484,163</u>	803%
Percentage of total revenue:				
Hosting revenue from customers	11%	57%		
Hosting revenue from related parties	3%	12%		
Equipment sales to customers	25%	19%		
Equipment sales to related parties	20%	2%		
Digital asset mining income	40%	10%		
Total Revenue	<u>100%</u>	<u>100%</u>		

Total revenue increased by \$484.2 million or 803%, to \$544.5 million for the year ended December 31, 2021 from \$60.3 million for the year ended December 31, 2020.

Total hosting revenue from customers increased by \$27.7 million or 80%, to \$62.4 million for the year ended December 31, 2021 from \$34.6 million for the year ended December 31, 2020. The increase was driven by the execution of new customer hosting contracts for miners deployed during the year ended December 31, 2021.

Total hosting revenue from related parties increased by \$10.0 million, or 143%, to \$17.0 million for the year ended December 31, 2021 from \$7.0 million for the year ended December 31, 2020. The increase in related party hosting contracts was driven by the execution of new related party hosting contracts for miners deployed during the year ended December 31, 2021.

Equipment sales to customers and related parties was \$138.4 million and \$109.9 million, respectively for the year ended December 31, 2021. The increase was driven by higher demand for new generation mining equipment.

Digital asset mining income increased by \$210.8 million, to \$216.9 million, for the year ended December 31, 2021 from \$6.1 million for the year ended December 31, 2020. The year over year growth in mining income was driven by an increase in our self-mining hash rate and higher bitcoin prices. Our self-mining hash rate increased by 1,772%, to 6.6 EH/s for the year ended December 31, 2021 from 0.35 EH/s for the year ended December 31, 2020. The total number of bitcoin awarded for the year ended December 31, 2021 was 4,023¹ compared to 328¹ for the year ended December 31, 2020. The average price of bitcoin for the year ended December 31, 2021 was \$47,437 compared to \$14,357 for the year ended December 31, 2020, an improvement of 230%.

Cost of revenue

	Year Ended December 31,		Period over Period Change	
	2021	2020	Dollar	Percentage
Cost of revenue	\$ 305,621	\$ 50,928	\$ 254,693	500%
Gross profit	238,862	9,392	229,470	NM
Gross margin	44%	16%		

¹ The total number of bitcoin awarded on a combined self-mining basis for December 31, 2021 was 5,769 compared to 1,281 for the year ended December 31, 2020.

Cost of revenue increased by \$254.7 million or 500%, to \$305.6 million for the year ended December 31, 2021 from \$50.9 million for the year ended December 31, 2020. The increase was primarily attributable to an increase in the cost of equipment sold to customers and related parties of \$166.8 million, higher power consumption driven by increases in both our self-mining and hosted fleet of \$53.4 million, increased depreciation expense of \$21.3 million driven by the deployment of self-mining units, facilities depreciation of \$1.9 million, higher personnel and facilities operating costs driven by the opening and expansion of our data centers of \$7.2 million and stock-based compensation of \$4.1 million. As a percentage of total revenue, cost of revenue totaled 56% and 84% for the year ended December 31, 2021 and 2020, respectively.

(Loss) gain on legal settlements

The loss on legal settlement of \$2.6 million for the year ended December 31, 2021, was related to a settlement with a former customer. The gain on legal settlement of \$5.8 million for the year ended December 31, 2020, was driven by the resolution of legal actions for damages resulting from the early termination of agreements by former customers.

Gain from sales of digital currency assets

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
	(in thousands, except percentages)			
Gain from sales of digital currency assets	\$ 4,814	\$ 69	\$ 4,745	NM
Percentage of total revenue	1%	0%		

Gain from sales of digital currency assets increased by \$4.7 million to \$4.8 million for the year ended December 31, 2021 from a gain of \$0.1 million for year ended December 31, 2020. Gains are recorded when realized upon sale(s). In determining the gain to be recognized upon sale, we calculate the difference between the sales price and carrying value of the digital assets sold immediately prior to sale. For the year ended December 31, 2021, the carrying value of our digital assets sold was \$68.5 million and the sales price was \$73.3 million. For the year ended December 31, 2020, the carrying value of our digital assets sold was \$9.6 million and the sales price was \$9.7 million.

Impairment of digital currency assets

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
	(in thousands, except percentages)			
Impairment of digital currency assets	\$ (37,206)	\$ (4)	\$ (37,202)	NM
Percentage of total revenue	(7)%	0%		

Impairment of digital currency assets increased by \$37.2 million for the year ended December 31, 2021. Impairment exists when the carrying amount exceeds its fair value, which is measured using the quoted price of the digital currency asset at the time its fair value is being measured, which is measured on a daily basis. We perform an analysis each quarter to identify whether events or changes in circumstances, principally decreases in the quoted prices on active exchanges, indicate that it is more likely than not that our digital assets are impaired. In determining if an impairment has occurred, we consider the lowest market price of one unit of digital asset quoted on the active exchange since acquiring the digital asset. If the then current carrying value of a digital asset exceeds the fair value so determined, an impairment loss has occurred with respect to those digital assets in the amount equal to the difference between their carrying values and the price determined.

The carrying value of our digital currency assets amounted to \$234.3 million and \$0.1 million as of December 31, 2021 and December 31, 2020 respectively, reflecting impairments of \$37.2 million and a nominal amount, attributable to bitcoin trading price fluctuations. The Company's digital asset policy prior to the Blockcap acquisition on July 30, 2021 included selling all digital assets and converting them into fiat currency shortly after they are mined, typically within 1-3 days, in order to fund the growth of the Company's operations. Following the Blockcap acquisition, the Company significantly expanded its self-mining operation and consequently reevaluated its digital asset investment policy and began holding a more significant portion of its digital assets mined on its balance sheet.

Operating Expenses

Research and development

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
Research and development	\$ 7,674	\$ 5,271	\$ 2,403	46%
Percentage of total revenue	1%	9%		

Research and development expenses increased by \$2.4 million or 46%, to \$7.7 million for the year ended December 31, 2021 from \$5.3 million for the year ended December 31, 2020. The increase was primarily driven by higher personnel and related expenses of \$1.0 million, stock-based compensation of \$1.1 million, an increase in project related expenses of \$0.4 million, higher miscellaneous expenses of \$0.2 million, offset by lower software and subscription costs of \$0.3 million.

Sales and marketing

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
Sales and marketing	\$ 4,062	\$ 1,771	\$ 2,291	129%
Percentage of total revenue	1%	3%		

Sales and marketing expenses increased by \$2.3 million or 129%, to \$4.1 million for the year ended December 31, 2021 from \$1.8 million for the year ended December 31, 2020. The increase was primarily driven by higher marketing and advertising expenses of \$1.1 million associated with IPO readiness, website development and conference sponsorships and attendance, stock-based compensation of \$0.8 million, increased travel and entertainment expenses of \$0.2 million and other miscellaneous expenses of \$0.2 million.

General and administrative

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
General and administrative	\$ 60,604	\$ 14,556	\$ 46,048	316%
Percentage of total revenue	11%	24%		

General and administrative expenses increased by \$46.0 million or 316%, to \$60.6 million for the year ended December 31, 2021 from \$14.6 million for the year ended December 31, 2020. The increase of \$46.0 million was driven by \$29.8 million higher stock-based compensation, \$5.8 million of investments made to support public company readiness, \$4.3 million higher personnel and related costs, increased travel and entertainment expenses of \$1.8 million, an increase in intangible asset amortization of \$0.7 million, higher insurance costs of \$1.0 million and increases in other miscellaneous expenses of \$2.6 million.

Non-operating expenses, net

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
Non-operating expenses, net:				
Loss on debt from extinguishment	\$ 8,016	\$ 1,333	\$ 6,683	501%
Interest expense, net	44,354	4,436	39,918	900%
Other non-operating expenses, net	16,049	110	15,939	NM
Total non-operating expense, net	\$ 68,419	\$ 5,879	\$ 62,540	NM

Total non-operating expenses, net increased by \$62.5 million to \$68.4 million for the year ended December 31, 2021 from \$5.9 million for the year ended December 31, 2020. The increase in non-operating expenses, net of \$62.5 million was driven by the loss on debt extinguishment of \$6.7 million, higher interest expense, net of \$39.9 million related to the execution of several funding agreements, including a senior secured credit facility and several equipment financing agreements, the proceeds of which were used to acquire self-mining equipment and to fund the build out of our hosting and self-mining facilities, and other non-operating expenses, net of approximately \$16.0 million to adjust our convertible note payable to fair value. See Note Fair Value Measurements for further information.

As discussed in Note 2 to our audited financial statements, the fair value of the Company's convertible notes as of December 31, 2021 included the effect of a negotiation discount, which is a calibration adjustment that reflects the illiquidity of the instruments and the Company's negotiating position. Since the transaction was an orderly transaction, the Company deemed that the fair value equaled the transaction price at initial recognition. However, the closing of the merger of XPDI (which represents the occurrence of a qualified financing event as defined by the terms of the notes) in January 2022 resulted in the elimination of the negotiation discount along with other changes in fair value which is expected to result in a significant increase in the fair value of the convertible notes, with a corresponding increase to Other Non-operating Expenses, net, in excess of \$300 million for the three months ended March 31, 2022. The final valuation adjustment to the convertible note in the three months ended March 31, 2022 could differ materially from this preliminary estimate based changes in the share price and other factors.

Income tax expense

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
Income tax expense	\$ 15,763	\$ —	\$ 15,763	NM
Percentage of total revenue	3%	—%		

Income tax expense consists of U.S. federal, state and local income taxes. For the year ended December 31, 2021, our income tax expense was \$15.8 million. We did not have any income tax expense for the year ended December 31, 2020. The Company has provided a valuation allowance of \$6.8 million on the amount of deferred tax assets at December 31, 2021 that it believes will not be realized based on current facts and circumstances, which are composed primarily of federal state net operating loss carryforwards, stock-based compensation and non-goodwill intangibles. We evaluate our ability to recognize our deferred tax assets quarterly by considering all positive and negative evidence available as proscribed by the FASB under its general principles of ASC 740, Income Taxes.

Segment Total Revenue and Gross Profit

The following table presents total revenue and gross profit by reportable segment for the periods presented:

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
Equipment Sales and Hosting Segment	(in thousands, except percentages)			
Revenue:				
Hosting revenue	\$ 79,323	\$ 41,598	\$ 37,725	91%
Equipment sales	248,235	12,595	235,640	NM
Total revenue	327,558	54,193	273,365	504%
Cost of revenue:				
Cost of hosting services	77,678	36,934	40,744	110%
Cost of equipment sales	177,785	11,017	166,768	NM
Total Cost of revenue	\$ 255,463	\$ 47,951	\$ 207,512	433%
Gross profit	\$ 72,095	\$ 6,242	\$ 65,853	NM
Mining Segment				
Digital asset mining income	\$ 216,925	\$ 6,127	\$ 210,798	NM
Total revenue	216,925	6,127	210,798	NM
Cost of revenue	50,158	2,977	47,181	NM
Gross profit	\$ 166,767	\$ 3,150	\$ 163,617	NM
Consolidated total revenue	\$ 544,483	\$ 60,320	\$ 484,163	803%
Consolidated cost of revenue	\$ 305,621	\$ 50,928	\$ 254,693	500%
Consolidated gross profit	\$ 238,862	\$ 9,392	\$ 229,470	NM

For the year ended December 31, 2021, cost of revenue included depreciation expense of \$7.4 million for the Equipment Sales and Hosting segment and \$24.3 million for the Mining segment. For the year ended December 31, 2020, cost of revenue included depreciation expense of \$7.4 million for the Equipment Sales and Hosting segment and \$1.1 million for the Mining segment.

