UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2023

or

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

For the transition period from___________________________to ___________________________

Commission File Number: **001-36532**

Sphere 3D Corp.

(Exact name of Registrant as specified in its charter)

Ontario, Canada	**98-1220792**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
895 Don Mills Road, Bldg 2, Suite 900 **Toronto, Ontario Canada**	**M3C 1W3**
(Address of principal executive offices)	*(Zip Code)*

647 952-5049

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares	ANY	NASDAQ Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

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

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

As of August 7, 2023, there were 11,900,464 shares of the registrant's common stock outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Sphere 3D Corp.

Condensed Consolidated Balance Sheets
(in thousands of U.S. dollars, except shares)
(unaudited)

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 506	$ 1,337
Digital assets	626	1,695
Restricted cash	202	206
Accounts receivable, net	148	174
Note receivable, net of allowance for credit losses of $3,821 and $0, respectively	—	3,821
Other current assets	3,196	3,051
Total current assets	4,678	10,284
Property and equipment, net	28,695	34,259
Intangible assets, net	8,666	9,477
Funds held in trust account	8,542	10,297
Other assets	20,697	18,699
Total assets	$ 71,278	$ 83,016
Liabilities, Temporary Equity and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 2,729	$ 2,993
Accrued liabilities	1,794	1,537
Accrued payroll and employee compensation	458	696
Warrant liabilities	579	—
Convertible debt	250	—
Other current liabilities	1,350	974
Total current liabilities	7,160	6,200
Deferred underwriting fee	4,554	4,554
Warrant liabilities	—	864
Convertible debt, long-term	801	—
Other non-current liabilities	320	366
Total liabilities	12,835	11,984
Commitments and contingencies (Note 13)		
Series H preferred shares, no par value, unlimited shares authorized, 49,981 and 60,000 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	22,049	26,469
Redeemable non-controlling interest	8,492	9,998
Total temporary equity	30,541	36,467
Shareholders' equity:		
Common shares, no par value; unlimited shares authorized, 11,423,310 and 9,804,609 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	462,226	456,402
Accumulated other comprehensive loss	(1,804)	(1,799)
Accumulated deficit	(432,297)	(419,732)
Total Sphere 3D Corp. shareholders' equity	28,125	34,871
Non-controlling interest	(223)	(306)
Total shareholders' equity	27,902	34,565
Total liabilities, temporary equity, and shareholders' equity	$ 71,278	$ 83,016

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Condensed Consolidated Statements of Operations
(in thousands of U.S. dollars, except share and per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues:				
Digital mining revenue	$ 4,966	$ 1,211	$ 7,490	$ 1,958
Service and product revenue	500	710	1,002	1,335
Total revenues	5,466	1,921	8,492	3,293
Operating costs and expenses:				
Cost of digital mining revenue	4,074	619	6,039	974
Cost of service and product revenue	209	341	507	700
Sales and marketing	277	264	551	495
Research and development	227	139	497	253
General and administrative	3,634	7,788	7,105	16,757
Depreciation and amortization	1,375	7,485	2,400	13,849
Loss on disposal of property and equipment	251	—	251	—
Realized gain on sale of digital assets	(139)	—	(772)	—
Impairment of digital assets	254	679	350	770
Total operating expenses	10,162	17,315	16,928	33,798
Loss from operations	(4,696)	(15,394)	(8,436)	(30,505)
Other income (expense):				
Interest expense	(1,173)	—	(1,173)	—
Interest income and other expense, net	1,113	281	1,364	745
Forgiveness of note receivable	—	(13,145)	—	(13,145)
Impairment of investments	—	(12,429)	—	(12,429)
Net loss before taxes	(4,756)	(40,687)	(8,245)	(55,334)
Provision for income taxes	4	—	4	—
Net loss	(4,760)	(40,687)	(8,249)	(55,334)
Less: Non-controlling interest - income	67	—	83	—
Net loss available to common shareholders	$ (4,827)	$ (40,687)	$ (8,332)	$ (55,334)
Net loss per share:				
Net loss per share basic and diluted	$ (0.44)	$ (4.31)	$ (0.78)	$ (5.96)
Shares used in computing net loss per share:				
Basic and diluted	11,051,588	9,449,735	10,673,876	9,285,878

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Condensed Consolidated Statements of Comprehensive Loss
(in thousands of U.S. dollars)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	$ (4,760)	$ (40,687)	$ (8,249)	$ (55,334)
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(3)	(8)	(5)	1
Total other comprehensive (loss) income	(3)	(8)	(5)	1
Comprehensive loss	$ (4,763)	$ (40,695)	$ (8,254)	$ (55,333)

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.
Condensed Consolidated Statements of Shareholders' Equity
(in thousands of U.S. dollars, except shares)
(unaudited)

	Common Shares		Accumulated Other Comprehensive Loss	Accumulated Deficit	Non-controlling Interest	Total Shareholders' Equity
	Shares	Amount				
Balance at January 1, 2023	9,804,609	$ 456,402	$ (1,799)	$ (419,732)	$ (306)	$ 34,565
Cumulative adjustment from adoption of ASU 2016-13	—	—	—	(3,821)	—	(3,821)
Issuance of common shares for conversion of preferred shares	748,427	2,311	—	—	—	2,311
Issuance of common shares pursuant to the vesting of restricted stock units	10,656	—	—	—	—	—
Share-based compensation	—	485	—	—	—	485
Remeasurement of redeemable non-controlling interest	—	—	—	(376)	—	(376)
Other comprehensive loss	—	—	(2)	—	—	(2)
Net loss	—	—	—	(3,505)	16	(3,489)
Balance at March 31, 2023	10,563,692	459,198	(1,801)	(427,434)	(290)	29,673
Issuance of common shares for conversion of preferred shares	682,856	2,109	—	—	—	2,109
Exercise of stock options	94,701	200	—	—	—	200
Issuance of common shares for vested restricted stock units, net of shares withheld for income taxes	82,061	—	—	—	—	—
Share-based compensation	—	719	—	—	—	719
Remeasurement of redeemable non-controlling interest	—	—	—	(36)	—	(36)
Other comprehensive loss	—	—	(3)	—	—	(3)
Net loss	—	—	—	(4,827)	67	(4,760)
Balance at June 30, 2023	11,423,310	$ 462,226	$ (1,804)	$ (432,297)	$ (223)	$ 27,902

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.
Condensed Consolidated Statements of Shareholders' Equity (continued)
(in thousands of U.S. dollars, except shares)
(unaudited)

	Common Shares		Accumulated Other Comprehensive Loss	Accumulated Deficit	Non-controlling Interest	Total Shareholders' Equity
	Shares	Amount				
Balance at January 1, 2022	9,080,915	$ 444,265	$ (1,794)	$ (215,195)	$ —	$ 227,276
Issuance of common shares and warrants for the settlement of liabilities	135,714	1,957	—	—	—	1,957
Share-based compensation	—	117	—	—	—	117
Other comprehensive income	—	—	9	—	—	9
Net loss	—	—	—	(14,647)	—	(14,647)
Balance at March 31, 2022	9,216,629	446,339	(1,785)	(229,842)	—	214,712
Issuance of common shares for the purchase of intangible assets	192,857	1,721	—	—	—	1,721
Issuance of common shares for vested restricted stock units, net of shares withheld for income taxes	91,338	—	—	—	—	—
Share-based compensation	—	7,199	—	—	—	7,199
Other comprehensive loss	—	—	(8)	—	—	(8)
Net loss	—	—	—	(40,687)	—	(40,687)
Balance at June 30, 2022	9,500,824	$ 455,259	$ (1,793)	$ (270,529)	$ —	$ 182,937

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Condensed Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

(unaudited)

	Six Months Ended June 30,	
	2023	**2022**
Operating activities:		
Net loss	$ (8,249)	$ (55,334)
Adjustments to reconcile net loss to cash used in operating activities:		
Digital currency issued for services	669	229
Depreciation and amortization	2,400	13,849
Share-based compensation	1,204	7,316
Change in fair value of warrant liabilities	(1,261)	—
Warrants issued with convertible debt	976	—
Realized gain on sale of digital assets	(772)	(3)
Impairment of digital assets	350	770
Loss on disposal of property and equipment	251	—
Change in fair value of debt	51	—
Noncash lease cost	25	—
Forgiveness of note receivable	—	13,145
Impairment of investments	—	12,429
Issuance of common shares and warrants for settlement of liabilities	—	1,957
Change in fair value of crypto asset payable	—	(1,607)
Changes in operating assets and liabilities:		
Proceeds from sale of digital assets	8,312	—
Digital assets	(7,490)	(1,958)
Accounts receivable	26	(12)
Accounts payable and accrued liabilities	1,738	(339)
Accrued payroll and employee compensation	(238)	423
Other assets and liabilities, net	(26)	(15,395)
Net cash used in operating activities	(2,034)	(24,530)
Investing activities:		
Proceeds from sale of property and equipment	3,699	—
Redemption of non-controlling interest	(1,918)	—
Payments for purchase of property and equipment	(1,561)	(15,958)
Notes receivable	—	(2,837)
Purchase of intangible assets	—	(306)
Net cash provided by (used in) investing activities	220	(19,101)
Financing activities:		
Proceeds from convertible debt, net of debt issuance costs	779	—
Proceeds from exercise of stock options	200	—
Net cash provided by financing activities	979	—
Net decrease in cash, cash equivalents and restricted cash	(835)	(43,631)
Cash, cash equivalents and restricted cash, beginning of period	1,543	54,355
Cash, cash equivalents and restricted cash, end of period	$ 708	$ 10,724

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.
Condensed Consolidated Statements of Cash Flows (continued)
(in thousands of U.S. dollars)

	Six Months Ended June 30,	
	2023	**2022**
Reconciliation of cash, cash equivalents and restricted cash to consolidated balance sheets:		
Cash and cash equivalents	$ 506	$ 10,724
Restricted cash	202	—
Total cash, cash equivalents and restricted cash	$ 708	$ 10,724
Supplemental disclosures of non-cash investing activities:		
Remeasurement of redeemable non-controlling interest	$ 412	$ —
Reclassification from deposit for mining equipment to mining equipment	$ —	$ 9,137
Issuance of common shares for purchase of intangible assets	$ —	$ 1,721

See accompanying notes to condensed consolidated financial statements.

Sphere 3D Corp.

Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Organization and Business

Sphere 3D Corp. was incorporated under the *Business Corporations Act (Ontario)* on May 2, 2007 as T.B. Mining Ventures Inc. On March 24, 2015, the Company completed a short-form amalgamation with a wholly-owned subsidiary. In connection with the short-form amalgamation, the Company changed its name to “Sphere 3D Corp.” Any reference to the “Company”, “Sphere 3D”, “we”, “our”, “us”, or similar terms refers to Sphere 3D Corp. and its subsidiaries. In January 2022, the Company commenced operations of its digital mining operation dedicated to becoming a leading carbon-neutral Bitcoin mining company. The Company is establishing an enterprise-scale mining operation through procurement of next-generation mining equipment and partnering with experienced service providers. In addition, the Company delivers data management and desktop and application virtualization solutions through hybrid cloud, cloud and on premise implementations by its global reseller network. The Company achieves this through a combination of containerized applications, virtual desktops, virtual storage and physical hyper-converged platforms. The Company’s products allow organizations to deploy a combination of public, private or hybrid cloud strategies while backing them up with the latest storage solutions. The Company’s brands include HVE ConneXions (“HVE”) and Unified ConneXions (“UCX”).

