

Soluna Holdings: What Should the Next Kati 2 Commitment Require?

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Topic: Capital Allocation, Operations Strategy, Customer Strategy

Industry: Application Software

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Decision cutoff: 28 September 2026, end of day ET

Decision scope: Further development and procurement commitments for Kati 2 Phase I

Case convention: This is an author-created management decision exercise. The decision prompt and alternatives are hypothetical; company disclosures are historical. No private deliberations, scheduled board vote or construction authorization are represented.

The decision

Soluna Holdings had a clear development ambition for Project Kati 2: develop a large AI and high-performance computing campus beside wind generation in South Texas. By the end of September 2026, the company had formed a joint venture with Metrobloks, advanced design, engaged a prospective tenant and signed supplier letters of intent. It had not disclosed a definitive tenant lease or committed third-party development financing. [S1]

Soluna had already funded development work and committed to additional land and operating contributions. The joint venture's governance and funding arrangements left Soluna with control and most of the disclosed early capital exposure. Meanwhile, the company's established Bitcoin-hosting business was operating at Kati 1, a conditional interconnection classification was still under review for the Kati campus, and Soluna had other AI projects in its development pipeline. [S1, S2, S3]

The question is not whether Soluna should pursue AI/HPC in general. It is how much more of its capital and organizational capacity it should place behind Kati 2 Phase I before key commercial and financing uncertainties are resolved.

Assignment: Recommend what additional Kati 2 Phase I design, procurement or development commitments, if any, Soluna should authorize at its next commitment gate. Specify the conditions that would release each next tranche, the evidence required, and the conditions that would pause or resize the project. Compare a staged advance with preserving the project option while the tenant, financing, power, cost and schedule picture develops. The existence or timing of a board vote is not part of the case.

Use only information public by 28 September 2026. Do not invent project capex, tenant economics, financing terms, or returns for Kati 2 or its alternatives.

From renewable power to computing

Soluna develops, owns and operates digital infrastructure located near renewable generation. Its business included Bitcoin mining and hosting, demand response and, increasingly, AI/HPC infrastructure. Bitcoin sites generally provided colocation or mining services to outside customers, while Soluna's HPC strategy focused on developing AI-ready data centers for third-party lease and hosting. The company said the two businesses require different designs: AI/HPC needs higher-density computing, cooling, redundancy and network infrastructure. [S1]

That shift followed a change in Soluna's earlier HPC strategy. After an agreement with Hewlett Packard Enterprise ended in March 2025, Soluna said it refocused on building facilities for third-party AI and HPC tenants. In the second quarter of 2026 it reported no HPC revenue. Kati 2 was intended as its first planned large-scale HPC campus. [S1]

For Soluna, a successful Kati 2 would do more than add megawatts. It could establish a platform for a new customer group and business model. But building a facility before a tenant commits could leave Soluna funding specialized infrastructure without the contracted demand that debt providers or investors may require.

Kati 2 moves from memorandum to joint venture

In January 2026, Soluna and Metrobloks announced a memorandum of understanding to co-develop a project company for an initial 100+ megawatts of critical IT capacity at Kati 2, with a roadmap to more than 300 megawatts. The public announcement also described a site under a non-binding LOI with a potential neocloud tenant. [S5] The June 2026 joint-venture agreement made the relationship more concrete. It planned approximately 100 megawatts of critical IT load in Phase I and approximately 250 megawatts in Phase II, the second phase depending on acquisition of additional land. [S1]

Soluna's subsidiary owned all Class A interests and served as the JV's sole manager. Metrobloks held all Class B interests: non-voting profits interests with an initial capital account of zero. The disclosed distribution waterfall first repaid default loans and returned members' capital, then provided a 14% internal rate of return on capital contributions, paid Soluna \$100,000 per megawatt of contracted generating capacity, and split remaining distributions equally. [S1]

At the JV's effective date, Soluna reported approximately \$6.7 million of funded contribution: \$1.1 million for Phase I property at cost, \$3.6 million of pre-formation development costs and fees, and \$2.0 million of cash. Soluna also committed approximately \$19.1 million for Phase II land and, subject to manager approval, up to a further \$2 million for JV operating costs. Metrobloks had contributed no capital and generally had no obligation to contribute before the vertical phase, apart from a reinvestment obligation that arises at that transition. [S1]

The JV had no third-party debt and had been financed entirely by Soluna contributions. Soluna said substantial third-party development financing was expected but had not been obtained by 30 June. The \$19.1 million commitment was for Phase II land, not a disclosed Phase I construction budget. [S1]

What was ready-and what was not

During Q2, Soluna selected and began onboarding a general contractor, advanced detailed design to about 50%, executed a letter of intent with a prospective tenant, began commercial lease negotiations and executed supplier letters of intent to secure long-lead electrical equipment. The company cautioned that it could not assure it would sign a definitive lease with this or any prospective tenant, or what the lease terms would be. [S1]

On 8 September, Soluna reported that it had energized Kati 1's final 14 megawatts, completing the 83-megawatt Bitcoin-hosting site. The company also reported that ERCOT had conditionally classified the full 166-megawatt Kati campus-including planned Kati 2-as Base Load under its Batch Zero interconnection process. That status remained subject to ERCOT's ongoing verification; Soluna said the classification could be removed if the applicant failed to respond to information requests. The release was a company report, not final ERCOT confirmation. [S2]

On 28 September, Soluna disclosed an amended co-mining agreement with Bitdeer at Kati 1. Bitdeer planned to deploy about 7 additional megawatts of Bitcoin equipment, bringing its total deployment there to approximately 35 MW. Soluna would provide site, power and turnkey operations; Bitdeer would own the equipment; and the parties would share mining proceeds. The release said the additional deployment was expected to finish in November. It did not disclose comparative returns or imply a Kati 2 commitment. [S3]

Kati 1 and Kati 2 were not interchangeable projects. Kati 1 was an operating Bitcoin-hosting site; Kati 2 was a planned AI/HPC development. Critical IT load, site capacity and campus interconnection megawatts describe different scopes. The public disclosures did not provide enough information to compare Kati 2 and Bitcoin economics on an equal basis.