For the year ended December 31, 2021 and 2020, the top three customers accounted for approximately 63% and 51%, respectively, of the Equipment Sales and Hosting's segment total revenue.

A reconciliation of the reportable segment gross profit to income (loss) before income taxes included in our consolidated statements of operations for the years ended December 31, 2021 and 2020, is as follows:

	<u>Year Ended December 31,</u>		<u>Period over Period Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Dollar</u>	<u>Percentage</u>
	(in thousands, except percentages)			
Reportable segment gross profit	\$ 238,862	\$ 9,392	\$ 229,470	NM
(Loss) gain on legal settlement	(2,636)	5,814	(8,450)	NM
Gain from sales of digital currency assets	4,814	69	4,745	NM
Impairment of digital currency assets	(37,206)	(4)	(37,202)	NM
Operating expense:				
Research and development	7,674	5,271	2,403	46%
Sales and marketing	4,062	1,771	2,291	129%
General and administrative	60,604	14,556	46,048	316%
Total operating expense	<u>72,340</u>	<u>21,598</u>	<u>50,742</u>	<u>235%</u>
Operating income (loss)	131,494	(6,327)	137,821	NM
Non-operating expense, net:				
Loss on debt extinguishment and other	8,016	1,333	6,683	501%
Interest expense, net	44,354	4,436	39,918	900%
Other non-operating expenses, net	16,049	110	15,939	NM
Total non-operating expense, net	<u>68,419</u>	<u>5,879</u>	<u>62,540</u>	<u>NM</u>
Income (loss) before income taxes	<u>\$ 63,075</u>	<u>\$ (12,206)</u>	<u>\$ 75,281</u>	<u>NM</u>

Liquidity and Capital Resources

Sources of liquidity

To date, we have financed our operations primarily through sales of equity securities, debt issuances, equipment financing arrangements and cash generated from operations. We continue to have access to several sources of liquidity to supplement cash flow from operations. We have access to private debt and equity capital markets, secured borrowing, equipment finance and digital asset-based financing. In the near term, we expect to continue to ramp up investing activities as we build out our facilities and grow our company. Some of our vendor contracts for the purchase of mining equipment include variable pricing provisions that offset some of the variability of cash flow from operations associated with fluctuations in the price of bitcoin. Proceeds from the SPAC transaction provided gross proceeds of approximately \$221.6 million from the XPDI trust account, resulting in approximately \$200.7 million in net cash proceeds to Core Scientific, after the payment of transaction expenses. The proceeds from the transaction will be used to fund mining equipment purchases and infrastructure build-out as the Company expands its leadership position. See Note 16 to our audited financial statements for more information about the closing of the merger with XPDI.

Cash, cash equivalents, restricted cash, cash requirements and cash flows

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less from the date of acquisition.

	December 31,		Period over Period Change	
	2021	2020	Dollar	Percentage
Cash and cash equivalents	\$117,871	\$8,671	\$ 109,200	NM
Restricted Cash	13,807	50	13,757	NM
Total cash, cash equivalents and restricted cash	<u>\$131,678</u>	<u>\$8,721</u>	<u>\$ 122,957</u>	NM

As of December 31, 2021 and 2020, restricted cash of \$13.8 million and \$0.1 million, respectively, consisted of cash held in escrow to pay for construction and development activities.

The following table summarizes our cash and cash equivalents, restricted cash and cash flows for the periods indicated.

	December 31,	
	2021	2020
	(in thousands)	
Cash, cash equivalents and restricted cash	\$ 131,678	\$ 8,721
Cash provided by (used in)		
Operating activities	(56,735)	(23,765)
Investing activities	(423,840)	(15,144)
Financing activities	603,532	40,723
Cash, cash equivalents and restricted cash – beg. of period	8,721	6,907
Cash, cash equivalents and restricted cash - end of period	<u>\$ 131,678</u>	<u>\$ 8,721</u>

Our principal uses of cash in recent periods have been funding our operations and investing in capital expenditures.

Operating Activities

Changes in net cash from operating activities results primarily from cash received from hosting customers and equipment sales and payments for power fees and equipment purchases. Other drivers of the changes in net cash from operating activities include research and development costs, sales and marketing costs and general and administrative expenses (including personnel expenses and fees for professional services) and interest payments on debt.

Net cash used by operating activities was \$56.7 million for the year ended December 31, 2021, compared to net cash used by operating activities of \$23.8 million for the year ended December 31, 2020. The increase in net cash used in operating activities for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to changes in working capital, which decreased cash from operating activities by \$28.4 million and was primarily due to a \$189.7 million increase in deposits for equipment, a \$31.7 million increase in other current assets and a \$20.2 million decrease in accounts payable, partially offset by a \$154.3 million increase in deferred revenue and a \$54.6 million increase in accrued expenses. The decrease in net cash from operating activities was increased by net income, excluding non-cash adjustments, of \$212.3 million for the year ended December 31, 2021 compared to the year ended December 31, 2020, primarily due to a \$278.9 million increase in cash generated from operating income driven by a \$68.9 million increase in cash inflows from gross profit on equipment sales from customers and related parties and a \$228.5 million increase in cash inflows from gross profit on hosting revenue from customers and related parties. Offsetting the increase in cash generated from operating income was a \$8.6 million increase in cash outflows for interest payments on debt (which included \$12.8 million of debt issuance costs paid for the convertible notes issued in 2021) and \$14.7 million increase in cash outflows for operating expenses.

Investing Activities

Our net cash used in investing activities consists of purchases of property, plant and equipment and acquisitions of intangible assets, net of proceeds from sales of property, plant and equipment.

Net cash used in investing activities for the year ended December 31, 2021 and 2020 was \$423.8 million and \$15.1 million, respectively, driven by \$365.2 million and \$13.7 million, respectively, used for the purchase of property, plant and equipment primarily related to the development of hosting facilities and the acquisition of equipment used for generating digital asset mining income. For the year ended December 31, 2021, \$59.3 million was used for deposits for self-mining equipment.

Financing Activities

Net cash provided by financing activities consists of proceeds from stock issuances, issuances of debt, net of debt issuance costs and principal payments on debt, including notes payable and capital leases.

For the year ended December 31, 2021, net cash provided by financing activities was \$603.5 million, primarily related to \$670.8 million from the issuance of debt, driven by \$514.8 million for the issuance of convertible notes. Offsetting this increase to net cash provided by financing activities for the year ended December 31, 2021 was \$57.0 million of principal payments on debt and payment for transaction costs of \$10.7 million.

For the year ended December 31, 2020, net cash provided by financing activities was \$40.7 million, primarily related to \$45.2 million from the issuance of debt, including \$4.0 million received in March and April 2020 for notes issued to our president and chief executive officer and a member of the Board of Directors, \$2.2 million received in April 2020 for a PPP loan through the SBA, \$19.8 million received in May 2020 for the issuance of a senior secured note, and the remaining \$19.9 million received primarily from equipment financing loans. For the year ended December 31, 2020, we also received \$2.6 million from the issuance of preferred stock, comprising \$1.5 million received in February and March 2020 from the issuance of Series A Preferred Stock in private placement offerings and \$1.1 million received in June 2020 from the issuance of Series B Preferred Stock in a private placement offering. Offsetting these increases to net cash provided by financing activities for the year ended December 31, 2020 was \$7.1 million of principal payments on debt, primarily related to the repayment in May 2020 of the \$4.0 million of notes that had been issued to officers and directors and payments for capital leases.

Operating and capital expenditure requirements

We believe our existing cash, cash equivalents, together with cash provided by operations and funding from debt or equity issuances, will be sufficient to meet our needs for at least the next 12 months. Our future capital requirements will depend on many factors including our revenue growth rate, the timing and extent of spending to support further sales and marketing and research and development efforts, the timing and extent of additional capital expenditures to invest in the expansion of existing facilities as well as new facilities. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. If additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations and financial condition would be materially and adversely affected.

Commitments and Contractual Obligations

Legal Proceedings—The Company is subject to legal proceedings arising in the ordinary course of business. The Company accrues losses for a legal proceeding when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to reasonably estimate the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued and could materially adversely affect the Company's business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, the Company is unable to estimate reasonably possible losses in excess of any amounts accrued. As of December 31, 2021 and 2020, there were no loss contingency accruals for legal matters.

(Loss) gain on legal settlements—The Company recognized a loss of \$2.6 million during the year ended December 31, 2021 related to a settlement with a former customer. The Company recognized a gain of \$5.8 million during the year ended December 31, 2020 with respect to the resolution of legal actions for damages resulting from the early termination of agreements by former customers.

Operating Leases—The Company has entered into non-cancellable operating leases for office and data facilities, with original lease periods expiring through 2028. In addition, certain leases contain bargain renewal options extending through 2051. The Company recognizes lease expense for these leases on a straight-line basis over the lease term, which includes any bargain renewal options. The Company recognizes rent expense on a straight-line basis over the lease period. Rent expense was \$0.7 million and \$0.3 million for the years ended December 31, 2021 and 2020, respectively.

The Company's minimum payments under noncancelable operating leases having initial terms and bargain renewal periods in excess of one year are as follows at December 31, 2021, and thereafter (in thousands):

2022	\$ 460
2023	170
2024	170
2025	170
2026	170
Thereafter	1,254
Total minimum lease payments	<u>\$2,394</u>

In addition to the above, in December 2021, the Company entered into an agreement to lease office space for its new corporate headquarters that the Company anticipates will commence in the second half of 2022. The lease includes base rent of approximately \$14 million to be paid over a period of 130 months.

Capital Leases—The Company has entered into arrangements with various parties to finance the acquisition of computer and networking equipment, electrical infrastructure, and office equipment. These arrangements include options exercisable by the Company at the end of the initial terms to renew, purchase the equipment, or to terminate. These arrangements are classified as capital leases and as of December 31, 2021 and 2020, the related capital lease obligations were \$90.6 million and \$4.4 million, respectively.

As of December 31, 2021, the future minimum lease payments and present value of the net minimum lease payments under these capital leases are as follows (in thousands):

2022	\$ 35,531
2023	34,897
2024	33,913
2025	1,823
2026	2
Total minimum lease payments	106,166
Less: interest	<u>15,569</u>
Present value of net minimum lease payments	<u>\$ 90,597</u>

Purchase obligations—As of December 31, 2021, the Company had outstanding agreements to purchase blockchain mining equipment totaling approximately \$583.7 million of which approximately \$326.2 million was paid as deposits for blockchain mining equipment scheduled to be delivered in 2022. As of the date that the financial statements were available to be issued, the aggregate amount of the Company’s purchase obligations totaled approximately \$257.5 million, substantially all of which are expected to be settled within one year of the date that the financial statements were available to be issued.