Liquidity and Going Concern

The Company has recurring losses from operations and incurred a net loss of approximately $8.2 million for the six months ended June 30, 2023. Management has projected that based on our hashing rate at June 30, 2023, cash on hand may not be sufficient to allow the Company to continue operations beyond the next 12 months from the date the financial statements are issued if we are unable to raise additional funding for operations. We expect our working capital needs to increase in the future as we continue to expand and enhance our operations. Our ability to raise additional funds for working capital through equity or debt financings or other sources may depend on the financial success of our then current business and successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. No assurance can be given that we will be successful in raising the required capital at a reasonable cost and at the required times, or at all. Further equity financings may have a dilutive effect on shareholders and any debt financing, if available, may require restrictions to be placed on our future financing and operating activities. We require additional capital and if we are unsuccessful in raising that capital, we may not be able to continue our business operations in the cryptocurrency mining industry or we may be unable to advance our growth initiatives, either of which could adversely impact our business, financial condition and results of operations.

Significant changes from the Company’s current forecasts, including but not limited to: (i) shortfalls from projected sales levels; (ii) unexpected increases in product costs; (iii) increases in operating costs; (iv) fluctuations in the value of cryptocurrency; and (v) inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market could have a material adverse impact on the Company’s ability to access the level of funding necessary to continue its operations at current levels. If any of these events occurs or the Company is unable to generate sufficient cash from operations or financing sources, the Company may be forced to liquidate assets where possible and/or curtail, suspend or cease planned programs or operations generally or seek bankruptcy protection or be subject to an involuntary bankruptcy petition, any of, which would have a material adverse effect on the Company’s business, results of operations, financial position and liquidity.

These factors, among others, raise substantial doubt that the Company will be able to continue as a going concern beyond the next 12 months from the date the financial statements are issued. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from the outcome of this uncertainty.

Share Consolidation

On June 28, 2023, the Company filed Articles of Amendment to effect a share consolidation (also known as a reverse stock split) of its issued and outstanding common shares on a one-for-seven basis. The share consolidation became effective on June 28, 2023. All share and per share amounts have been restated for all periods presented to reflect the share consolidation.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP"), applied on a basis consistent for all periods. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for a complete set of financial statements. These condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on March 31, 2023. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. These condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been appropriately eliminated in consolidation.

Use of Estimates

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain prior period amounts have been reclassified for consistency with the current period presentation. The reclassifications did not have a material impact on the Company's condensed interim consolidated financial statements and related disclosures.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiary, for which the functional currency is the local currency, is translated into U.S. dollars using the exchange rate at the consolidated balance sheet date for assets and liabilities and a weighted-average exchange rate during the year for revenue, expenses, gains and losses. Translation adjustments are recorded as accumulated other comprehensive income (loss) within shareholders' equity. Gains or losses from foreign currency transactions are recognized in the condensed consolidated statements of operations. Such transactions resulted in minimal gains or losses for the three and six months ended June 30, 2023 and 2022.

Cash and Cash Equivalents

Highly liquid investments with insignificant interest rate risk and original maturities of three months or less, when purchased, are classified as cash equivalents. Cash equivalents are composed of money market funds. The Company maintains cash and cash equivalent balances with financial institutions that exceed federally insured limits. The Company has not experienced any losses related to these balances and believes credit risk to be minimal.

Restricted Cash and Cash Equivalents

Restricted cash is cash held in a separate bank account with restrictions on withdrawal. The Company's restricted cash classified as current, is pledged as collateral for a standby letter of credit used for the bonding purpose necessary for the Company to receive mining machines.

Funds held in trust account are restricted and invested in U.S. government treasury money market funds, except with respect to interest earned on the funds held in the trust account that may be released to MEOA, to pay its franchise and income tax obligations (less up to $100,000 of interest to pay dissolution expenses). In the third quarter of 2023, the trust account proceeds were released and used for the redemption of the public shares of MEOA as a result of the initial business combination not being completed prior to the applicable deadline.

Digital Assets

The Company accounts for digital assets as indefinite-lived intangible assets. The digital assets are recorded at cost less impairment.

An impairment analysis is performed at each reporting period or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. The fair value of digital assets is determined on a nonrecurring basis based on the lowest intraday quoted price on the active exchange(s) that the Company has determined as the principal market for digital assets (Level 1 inputs). If the carrying value of the digital asset exceeds the fair value based on the lowest price quoted in the active exchanges during the period, 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.

Impairment losses are recognized in operating expenses in the consolidated statements of operations 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. Gains are not recorded until realized upon sale or disposition.

Digital assets awarded to the Company through its mining activities are included within operating activities on the accompanying consolidated statements of cash flows. The sales of digital assets are included within operating activities in the accompanying condensed consolidated statements of cash flows and any realized gains or losses from such sales are included in operating costs and expenses in the condensed consolidated statements of operations. The Company accounts for its gains or losses in accordance with the first in first out (FIFO) method of accounting.

The following table presents the activities of the digital assets (in thousands):

Balance at January 1, 2023	$	1,695
Addition of digital assets		7,490
Digital assets sold for cash		(7,540)
Digital assets issued for services		(669)
Impairment loss		(350)
Balance at June 30, 2023	$	626

Allowance for Credit Losses

The Company's assessment of its allowance for credit losses requires it to incorporate considerations of historical information, current conditions and reasonable and supportable forecasts. The Company manages credit risk through review of available public company information. For the Company's note receivable, the Company has recorded an allowance for credit losses and elected to write off accrued interest receivables by reversing interest income.

Leases

The Company has entered into operating leases primarily for real estate. These leases have contractual terms which range from 12 months to 5 years. The Company determines if an arrangement contains a lease at inception. Right of use ("ROU") assets and liabilities resulting from operating leases are included in property and equipment, other current liabilities and other non-current liabilities on our consolidated balance sheets. Operating lease ROU assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As the leases typically do not provide an implicit rate, the Company uses the incremental borrowing rate based on the information available at commencement date in determining the discount rate to calculate the present value of future payments. The operating lease ROU asset may also include any lease payments made and exclude lease incentives and initial direct costs incurred. The Company's leases do not include options to extend the lease. Short-term leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Property and Equipment

Property and equipment primarily consists of mining equipment and is stated at cost, including purchase price and all shipping and custom fees, and depreciated using the straight-line method over the estimated useful lives of the assets, generally five years.

The Company reviews the carrying amounts of property and equipment when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the fair value of the asset is estimated in order to determine the extent of the impairment loss, if any.

Intangible Assets

For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish their recorded values. For intangible assets acquired in a non-monetary exchange, the estimated fair values of the assets transferred (or the estimated fair values of the assets received, if more clearly evident) are used to establish their recorded values. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value.

Purchased intangible assets are amortized on a straight-line basis over their economic lives of 5 years to 15 years for supplier agreements, six years for channel partner relationships, and seven years for customer relationships as this method most closely reflects the pattern in which the economic benefits of the assets will be consumed.

The Company has purchased carbon credits. As it intends to use these carbon credits, the assets have been classified as intangible assets. When the carbon credit is used, it will be expensed as an operating expense.

Impairment of Intangible Assets

The Company performs regular reviews of intangible assets to determine if any event has occurred that may indicate that intangible assets with finite useful lives and other long-lived assets are potentially impaired. Triggering events for impairment reviews may be indicators such as adverse industry or economic trends, restructuring actions, lower projections of profitability, or a sustained decline in our market capitalization. Intangible assets are quantitatively assessed for impairment, if necessary, by comparing their estimated fair values to their carrying values. If the carrying value exceeds the fair value, the difference is recorded as an impairment.

Convertible Debt

The Company accounts for convertible debt in accordance with the applicable authoritative guidance and has elected to apply the fair value option. The convertible debt is reflected at fair value in the condensed consolidated balance sheets and changes in fair value are recorded in the condensed consolidated statements of operations as a fair value adjustment to the convertible debt each reporting period (with the portion of the change that results from a change in the instrument-specific credit risk recorded separately in other comprehensive income, if applicable). The Company expenses any issuance costs allocated to a freestanding or an embedded financial instrument that is subsequently measured at fair value through earnings as of the issuance date.

Warrant Liabilities

Warrant liabilities are for warrants for shares of MEOA's common stock that are not indexed to its own stock and for warrants for a common share purchase warrant issued in connection with the Company's convertible debt. The warrants are presented as liabilities at fair value on the consolidated balance sheets. The warrants are subject to remeasurement at each balance sheet date and any change in fair value is recognized in interest income and other expense, net, in the consolidated statements of operations. The fair value of the warrants issued in connection with MEOA's public offering were measured based on the listed market price of such warrants. The fair value of the LDA Warrant was measured using a Monte Carlo valuation model.

Redeemable Non-controlling Interest

Redeemable non-controlling interest is interest in a subsidiary of the Company that are redeemable outside of the Company's control either for cash or other assets. This interest is classified as temporary equity and measured at the estimated redemption value at the end of each reporting period. The resulting increases or decreases in the estimated redemption amount are effected by corresponding charges to accumulated deficit. At June 30, 2023, redeemable non-controlling interest recorded within the Company's consolidated balance sheets relates to its subsidiary, MEOA.

Revenue Recognition

The Company accounts for revenue pursuant to ASU 2014-09, *Revenue from Contracts with Customers* and all the related amendments ("Topic 606"). Under Topic 606, an entity is required to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and contract consideration will be recognized on a "sell-in basis" or when control of the purchased goods or services transfer to the distributor.

The Company is engaged with digital asset mining pool operators to provide computing power to the mining pools. In exchange for providing computing power, the Company is entitled to a fractional share of the fixed Bitcoin award the mining pool operator receives for successfully adding a block to the blockchain, plus a fractional share of the transaction fees attached to that blockchain. The Company's fractional share is based on the proportion of computing power the Company contributed to the mining pool operator to the total computing power contributed by all mining pool participants in solving the current algorithm. The Company satisfies its performance obligation over time with daily settlement in Bitcoin. The transaction price is the fair value of the digital asset mined, Bitcoin, being the fair value per the prevailing market rate for that digital asset on the date earned. The transaction consideration the Company receives is noncash consideration, in the form of Bitcoin, which the Company measures at fair value on the date earned which is not materially different from the fair value at contract inception. Fair value of the Bitcoin received is determined using the spot price of the Bitcoin on the date earned. The Company cannot determine, during the course of solving for a block, that a reversal of revenue is not probable and therefore revenue is recognized when the mining pool operator successfully places a block (by being the first to solve an algorithm) and the Company receives confirmation of the consideration it will receive.

Expenses associated with running the digital asset mining operations, such as rent, operating supplies, utilities and monitoring services are recorded as cost of revenues.

The Company also generates revenue from: (i) solutions for standalone storage and integrated hyper-converged storage; (ii) professional services; and (iii) warranty and customer services. The Company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To determine revenue recognition for contracts with customers the Company performs the following five steps: (i) identify the promised goods or services in the contract; (ii) identify the performance obligations in the contract, including whether they are distinct in the context of the contract; (iii) determine the transaction price, including the constraint on variable consideration; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies the performance obligations.

The majority of the Company’s product and service revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied at a point in time. These contracts are generally comprised of a single performance obligation to transfer products. Accordingly, the Company recognizes revenue when change of control has been transferred to the customer, generally at the time of shipment of products. The Company sells its products both directly to customers and through distributors generally under agreements with payment terms typically less than 45 days. Revenue on direct product sales, excluding sales to distributors, are not entitled to any specific right of return or price protection, except for any defective product that may be returned under our standard product warranty. Product sales to distribution customers that are subject to certain rights of return, stock rotation privileges and price protections, contain a component of “variable consideration.” Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products and is generally based upon a negotiated fixed price and is net of estimates for variable considerations.