Other Events

Blockcap Acquisition

On July 30, 2021, Core Scientific acquired Blockcap, one of its largest hosting customers. Consideration consisted of the issuance of approximately 71.2 million shares of Core Scientific common stock, approximately 4.3 million shares of Core Scientific restricted stock and approximately 4.6 million options to purchase shares of Core Scientific common stock. On July 1, 2021, prior to Core Scientific’s acquisition of Blockcap, Blockcap purchased Radar Relay, Inc. (“RADAR”), an early stage company focused on technology enhancement and development in the digital asset industry. Consideration consisted of the issuance of 5,996,311 Blockcap common shares, subject to post-closing adjustments.

As of the effective time of the Core/Blockcap merger, Mr. Matthew Minnis, a member of Core Scientific’s board of directors indirectly owned approximately 6.17% of Blockcap on a fully-diluted basis, and as such received consideration upon the consummation of the Core/Blockcap merger. Prior to the closing of the Core/Blockcap merger, Darin Feinstein, the Co-Chair of Core Scientific’s board of directors, beneficially owned greater than 5% of Core Scientific’s capital stock and held an approximately 12% equity ownership interest in Blockcap. Prior to the effective time of the Core/Blockcap merger, Mr. Feinstein was neither employed by, nor served on the board of directors of, Core Scientific. The terms of the merger agreement between Core Scientific and Blockcap were the result of arms-length negotiations between Core Scientific, Blockcap and their respective representatives.

The acquisition was accounted for as a business combination using the acquisition method whereby the net assets acquired, and the liabilities assumed were recorded at fair value. The difference between the aggregate consideration relative to the fair value of the identifiable net assets is recorded as goodwill. The Company is still in the process of completing its initial accounting for the business combination, including determining the fair value of assets acquired and liabilities assumed and the allocation of the purchase price to goodwill.

Financing activities

In April 2021, the Company issued secured convertible notes in an initial aggregate principal amount of \$215 million (the “Notes”) in a private offering. In addition, the Company issued \$299.8 million of convertible notes in August through November 2021 under substantially the same terms and conditions as the original April 2021 notes except that the August through November 2021 notes have a minimum payoff based on the face value plus accrued interest rather than two times the outstanding face amount plus accrued interest. The Notes bear interest at a rate of 10% per annum, 4% of which is payable in cash and 6% of which is payable-in-kind, and mature on April 19, 2025 (the “Maturity Date”), unless repurchased or converted. The Company used the net proceeds from the issuance of the Notes to fund the purchase of certain equipment and other capital leases, to repay in full all amounts due under the Company’s existing credit facility and for general corporate purposes.

Upon the closing of the Merger Agreement with XPDI in January 2022, the convertible notes became convertible into common shares at the option of the holder at a conversion price equal to \$8.00 per share. Unless otherwise converted, (i) on or after an Offering, the Notes may be redeemed, in whole or in part, in an amount equal to the outstanding principal amount of the notes (together with all accrued unpaid interest thereon) multiplied by (a) 200% for the convertible notes issued in April 2021 or (b) 100% for the convertible notes issued in August through November 2021 (the “Repayment Amount”), (ii) upon a Change of Control the Notes will be redeemed in full in an amount equal to the Repayment Amount and (iii) on the Maturity Date the notes will be repaid in full in an amount equal to the Repayment Amount.

The Notes are guaranteed by each wholly-owned domestic material subsidiary of the Company (the “Guarantors”) and are secured by substantially all of the assets of the Company and the Guarantors (subject to certain exceptions including assets financed with purchase money financing and real property). The Company is subject to a financial reporting covenant and, prior to a Conversion Event, certain negative covenants restricting the Company’s ability (i) to incur secured debt (other than debt to finance the acquisition of any fixed or capital assets, including real property assets) in excess of \$265 million, (ii) to make restricted payments (including dividends and repurchases of capital stock) and (iii) to dispose of material assets (with certain exceptions). The Notes include events of default that are customary for a transaction of this type and include, among others things, payment default, covenant default, bankruptcy default of the Company or any of its material subsidiaries and cross-acceleration on other material debt.

In May 2021, the Company received \$13 million of additional loans under the master equipment finance agreement with NYDIG to finance the Company’s acquisition of blockchain computing equipment that bear an interest rate of 14.25% and have a term of 24 months from issuance. In July 2021, the Company received blockchain computing equipment from NYDIG (which had been concurrently acquired by NYDIG from Blockcap in exchange for settlement of Blockcap’s debt with NYDIG) in exchange for \$26.1 million of additional loans under the master equipment finance agreement with NYDIG that bear an interest rate of 14.25% and have a term of 24 months from issuance. In November 2021, the Company received blockchain computing equipment from NYDIG in exchange for \$33.4 million of additional loans under the master equipment finance agreement with NYDIG that bear an interest rate of 11% and have a term of 24 months from issuance.

In July 2021, the Company paid off the \$2.2 million PPP loan in full plus accrued interest.

In August through November 2021, the Company entered into unsecured convertible note agreements and issued \$299.8 million of additional convertible notes (including \$1 million of convertible notes issued to an entity affiliated with XMS Capital) subject to the same terms and conditions of the April 2021 notes, except that the August through November 2021 notes are unsecured until an initial public offering or SPAC merger and then they are secured *pari passu* with the Secured Convertible Notes.

In August 2021, the Company entered into a \$30.0 million master equipment finance facility agreement with Trinity Capital Inc. (“Trinity”) to finance the Company’s acquisition of blockchain computing equipment and received a loan of \$1.0 million at close. The loan has a term of 36 months from issuance.

In October 2021, the Company entered into a lending agreement with Bremer Bank, National Association to borrow up to \$16.2 million in two tranches through May 22, 2022 for the purchase of blockchain mining equipment and improvements to data center and infrastructure. In December 2021, the Company entered into an additional term loan to borrow up to \$9.6 million. The Company borrowed \$15.2 million in October through December 2021. The loans bear interest at 5.5% annually and are due at the earlier of the date of sale of the underlying mining equipment or 60 months from issuance.

In December 2021, the Company entered into two lending agreements with Blockfi Lending, LLC to borrow up to \$110.0 million for the purchase of blockchain mining equipment. The first agreement consists of \$10.0 million and bears interest at 9.7% with a term of 24 months from issuance. The second agreement consists of \$100.0 million and bears interest at 13.1% with a term of 24 months from issuance. The company borrowed the first tranche totaling \$60.0 million in December 2021 and has until March 2022 to borrow the remaining \$50.0 million.

Resignation of CEO

The Company’s President and Chief Executive Officer, Kevin Turner, resigned in May 2021. Mr. Turner’s employment agreement provides that he will be entitled to receive 12 months of base salary totaling \$300,000 and, if Mr. Turner elects COBRA coverage, for 12 months he will receive a monthly cash payment equal to the full premium for company-paid continuing health care benefits. As of Mr. Turner’s separation date, 9,037,500 RSUs had satisfied the time vested condition but remain subject to the performance condition described in Note 11 of the Company’s Consolidated Financial Statements as of and for the Years Ended December 31, 2021 and 2020 which must be satisfied within three years of Mr. Turner’s separation date.

Related party transactions

During the year ended December 31, 2021, the Company entered various promissory notes with Blockcap, a related party entity that was managed by individuals that are directors and executives of the Company. The Company had existing contracts for equipment sales and hosting services with Blockcap prior to the Company acquiring Blockcap on July 30, 2021 as described above. The promissory notes deferred \$32.7 million of amounts originally due in June through July 2021 from Blockcap contracts until August 2021. The promissory notes were effectively settled by the Company’s acquisition of Blockcap. In addition, during the year ended December 31, 2021, Company paid \$0.1 million for management and professional fees from an affiliated company that had been accrued by Blockcap prior to being acquired on July 30, 2021. For more information on related party transactions, see the section titled “*Certain Relationships and Related Party Transactions*” in this 8-K/A.

Foreign Currency and Exchange Risk

The vast majority of our cash generated from revenue are denominated in U.S. dollars, with a small amount denominated in foreign currencies.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those accounting policies and estimates that are both the most important to the portrayal of our net assets and results of operations and require the most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates are developed based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Critical accounting estimates are accounting estimates where the nature of the estimates are material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change and the impact of the estimates on financial condition or operating performance is material.

The critical accounting estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

Hosting and Equipment Sales

We may enter into contracts with more than one performance obligation. For example, we regularly enter into contracts that include both hosting services, for which revenue is recognized as services are performed on a consumption basis, and sales of computer equipment to those same customers, for which revenue is recognized at the point in time when control of the equipment is transferred to the customer (typically at the start of the contract period). For these contracts, revenue is recognized based on the relative standalone selling price of each performance obligation in the contract. The determination of the standalone selling price for contracts that involve more than one performance obligation can have a significant impact on the timing of revenue recognition and may require significant judgment, such as when the selling price of a good or service is not readily observable.

Digital Asset Mining Income

The Company derives its digital asset mining income from operating its owned computer equipment as part of a pool of users, facilitated by a pool operator, that processes transactions conducted on one or more blockchain networks. The contracts with pool operators are terminable at any time by either party. In exchange for providing computing power to the pool, the Company is entitled to receive digital currency assets from the mining pool operator which is a variable amount based on either (a) the amount of computing power the Company has contributed to the mining pool and current network difficulty or (b) a fractional share of the digital currency asset award the mining pool operator receives from the blockchain network upon successfully adding a block to the blockchain, 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 processing the block.

Providing computing power in digital asset transaction verification services is an output of the Company's ordinary activities. Providing such computing power is the only performance obligation in the Company's arrangements with mining pool operators. The transaction consideration the Company receives, if any, is noncash consideration that may be either fixed or variable depending on the payout methodology used by the pool operator. In certain arrangements, the Company does not have a reliable means to estimate its relative share of the rewards until they are paid to it and the variable consideration is constrained until the Company receives the consideration, at which time revenue is recognized. The Company measures consideration at fair value on the date received, which is typically not materially different than the fair value at inception of the arrangement or the time the Company has earned the award from the pools. The Company's digital asset mining income is sensitive to changes in the market prices of digital currency assets which may be significant.

Stock-Based Compensation

The Black-Scholes assumptions used in evaluating our awards are as follows:

	<u>Years Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Dividend yield	0.00%	0.00%
Expected volatility	72.57%	36.26%
Risk-free interest rate	1.39%	0.70%
Expected life (years)	6.22	10.00

We will continue to use judgment in evaluating the assumptions related to our stock-based compensation on a prospective basis. As we continue to accumulate additional data related to our common stock, we may refine our estimation process, which could materially impact our future stock-based compensation expense.

In addition, for awards with performance conditions, primarily restricted stock unit awards, we recognize the estimated fair value of the awards based on management's judgment as to whether or not it is probable that the performance conditions will be achieved.

Common Stock Valuations

In valuing the fair value of our common stock, we use the most observable inputs available. We use the market approach, which estimates the value of our business by applying valuation multiples derived from the observed valuation multiples of comparable public companies to our expected financial results.