For performance obligations related to warranty and customer services, such as extended product warranties, the Company transfers control and recognizes revenue on a time-elapsed basis. The performance obligations are satisfied as services are rendered typically on a stand-ready basis over the contract term, which is generally 12 months.

The Company also enters into revenue arrangements that may consist of multiple performance obligations of its product and service offerings such as for sales of hardware devices and extended warranty services. The Company allocates contract fees to the performance obligations on a relative stand-alone selling price basis. The Company determines the stand-alone selling price based on its normal pricing and discounting practices for the specific product and/or service when sold separately. When the Company is unable to establish the individual stand-alone price for all elements in an arrangement by reference to sold separately instances, the Company may estimate the stand-alone selling price of each performance obligation using a cost plus a margin approach, by reference to third party evidence of selling price, based on the Company’s actual historical selling prices of similar items, or based on a combination of the aforementioned methodologies; whichever management believes provides the most reliable estimate of stand-alone selling price.

Extended Warranty

Separately priced extended on-site warranties and service contracts are offered for sale to customers on all product lines. Extended warranty and service contract revenue and recognized as service revenue over the period of the service agreement. The Company will typically apply the practical expedient to agreements wherein the period between transfer of any good or service in the contract and when the customer pays for that good or service is one year or less.

Research and Development Costs

Research and development expenses include payroll, employee benefits, share-based compensation expense, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and programming costs. Research and development expenses are charged to operating expenses as incurred when these expenditures relate to the Company’s research and development efforts and have no alternative future uses.

Comprehensive Income (Loss)

Comprehensive income (loss) and its components encompass all changes in equity other than those arising from transactions with shareholders, including net loss and foreign currency translation adjustments, and is disclosed in a separate condensed consolidated statement of comprehensive loss.

Share-based Compensation

The Company accounts for share-based awards, and similar equity instruments, granted to employees, non-employee directors, and consultants in accordance with the authoritative guidance for share-based compensation. Share-based compensation award types include stock options, restricted stock units ("RSUs") and restricted stock awards ("RSAs"). Share-based compensation expense is recognized on a straight-lined basis over the requisite service period (usually the vesting period) except for options with graded vesting which is recognized pursuant to an accelerated method. Forfeitures are recognized as a reduction in share-based compensation expense as they occur.

Non-controlling Interest

The Company accounts for its non-controlling interest in accordance with the authoritative guidance for consolidation which governs the accounting for and reporting of non-controlling interests ("NCIs") in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of the guidance indicate, among other things, that NCIs be treated as a separate component of equity, not as a liability, that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions rather than as step acquisitions or dilution gains or losses, and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. The net income (loss) attributed to the NCI is separately designated in the accompanying consolidated statements of operations.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding the method to allocate resources and assess performance. The Company has two operating segments.

Recently Issued and Adopted Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB that are adopted by the Company as of the specified effective date. If not discussed, the Company believes that the impact of recently issued standards will not have a material impact on the Company's consolidated financial statements upon adoption.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. Entities will no longer be permitted to consider the length of time that fair value has been less than amortized cost when evaluating when credit losses should be recognized. The Company adopted ASU 2016-13 on January 1, 2023 on a modified retrospective basis which resulted in a $3.8 million increase to the opening balance of accumulated deficit, representing the cumulative allowance for credit losses for the Company's note receivable.

In October 2021, the FASB issued Accounting Standards Update No. 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"). ASU 2021-08 amends ASC 805 to require acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The Company adopted the new standard beginning January 1, 2023, however it did not have an effect on its financial position, results of operations or cash flows.

3. Fair Value Measurements

The authoritative guidance for fair value measurements establishes a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company's consolidated financial instruments include cash equivalents, accounts receivable, notes receivable, accounts payable, accrued liabilities, warrant liabilities and convertible debt. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. The carrying amount of cash equivalents, accounts receivable, notes receivable, accounts payable and accrued liabilities are generally considered to be representative of their respective fair values because of the short-term nature of those instruments. The Company has elected to record its convertible debt at fair value.

The following tables provide a summary of the financial instruments that are measured at fair value on a recurring basis (in thousands):

	June 30, 2023			
	Fair Value	Level 1	Level 2	Level 3
Convertible note	$ 1,051	$ —	$ —	$ 1,051
Warrant liabilities	$ 579	$ —	$ —	$ 579

	December 31, 2022			
	Fair Value	Level 1	Level 2	Level 3
Warrant liabilities	$ 864	$ 864	$ —	$ —

The following table presents the activities of warrant liabilities that are measured at fair value (in thousands):

Warrant liability as of January 1, 2023	$ 864
Change in fair value MEOA warrant	(202)
Warrant liability as of March 31, 2023	662
Issuance of LDA warrant	976
Change in fair value MEOA warrant	(662)
Change in fair value LDA warrant	(397)
Warrant liability as of June 30, 2023	$ 579

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

As discussed in Note 2, *Summary of Significant Accounting Policies*, to the Condensed Consolidated Financial Statements, the Company accounts for its bitcoin as indefinite-lived intangible assets, which are subject to impairment losses if the fair value of its bitcoin held decreases below their carrying value during the reporting period.

The Company's non-financial assets such as property and equipment and intangible assets are recorded at fair value when an impairment is recognized or at the time acquired in an asset acquisition or business combination measured using significant unobservable inputs (Level 3).

4. Note Receivable

Rainmaker Promissory Note

In September 2020, the Company entered into a Senior Secured Convertible Promissory Note with Rainmaker (the “Rainmaker Note”), pursuant to which the Company loaned Rainmaker the principal amount of $3.1 million. The Rainmaker Note is secured as a registered lien under the Uniform Commercial Code and the Personal Property Security Act (Ontario) against the assets of Rainmaker and bears interest at the rate of 10.0% per annum. The principal and interest accrue monthly and are due and payable in full on September 14, 2023. The Company has the right, at any time, to convert all or any portion of the then outstanding and unpaid Rainmaker Note and interest into non-assessable shares of Rainmaker common stock, or any shares of capital stock or other securities of Rainmaker, at the conversion price as defined in the Rainmaker Note. On January 1, 2023, as a result of adopting ASU 2016-13, the Company recorded an allowance for credit losses of $3.8 million and reversed accrued interest of $0.1 million. As of June 30, 2023 and December 31, 2022, the Rainmaker Note balance, including accrued interest, was nil and $3.8 million, respectively.

5. Certain Balance Sheet Items

The following table summarizes other current assets (in thousands):

	June 30, 2023	December 31, 2022
Prepaid digital hosting services	$ 1,265	$ 880
Prepaid services	611	927
Prepaid insurance	735	783
Other	585	461
	$ 3,196	$ 3,051

The following table summarizes property and equipment, net (in thousands):

	June 30, 2023	December 31, 2022
Mining equipment	$ 31,600	$ 35,550
Accumulated depreciation	(3,298)	(1,709)
Subtotal	28,302	33,841
Right of use asset	393	418
Property and equipment, net	$ 28,695	$ 34,259

Depreciation expense for property and equipment was $1.0 million and $0.5 million during the three months ended June 30, 2023 and 2022, respectively, inclusive of ROU asset amortization of $15,000 and nil, respectively. Depreciation expense for property and equipment was $1.6 million and $0.6 million during the six months ended June 30, 2023 and 2022, respectively, inclusive of ROU asset amortization of $25,000 and nil, respectively.

During the six months ended June 30, 2023, the Company sold 2,531 miners that were included in mining equipment, for cash proceeds of $3.7 million.

The following table summarizes other assets (in thousands):

	June 30, 2023	December 31, 2022
Prepaid digital hosting services	$ 20,637	$ 18,514
Prepaid insurance and services	49	116
Other	11	69
	$ 20,697	$ 18,699

The following table summarizes other current liabilities (in thousands):

	June 30, 2023	December 31, 2022
Advance from target for SPAC	$ 898	$ 449
Taxes payable for SPAC	270	254
Deferred revenue	74	160
Other	108	111
	$ 1,350	$ 974

6. Intangible Assets

The following table summarizes intangible assets, net (in thousands):

	June 30, 2023	December 31, 2022
Supplier agreements	$ 39,084	$ 39,084
Developed technology	150	150
Channel partner relationships	730	730
Customer relationships	380	380
Capitalized development costs	103	103
	40,447	40,447
Accumulated amortization:		
Supplier agreements	(32,502)	(31,708)
Developed technology	(150)	(150)
Channel partner relationships	(730)	(720)
Customer relationships	(373)	(366)
Capitalized development costs	(103)	(103)
	(33,858)	(33,047)
Total finite-lived intangible assets, net	6,589	7,400
Carbon credits held for future use	2,077	2,077
Total intangible assets, net	$ 8,666	$ 9,477

Amortization expense for intangible assets was $0.4 million and $7.0 million during the three months ended June 30, 2023 and 2022, respectively. Amortization expense for intangible assets was $0.8 million and $13.2 million during the six months ended June 30, 2023 and 2022, respectively. Estimated amortization expense for intangible assets is expected to be approximately $0.8 million for the remainder of 2023 and $1.6 million, $1.6 million, $1.6 million, $0.2 million, and $0.1 million in fiscal 2024, 2025, 2026, 2027 and 2028, respectively.

7. Investments

Special Purpose Acquisition Company

In April 2021, the Company sponsored a special purpose acquisition company (“SPAC”), Minority Equality Opportunities Acquisition Inc. (“MEOA”), through the Company’s wholly owned subsidiary, Minority Equality Opportunities Acquisition Sponsor, LLC (“SPAC Sponsor”). MEOA’s purpose is to focus initially on transactions with companies that are minority owned businesses. MEOA’s IPO was completed on August 30, 2021. As of both June 30, 2023 and December 31, 2022, the Company held an aggregate of 3,162,500 shares of MEOA’s Class B common stock.

In August 2022, MEOA entered into a business combination agreement with MEOA Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of MEOA (“Merger Sub”), and Digerati Technologies, Inc., a Nevada corporation (“Digerati”), pursuant to which, subject to the satisfaction or waiver of certain conditions set forth therein, Merger Sub will merge with and into Digerati (the “Digerati Merger”), with Digerati surviving the Digerati Merger as a wholly owned subsidiary of MEOA, and with Digerati’s equity holders receiving shares of MEOA common stock.

On November 29, 2022, MEOA held a special meeting of stockholders (the "MEOA Meeting"). At the MEOA Meeting, MEOA's stockholders approved an amendment (the "Extension Amendment") to MEOA's amended and restated certificate of incorporation to extend the date by which MEOA must consummate its initial business combination from November 30, 2022 to May 30, 2023, or such earlier date as determined by MEOA's board of directors. On November 30, 2022, after giving effect to the redemption of public shares of MEOA, the Company's subsidiary owns a controlling interest of MEOA and it has been consolidated in the Condensed Consolidated Financial Statements.

On July 3, 2023, MEOA announced that it did not complete an initial business combination on or prior to June 30, 2023, the deadline by which it must have completed an initial business combination, and intends to dissolve and liquidate in accordance with the provisions of its amended charter. As of the close of business on July 3, 2023, MEOA's public shares were deemed cancelled and represent only the right to receive the redemption amount. MEOA instructed Continental Stock Transfer & Trust Company, the trustee of the trust account, to take all necessary actions to liquidate the securities held in the trust account. The redemption of MEOA's public shares was completed in the third quarter of 2023.

The SPAC Sponsor agreed to waive its redemption rights with respect to its outstanding Class B common stock issued prior to MEOA's initial public offering. There were no redemption rights or liquidating distributions with respect to MEOA's warrants, which expired worthless.