When observable inputs are not available, we may use the income approach. This approach typically projects cash flows for the forecast period and uses the perpetuity growth method to calculate terminal values. These cash flows and terminal values are then discounted using an appropriate discount rate. Projections of cash flows are based on management's earnings forecasts.

Applying these valuation and allocation approaches involves the use of estimates, judgments and assumptions that are highly complex and subjective, such as those regarding the Company's expected future revenue, expenses and cash flows, as well as discount rates, valuation multiples, the selection of comparable public companies and the probability of future events. Changes in any or all of these estimates and assumptions, or the relationships between these assumptions, impact the Company's valuation as of each valuation date and may have a material impact on the valuation of the Company's common stock and common stock warrants issued with the Company's debt and equity instruments.

Business Combinations and Goodwill

The total purchase price of any of our acquisitions is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over those fair values is recorded as goodwill. The fair value assigned to the tangible and intangible assets acquired and liabilities assumed are based on estimates and assumptions around the valuation of our common stock at the time of the acquisition.

We do not amortize goodwill, but tests it for impairment annually as of October 31, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. We have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of its reporting units are less than their carrying amounts as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or choose not to perform a qualitative assessment, then the quantitative goodwill impairment test will be performed. The quantitative test compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the excess of the carrying amount over the fair value is recognized as an impairment loss, and the resulting measurement of goodwill becomes its new cost basis. As of December 31, 2021 and 2020, the carrying amount of Goodwill was \$1.06 billion and \$58.2 million, respectively. The increase in goodwill during the year ended December 31, 2021 was due to \$1.00 billion of goodwill added for the Blockcap acquisition on July 30, 2021. There were no accumulated impairment losses as of January 1, 2020, and no impairment losses were recorded for the years ended December 31, 2021 and 2020.

Long-Lived Assets

We test long-lived assets for recoverability whenever events or changes in circumstances have occurred that may affect the recoverability or the estimated useful lives of long-lived assets. Long-lived assets include intangible assets subject to amortization. A long-lived asset may be impaired when the estimated future undiscounted cash flows are less than the carrying amount of the asset. If that comparison indicates that the asset's carrying value may not be recoverable, the impairment is measured based on the difference between the carrying amount and the estimated fair value of the asset. This evaluation is performed at the lowest level for which separately identifiable cash flows exist. Long-lived assets to be disposed of are reported at the lower of the carrying amount or estimated fair value less costs to sell. We did not have any impairments in our long-lived assets for the years ended December 31, 2021 and 2020.

Digital Currency Assets

Our digital currency assets are accounted for as intangible assets with indefinite useful lives. We initially recognize digital currency assets that are received as digital asset mining income based on the fair value of the digital currency assets. Digital currency assets that are purchased in an exchange of one digital currency asset for another digital currency asset are recognized at the fair value of the asset received. The Company recognizes realized gains or losses when digital currency assets are sold in an exchange for other digital currency assets or for cash using a first-in first-out method of accounting. For the years ended December 31, 2021 and 2020, the Company recognized net gains of \$4.8 million and \$0.1 million, respectively, on sales of digital currency assets. We classified digital currency assets within current assets because the digital currency assets are available for use, if needed, for current operations. Sales of digital currency assets awarded to the Company through its self-mining activities are classified as cash flows from operating activities regardless of the length of time for which the digital assets are held.

Foreign Currency and Exchange Risk

Substantially all revenue and operating expenses are denominated in U.S. dollars.

Recent Accounting Pronouncements

For a discussion of new accounting standards relevant to our business, refer to Note 2 to the consolidated financial statements.

Emerging Growth Company and a Smaller Reporting Company Status

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. We may take advantage of certain exemptions from various public company reporting requirements, including not being required to have our internal control over financial reporting audited by our independent registered public accounting firm under Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and any golden parachute payments. We may take advantage of these exemptions for up to five years or until we are no longer an emerging growth company, whichever is earlier. In addition, the JOBS Act provides that an “emerging growth company” can delay adopting new or revised accounting standards until those standards apply to private companies. We have elected to use the extended transition period under the JOBS Act. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

We will remain an emerging growth company under the JOBS Act until the earliest of (a) February 12, 2026, the fifth anniversary of XPDI’s initial public offering, (b) the last date of our fiscal year in which we have a total annual gross revenue of at least \$1.07 billion, (c) the date on which we are deemed to be a “large accelerated filer” under the rules of the SEC with at least \$700.0 million of outstanding securities held by non-affiliates or (d) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the previous three years.

We are also a “smaller reporting company” as defined in the Securities Exchange Act of 1934, as amended. We may continue to be a smaller reporting company even after we are no longer an emerging growth company. We may take advantage of certain of the scaled disclosures available to smaller reporting companies and will be able to take advantage of these scaled disclosures for so long as (i) the market value of our voting and non-voting common stock held by non-affiliates is less than \$250 million measured on the last business day of our second fiscal quarter or (ii) our annual revenue is less than \$100 million during the most recently completed fiscal year and the market value of our voting and non-voting common stock held by non-affiliates is less than \$700 million measured on the last business day of our second fiscal quarter. Specifically, as a smaller reporting company, we may choose to present only the two most recent fiscal years of audited financial statements in our Annual Report on Form 10-K and have reduced disclosure obligations regarding executive compensation, and, similar to emerging growth companies, if we are a smaller reporting company that qualifies as a non-accelerated filer, we would not be required to obtain an attestation report on internal control over financial reporting issued by our independent registered public accounting firm.

**UNAUDITED HISTORICAL COMPARATIVE AND PRO FORMA COMBINED PER
SHARE DATA OF XPDI AND CORE SCIENTIFIC HOLDING CO.**

Presented below is the historical and pro forma per share data for New Core, XPDI, Core Scientific and Blockcap for the year ended December 31, 2021. The pro forma earnings per share data for the year ended December 31, 2021 is presented as if the merger had been completed on January 1, 2021. The information provided below is unaudited.

This information should be read together with XPDI's, Core Scientific's and Blockcap's audited financial statements and related notes, the sections titled "Unaudited Pro Forma Condensed Combined Financial Information," "XPDI's Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Core Scientific's Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case, included elsewhere in this 8-K/A.

The historical per share information of XPDI, Core Scientific and Blockcap was derived from the audited consolidated financial statements of XPDI and Core Scientific respectively, and the audited financial statements of Blockcap, for the year ended December 31, 2021.

The unaudited pro forma data of Core Scientific combines the historical results of Blockcap's financial statements for the period prior to the acquisition into Core Scientific's historical consolidated financial statements. The unaudited pro forma data then combines the derived pro forma results of Core Scientific with XPDI's consolidated financial statements.

The New Core pro forma equivalent per share amount is calculated by dividing the pro forma net income by the New Core equivalent weighted average basic and diluted shares. The New Core equivalent shares are calculated by adding a) the Core Scientific pro forma combined shares multiplied by the exchange rate of 1.6001528688 and b) the XPDI pro forma combined shares after the redemption of 12,347,077 redeemable shares. See "Unaudited Pro Forma Condensed Combined Financial Information—Note 5".

The pro forma data is presented for illustrative purposes only and is not necessarily indicative of the results of operations or the financial condition that would have occurred if the merger had been completed as of the dates described above.

**Unaudited Pro Forma Per Share Data
For The Year Ended December 31, 2021**

	Blockcap (Historical) for the period January 1, 2021 through July 30, 2021	Core Scientific Historical	Core Scientific Pro Forma Combined	XPDI Historical	Pro Forma Combined New Core	Pro Forma Equivalent New Core
Net (loss) income per share:						
Basic	\$ (0.16)	\$ 0.37	\$ (2.04)	\$ (0.83)	\$ (1.81)	\$ (1.21)
Diluted ⁽¹⁾	\$ (0.16)	\$ 0.32	\$ (2.04)	\$ (0.83)	\$ (1.81)	\$ (1.21)

¹ Potentially dilutive securities are not included in the calculation of diluted net loss per share because to do so would be anti-dilutive.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information is provided to aid you in your analysis of the financial aspects of the Transactions (as defined below). This information should be read together with XPDI's and Core Scientific's consolidated financial statements and the related notes included as an exhibit to the amendment to the current report on Form 8-K, which was originally filed with the Securities and Exchange Commission on January 24, 2022 (as originally filed, the "Super 8-K" and, as amended hereby, the "8-K/A", the sections titled "XPDI's Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Core Scientific's Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information, in each case, contained elsewhere in this 8-K/A. Capitalized terms used but not defined herein have the respective meanings given to them in this 8-K/A.

The following unaudited pro forma condensed combined financial information presents the combination of the historical financial information of XPDI and Core Scientific, adjusted to give effect to the merger, other events contemplated by the merger agreement and certain recent transactions completed by Core Scientific (collectively, the "Transactions").

The Transactions include:

- The merger, which includes the merger of XPDI and the Merger Sub with Core Scientific;
- Core Scientific's acquisition of Blockcap (described below), including any elimination of the effect of transactions between Core Scientific and Blockcap, as required, is included in the Core Scientific historical financial statements as of and for the year ended December 31, 2021. The pro forma impact to the Statement of Operations had the acquisition taken place on January 1, 2021 is included as an adjustment for the year ended December 31, 2021.
- The issuance by Core Scientific of secured convertible notes in April, 2021, net of the repayment of the existing Core Scientific loan (the "Silverpeak loan") and the issuance during the period August through November, 2021 of unsecured convertible notes is included in the Core Scientific historical financial statements as of and for the year ended December 31, 2021. The pro forma impact to interest expense for the year ended December 31, 2021 is included as an adjustment.

The unaudited pro forma condensed combined balance sheet as of December 31, 2021 combines the historical condensed consolidated balance sheet of XPDI as of December 31, 2021 and the historical balance sheet of Core Scientific as of December 31, 2021 presented on a pro forma basis as if the Transactions had been consummated on December 31, 2021. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2021 combine the historical statements of operations of XPDI for the year ended December 31, 2021, the historical statements of operations of Core Scientific for the year ended December 31, 2021, and the historical statements of operations of Blockcap for the period from January 1, 2021 through July 30, 2021 (the date of acquisition), respectively, on a pro forma basis as if the Transactions had been consummated on January 1, 2021, the beginning of the earliest period presented.

The unaudited pro forma condensed combined financial information and accompanying notes have been derived from and should be read in conjunction with:

- the historical audited condensed consolidated financial statements of XPDI as of and for the year ended December 31, 2021 and the related notes, which are included elsewhere in this 8-K/A;
- the historical audited financial statements of Core Scientific as of and for the year ended December 31, 2021 and the related notes, which are included elsewhere in this 8-K/A;
- the historical unaudited financial statements of Blockcap for the period from January 1, 2021 through the acquisition date of July 30, 2021;

-
- other information relating to XPDI and Core Scientific contained in this 8-K/A, including the merger agreement and the description of certain terms thereof set forth in the section entitled “The Merger Agreement.”

Description of the Merger

On July 20, 2021, XPDI, the Merger Sub and Core Scientific entered into the merger agreement pursuant to which Merger Sub merged with and into Core Scientific, with Core Scientific surviving the First Merger as a wholly owned subsidiary of XPDI, and promptly following the First Merger, Core Scientific merged with and into XPDI, with XPDI surviving the Second Merger. Upon the consummation of the merger, the name of the surviving entity is “Core Scientific, Inc.”

Immediately prior to the Effective Time, each share of Core Scientific preferred stock issued and outstanding automatically converted into a number of shares of Core Scientific common stock in accordance with the Certificates of Designation for Core Scientific’s Series A Preferred Stock and Series B Preferred Stock, in each case, upon receipt of the requisite vote of holders with respect to each respective class of preferred stock as set forth in each such Certificate of Designation.

At the Effective Time, each share of Core Scientific common stock (including, for the avoidance of doubt, common stock issued as a result of the conversion of Core Scientific preferred stock in connection with the merger and any shares of Core Scientific common stock that were issued as a result of any deemed exercise of an option to purchase Core Scientific common stock held by a former employee or service provider of Core Scientific, except as set forth in the merger agreement) that was issued and outstanding immediately prior to the Effective Time (other than shares held in treasury and dissenting shares) was cancelled and extinguished and collectively converted into the right to receive the applicable portion of the merger consideration, in accordance with the Allocation Schedule, consisting of a number of shares of Class A Common Stock equal to the Exchange Ratio. Each share of Core Scientific common stock held in treasury immediately prior to the Effective Time was cancelled and extinguished, and no consideration was paid or is payable with respect thereto. Each issued and outstanding share of common stock of Merger Sub was converted into and became one share of common stock of the surviving corporation of the First Merger. By virtue of the Second Merger, each share of common stock of the surviving corporation of the First Merger was converted into and became one common membership unit of the surviving entity of the Second Merger.

At the Effective Time, each warrant to purchase Core Scientific common stock held by a former employee or service provider that was issued, outstanding and unexercised immediately prior to the Effective Time was deemed to have been exercised, on a net exercise basis with respect to the applicable exercise price and any required withholding or employment taxes thereon, immediately prior to the Closing and was settled in the applicable number of shares of Core Scientific common stock, rounded down to the nearest whole share. At the Effective Time, each warrant to purchase Core Scientific common stock that was issued, outstanding and unexercised immediately prior to the Effective Time (except as described above) was assumed by XPDI and converted into a warrant to purchase shares of Class A Common Stock on the same terms and conditions as were applicable to the warrants to purchase Core Scientific common stock immediately prior to the Effective Time, equal to the product (rounded down to the nearest whole number) of (i) the number of shares of Core Scientific common stock subject to such warrant immediately prior to the Effective Time and (ii) the Exchange Ratio, at an exercise price per share (rounded up to the nearest whole cent) equal to the quotient of (x) the exercise price per share applicable to such warrant immediately prior to the Effective Time divided by (y) the Exchange Ratio.

At the Effective Time, each of Core Scientific’s RSUs were assumed by XPDI and converted into a restricted stock unit to be settled in shares of Class A Common Stock on the same terms and conditions as were applicable to such RSU immediately prior to the Effective Time, including applicable vesting conditions, equal to the product (rounded down to the nearest whole number) of (i) the number of shares of Core Scientific common stock underlying such RSU immediately prior to the Effective Time and (ii) the Exchange Ratio.

At the Effective Time, each option to purchase Core Scientific common stock held by a former employee or service provider of Core Scientific that was vested and outstanding immediately prior to the Effective Time, except as set forth in the merger agreement, was deemed to have been exercised, on a net exercise basis with respect to the applicable exercise price and any required withholding or employment taxes thereon, immediately prior to the Closing and settled in the applicable number of shares of Class A Common Stock, rounded down to the nearest whole share. At the Effective Time, each option to purchase Core Scientific common stock held by a former employee or service provider of Core Scientific that was unvested and outstanding immediately prior to the Effective Time, except as set forth in the merger agreement, was automatically cancelled at the Closing without the payment of consideration. From and after the Closing, except as set forth in the merger agreement and except with respect to the holder's right to receive Class A Common Stock, if any, each Core Scientific option held by a former employee or service provider of Core Scientific was cancelled and ceased to be outstanding and the holder ceased to have any rights with respect thereto. At the Effective Time, except as set forth in the merger agreement, each other option to purchase Core Scientific common stock issued and outstanding immediately prior to the Effective Time not held by a former employee or service provider of Core Scientific was assumed by XPDI and converted into an option to purchase shares of Class A Common Stock on the same terms and conditions as were applicable to such option immediately prior to the Effective Time, including applicable vesting conditions (an "Exchanged Option"), equal to the product (rounded down to the nearest whole number) of (i) the number of shares of Class A Common Stock subject to such option immediately prior to the Effective Time and (ii) the Exchange Ratio, at an exercise price per share (rounded up to the nearest whole cent) equal to (x) the exercise price per share of such option immediately prior to the Effective Time divided by (y) the Exchange Ratio; provided, however, that the exercise price and the number of shares of Class A Common Stock purchasable pursuant to such option shall be determined in a manner consistent with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") (to the extent applicable to such option); provided further, that in the case of any such option to which Section 422 of the Code applies, the exercise price and the number of shares of Class A Common Stock purchasable pursuant to such option was determined in accordance with the foregoing, and the requirements of Section 424(a) of the Code. At the Effective Time, each option to purchase Core Scientific common stock issued and outstanding immediately prior to the Effective Time held by certain specified Core Scientific option holders that is vested and outstanding immediately prior to the Effective Time was deemed to have been exercised, on a net exercise basis with respect to the applicable exercise price and any required withholding or employment taxes thereon, immediately prior to the Closing and settled in cash.

At the Effective Time, each secured convertible promissory note issued by Core Scientific that was outstanding immediately prior to the Effective Time was assumed by XPDI and remains outstanding (and Core Scientific or its successor by merger remains an obligor with respect to such notes) and is convertible into Class A Common Stock (rather than equity securities of Core Scientific) in accordance with the terms of such convertible promissory note; provided, however, that with respect to any outstanding convertible promissory notes for which Core Scientific received a duly executed exercise of conversion in accordance with such convertible promissory note, exercising the right of such holder to convert such convertible promissory note subject to and conditioned upon the occurrence of the Effective Time, the outstanding principal amount and accrued interest as of the Effective Time with respect to such convertible promissory note was converted into shares of Class A Common Stock, equal to the product (rounded down to the nearest whole number) of (i) the number of shares of Core Scientific common stock issuable upon the conversion of such convertible promissory note in accordance with such convertible promissory note immediately prior to the Effective Time and (ii) the Exchange Ratio.

Prior to the Effective Time, XPDI appointed a commercial bank or trust company (the “Exchange Agent”) for the purpose of distributing the merger consideration payable to each holder of Core Scientific common stock. At the Effective Time, XPDI deposited evidence of shares of Class A Common Stock in book-entry form (or certificates representing shares of Class A Common Stock, at XPDI’s election) representing the aggregate merger consideration payable pursuant to the merger agreement (such equity deposited with the Exchange Agent referred to herein as the “Exchange Fund”). At the Effective Time, XPDI delivered irrevocable instructions to the Exchange Agent to deliver the merger consideration out of the Exchange Fund in accordance with the merger agreement. See “The Merger—Merger Consideration; Conversion of Shares; Exchange Procedures” in this 8-K/A.

Accounting for the Merger

The merger between XPDI and Core Scientific will be accounted for as a reverse recapitalization in accordance with U.S. GAAP. Under this method of accounting, XPDI will be treated as the “acquired” company for financial reporting purposes and the merger will be treated as the equivalent of Core Scientific issuing stock for the net assets of XPDI, accompanied by a recapitalization. The net assets of XPDI will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Transactions will be those of Core Scientific. See “Accounting Treatment.”

Description of Blockcap Acquisition

On July 30, 2021, Core Scientific acquired Blockcap, one of its largest hosting customers. Consideration consisted of the issuance of approximately 71.2 million shares of Core Scientific common stock, approximately 4 million shares of Core Scientific restricted stock and approximately 5 million options to purchase shares of Core Scientific common stock. The acquisition is expected to be accounted for as a business combination using the acquisition method of accounting, whereby the net assets acquired and the liabilities assumed were recorded at fair value. Core Scientific is still in the process of completing its initial accounting for the business combination, including determining the fair value of consideration transferred, assets acquired and liabilities assumed and the allocation of the purchase price to goodwill. Core Scientific and Blockcap had preexisting relationships which were settled on the acquisition date. Using the estimated purchase price for the transaction, Core Scientific has allocated the purchase price to identifiable assets and liabilities based upon preliminary fair value estimates. The difference between the aggregate consideration relative to the fair value of net assets is recorded as goodwill. Refer to Note 3 for further discussion.

On July 1, 2021, prior to Core Scientific's acquisition of Blockcap, Blockcap purchased Radar Relay, Inc. ("RADAR"), an early stage company focused on technology enhancement and development in the digital asset industry. The acquisition was accounted for as a business combination using the acquisition method of accounting, whereby the net assets acquired, and the liabilities assumed were recorded at fair value. Using the estimated purchase price for the transaction, Blockcap has allocated the purchase price to identifiable assets and liabilities based upon preliminary fair value estimates. The difference between the aggregate consideration relative to the fair value of net assets is recorded as goodwill. Refer to Note 3 for further discussion.

Description of the Issuance of Convertible Notes

In April 2021, Core Scientific entered into a Secured Convertible Note Purchase Agreement and issued \$215 million of senior secured convertible notes to new and existing lenders. The convertible notes have a maturity date of April 2025 and bear interest of 10% per annum, of which 4% is payable in cash and 6% is payable in kind. The convertible notes are convertible into common or preferred shares at the option of the holder upon the occurrence of a) an initial public offering or SPAC merger, b) a private placement of equity securities with gross proceeds to the Company of at least \$50 million or c) a change in control. The conversion price is equal to a) 65-80% of the price paid for equity securities in an initial public offering, depending on the timing of the initial public offering or b) 65-80% of the fair value per share paid in a change in control or SPAC merger, depending on the timing of the change in control or SPAC merger. At maturity, the Secured Convertible Notes not converted will be owed two times the face value of the note plus accrued interest. The proceeds from the convertible notes were used, in part, to repay the 15% per annum Silverpeak loan of which \$21 million was issued in May 2020 and an additional \$9 million was issued in February 2021.

In August through November of 2021, an additional \$300 million of senior unsecured convertible notes were issued under substantially the same terms and conditions as the original \$215 million of secured convertible notes issued in April 2021, except that such notes are unsecured until the occurrence of a) an initial public offering or SPAC merger, b) a private placement of equity securities with gross proceeds to the Company of at least \$50 million or c) a change in control, at which time they become secured on a pari passu basis with the Secured Convertible Notes.

Core Scientific has reflected the issuance of the April convertible note, the repayment of the Silverpeak loan and the issuance of the senior unsecured convertible notes in its historical financial statements as of and for the year ended December 31, 2021. The impact is only partially reflected for the entire pro forma period in the historical statements. An adjustment has been made to the pro forma statement of operations for the twelve month period ending December 31, 2021 to reflect the impact for the full pro forma period.

Refer to Note 2 and Note 8 for further discussion.