8. Convertible Debt

On April 17, 2023, the Company entered into a Securities Purchase Agreement (the "LDA Purchase Agreement") pursuant to which the Company issued to an investor, LDA Capital Limited (the "Investor"), a senior convertible promissory note having an aggregate principal amount of $1.0 million (the "LDA Note"), as amended April 25, 2023, and a common share purchase warrant (the "LDA Warrant") to purchase up to 455,927 common shares of the Company (the "LDA Warrant Shares"). The Company received proceeds of approximately $0.8 million, which were net of fees associated with the transaction, on April 18, 2023 (the "Closing Date"), with an additional tranche of up to $2.0 million (the "Second Tranche") to be provided to the Company, subject to certain conditions precedent, within five business days of the date on which an effective registration statement is filed to cover the resale of the conversion shares (as defined below) and the LDA Warrant Shares. Upon receipt of the Second Tranche, the Company shall issue an additional senior convertible promissory note with a principal amount equal to the amount of the Second Tranche, and a common share purchase warrant.

The LDA Note matures 24 months after issuance, bears interest at a rate of 7.5% per annum and is convertible into the Company's common shares (the "Conversion Shares"), at the Investor's election, at an initial conversion price equal to the greater of (i) $2.0832 per share, or (ii) 85% of the VWAPS (as defined in the LDA Note) during the five trading days prior to delivery of a conversion notice by the Investor, subject to adjustment for certain stock splits, stock combinations and dilutive share issuances. Commencing on the date that is 12 months from the date of issuance, the Company is required to pay the Investor back the amount of the outstanding principal in twelve consecutive monthly installments. The Company may prepay all, but not less than all, of the then outstanding principal amount of the LDA Note plus an additional prepayment amount equal to the greater of (i) the total amount of interest that would have been payable in respect of initial principal amount under the LDA Note from the issuance date through (A) its original maturity date or (B) if the date of applicable prepayment is prior to the date that is 120 days from the issuance date, the date that is 12 months from the issuance date, and (ii) the amount of interest that would have been payable in respect of initial principal amount under the LDA Note from the date of the applicable prepayment through (A) its original maturity date or (B) if the date of applicable prepayment is prior to the date that is 120 days from the issuance date, the date that is 12 months from the issuance date, at any time prior to the maturity date. The LDA Note contains a number of customary events of default. Additionally, the LDA Note is secured by certain property and equipment owned by the Company, pursuant to a security agreement between the Company and the Investor dated as of April 17, 2023. At June 30, 2023, the fair value balance of the LDA Note was $1,051,000.

As of June 30, 2023, the Company was not in compliance with a financial covenant of the LDA Note. Subsequent to June 30, 2023, the Company received a waiver for the financial covenant noncompliance.

The fair value of the LDA Note was estimated based on a pay-off scenario upon maturity using discount rates of 16.2% and 14.0% as of April 17, 2023 and June 30, 2023, respectively. The Company recorded a change in fair value adjustment of $51,000 for both the three and six months ended June 30, 2023.

The LDA Warrant is exercisable at an initial exercise price of $3.29 per share and expires three years from the date of issuance or earlier if the closing of a Fundamental Transaction occurs (defined as merger or consolidation, any sale of substantially all of the Company’s assets, any tender offer or exchange offer pursuant to which common shareholders can tender or exchange their shares for other securities, cash or property, as well as any reclassification of common shares into other securities, cash or property). On the date that is six months from the date of issuance of the LDA Warrant, the exercise price will be adjusted to the lower of (i) $3.29, and (ii) a price equal to 110% of the average of the VWAPS (as defined in the LDA Warrant) of the Company's common shares over five trading days preceding such date. Additionally, the exercise price of the LDA Warrant is subject to adjustment for certain stock splits, stock combinations and dilutive share issuances. Pursuant to the terms of the LDA Purchase Agreement, the Company will reserve for issuance 200% of the maximum aggregate number of common shares as are issuable upon repayment or conversion in full of the LDA Note and exercise in full of the LDA Warrant at any time.

The LDA Warrant contains a contingent put option. In the event of a Fundamental Transaction, the Investor may, at the Investor’s option, require the Company to purchase the LDA Warrant for an amount of cash equal to the Black Scholes value of the remaining unexercised portion of the warrant on the date of consummation of such Fundamental Transaction. The Company has recorded the warrant as a liability and will adjust the warrant liability to fair value each reporting period until settled.

The fair value of the LDA Warrant was measured using a Monte Carlo valuation model with the following assumptions:

	April 17, 2023	June 30, 2023
Common share price	$ 2.98	$ 1.9
Expected volatility	120.0 %	115.
Risk-free interest rate	3.8 %	4

On April 17, 2023, upon issuance of the LDA Note and LDA Warrant, which are accounted for as freestanding financial instruments, the Company determined that the aggregate fair value of $2.0 million for the instruments issued exceeds the net proceeds received under the transaction. Accordingly, the excess of the fair value over the proceeds received of $1.0 million was recognized as interest expense.

9. Preferred Shares

Series H Preferred Shares

On October 1, 2021, the Company filed articles of amendment to create a series of preferred shares, being, an unlimited number of Series H Preferred Shares and to provide for the rights, privileges, restrictions and conditions attaching thereto. The Series H Preferred Shares are convertible provided (and only if and to the extent) that prior shareholder approval of the issuance of all Sphere 3D common shares issuable upon conversion of the Series H Preferred Shares has been obtained in accordance with the rules of the Nasdaq Stock Market, at any time from time to time, at the option of the holder thereof, into 142.857 Sphere 3D common shares for every Series H Preferred Share. Each holder of the Series H Preferred Shares, may, subject to prior shareholder approval, convert all or any part of the Series H Preferred Shares provided that after such conversion the common shares issuable, together with all the common shares held by the shareholder in the aggregate would not exceed 9.99% of the total number of outstanding common shares of the Company. Each Series H Preferred Share has a stated value of $1,000. The Series H Preferred Shares are non-voting and do not accrue dividends. These features include, in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, deemed liquidation or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, the Series H Preferred Shares shall entitle each of the holders thereof to receive an amount equal to the Series H subscription price per Series H Preferred Share, as defined in the agreement, to be paid before any amount is paid or any assets of the Company are distributed to the holders of its common shares.

In November 2022, the Company entered into the Modified Hertford Agreement. The Modified Hertford Agreement provides for certain resale restrictions applicable to the common shares that are issuable upon the conversion of the remaining Series H Preferred Shares during the two-year period ending on December 31, 2024, which are different from the restrictions contained in the Hertford Agreement, as well, commencing January 1, 2023 and terminating on December 31, 2023, holders of Series H Preferred Shares are permitted to (a) convert Series H Preferred Shares in an aggregate amount up to or equal to 3.0% of the aggregate number of Series H Preferred Shares outstanding on the first day of each such month and (b) sell the resulting number (and no greater number) of such converted common shares within such month. Commencing January 1, 2024 and terminating on December 31, 2024, holders of Series H Preferred Shares are permitted to (a) convert Series H Preferred Shares in an aggregate amount up to or equal to 10.0% of the aggregate number of Series H Preferred Shares outstanding on the first day of each such month and (b) sell the resulting number (and no greater number) of such converted common shares within such month.

During the six months ended June 30, 2023, pursuant to the Modified Hertford Agreement, the Company issued 1,431,283 common shares for the conversion of 10,019 Series H Preferred Shares.

In accordance with the authoritative guidance for distinguishing liabilities from equity, the Company has determined that its Series H preferred shares carry certain redemption features beyond the control of the Company. Accordingly, the Series H Preferred Shares are presented as temporary equity.

10. Share Capital

On June 28, 2023, the Company filed an Articles of Amendment to effect a share consolidation (also known as a reverse stock split) of its issued and outstanding common shares on a one-for-seven basis. The share consolidation became effective on June 28, 2023. All share and per share amounts have been restated for all periods presented to reflect the share consolidation.

In April 2022, the Company issued 192,857 unregistered common shares, with a fair value of $1.7 million, to Bluesphere Ventures Inc. for the right to acquire up to 1,040,000 carbon credits. As of June 30, 2023, none of the carbon credits have been retired.

In March 2022, in connection with the Merger Agreement, the Company issued into escrow 121,428 common shares with a fair value of $1.2 million. On April 4, 2022, the Merger Agreement with Gryphon Digital Mining, Inc. (“Gryphon”) was terminated by the Company and the common shares were released to Gryphon as stated by the escrow agreement.

In February 2022, the Company issued 14,286 common shares and 42,858 warrants to purchase up to 42,858 common shares, with a combined fair value of $0.7 million to PGP Capital Advisors for financial advisory services provided.

Unlimited authorized common shares at no par value are available to the Company. At June 30, 2023, the Company had the following outstanding warrants to purchase common shares:

Date issued	Contractual life (years)	Exercise price	Number outstanding	Expiration
July 2021	3	$28.00	285,716	December 22, 2024
August 2021	3	$45.50	370,787	August 25, 2024
August 2021	3	$52.50	370,787	August 25, 2024
September 2021	5	$66.50	1,614,299	September 8, 2026
October 2021	3	$42.00	121,429	October 1, 2024
February 2022	5	$28.00	14,286	February 7, 2027
February 2022	5	$35.00	14,286	February 7, 2027
February 2022	5	$42.00	14,286	February 7, 2027
April 2023	3	$3.29	455,927	April 17, 2026
			3,261,803	

11. Equity Incentive Plans

Stock Options

The fair value of option awards are estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility was based on historical volatility of the Company's common shares. The expected term of options granted was based on the simplified formula. The risk-free interest rate was based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The dividend yield assumption was based on the expectation of no future dividend payments.

The assumptions used in the Black-Scholes model were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Expected volatility	84.0 %	124.0 %	84.0 %	124.0 %
Expected term (in years)	0.5	4.2	0.5	4.2
Risk-free interest rate	5.27%	2.71-3.25%	5.27%	2.71-3.25%
Dividend yield	—	—	—	—

The following table summarizes option activity:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Options outstanding — January 1, 2023	389,604	$ 7.07		
Granted	100,000	$ 2.11		
Exercised	(94,701)	$ 2.11		
Forfeited	(14,286)	$ 6.30		
Options outstanding — June 30, 2023	380,617	$ 7.01	5.1	$ —
Vested and expected to vest — June 30, 2023	380,617	$ 7.01	5.1	$ —
Exercisable — June 30, 2023	129,560	$ 11.75	4.7	$ —

Restricted Stock

The following table summarizes RSU activity:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding — January 1, 2023	125,182	$ 8.89
Granted	444,697	$ 2.90
Vested and released	(101,873)	$ 5.37
Forfeited	(20,953)	$ 6.78
Outstanding — June 30, 2023	447,053	$ 3.83

The estimated fair value of RSUs was based on the market value of the Company's common shares on the date of grant. RSUs typically vest over a period of one to three years from the original date of grant. The total grant date fair value of RSUs vested during the six months ended June 30, 2023 and 2022 was approximately $0.5 million and $2.0 million, respectively. The fair value of RSUs vested during the six months ended June 30, 2023 and 2022 was approximately $0.2 million and $1.5 million, respectively.

Share-Based Compensation Expense

The Company recorded the following compensation expense related to its share-based compensation awards (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Sales and marketing	$ 35	$ —	$ 51	$ —
General and administrative	684	7,199	1,153	7,316
Total share-based compensation expense	$ 719	$ 7,199	$ 1,204	$ 7,316

Total unrecognized estimated compensation cost by type of award and the weighted-average remaining requisite service period over which such expense is expected to be recognized (in thousands, unless otherwise noted):

	June 30, 2023	
	Unrecognized Expense	Remaining Weighted-Average Recognition Period (years)
RSUs	$ 1,247	1.1
Stock options	$ 449	1.4

12. Net Loss per Share

Basic net loss per share is computed by dividing net loss applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Preferred shares, outstanding common share purchase warrants, and outstanding options and RSUs are considered common stock equivalents and are only included in the calculation of diluted earnings per common share when net income is reported and their effect is dilutive.