Basis of Pro Forma Presentation

The unaudited pro forma condensed combined financial information has been presented for illustrative purposes only and is not necessarily indicative of the operating results and financial position that would have been achieved had the Transactions occurred on the dates indicated, and does not reflect adjustments for any anticipated synergies, operating efficiencies, tax savings or cost savings. Any cash proceeds remaining after the consummation of the Transactions and the other related events contemplated by the merger agreement are expected to be used for general corporate purposes. The unaudited pro forma condensed combined financial information does not purport to project the future operating results or financial position of XPDI following the completion of the Transactions.

The unaudited pro forma adjustments are based on information currently available, and assumptions and estimates underlying the unaudited pro forma adjustments are described in the accompanying notes. Actual results may differ materially from the assumptions used to present the accompanying unaudited pro forma condensed combined financial information.

The following summarizes the unaudited pro forma New Core common stock issued and outstanding immediately after the Transactions (in thousands, except percentages):

	Share Ownership in New Core	
	Shares	% of Total
Core Scientific shareholders¹	301,292	90.7%
XPDI:		
XPDI Class A shares ⁴	22,153	6.7%
XPDI Class B shares converted to Class A ²	8,625	2.6%
XPDI shareholders	30,778	9.3%
Closing Shares³	332,070	100.0%

- 1 Includes equivalent Core Scientific common shares exchanged for New Core shares using the exchange rate of 1.6001528688 consisting of:
 - a. Core Scientific common shares of 158,212
 - b. Core Scientific common shares from convertible Series A and B preferred stock of 10,826
 - c. Core Scientific vested warrants and options of 10,556
 - d. Blockcap equivalent Core Scientific common shares of 115,508
 - e. Blockcap equivalent Core Scientific common shares from vested RSUs of 1,956
 - f. Blockcap equivalent Core Scientific vested options of 4,234
- 2 Includes 1,725 Class B common shares that will be converted to Class A unvested shares and will vest upon the date on which the volume-weighted average price of the Class A Common Stock is greater than \$12.50 per share for any 20 trading days within any 30 consecutive trading day period within five years of the Closing date. The unvested shares will be excluded from pro forma earnings per share calculations because the stock price threshold contingency has not yet been met.
- 3 Excludes Core Scientific and Blockcap equivalent Core Scientific common shares from unvested RSUs of 97,409 and 4,855, respectively, and 21,103 and 3,111 from unvested options, respectively, using the exchange rate of 1.6001528688 and all other potentially dilutive securities including Core Scientific options, warrants, restricted stock units and convertible notes as well as XPDI warrants. See Note 5—Earnings per Share.
- 4 Includes the impact of the redemption by XPDI shareholders of 12,347 shares of Class A common stock subject to redemption.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF DECEMBER 31, 2021

	December 31, 2021				December 31,
	Core Scientific Pro Forma (Note 2)	XPDI (Historical)	Merger Adjustments		Pro Forma Combined
Assets					
Current Assets:					
Cash and cash equivalents	\$ 117,871	\$ 971	\$ (39,000)	A	\$ 301,406
			221,564	B	
Restricted cash	13,807	—	—		13,807
Accounts receivable, net of allowance of \$— and \$620, respectively	1,382	—	—		1,382
Accounts receivable from related parties	300	—	—		300
Deposits for equipment	358,791	—	—		358,791
Digital currency assets	234,298	—	—		234,298
Prepaid expenses and other current assets	30,111	363	—		30,474
Total Current Assets	756,560	1,334	182,564		940,458
Property, plant and equipment, net	597,304	—	—		597,304
Goodwill	1,055,760	—	—		1,055,760
Intangible assets, net	8,195	—	—		8,195
Investments held in Trust Account	—	345,035	(345,035)	B	—
Other noncurrent assets	21,045	—	—		21,045
Total Assets	\$ 2,438,864	\$ 346,369	\$ (162,471)		\$ 2,622,762
Liabilities, Redeemable Preferred Stock and Stockholders' Equity					
Current Liabilities:					
Accounts payable	\$ 11,617	\$ 263	\$ —		\$ 11,880
Accrued expenses and other	67,862	3,749	—		71,611
Deferred revenue	63,417	—	—		63,417
Deferred revenue from related parties	72,945	—	—		72,945
Capital lease obligations, current portion	28,452	—	—		28,452
Notes payable, current portion	75,996	—	—		75,996
Other current liabilities	—	200	—		200
Total Current Liabilities	320,289	4,212	—		324,501
Capital lease obligations, net of current portion	62,145	—	—		62,145
Notes payable, net of current portion (includes \$557,007 and \$— at fair value)	1,018,857	—	—		1,018,857
Derivative warrant liabilities	—	49,291	—		49,291
Deferred underwriting commissions	—	12,075	(12,075)		—
Other noncurrent liabilities	18,531	—	—		18,531
Total Liabilities	1,419,822	65,578	(12,075)		1,473,325
Contingently redeemable preferred stock	44,476	—	(44,476)	D	—
Commitments and contingencies					
Class A common stock subject to redemption	—	345,000	(345,000)	E	—
Stockholders' Equity:					
Common stock; \$0.00001 par value	2	—	1	F	3
Class B common stock, \$0.0001 par value	—	1	(1)	F	—
Additional paid-in capital	1,379,606	—	(64,210)	F	1,558,228
			(23,173)	A	
			44,476	D	
			345,000	E	
			(123,471)	C	
Accumulated deficit	(394,076)	(64,210)	64,210	F	(397,828)
			(3,752)	A	
Accumulated other comprehensive loss	(10,966)	—	—		(10,966)
Total Stockholders' Equity	974,566	(64,209)	239,080		1,149,437
Total Liabilities, Redeemable Preferred Stock and Stockholders' Equity	\$ 2,438,864	\$ 346,369	\$ (162,471)		\$ 2,622,762

See accompanying notes to the unaudited pro forma combined financial statements

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2021**

	December 31, 2021			December 31, 2021
	Core Scientific Pro Forma (Note 2)	XPDI (Historical)	Merger Adjustments	Pro Forma Combined
Revenue:				
Hosting revenue from customers	\$ 67,495	\$ —	\$ —	\$ 67,495
Equipment sales to customers	230,541	—	—	230,541
Digital asset mining income	288,955	—	—	288,955
Total revenue	586,991	—	—	586,991
Cost of revenue	296,430	—	—	296,430
Gross profit	290,561	—	—	290,561
(Loss) gain on legal settlements	(2,636)	—	—	(2,636)
Gain from sales of digital currency assets	\$ 4,959	\$ —	\$ —	4,959
Impairment of digital currency assets	(54,678)	—	—	(54,678)
Operating expenses:				
Research and development	7,674	—	—	7,674
Sales and marketing	4,062	—	—	4,062
General and administrative	89,361	4,794	3,752 c	97,907
General and administrative - related party	—	220	—	220
Franchise tax expenses	—	200	—	200
Total operating expenses	\$ 101,097	\$ 5,214	\$ —	\$ 106,311
Operating income (loss)	137,109	(5,214)	—	131,895
Non-operating expenses, net:				
Loss on debt from extinguishment	8,016	—	—	8,016
Interest expense, net	71,144	—	—	71,144
Other non-operating expenses, net	384,165	—	—	384,165
Change in fair value of derivative warrant liabilities	—	26,264	—	26,264
Offering costs associated with derivative warrant liabilities	—	1,056	—	1,056
Income from investments held in trust	—	(35)	35 d	—
Total non-operating expense, net	463,325	27,285	35	490,645
Income (loss) before income taxes	(326,216)	(32,499)	(35)	(358,750)
Income tax expense	22,237	—	—	22,237
Net income (loss)	(348,453)	(32,499)	(35)	(380,987)
Deemed dividend from common to preferred exchange	—	—	—	—
Net income (loss) attributable to common stockholders	(348,453)	(32,499)	(35)	(380,987)
Net income (loss) per share:				
Basic	\$ (2.04)	\$ (0.83)	\$ —	\$ (1.21)
Diluted	\$ (2.04)	\$ (0.83)	\$ —	\$ (1.21)
Weighted average shares outstanding:				
Basic	171,059	39,026	—	313,599
Diluted	171,059	39,026	—	313,599

See accompanying notes to the unaudited pro forma combined financial statements

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Basis of Presentation

The unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X, as amended. The adjustments in the unaudited pro forma condensed combined financial information have been identified and presented to provide relevant information necessary for an illustrative understanding of New Core upon consummation of the Transactions. Assumptions and estimates underlying the unaudited pro forma adjustments set forth in the unaudited pro forma condensed combined financial information are described in the accompanying notes.

The unaudited pro forma condensed combined financial information has been prepared to illustrate the effect of the Transactions and has been prepared for informational purposes only.

The merger between XPDI and Core Scientific will be accounted for as a reverse recapitalization in accordance with GAAP. Under this method of accounting, XPDI will be treated as the “acquired” company for financial reporting purposes. Accordingly, the merger will be treated as the equivalent of Core Scientific issuing stock for the net assets of XPDI, accompanied by a recapitalization. The net assets of XPDI will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Transactions will be those of Core Scientific. See “Accounting Treatment.” The pro forma adjustments related to the merger are described in Note 3.

The acquisition of Blockcap by Core Scientific, as further summarized in Note 2, was accounted for as a business combination using the acquisition method of accounting in accordance with ASC 805, Business Combinations, with Core Scientific determined to be the accounting acquirer. Accordingly, the acquired assets and assumed liabilities of Blockcap have been adjusted to fair value, where appropriate. The difference between the aggregate consideration relative to the fair value of the identifiable net assets is recorded as goodwill. In addition, pro forma adjustments related to Core Scientific’s issuance of convertible notes and the repayment of the Silverpeak loan are reflected in Note 2.

Management has made significant estimates and assumptions in its determination of the pro forma adjustments. As the unaudited pro forma condensed combined financial information has been prepared based on these preliminary estimates, the final amounts recorded may differ materially from the information presented.

The unaudited pro forma condensed combined financial information does not give effect to:

- any anticipated synergies, operating efficiencies, tax savings, cost savings or increased costs of a public company that may be associated with the Transactions, or
- the potential purchases of mining and hosting equipment.

The pro forma adjustments reflecting the consummation of the Transactions are based on certain currently available information and certain assumptions and methodologies that XPDI believes are reasonable under the circumstances. The unaudited condensed combined pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated. Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments and it is possible the difference may be material. XPDI believes that its assumptions and methodologies provide a reasonable basis for presenting all of the significant effects of the Transactions based on information available to management at this time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information is not necessarily indicative of what the actual results of operations and financial position would have been had the Transactions taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of New Core. The unaudited pro forma condensed combined financial information should be read in conjunction with the historical financial statements and notes thereto of XPDI, Core Scientific and Blockcap.