Anti-dilutive common share equivalents excluded from the computation of diluted net loss per share were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Preferred shares issued and outstanding	7,140,136	13,714,286	7,140,136	13,714,286
Common share purchase warrants	3,261,803	2,836,935	3,261,803	2,836,935
Options and RSUs outstanding	827,670	637,902	827,670	637,902
Convertible debt	480,031	—	480,031	—

13. Commitments and Contingencies

Service Agreements

On August 19, 2021, the Company entered into a Master Services Agreement with Gryphon (the "Gryphon MSA"). To provide greater certainty as to the term of the Gryphon MSA, on December 29, 2021, the Company and Gryphon entered into Amendment No. 1 to the Gryphon MSA (the "Gryphon MSA Amendment") which extended the initial term of the Gryphon MSA to five years, as the Company did not receive delivery of a specified minimum number of digital mining machines during 2022. Subject to written notice from the Company and an opportunity by Gryphon to cure for a period of up to 180 days, the Company shall be entitled to terminate the Gryphon MSA in the event of: (i) Gryphon's failure to perform the services under the Gryphon MSA in a professional and workmanlike manner in accordance with generally recognized digital mining industry standards for similar services, or (ii) Gryphon's gross negligence, fraud or willful misconduct in connection with performing the services. Gryphon shall be entitled to specific performance or termination for cause in the event of a breach by the Company, subject to written notice and an opportunity to cure for a period of up to 180 days. As consideration for the Gryphon MSA, Gryphon shall receive the equivalent of 22.5% of the net operating profit, as defined in the Gryphon MSA, of all of the Company's blockchain and digital currency related operations as a management fee. In addition, any costs Gryphon incurs on the Company's behalf are to be reimbursed to Gryphon as defined in the Gryphon MSA. The Company paid costs under this agreement of $3.3 million and $0.4 million during the three months ended June 30, 2023 and 2022, respectively. The Company paid costs under this agreement of $3.9 million and $0.8 million during the six months ended June 30, 2023 and 2022, respectively.

On April 7, 2023, the Company filed litigation against Gryphon citing several breaches to the Gryphon MSA, including but not limited to, several fiduciary and operational breaches.

On June 3, 2022, the Company entered into a Master Agreement with Compute North LLC (the "Compute North MA") for, the colocation, management and other services of certain of the Company's mining equipment. In September 2022, Compute North filed for Chapter 11 bankruptcy. In December 2022, the Compute North MA was assigned to GC Data Center Granbury, LLC (the "GC Data Center MA") and has a term of five years from such assignment date. Under the GC Data Center MA, the monthly service fee is payable based on the actual hashrate performance of the equipment per miner type per location as a percentage of the anticipated monthly hashrate per miner type. A deposit of $0.5 million previously paid to Compute North for the last two months of monthly service fees was remitted to GC Data Center on behalf of the Company and is included in prepaid digital hosting services at June 30, 2023. During the three months ended June 30, 2023 and 2022, the Company incurred costs under the GC Data Center MA of $1.3 million and nil, respectively. During the six months ended June 30, 2023 and 2022, the Company incurred costs under the GC Data Center MA of $2.6 million and nil, respectively. For both the three and six months ended June 30, 2023, $0.9 million of the costs incurred under the GC Data Center MA were paid through the Gryphon MSA and are included in the Gryphon MSA costs above.

On February 8, 2023, the Company entered into a Hosting Agreement with Lancium FS 25, LLC (the "Lancium Hosting Agreement") for rack space, network services, electrical connections, routine facility maintenance, and technical support of certain of the Company's mining equipment. The Lancium Hosting Agreement has a term of two years with subsequent one year renewal periods. During both the three and six months ended June 30, 2023, the Company incurred costs under the Lancium Hosting Agreement of $0.5 million. The costs incurred under the Lancium Hosting Agreement are paid through the Gryphon MSA and included in the Gryphon MSA costs above.

On April 4, 2023, the Company entered into a Master Hosting Services Agreement with Rebel Mining Company, LLC (the "Rebel Hosting Agreement") for rack space, network services, electrical connections, routine facility maintenance, and technical support of certain of the Company's mining equipment. The Rebel Hosting Agreement has a term of three years with subsequent one year renewal periods. As required by the Rebel Hosting Agreement, the Company paid deposits of $2.6 million representing the last two months of estimated service fees. During both the three and six months ended June 30, 2023, the Company incurred costs under the Rebel Hosting Agreement of $1.2 million. The costs incurred under the Rebel Hosting Agreement are paid through the Gryphon MSA and included in the Gryphon MSA costs above.

Digital Mining Hosting Sub-License

On October 5, 2021, the Company entered into a Sub-License and Delegation Agreement (“Hosting Sub-Lease”) by and between Gryphon and the Company, which assigned to the Company certain Master Services Agreement, dated as of September 12, 2021 (the “Core Scientific MSA”), by and between Core Scientific, Inc. (“Core Scientific”), and Gryphon and Master Services Agreement Order #2 (“Order 2”). On December 29, 2021, the Company and Gryphon entered into Amendment No. 1 to the Sub-Lease Agreement (the “Sub-Lease Amendment”) to provide Gryphon the right to recapture the usage of up to 50% of the hosting capacity to be managed by Core Scientific. The agreement allows for approximately 230 MW of net carbon neutral digital mining hosting capacity to be managed by Core Scientific as hosting partner. As part of the agreement, Core Scientific will provide digital mining fleet management and monitoring solution, Minder™, data analytics, alerting, monitoring, and miner management services. The Hosting Sub-Lease shall automatically terminate upon the termination of the Core Scientific MSA and/or Order 2 in accordance with their respective terms. On October 31, 2022, the Company filed an arbitration request against Core Scientific regarding the Hosting Sub-Lease. The Company has requested that certain advanced deposits paid be refunded back to it as a result of the modification to the Company’s machine purchase agreement with FuFu Technology Limited (now Ethereal Tech Pte. Ltd.). In December 2022, Core Scientific filed Chapter 11 bankruptcy. The Company incurred costs under this agreement of $0.2 million and $0.2 million during the three months ended June 30, 2023 and 2022, respectively. The Company incurred costs under this agreement of $0.4 million and $0.2 million during the six months ended June 30, 2023 and 2022, respectively. The costs incurred under the Sub-Lease Amendment are paid through the Gryphon MSA and included in the Gryphon MSA costs above.

Underwriting Agreement

Subject to the terms of the underwriting agreement for MEOA’s initial public offering, as amended on August 30, 2022, the underwriter is entitled to a deferred underwriting fee of $4.6 million, which is recorded as deferred underwriting fee in the Company’s consolidated balance sheets.

Letters of credit

During the ordinary course of business, the Company provides standby letters of credit to third parties as required for certain transactions initiated by the Company. As of June 30, 2023, the Company has one outstanding standby letter of credit used for the bond necessary for the Company to receive mining machines.

Extended Warranty

Changes in the liability for deferred revenue associated with extended warranties and service contracts were as follows (in thousands):

	Deferred Revenue
Liability at January 1, 2023	$ 139
Revenue recognized during the period	(53)
Change in liability for warranties issued during the period	7
Liability at June 30, 2023	$ 93
Current liability, included in other current liabilities	52
Non-current liability, included in other non-current liabilities	41
Liability at June 30, 2023	$ 93

Litigation

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending proceedings will not have a material effect on the Company’s results of operations, financial position or cash flows.

14. Segment Information

The Company has two operating segments, (1) Digital Mining and (2) Service and Product. The segment disclosures present the measure(s) used by the chief operating decision maker to decide how to allocate resources and for purposes of assessing such segments' performance.

The Digital Mining segment generates revenue from the digital currency the Company earns through its bitcoin mining activities. The Company generates its digital mining revenue from two mining pool operators. The Company's revenue from digital mining is generated in the United States.

The Service and Product segment generates revenue from customer contracts for service and extended service contract and the sale of products related to the Company's data storage product line. The Company's revenue from service and product is generated in the United States.

Summary information by segment (in thousands):

Three months ended June 30, 2023	Digital Mining	Service and Product	Unallocated	Total Consolidated
Revenue	$ 4,966	$ 500	$ —	$ 5,466
Segment gross profit	$ 891	$ 292	$ —	$ 1,183
Segment loss from operations	$ (821)	$ (285)	$ (3,590)	$ (4,696)
Interest expense	—	—	1,173	1,173
Depreciation and amortization	$ 1,346	$ 3	$ 26	$ 1,375

Six months ended June 30, 2023	Digital Mining	Service and Product	Unallocated	Total Consolidated
Revenue	$ 7,490	$ 1,002	$ —	$ 8,492
Segment gross profit	$ 1,451	$ 495	$ —	$ 1,946
Segment loss from operations	$ (712)	$ (742)	$ (6,982)	$ (8,436)
Capital expenditures	$ 1,561	$ —	$ —	$ 1,561
Interest expense	—	—	1,173	1,173
Depreciation and amortization	$ 2,331	$ 17	$ 52	$ 2,400

Three months ended June 30, 2022	Digital Mining	Service and Product	Unallocated	Total Consolidated
Revenue	$ 1,211	$ 710	$ —	$ 1,921
Segment gross profit	$ 592	$ 369	$ —	$ 961
Segment loss from operations	$ (4,762)	$ (145)	$ (10,487)	$ (15,394)
Capital expenditures	$ 6,265	$ —	$ —	$ 6,265
Depreciation and amortization	$ 7,425	$ 34	$ 26	$ 7,485

Six months ended June 30, 2022	Digital Mining	Service and Product	Unallocated	Total Consolidated
Revenue	$ 1,958	$ 1,335	$ —	$ 3,293
Segment gross profit	$ 984	$ 635	$ —	$ 1,619
Segment loss from operations	$ (15,412)	$ (397)	$ (14,696)	$ (30,505)
Capital expenditures	$ 16,264	$ —	$ —	$ 16,264
Depreciation and amortization	$ 13,730	$ 67	$ 52	$ 13,849

A summary of segment assets is as follows (in thousands):

As of June 30, 2023	Digital Mining	Service and Product	Unallocated	Total Consolidated
Total assets	$ 58,252	$ 616	$ 12,410	$ 71,278

As of December 31, 2022	Digital Mining	Service and Product	Unallocated	Total Consolidated
Total assets	$ 63,077	$ 689	$ 19,250	$ 83,016

Service and product had the following customers that represented more than 10% of revenue.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Customer A	24.7 %	18.9 %	24.2 %	20.1 %
Customer B	13.9 %	14.3 %	14.4 %	13.0 %
Customer C	10.9 %	— %	10.9 %	— %

Service and product had the following receivable’s that represented more than 10% of accounts receivable.

	June 30, 2023	December 31, 2022
Customer A	36.2 %	— %
Customer B	26.7 %	22.7 %
Customer C	17.8 %	15.2 %
Customer D	— %	10.5 %
Customer E	— %	14.5 %
Customer F	— %	10.2 %

14. Subsequent Events

Subsequent to June 30, 2023, the Company issued 421,856 common shares for the conversion of 2,953 Series H Preferred Shares.

Private Placement

On August 11, 2023, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") pursuant to which the Company issued to two investors, a total of 13,764 of the Company's Series H Preferred Shares and a total of 1,966,292 common share purchase warrants (the "Warrants"), each of which entitled the holder to purchase one common share of the Company (the "Warrant Shares"). Per the terms of the Purchase Agreement, the Company will receive gross proceeds of $3.5 million. The Company issued a total of 1,377 Series H Preferred Shares and 196,629 Warrants as a finder's fee for the transaction.