2. Historical Core Scientific, Blockcap Acquisition and Convertible Note Issuance

The following unaudited pro forma adjustments reflect the impact of Transactions completed by Core Scientific prior to the anticipated merger, including (all share amounts are in thousands):

- The pro forma interest expense impact of the Core Scientific issuance of \$515 million of convertible notes (\$215 million in April 2021 and \$300 million in August through November 2021) and the subsequent repayment of the \$30 million Silverpeak loan net of prepayment penalties. The holders of the convertible notes have not exercised their conversion rights as a result of the merger; and
- The acquisition of Blockcap by Core Scientific on July 30, 2021, including any elimination of the effect of transactions between Core Scientific and Blockcap, as required, is included in the Core Scientific historical financial statements as of and for the year ended December 31, 2021. The pro forma impact to the Statement of Operations had the acquisition taken place on January 1, 2021 is included as an adjustment for the period from January 1, 2021 through July 30, 2021. Consideration paid consisted of 72,186 Core Scientific common shares, 657 common shares from vested options settlement, 4,256 Core Scientific Restricted Stock Units and 2,393 Core Scientific Options. The portion of the fair value of the replaced Blockcap share based payments attributable to pre-combination service as well as the impact of the effective settlement of preexisting hosting and equipment contracts between Core Scientific and Blockcap has been included in the aggregate purchase price of \$1.14 billion.

The purchase price allocation is as follows:

PPA Allocation

Consideration <i>(in thousands)</i> :	
71.2 million common shares valued at \$16.18 per share ^{1,2}	\$1,151,985
Fair value of replaced Blockcap share-based payments attributable to pre-combination service ³	21,768
Settlement of Blockcap debt ⁴	25,607
Settlement of preexisting contracts ⁵	(60,522)
Total Consideration	\$1,138,838
Fair value of assets acquired, and liabilities assumed:	
Cash and cash equivalents	\$ 704
Digital assets-Bitcoin	73,304
Digital assets-Ethereum	365
Digital assets-Bitcoin cash	8
Digital assets-Siacoin	554
Digital assets-Other	3,329
Other current assets	633
Intangible assets, net	2,925
Property, plant and equipment, net	97,964
Other noncurrent assets	1,293
Total assets acquired	181,079
Accounts payable	492
Accrued expenses and other	22,647
Deferred revenue	414
Other current liabilities	7,204
Deferred tax liability	9,003
Total liabilities assumed	\$ 39,760
Total identifiable net assets	\$ 141,319
Goodwill on acquisition	\$ 997,519

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- 1 71.2 million common shares represent the equivalent Core Scientific common shares issued to Blockcap shareholders as consideration for the purchase.
 - 2 The price per share of our common shares was estimated to be \$16.18. As the Core Scientific common shares were not listed on a public marketplace, the calculation of the fair value of the common shares was subject to a greater degree of estimation. Given the absence of a public market, an estimate of the fair value of the common shares was required at the time of the Blockcap Acquisition. Objective and subjective factors were considered in determining the estimated fair value and because there is no active trading of the Core Scientific equity shares on an established securities market, an independent valuation specialist was engaged. The valuation was determined by weighting the outcomes of scenarios estimating share value based on both public company valuations and private company valuations. Both a market approach and common stock equivalency model were used to determine a range of outcomes, which were weighted based on probability to determine the result.
 - 3 Reflects the estimated fair value of replaced Blockcap share-based payments allocated to purchase price based on the proportion of service related to the pre-combination period. The fair value of the stock-based awards was determined utilizing the Black-Scholes pricing model.
 - 4 Reflects the fair value of loans issued by the Company in July 2021 that were effectively used to settle debt that had previously been held by Blockcap.
 - 5 Blockcap had preexisting hosting and equipment with Core Scientific that were effectively settled by Core Scientific's acquisition of Blockcap. As a result, the consideration transferred to Blockcap has been adjusted by the deferred revenue balances that were settled at the time of acquisition.

In a business combination, the initial allocation of the purchase price is considered preliminary and therefore subject to change until the end of the measurement period (not to exceed one year from the acquisition date). Because the measurement period is still open, certain fair value estimates may change once all information necessary to make a final fair value assessment has been received. Specifically, the measurement period is still open for consideration transferred, property, plant and equipment, net and deferred tax liabilities as the Company is still in the process of obtaining information about certain shares allocated to Blockcap shareholders and certain transactions between Blockcap and Core that were outstanding as of July 30, 2021.

Goodwill with an assigned value of \$1.00 billion represents the excess of the consideration transferred over the estimated fair values of assets acquired and liabilities assumed. The goodwill recognized includes the assembled workforce of Blockcap and intangible assets that do not qualify for separate recognition. None of the goodwill resulting from the acquisition is deductible for tax purposes. All of the goodwill acquired is allocated to the Mining segment. Management believes the acquisition of Blockcap strengthens its presence in the data mining market due to the scale of its operations. These factors are the basis for the excess purchase price paid over the value of the assets acquired and liabilities assumed, resulting in goodwill.

UNAUDITED PRO FORMA CORE SCIENTIFIC CONDENSED COMBINED BALANCE SHEET

	December 31, 2021		
	Core Scientific Pro Forma (Historical) (A)	Convertible Note Adjustments	Pro Forma Combined
Assets			
Current Assets:			
Cash and cash equivalents	\$ 117,871	\$ —	\$ 117,871
Restricted cash	13,807	—	13,807
Accounts receivable, net of allowance of \$— and \$620, respectively	1,382	—	1,382
Accounts receivable from related parties	300	—	300
Deposits for equipment	358,791	—	358,791
Digital currency assets	234,298	—	234,298
Prepaid expenses and other current assets	30,111	—	30,111
Total Current Assets	<u>756,560</u>	<u>—</u>	<u>756,560</u>
Property, plant and equipment, net	597,304	—	597,304
Goodwill	1,055,760	—	1,055,760
Intangible assets, net	8,195	—	8,195
Other noncurrent assets	21,045	—	21,045
Total Assets	<u>\$2,438,864</u>	<u>\$ —</u>	<u>\$2,438,864</u>
Liabilities, Redeemable Preferred Stock and Stockholders' Equity			
Current Liabilities:			
Accounts payable	\$ 11,617	\$ —	\$ 11,617
Accrued expenses and other	67,862	—	67,862
Deferred revenue	63,417	—	63,417
Deferred revenue from related parties	72,945	—	72,945
Capital lease obligations, current portion	28,452	—	28,452
Notes payable, current portion	75,996	—	75,996
Total Current Liabilities	<u>320,289</u>	<u>—</u>	<u>320,289</u>
Capital lease obligations, net of current portion	62,145	—	62,145
Notes payable, net of current portion (includes \$557,007 and \$—at fair value)	652,213	366,644	B 1,018,857
Other noncurrent liabilities	18,531	—	18,531
Total Liabilities	<u>1,053,178</u>	<u>366,644</u>	<u>1,419,822</u>
Contingently redeemable preferred stock; \$0.00001 par value; 50,000 shares authorized; 6,766 shares issued and outstanding at December 31, 2021 and 2020, respectively	44,476	—	44,476
Commitments and contingencies			
Stockholders' Equity:			
Common stock; \$0.00001 par value; 300,000 and 200,000 shares authorized at December 31, 2021 and 2020, respectively; 170,976 and 98,607 shares issued and outstanding at December 31, 2021 and 2020, respectively	2	—	2
Additional paid-in capital	1,379,606	—	1,379,606
Accumulated deficit	(27,432)	(366,644)	(394,076)
Accumulated other comprehensive loss	(10,966)	—	(10,966)
Total Stockholders' Equity	<u>1,341,210</u>	<u>(366,644)</u>	<u>974,566</u>
Total Liabilities, Redeemable Preferred Stock and Stockholders' Equity	<u>\$2,438,864</u>	<u>\$ —</u>	<u>\$2,438,864</u>

**UNAUDITED PRO FORMA CONDENSED COMBINED CORE SCIENTIFIC
STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2021**

	Core Scientific Historical December 31, 2021	Blockcap (Historical) for the period January 1, 2021 through July 30, 2021	Elimination Adjustments	Transaction Accounting Adjustments		Core Scientific Pro Forma Combined
				Blockcap Acquisition	Convertible Note	
Revenue:						
Hosting revenue from customers	\$ 79,323	\$ —	\$ (11,828)	\$ —	\$ —	\$ 67,495
Equipment sales to customers	248,235	—	(17,694)	e1	—	230,541
Digital asset mining income	216,925	72,030	—	e1	—	288,955
Total revenue	544,483	72,030	(29,522)			586,991
Cost of revenue	305,621	17,903	(26,226)		(868)	296,430
Gross profit	238,862	54,127	(3,296)	e1	868	290,561
(Loss) gain on legal settlements	(2,636)	—	—	—	—	(2,636)
Gain from sales of digital currency assets	4,814	145	—	—	—	4,959
Impairment of digital currency assets	(37,206)	(17,472)	—	—	—	(54,678)
Operating expenses:						
Research and development	7,674	—	—	—	—	7,674
Sales and marketing	4,062	—	—	—	—	4,062
General and administrative	60,604	47,997	—	(19,240)	—	89,361
Total operating expenses	72,340	47,997	—	(19,240)	b	101,097
Operating income (loss)	131,494	(11,197)	(3,296)	20,108	—	137,109
Non-operating expenses, net:						
Loss on debt from extinguishment	8,016	—	—	—	—	8,016
Interest expense, net	44,354	1,717	—	—	25,073	c 71,144
Other non-operating expenses, net	16,049	1,472	—	—	366,644	d 384,165
Total non-operating expense, net	68,419	3,189	—	—	391,717	463,325
Income (loss) before income taxes	63,075	(14,386)	(3,296)	20,108	(391,717)	(326,216)
Income tax expense	15,763	6,474	—	—	—	22,237
Net income (loss)	\$47,312	\$(20,860)	\$(3,296)	\$20,108	\$(391,717)	\$(348,453)

Adjustments to Unaudited Pro Forma Condensed Combined Core Scientific and Blockcap Balance Sheet

The adjustments included in the unaudited pro forma condensed combined balance sheet as of December 31, 2021 are as follows (in thousands, except price):

Other adjustments:

- (A) The following purchase price adjustments related to the acquisition of Blockcap by Core Scientific have been included in the Core Scientific historical balance sheet as of December 31, 2021:

- Changes to the Blockcap historical financials to represent the fair value changes associated with the acquisition. The resulting goodwill adjustment represents the excess of the purchase price over the aggregate fair value of the net identifiable assets acquired and liabilities assumed, including identifiable intangible assets. The goodwill is not deductible for U.S. federal income tax purposes.

The fair value of the digital assets acquired was determined using the average U.S. dollar spot rate of the related digital currency at the time of acquisition.

The following table presents the details of Blockcap's digital asset holdings:

	As of July 30, 2021			
	Quantity	Price	Fair value	Carrying value
Bitcoin (BTC)	\$ 1,736	\$42,235.55	73,304	55,568
Ethereum (ETH)	148	2,466.96	365	1,263
Bitcoin Cash (BCH)	16	491.00	8	7
Siacoin (SC)	39,487,794	0.01	554	384
Other	Various	Various	3,329	1,777
Total digital currencies			<u>\$77,560</u>	<u>\$58,999</u>

The fair value of the mining equipment was determined by applying the Cost Approach, which is based on estimating the Replacement Cost New ("RCN") and deducting for depreciation which considers physical deterioration, functional obsolescence and economic/external obsolescence. The primary depreciation applied to the mining equipment was physical depreciation as it was determined that functional and economic obsolescence was not present with the miners. The RCN of the miners was based on current pricing for such equipment, which fluctuates with the increase or decrease of digital asset prices.