The Warrants issued to the investors are exercisable beginning February 12, 2024 at an initial exercise price of $2.75 per share and have a term of three years from the date of issuance. The Warrants issued for a finder's fee are immediately exercisable. The exercise price of the Warrant is subject to adjustment for certain stock splits, stock combinations and dilutive share issuances.

Pursuant to the terms of the Purchase Agreement, the Company will reserve for issuance the maximum aggregate number of common shares that are issuable upon exercise in full of the Warrants at any time.

Amendment to Hertford Agreement

On August 11, 2023, the Company entered into an Amended and Restated Agreement (the "Hertford Amendment") with Hertford Advisors Ltd. and certain other parties listed in the Hertford Amendment (together, the "Hertford Group"), which amends and restates in its entirety the purchase agreement between the Company and Hertford Advisors Ltd. dated July 31, 2021, as modified by the amendment to such agreement dated November 7, 2022 (together, the "Original Hertford Agreement"). As an inducement to enter into the Hertford Amendment, the Company shall issue to Hertford 1,376 Series H Preferred Shares and 800,000 Warrants.

Hertford shall have the right to exchange 14,980 Series H Preferred Shares for Series H Preferred Shares held by other persons (the "Exchanged Series H Preferred Shares"), provided that at no time shall any recipient of Exchanged Series H Preferred Shares be permitted to convert Series H Preferred Shares that, when aggregated with any common shares beneficially owned by the recipient of Exchanged Series H Preferred Shares prior to such conversion, would result in exceeding 9.99% of the common shares outstanding immediately after giving effect to such conversion.

The offer and sale of the Series H Preferred Shares and the Warrants have not been registered under the Securities Act and may not be offered or sold in the United States in the absence of an effective registration statement or exemption from the registration requirements, and in each case in compliance with applicable state securities laws.

Convertible Debt

On August 14, 2023, in accordance with the terms of the LDA Purchase Agreement prepayment option, the Company repaid the full amount of the LDA Note, including interest and fees, in the amount of $1.3 million. As a result of the Company's repayment, the Company shall have the right to redeem from the holder of the LDA Warrants 40% of the then outstanding LDA Warrants.

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

The following quarterly management’s discussion and analysis (“MD&A”) should be read in conjunction with our unaudited condensed consolidated financial statements and the accompanying notes of Sphere 3D Corp. (the “Company”) for the three and six months ended June 30, 2023. The condensed consolidated financial statements have been presented in United States (“U.S.”) dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Unless the context otherwise requires, any reference to the “Company,” “Sphere 3D,” “we,” “our,” “us” or similar terms refers to Sphere 3D Corp. and its subsidiaries. Unless otherwise indicated, all references to “$” and “dollars” in this discussion and analysis mean U.S. dollars.

This report includes forward-looking statements that involves risks and uncertainties. This forward-looking information includes, but is not limited to, statements with respect to management’s expectations regarding the future growth, results of operations, performance and business prospects of Sphere 3D. This forward-looking information relates to, among other things, future business plans and business planning process, uses of cash, and may also include other statements that are predictive in nature, or that depend upon or refer to future events or conditions. The words “could”, “expects”, “may”, “will”, “anticipates”, “assumes”, “intends”, “plans”, “believes”, “estimates”, “guidance”, and similar expressions are intended to identify statements containing forward-looking information, although not all forward-looking statements include such words. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management’s expectations, estimates and projections regarding future events.

Many factors could cause actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, but not limited to: the inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market; the impact of competition; the investment in technological innovation; the retention or maintenance of key personnel; the possibility of significant fluctuations in operating results; the ability of Sphere 3D to maintain business relationships; financial, political or economic conditions; financing risks; future acquisitions; the ability of Sphere 3D to protect its intellectual property; third party intellectual property rights; volatility in the market price for the common shares of the Company; compliance by Sphere 3D with financial reporting and other requirements as a public company; conflicts of interests; future sales of common shares by Sphere 3D’s directors, officers and other shareholders; dilution and future sales of common shares. For more information on these risks, you should refer to the Company’s filings with the securities regulatory authorities, including the Company’s most recently filed Annual Report on Form 10-K, which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov. In evaluating such statements, we urge you to specifically consider various factors identified in this report, any of which could cause actual results to differ materially from those indicated by such forward-looking statements. Forward-looking statements speak only as of the date of this report and we undertake no obligation to publicly update any forward-looking statements to reflect new information, events or circumstances after the date of this report. Actual events or results may differ materially from such statements.

Share Consolidation

On June 28, 2023, we filed Articles of Amendment to effect a share consolidation (also known as a reverse stock split) of our issued and outstanding common shares on a 1-for-7 basis. The share consolidation became effective on June 28, 2023. All share and per share amounts have been restated for all periods presented to reflect the share consolidation.

Overview

Sphere 3D was incorporated under the *Business Corporations Act (Ontario)* on May 2, 2007 as T.B. Mining Ventures Inc. On March 24, 2015, we completed a short-form amalgamation with a wholly-owned subsidiary. In connection with the short-form amalgamation, we changed our name to "Sphere 3D Corp." Any reference to the "Company", "Sphere 3D", "we", "our", "us", or similar terms refers to Sphere 3D Corp. and its subsidiaries. In December 2014, we completed the acquisition of Overland Storage, Inc. ("Overland") to grow our business in the containerization and virtualization technologies along with data management products that enabled workload-optimized solutions. In November 2018, we sold our Overland business. In January 2022, we commenced operations of our digital mining operation and are dedicated to becoming a leading carbon-neutral Bitcoin mining company. We are establishing an enterprise-scale mining operation through procurement of next-generation mining equipment and partnering with experienced service providers.

Digital assets and blockchain

Bitcoin is a digital asset issued by and transmitted through an open source protocol maintained by a peer-to-peer network of decentralized user nodes. This network hosts a public transaction ledger blockchain where the digital assets and their corresponding transactions are recorded. The digital assets are stored in individual wallets with public addresses and a private key that controls access. The blockchain is updated without a single owner or operator of the network. New digital assets are generated and mined rewarding users after transactions are verified in the blockchain.

Digital assets and their corresponding markets emulate foreign exchange markets of fiat currencies, such as the U.S. dollar, where they can be exchanged to said fiat currencies trading exchanges. In addition to these exchanges, additional trading markets for digital assets exist, such as derivative markets.

Since the nature of digital assets is such that it exists solely in electronic form, they are exposed to risks similar to that of any data held solely in electronic form such as power failure, data corruption, cyber security attacks, protocol breaches, and user error, among others. Similar to data centers, these risks put the digital assets subject to the aforementioned threats which might not necessarily affect a physical fiat currency. In addition, blockchain relies on open source developers to maintain the digital asset protocols. Blockchain as such may be subject to design changes, governance disputes such as "forked" protocols, and other risks associated with open source software.

Digital currencies serve multiple purposes - a medium of exchange, store of value or unit of account. Examples of digital currencies include: bitcoin, bitcoin cash, Ethereum, and Litecoin. Digital currencies are decentralized currencies that facilitate instant transfers. Transactions occur on an open source platform using peer-to-peer direct technology with no single owner. Blockchain is a public transaction ledger where transactions occur, are recorded and tracked, however not owned nor managed by one single entity. Blockchain, accessible and open to all, contains records of all existing and historical transactions. All accounts on the blockchain have a unique public key and is secured with a private key that is only known to the individual. The combination of private and public keys results in a secure digital "fingerprint" which results in a strong control of ownership.

We believe cryptocurrencies have many advantages over traditional, physical fiat currencies, including immediate settlement, fraud deterrent as they are unable to be duplicated or counterfeited, lower fees, mass accessibility, decentralized nature, identity theft prevention, physical loss prevention, no counterparty risk, no intermediary facilitation, no arduous exchange rate implications and a strong confirmation transaction process.

Service and product

In addition to digital mining, we provide network operations center (“NOC”) services to our customers. NOC revenues are for monthly services performed for the customer that are performed either in-house or at the customer’s site. We also deliver data management and desktop and application virtualization solutions through hybrid cloud, cloud and on premise implementations by a reseller network. We achieve this through a combination of containerized applications, virtual desktops, virtual storage and physical hyper-converged platforms. Our products allow organizations to deploy a combination of public, private or hybrid cloud strategies while backing them up with the latest storage solutions. Our brands include HVE ConneXions (“HVE”) and Unified ConneXions (“UCX”).

Investment in Special Purpose Acquisition Company

In April 2021, we sponsored a special purpose acquisition company (“SPAC”), Minority Equality Opportunities Acquisition Inc. (“MEOA”), through our wholly owned subsidiary, Minority Equality Opportunities Acquisition Sponsor, LLC (“SPAC Sponsor”). MEOA’s purpose is to focus initially on transactions with companies that are minority owned businesses. In April 2021, SPAC Sponsor paid $25,000 of deferred offering costs on behalf of MEOA in exchange for 2,875,000 shares of MEOA’s Class B common stock (the “Founder Shares”). On August 30, 2021, MEOA consummated its initial public offering (the “IPO”) and issued units which were comprised of one share of Class A common stock and one redeemable warrant. Also in August 2021, and simultaneously with the consummation of the IPO, SPAC Sponsor participated in the private sale of an aggregate of 5,395,000 Warrants (the “Private Placement Warrants”) at a purchase price of $1.00 per Private Placement Warrant. The SPAC Sponsor paid $5.4 million to MEOA, which included $1.0 million from an investor participating in MEOA Sponsor. The Private Placement Warrants are not transferable, assignable or saleable until 30 days after MEOA completes a business combination. On October 18, 2021, the securities comprising the units begin separate trading, the Class A common stock and warrants are listed on the NASDAQ Capital Market under the symbols “MEOA” and “MEOAW,” respectively.

In August 2022, MEOA entered into a business combination agreement with MEOA Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of MEOA (“Merger Sub”), and Digerati Technologies, Inc., a Nevada corporation (“Digerati”), pursuant to which, subject to the satisfaction or waiver of certain conditions set forth therein, Merger Sub will merge with and into Digerati (the “Digerati Merger”), with Digerati surviving the Digerati Merger as a wholly owned subsidiary of MEOA, and with Digerati’s equity holders receiving shares of MEOA common stock.

In November 2022, MEOA held a special meeting of stockholders (the “MEOA Meeting”). At the MEOA Meeting, MEOA’s stockholders approved an amendment (the “Extension Amendment”) to MEOA’s amended and restated certificate of incorporation to extend the date by which MEOA must consummate its initial business combination from November 30, 2022 to May 30, 2023, or such earlier date as determined by MEOA’s board of directors. In connection with the MEOA Meeting, the holders of MEOA’s shares of its Class A common stock exercised their right to redeem such shares for a pro rata portion of the funds in the trust account. After giving effect to the redemption of MEOA’s public shares, on November 30, 2022, the Company owned a controlling interest of MEOA and since such time MEOA has been recorded on a consolidated basis.

SPAC Sponsor, along with MEOA’s initial stockholders, MEOA’s executive officers and directors have entered into a letter agreement with MEOA, pursuant to which we have agreed to (i) waive our redemption rights with respect to our founder shares and public shares in connection with the completion of the initial business combination; (ii) waive our redemption rights with respect to our founder shares and public shares in connection with a stockholder vote to approve an amendment to the certificate of incorporation: (A) to modify the substance or timing of MEOA’s obligation to redeem 100% of the public shares if MEOA does not complete an initial business combination within the combination period; or (B) with respect to any other material provision relating to stockholders’ rights or pre-initial business combination activity; and (iii) waive our rights to liquidating distributions from the trust account with respect to our founder shares if MEOA fails to complete an initial business combination within the Combination Period.