- The elimination of Blockcap additional paid in capital and accumulated earnings.
 - The total consideration added to APIC as a result of the acquisition.
 - The transaction costs associated with the Blockcap acquisition that were expensed as an adjustment to cash and retained earnings.
 - The one-time expense Core Scientific has recorded as compensation expense in its financial statements for the period ending December 31, 2021 for the acceleration of certain equity awards of Blockcap's CEO and others.
- (B) The fair value of the Core Scientific's convertible notes as of December 31, 2021 included the effect of a negotiation discount, which is a calibration adjustment that reflects the illiquidity of the instruments and the Company's negotiating position. Since the transaction was an orderly transaction, the Company deemed that the fair value equaled the transaction price at initial recognition. However, the closing of the merger of XPDI (which represents the occurrence of a qualified financing event) would have resulted in the elimination of the negotiation discount along with other changes in fair value which is estimated to significantly increase in the fair value of the convertible notes, with a corresponding increase to Other Non-operating Expenses, net. The final valuation adjustment to the convertible note as a result of the closing of the merger could differ materially from this preliminary estimate based changes in the share price and other factors.

Adjustments to Unaudited Pro Forma Condensed Combined Core Scientific and Blockcap Statements of Operations

The pro forma adjustments included in the unaudited pro forma condensed combined statements of operations for the period January 1, 2021 through July 30, 2021 for Blockcap adjustments and for the year ended December 31, 2021 for the convertible debt adjustments are as follows (in thousands):

Eliminations of intercompany transactions:

- (e1) Reflects the elimination of Core Scientific Hosting and Equipment sales revenue and Cost of revenue from Blockcap and the corresponding Blockcap revenue and cost of revenue.

Other adjustments:

- (a) Reflects the change in the cost of revenue attributable to incremental depreciation as a result of the fair value decrease to the basis of the Blockcap mining equipment assets as a result of the acquisition. The fair value adjustment decreases the historical cost of these assets by \$4.5 million on assets with an assumed useful life of three years resulting in a decrease in depreciation expense of \$0.9 million for the period January 1, 2021 through July 30, 2021.
- (b) Reflects the elimination of \$19,240 of expense recognized by Blockcap in July 2021 for the acceleration of certain equity awards of its CEO and others. Because this acceleration was deemed to be in contemplation of the Merger, Core Scientific has recorded \$23,294 of compensation expense for the acceleration in its financial statements for the period ending December 31, 2021, which was determined based on the fair value of the awards at the time of the Merger. This adjustment is necessary to avoid duplication of the expense attributable to the combined company related to the acceleration of the same awards.
- (c) Reflects the impact to interest expense derived from removing 15% per annum interest on the \$30,000 Silverpeak loan, originated in May 2020, and replacing it with 10% per annum interest on the \$515,000 million convertible notes (\$215,000 issued in April 2021 and the remaining \$300,000 issued in August through November 2021). This adjustment resulted in a reduction of \$1,125 in interest expense due to the elimination of the Silverpeak loan, an increase in interest expense of \$26,198 due to the issuance of the convertible notes for a net increase in interest expense of \$25,073 for the year ended December 31, 2021.
- (d) Reflects the adjustment to expense related to the elimination of the negotiation discount included in the December 31, 2021 fair value adjustment of the outstanding convertible notes. Due to the increase in liquidity associated with the Transactions, the negotiation discount has been removed.

3. Transaction Accounting Adjustments-Merger

Merger Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet (in thousands)

The adjustments included in the unaudited pro forma condensed combined balance sheet as of December 31, 2021 are as follows (in thousands):

- (A) Reflects the estimated \$39,000 reduction in cash for estimated transaction related expenses. This includes \$12,075 that was previously recorded as deferred underwriting commissions and was therefore reversed. An additional \$3,752 of the \$39,000 is reflected as an adjustment to the accumulated deficit to properly reflect the direct and incremental costs allocated to the XPDI liability-classified instruments that are measured at fair value through earnings. The remaining \$23,173 is adjusted against additional paid in capital as direct and incremental costs of the offering.
- (B) Reflects the increase in cash from the release of the balance of funds equal to \$221,564 from the Trust Account after payment of \$123,471 for the redemption of 12,347 shares.
- (C) Reflects the impact to equity related to \$123,471 of Trust Account funds paid to holders that redeemed 12,347 Class A redeemable shares at \$10 per share for a total of \$123,471.
- (D) Reflects the conversion of 6,452 shares of Series A Preferred Stock and 314 shares of Series B Preferred Stock redeemable preferred stock to 6,766 shares of Core Scientific common stock just prior to the merger, eliminating the preferred stock balance. Subsequent to this conversion, these shares will be exchanged for New Core common shares using the exchange rate calculated per the merger agreement.
- (E) Reflects the elimination of 34,500 shares of Class A Common Stock subject to redemption. The \$345,000 subject to redemption is eliminated and added to additional paid in capital.
- (F) Represents the elimination of XPDI equity and accumulated earnings and the exchange of existing Core Scientific and XPDI outstanding equity instruments for New Core common stock as follows:
 - a. 171,059 existing Class A Core Scientific shares and 6,766 shares of Core Scientific Series A and Series B convertible preferred stock, were exchanged for New Core shares using an exchange rate of 1.6001528688 per the merger agreement resulting in a total of 284,546 New Core common shares outstanding with a par value of \$0.0001.
 - b. 22,153 existing Class A XPDI shares not redeemed and 8,625 existing XPDI Class B shares into 30,778 common shares of New Core. Immediately prior to the Closing, 1,725 Class B common shares will be unvested and will vest upon the date on which the volume-weighted average price of the Class A Common Stock is greater than \$12.50 per share for any 20 trading days within any 30 consecutive trading day period within five years of the Closing date. These unvested shares are excluded from earnings per share calculations until such time as conditions are met for vesting.
 - c. Removes XPDI accumulated earnings with the offsetting adjustment to paid in capital.

Merger Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations (in thousands)

The pro forma adjustments included in the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2021 are as follows:

- (a) Reflects the calculation of earnings per share, basic and diluted, of the combined companies after the conversion of equity shares into New Core shares using the adjusted net income of the combined companies. See Note 5—Earnings per Share.
- (b) Reflects the total New Core common shares outstanding at the completion of the transaction. See Note 5—Earnings per Share.
- (c) Reflects the \$3,752 related to the direct and incremental costs allocated to the XPDI liability-classified instruments that are measured at fair value through earnings.
- (d) Reflects the elimination of income earned on investments in trust due to the release of trust funds to cash or the reduction in trust funds due to the redemption of redeemable stock.

4. Accounting Policies

Upon consummation of the Transactions, XPDI will perform a comprehensive review of all entities' accounting policies. As a result of the review, management may identify additional differences between the accounting policies of the entities which, when conformed, could have a material impact on the financial statements of New Core.

5. Earnings per Share

The Company computes earnings per share ("EPS") following Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 260, Earnings per share. Basic EPS is measured as the income or loss available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted EPS presents the dilutive effect on a per-share basis from the potential conversion of convertible securities or the exercise of options and or warrants; the dilutive impacts of potentially convertible securities are calculated using the as-if method; the potentially dilutive effect of options or warranties are computed using the treasury stock method. Securities that are potentially an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from diluted EPS calculation.

The following adjustments have been made to calculate the pro forma EPS and weighted average shares both basic and diluted.

- 171,059 existing Class A Core Scientific shares and 6,766 Core Scientific Series A and Series B convertible preferred stock were exchanged for New Core shares using an exchange rate of 1.6001528688 per the merger agreement resulting in a total of 284,546 New Core common shares outstanding with a par value of \$0.0001.
- 22,153 existing Class A XPDI shares that were not redeemed and 8,625 existing XPDI Class B shares into 30,778 common shares of New Core. Immediately prior to the Closing, 1,725 Class B common shares will be unvested and will vest upon the date on which the volume-weighted average price of the Class A Common Stock is greater than \$12.50 per share for any 20 trading days within any 30 consecutive trading day period within five years of the Closing date. These unvested shares are excluded from earnings per share calculations until such time as conditions are met for vesting.

	Existing Shares	Shares just prior to exchange	After exchange and redemption of 12,347 shares
Core Scientific common stock	171,059	177,825	284,546
XPDI Class A redeemable shares	22,153	22,153	22,153
XPDI Class B sponsor shares net of unvested shares	8,625	6,900	6,900
Total weighted average common shares - Basic and Diluted (1) and (2)	<u>201,837</u>	<u>206,878</u>	<u>313,599</u>
Year ended December 31, 2021			
Pro forma net income (loss)			\$(380,987)
Pro forma EPS – Basic and diluted ⁽¹⁾			\$ (1.21)

- ¹ Potentially dilutive securities are not included in the calculation of diluted net loss per share because to do so would be anti-dilutive. Shares potentially dilutive with the conversion of the convertible debt were not included due to the add back of interest avoided upon conversion causing the conversion to be anti-dilutive.

As of December 31, 2021, the outstanding principal amount of the notes (including all accrued payment-in-kind (“PIK”) interest not already added to the principal amount of the notes) was \$522.1 million. Should some or all holders of these notes elect to convert such notes would result in potential dilutive issuance of up to 65,263 shares of New Core common stock based on an applicable conversion price of \$8.00 per share that was not included in the calculation of diluted net loss per share above.

- ² Total Core Scientific outstanding options and warrants after exchanged is 32,195 and 6,808, respectively and are anti-dilutive so not included in the calculation of diluted EPS. 14,892 XPDI warrants are anti-dilutive so not included the calculation of diluted EPS.

3 Core Scientific outstanding RSUs are not included as these are contingently issuable shares for which the transaction condition has not yet been met. These RSUs are subject to a time-based vesting condition and a transaction vesting condition. The transaction vesting condition is satisfied upon the earlier of a change in control or an initial public offering. The transaction vesting condition can be met in future years only with respect to a change in control or waiver of the condition by the Company's board of directors and is not expected to occur, if at all, prior to expiration of the applicable lock-up period. In the event the transaction-based condition were to be met, including by future action of the board of directors, the unrecognized compensation expense for which the requisite service had been provided that would have been recognized was \$631.0 million as of December 31, 2021. Included in the total of Core Scientific's unvested RSUs are 9,038 RSUs held by a former employee. These units have met the time-based vesting condition but similarly have not met the transaction-based vesting condition. The transaction-based vesting condition must be satisfied within three years of the former employee's separation date or they will be forfeited. Had the transaction based vesting condition been met, unrecognized compensation expense would have been \$82,674 as of December 31, 2021. This does not account for 6,912 Blockcap RSUs granted to legacy Blockcap shareholders and subject only to time-vesting conditions because the inclusion of such RSUs would be anti-dilutive.

Unvested Core Scientific RSUs as of December 30, 2021	55,370
RSUs to be reserved for future issuances	5,504
Unvested RSUs of Core Scientific (excluding Blockcap)	<u>60,874</u>
Exchange Rate	<u>1.6001528688</u>
Unvested pro forma RSUs of Core Scientific (excluding Blockcap) after applying exchange rate	97,409