On July 3, 2023, MEOA announced that it did not complete an initial business combination on or prior to June 30, 2023, the deadline by which it must have completed an initial business combination, and intends to dissolve and liquidate in accordance with the provisions of its amended charter. As of the close of business on July 3, 2023, MEOA’s public shares were deemed cancelled and represent only the right to receive the redemption amount. MEOA instructed Continental Stock Transfer & Trust Company, the trustee of the trust account, to take all necessary actions to liquidate the securities held in the trust account. The redemption of MEOA’s public shares was completed in the third quarter of 2023. We did not retain any proceeds from the trust account.

Nasdaq Listing

On July 25, 2022, we received a notice from the Nasdaq Listing Qualifications Department of the Nasdaq Stock Market LLC (“Nasdaq”) stating that the bid price of our common stock for the last 30 consecutive trading days had closed below the minimum $1.00 per share required for continued listing under Listing Rule 5550(a)(2) (the “Listing Rule”). We had a period of 180 calendar days, or until January 23, 2023, to regain compliance with the Listing Rule.

On January 24, 2023, we received notification from Nasdaq indicating that we will have an additional 180-day grace period, or until July 24, 2023, to regain compliance with the Listing Rule's $1.00 minimum bid requirement. The notification indicated that we did not regain compliance during the initial 180-day grace period provided under the Listing Rule. In accordance with Nasdaq Marketplace Rule 5810(c)(3)(A), we are eligible for the additional grace period because we meet the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the Nasdaq Capital Market with the exception of the bid price requirement, and our written notice to Nasdaq of our intentions to cure the deficiency by effecting a reverse stock split, if necessary.

On July 14, 2023, we received notification from Nasdaq indicating that we had regained compliance with the Listing Rule.

Recent Key Events

- On August 14, 2023, in accordance with the terms of the LDA Purchase Agreement prepayment option, we repaid the full amount of the LDA Note, including interest and fees, in the amount of $1.3 million. As a result of our repayment, we shall have the right to redeem from the holder of the LDA Warrants 40% of the then outstanding LDA Warrants.
- On August 11, 2023, we entered into a Securities Purchase Agreement (the "Purchase Agreement") pursuant to which we issued to two investors, a total of 13,764 of our Series H Preferred Shares and a total of 1,966,292 common share purchase warrants (the "Warrants"), each of which entitled the holder to purchase one common share of the Company. Per the terms of the Purchase Agreement, we will receive gross proceeds of $3.5 million. We issued a total of 1,377 Series H Preferred Shares and 196,629 Warrants as a finder's fee for the transaction.
- On August 11, 2023, we entered into an Amended and Restated Agreement (the "Hertford Amendment") with Hertford Advisors Ltd. and certain other parties listed in the Hertford Amendment (together, the "Hertford Group"), which amends and restates in its entirety the purchase agreement between us and Hertford Advisors Ltd. dated July 31, 2021, as modified by the amendment to such agreement dated November 7, 2022 (together, the "Original Hertford Agreement"). Pursuant to the Hertford Amendment, we shall issue to Hertford 1,376 Series H Preferred Shares and 800,000 Warrants. Hertford shall have the right to exchange 14,980 Series H Preferred Shares for Series H Preferred Shares held by other persons (the "Exchanged Series H Preferred Shares"), provided that at no time shall any recipient of Exchanged Series H Preferred Shares be permitted to convert Series H Preferred Shares that, when aggregated with any common shares beneficially owned by the recipient of Exchanged Series H Preferred Shares prior to such conversion, would result in exceeding 9.99% of the common shares outstanding immediately after giving effect to such conversion.
- In the first six months of 2023, we issued 1,431,283 common shares for the conversion of 10,019 Series H Preferred Shares. Subsequent to June 30, 2023, we issued 421,856 common shares for the conversion of 2,953 Series H Preferred Shares.

Results of Operations

The Second Quarter of 2023 Compared with the Second Quarter of 2022

Revenue

We generated revenues of $5.5 million and $1.9 million during the second quarter of 2023 and 2022, respectively. The $3.6 million increase in revenue is primarily due to the increase of $3.8 million in revenues from our digital mining operation, offset by a $0.2 million decrease in product and service.

During the second quarter of 2023, the majority of our revenue was derived from digital currency mining and data management services.

Operating Expenses

Cost of Revenue

Direct cost of revenues during the second quarter of 2023 and 2022 were $4.3 million and $1.0 million, respectively, representing an increase of $3.3 million primarily due to the increase in miners deployed related to our digital mining operation.

Sales and Marketing Expense

Sales and marketing expenses were $0.3 million for both the second quarter of 2023 and 2022.

Research and Development Expense

Research and development expenses were $0.2 million and $0.1 million for the second quarter of 2023 and 2022, respectively.

General and Administrative Expense

General and administrative expenses were $3.6 million and $7.8 million for the second quarter of 2023 and 2022, respectively. The decrease of $4.2 million was due to a decrease of approximately $6.5 million in share-based compensation related to awards, $1.0 million was primarily associated with outside services related to our 2022 expansion into the digital mining industry, and $0.8 million for employee and related expenses primarily related to prior year executive bonuses. These decreases were offset by prior year nonrecurring adjustment of $2.8 million for a change in fair value of crypto asset payable, $0.6 million for legal expenses associated with our digital mining operation, $0.5 million related to formation and operating costs for our SPAC (MEOA), and $0.3 million of additional insurance cost.

Depreciation and Amortization Expense

Depreciation and amortization expense was $1.4 million and $7.5 million for the second quarter of 2023 and 2022, respectively. The decrease of $6.1 million was primarily due to fully amortized supplier agreements related to our digital mining machines.

Loss on disposal of property and equipment

Loss on disposal of property and equipment was $0.3 million and nil for the second quarter of 2023 and 2022, respectively, and related to the sale of mining equipment.

Impairment of Digital Assets

Impairment of digital assets was $0.3 million and $0.7 million for the second quarter of 2023 and 2022, respectively. The decrease of $0.4 million was due to less impairment losses recognized on our digital assets.

Interest Expense

Interest expense was $1.2 million and nil for the second quarter of 2023 and 2022, respectively. The second quarter of 2023 interest expense was primarily $1.0 million for warrants issued with our LDA convertible debt and $0.2 million of debt costs.

Forgiveness of Note Receivable

Forgiveness of note receivable was nil and $13.1 million for the second quarter of 2023 and 2022, respectively. The decrease of $13.1 million was due to the prior year forgiveness of our note receivable, including accrued interest, with Gryphon which occurred when the Merger Agreement with Gryphon was terminated by us on April 4, 2022.

Impairment of Investments

Impairment of investments was nil and $12.4 million for the second quarter of 2023 and 2022, respectively. The decrease of $12.4 million was due to prior year impairment losses recognized on our Filecoiner investments. The fair value of these investments was impacted by the decrease in the price of Filecoin since the time of the investments resulting in an impairment.

Interest Income and Other Expense, net

Interest income and other expense, net was $1.1 million and $0.3 million for the second quarter of 2023 and 2022, respectively. The second quarter of 2023 interest income and other expense, net, primarily related to a $1.0 million fair value adjustment for warrant liabilities and $0.1 million in interest income from restricted funds held in trust. The second quarter of 2022 primarily related to in interest income from notes receivable and management fees from a transition service agreement.

The First Six Months of 2023 Compared with the First Six Months of 2022

Revenue

We generated revenues of $8.5 million and $3.3 million during the first six months of 2023 and 2022, respectively. The $5.2 million increase in revenue is primarily due to the increase of $5.5 million in revenues from our digital mining operation, offset by a decrease of $0.3 million in product and service.

During the first six months of 2023, the majority of our revenue was derived from digital currency mining and data management services.

Operating Expenses

Cost of Revenue

Direct cost of revenues during the first six months of 2023 and 2022 were $6.5 million and $1.7 million, respectively, representing an increase of $4.8 million primarily due to the increase in miners deployed related to our digital mining operation.

Sales and Marketing Expense

Sales and marketing expenses were $0.6 million and $0.5 million for the first six months of 2023 and 2022, respectively.

Research and Development Expense

Research and development expenses were $0.5 million and $0.3 million for the first six months of 2023 and 2022, respectively. The increase of $0.2 million was primarily due to an increase in employee and related expenses associated with internal projects.

General and Administrative Expense

General and administrative expenses were $7.1 million and $16.8 million for the first six months of 2023 and 2022, respectively. The decrease of $9.7 million was primarily due to a decrease of approximately $6.2 million in share-based compensation related to awards, $5.6 million was primarily associated with outside services related to our 2022 expansion into the digital mining industry, $1.7 million for costs related to former proposed merger transactions that were terminated in 2022, and $0.3 million for employee and related expenses. These decreases were offset by prior year nonrecurring adjustment of $1.6 million for a change in fair value of crypto asset payable, $0.9 million for legal expenses associated with our digital mining operation, $0.7 million related to formation and operating costs for our SPAC (MEOA), $0.7 million of additional insurance cost, and $0.1 million in director fees.

Depreciation and Amortization Expense

Depreciation and amortization expense was $2.4 million and $13.8 million for the first six months of 2023 and 2022, respectively. The decrease of $11.4 million was primarily due to fully amortized supplier agreements related to our digital mining machines.

Loss on disposal of property and equipment

Loss on disposal of property and equipment was $0.3 million and nil for the first six months of 2023 and 2022, respectively, and related to the sale of mining equipment.

Impairment of Digital Assets

Impairment of digital assets was $0.4 million and $0.8 million for the first six months of 2023 and 2022, respectively. The decrease of $0.4 million was due to less impairment losses recognized on our digital assets.

Forgiveness of Note Receivable

Forgiveness of note receivable was nil and $13.1 million for the first six months of 2023 and 2022, respectively. The decrease of $13.1 million was due to the prior year forgiveness of our note receivable, including accrued interest, with Gryphon which occurred when the Merger Agreement with Gryphon was terminated by us on April 4, 2022.

Impairment of Investments

Impairment of investments was nil and $12.4 million for the first six months of 2023 and 2022, respectively. The decrease of $12.4 million was due to prior year impairment losses recognized on our Filecoiner investments. The fair value of these investments was impacted by the decrease in the price of Filecoin since the time of the investments resulting in an impairment.

Interest Expense

Interest expense was $1.2 million and nil for the first six months of 2023 and 2022, respectively. The first six months of 2023 interest expense was primarily $1.0 million for warrants issued with our LDA convertible debt and $0.2 million of debt costs.

Interest Income and Other Expense, net

Interest income and other expense, net was $1.4 million and $0.7 million of income, net, for the first six months of 2023 and 2022, respectively. The first six months of 2023 interest income and other expense, net, primarily related to a $1.3 million fair value adjustment for warrant liabilities and $0.2 million in interest income from restricted funds held in trust. The first six months of 2022 Interest income and other expense, net, related to $0.4 million in interest income from notes receivable, and $0.3 million from management fees from a transition service agreement.

Liquidity and Capital Resources

We have recurring losses from operations. Our primary source of cash flow is generated from digital mining revenue and service revenue. We have financed our operations through proceeds from private and public sales of securities. At June 30, 2023, we had cash and cash equivalents of $0.5 million compared to cash and cash equivalents of $1.3 million at December 31, 2022. As of June 30, 2023, we had working capital deficit of $2.5 million reflecting a decrease of $6.6 million since December 31, 2022. Cash management continues to be a top priority. We expect to incur negative operating cash flows as we work to increase our digital mining revenue and maintain operational efficiencies.

Management has projected that based on our hashing rate at June 30, 2023, cash on hand may not be sufficient to allow us to continue operations beyond the next 12 months from the date the financial statements are issued if we are unable to raise additional funding for operations. We expect our working capital needs to increase in the future as we continue to expand and enhance our operations. Our ability to raise additional funds for working capital through equity or debt financings or other sources may depend on the financial success of our then current business and successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. No assurance can be given that we will be successful in raising the required capital at a reasonable cost and at the required times, or at all. Further equity financings may have a dilutive effect on shareholders and any debt financing, if available, may require restrictions to be placed on our future financing and operating activities. If we require additional capital and are unsuccessful in raising that capital, we may not be able to continue our business operations in the cryptocurrency mining industry or we may be unable to advance our growth initiatives, either of which could adversely impact our business, financial condition and results of operations.

Significant changes from our current forecasts, including but not limited to: (i) shortfalls from projected sales levels; (ii) fluctuations in the value of cryptocurrency; (iii) unexpected increases in product costs; (iv) increases in operating costs; and (v) inability to maintain compliance with the requirements of the NASDAQ Capital Market and/or inability to maintain listing with the NASDAQ Capital Market could have a material adverse impact on our ability to access the level of funding necessary to continue our operations at current levels. If any of these events occurs or we are unable to generate sufficient cash from operations or financing sources, we may be forced to liquidate assets where possible and/or curtail, suspend or cease planned programs or operations generally or seek bankruptcy protection or be subject to an involuntary bankruptcy petition, any of, which would have a material adverse effect on our business, results of operations, financial position and liquidity.

The following table shows a summary of our cash flows (used in) provided by operating activities and investing activities (in thousands):

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Net cash used in operating activities	$ (2,034)	$ (24,530)
Net cash provided by (used in) investing activities	$ 220	$ (19,101)
Net cash provided by financing activities	$ 979	$ —

Net cash used in operating activities. The use of cash during the first six months of 2023 was primarily a result of our net loss of $8.2 million, offset by $3.9 million in non-cash items, which primarily included amortization of intangible assets, depreciation, realized gain on sale of digital assets, share-based compensation expense, impairment of digital assets, warrants issued with convertible debt, and a loss on sale of property and equipment.

Net cash provided by (used in) investing activities. During the first six months of 2023, we sold 2,531 miners originally included in mining equipment, for cash proceeds of $3.7 million, our SPAC paid $1.9 million for the redemption of non-controlling interest related to MEOA, and we paid $1.6 million towards digital asset mining machines and shipping costs. During the first six months of 2022, we paid $16.0 million towards digital asset mining machines and shipping costs for which delivery started in January 2022, we entered into promissory notes receivable with Gryphon and MEOA for $2.5 million and $337,000, respectively, and we purchased $0.3 million of carbon credits for future use. The Gryphon note receivable was forgiven on April 4, 2022 upon termination of the Merger Agreement with Gryphon.

Net cash provided by financing activities. During the first six months of 2023, we received $0.8 million, net, from issuance of a convertible note, and $0.2 million from the exercise of stock options.

Convertible Debt

On April 17, 2023, we entered into a Securities Purchase Agreement (the “LDA Purchase Agreement”) pursuant to which we issued to an investor, LDA Capital Limited (the ”Investor”), a senior convertible promissory note having an aggregate principal amount of $1.0 million (the “LDA Note”), as amended April 25, 2023, and a common share purchase warrant (the “LDA Warrant”) to purchase up to 455,927 common shares of the Company (the “LDA Warrant Shares”). We received proceeds of approximately $0.8 million, which were net of fees associated with the transaction, on April 18, 2023 (the “Closing Date”), with an additional tranche of up to $2.0 million (the “Second Tranche”) to be provided to us, subject to certain conditions precedent, within five business days of the date on which an effective registration statement is filed to cover the resale of the conversion shares (as defined below) and the LDA Warrant Shares. Upon receipt of the Second Tranche, we shall issue an additional senior convertible promissory note with a principal amount equal to the amount of the Second Tranche, and a common share purchase warrant.

The LDA Note matures 24 months after issuance, bears interest at a rate of 7.5% per annum and is convertible into our common shares (the “Conversion Shares”), at the Investor's election, at an initial conversion price equal to the greater of (i) $2.0832 per share, or (ii) 85% of the VWAPS (as defined in the LDA Note) during the five trading days prior to delivery of a conversion notice by the Investor, subject to adjustment for certain stock splits, stock combinations and dilutive share issuances. Commencing on the date that is 12 months from the date of issuance, we are required to pay the Investor back the amount of the outstanding principal in twelve consecutive monthly installments. We may prepay all, but not less than all, of the then outstanding principal amount of the LDA Note plus an additional prepayment amount equal to the greater of (i) the total amount of interest that would have been payable in respect of initial principal amount under the LDA Note from the issuance date through (A) its original maturity date or (B) if the date of applicable prepayment is prior to the date that is 120 days from the issuance date, the date that is 12 months from the issuance date, and (ii) the amount of interest that would have been payable in respect of initial principal amount under the LDA Note from the date of the applicable prepayment through (A) its original maturity date or (B) if the date of applicable prepayment is prior to the date that is 120 days from the issuance date, the date that is 12 months from the issuance date, at any time prior to the maturity date. The LDA Note contains a number of customary events of default. Additionally, the LDA Note is secured by certain property and equipment owned by us, pursuant to a security agreement between us and the Investor dated as of April 17, 2023. At June 30, 2023, the fair value balance of the LDA Note was $1,051,000.

As of June 30, 2023, we were not in compliance with a financial covenant of the LDA Note. Subsequent to June 30, 2023, we received a waiver for the covenant noncompliance.

The LDA Warrant is exercisable at an initial exercise price of $3.29 per share and expires three years from the date of issuance or earlier if the closing of a Fundamental Transaction occurs (defined as merger or consolidation, any sale of substantially all of our assets, any tender offer or exchange offer pursuant to which common shareholders can tender or exchange their shares for other securities, cash or property, as well as any reclassification of common shares into other securities, cash or property). On the date that is six months from the date of issuance of the LDA Warrant, the exercise price will be adjusted to the lower of (i) $3.29, and (ii) a price equal to 110% of the average of the VWAPS (as defined in the LDA Warrant) of our common shares over five trading days preceding such date. Additionally, the exercise price of the LDA Warrant is subject to adjustment for certain stock splits, stock combinations and dilutive share issuances. Pursuant to the terms of the LDA Purchase Agreement, we will reserve for issuance 200% of the maximum aggregate number of common shares as are issuable upon repayment or conversion in full of the LDA Note and exercise in full of the LDA Warrant at any time.

On August 14, 2023, in accordance with the terms of the LDA Purchase Agreement prepayment option, we repaid the full amount of the LDA Note, including interest and fees, in the amount of $1.3 million. As a result of our repayment, we shall have the right to redeem from the holder of the LDA Warrants 40% of the then outstanding LDA Warrants.

Off-Balance Sheet Information

During the ordinary course of business, we may provide standby letters of credit to third parties as required for certain transactions initiated by us. We have one outstanding standby letter of credit used for the bond necessary for us to receive mining machines. At June 30, 2023, there was restricted cash of $0.2 million pledged as collateral for the standby letter of credit.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities.

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. The accounting estimates that are most critical to a full understanding and evaluation of our reported financial results are described in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. There were no material changes to our critical accounting estimates during the three months ended June 30, 2023.

Recent Accounting Pronouncements

See *Note 2 - Summary of Significant Accounting Policies* to our condensed consolidated financial statements for information for a discussion of recent accounting pronouncements and their effect, if any.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) or 15d-15(e) under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective to give reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized, and reported on a timely basis as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is, from time to time, subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending proceedings will not have a material effect on the Company's results of operations, financial position or cash flows.

Item 1A. Risk Factors.

An investment in our Company involves a high degree of risk. In addition to the risk factors and other information included or incorporated by reference to this report, you should carefully consider each of the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, which is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the risks occur, our business and financial results could be harmed and the trading price of our common shares could decline.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description	Filed Herewith	Incorporated by Reference Form	File No.	Date Filed
3.1	Certificate and Articles of Amalgamation of the Company		6-K	001-36532	3/25/2015
3.2	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	7/17/2017
3.3	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	10/2/2018
3.4	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	11/5/2018
3.5	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	11/14/2018
3.6	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	7/12/2019
3.7	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	11/8/2019
3.8	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	5/8/2020
3.9	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	9/29/2020
3.10	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	1/7/2021
3.11	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	7/15/2021
3.12	Certificate of Amendment to the Articles of Amalgamation of the Company		6-K	001-36532	10/4/2021
3.13	Certificate of Amendment to the Articles of Amalgamation of the Company		8-K	001-36532	6/28/2023
3.14	By-law No. 1, as Amended		6-K	001-36532	7/17/2017
3.15	By-law No. 1 Amending Agreement		6-K	001-36532	2/1/2022
3.16	By-law No. 1 Amending Agreement		8-K	001-36532	1/13/2023
3.17	By-law No. 2		6-K	001-36532	5/12/2017
4.1	Form of Warrant		8-K	001-36532	8/14/2023
10.1	Securities Purchase Agreement by and between the Company and LDA Capital Limited, dated April 17, 2023		8-K	001-36532	4/21/2023
10.2	Senior Convertible Promissory Note issued by the Company to LDA Capital Limited on April 17, 2023		8-K	001-36532	4/21/2023
10.3	Common Share Purchase Warrant issued by the Company to LDA Capital Limited on April 17, 2023		8-K	001-36532	4/21/2023
10.4	Amendment No. 1 to Senior Convertible Promissory Note between the Company and LDA Capital Limited dated April 25, 2023		10-Q	001-36532	5/11/2023
10.5	Securities Purchase Agreement dated August 11, 2023		8-K	001-36532	8/14/2023

10.6	Amended and Restated Agreement with Hertford Group dated August 11, 2023		8-K	001-36532	8/14/2023
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X			
101.SCH	Inline XBRL Taxonomy Extension Schema	X			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase	X			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase	X			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase	X			
101.PRE	Inline XBRL Taxonomy Presentation Linkbase	X			
104	Cover Page Interactive Data File (formatted as inline XBRL as contained in Exhibit 101)	X			

* The Company has omitted schedules and other similar attachments to such agreement pursuant to Item 601(b) of Regulation S-K. The Company will furnish a copy of such omitted document to the Securities and Exchange Commission upon request.

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 thereunto duly authorized.

Sphere 3D Corp.

Date:	August 14, 2023	By:	*/s/ Patricia Trompeter*
			Patricia Trompeter
			Chief Executive Officer
			(Principal Executive Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patricia Trompeter, Chief Executive Officer of Sphere 3D Corp. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sphere 3D Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: August 14, 2023

/s/ Patricia Trompeter

Patricia Trompeter
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kurt L. Kalbfleisch, Chief Financial Officer of Sphere 3D Corp. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sphere 3D Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: August 14, 2023

/s/ Kurt L. Kalbfleisch

Kurt L. Kalbfleisch
Senior Vice-President and
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Sphere 3D Corp. (the “Registrant”) on Form 10-Q for the quarterly period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Patricia Trompeter, Chief Executive Officer of the Registrant, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 14, 2023

/s/ Patricia Trompeter

Patricia Trompeter
Chief Executive Officer

Exhibit 32.2

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

In connection with the Quarterly Report of Sphere 3D Corp. (the “Registrant”) on Form 10-Q for the quarterly period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kurt L. Kalbfleisch, Senior Vice-President and Chief Financial Officer of the Registrant, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 14, 2023

/s/ Kurt L. Kalbfleisch
Kurt L. Kalbfleisch
Senior Vice-President and
Chief Financial Officer