Capital, cash and the cost of waiting

At 30 June 2026, Soluna reported \$113.364 million of cash and \$17.925 million of restricted cash. Total debt was \$33.119 million. During the first half, operating activities used \$11.555 million of cash; investing activities used \$65.064 million, including \$51.415 million for the Briscoe wind-farm acquisition, \$9.483 million for property and equipment and \$4.130 million for equipment deposits. Financing activities provided \$119.065 million, including \$113.465 million of ATM stock proceeds and \$24.5 million of note proceeds. These are consolidated figures and do not identify funds available to Kati 2. [S1]

Soluna's common shares outstanding rose from approximately 102.5 million at the end of 2025 to approximately 225.8 million at 30 June 2026. That history shows the scale of recent equity financing and dilution; it does not establish the amount or terms of any future capital raise. [S1]

Soluna reported \$15.060 million of consolidated Q2 revenue. Its results release described 145% year-over-year growth as reported, but a change in gross presentation added \$4.4 million to both revenue and cost with no effect on gross profit or loss. Management reported 73% year-over-year growth excluding this presentation change; it attributed growth to Dorothy 2, Kati 1A and Briscoe, partly offset by hashprice compression. The Q2 segment disclosure showed no HPC revenue. The headline increase therefore did not demonstrate that Kati 2 had started to earn AI/HPC revenue. [S1, S4]

The Q2 filing disclosed a separate financing constraint. The relevant project borrowers' forward contracted debt-service coverage test gave credit only to revenue under executed customer contracts; merchant and anticipated but uncontracted revenue received no value in the calculation. Soluna judged that a covenant failure was probable at one or more measurement dates in the twelve months after June absent new customer contracts or a further amendment. An August amendment waived the June 30 test after an approximately \$19.1 million prepayment, including a \$3.9 million premium; the company said the relief was limited and testing was scheduled to resume at the September 30 measurement date. After the prepayment, approximately \$9.6 million remained on the Briscoe-related Tranche C loan, which remained subject to the forward test. The filing did not report a September 30 test outcome by this case's cutoff. These covenants applied to specified borrowers, not automatically to the Kati 2 JV. [S1]

Demand for capital extended beyond Kati 2. Soluna described Project Dorothy 3 as a planned North Texas AI/HPC development with more than 300 MW of critical IT capacity, with site due diligence, survey and fiber work, schematic design and master planning underway. It did not disclose Dorothy 3 capex or expected returns. [S1]

Exhibits

Exhibit 1. Kati project map at the cutoff

Project / stage	Disclosed scope and status	Use in the decision
Kati 1	83 MW Bitcoin-hosting site; Soluna reported it fully energized by 8 Sep 2026. Bitdeer amendment announced 28 Sep planned ~7 MW more equipment, taking total Bitdeer deployment at Kati 1 to ~35 MW.	Evidence of an operating alternative and partnership structure; no return comparison disclosed.
Kati 2 Phase I	Planned ~100 MW critical IT load; on JV-owned land. Detailed design ~50%; prospective-tenant LOI and lease negotiations; supplier LOIs; no assured definitive lease.	Primary commitment decision. Phase I capex and lease economics unknown.
Kati 2 Phase II	Planned ~250 MW critical IT load on land to be acquired. Soluna reported an approximately \$19.1m land contribution commitment.	Separate from Phase I construction spending. Do not assume a Phase II FID or financing.
Kati campus interconnection	Soluna reported conditional Base Load classification for the full 166 MW campus, including planned Kati 2, subject to verification.	Conditional status, not final confirmation or operating capacity.
Project Dorothy 3	Planned >300 MW critical IT AI/HPC development in North Texas; early due diligence/design work underway.	Competing development capacity and capital demand; capex, return and funding unknown.

Sources: [S1] pp.40-41, 53; [S2] release dated 8 Sep 2026; [S3] release dated 28 Sep 2026. Kati 1, Kati 2 CIT and campus interconnection capacities use different definitions and are not directly comparable. The 10-Q also describes Kati 2 as engineered for >350 MW of CIT capacity (p.53), while its two JV phases are described as approximately 100 MW plus approximately 250 MW; the filing does not reconcile these statements or provide a conversion to the 166 MW campus interconnection classification.

Exhibit 2. Kati 2 JV: control, contributions and distribution order

Item	Soluna member	Metrobloks member
Interest	100% Class A	100% Class B profits interests; non-voting, zero initial capital account
Governance	Sole manager	No voting rights disclosed for Class B
Funded contribution at effective date	~\$6.7m: Phase I property \$1.1m; development/fees ~\$3.6m; cash \$2.0m	\$0
Further disclosed contribution	~\$19.1m for Phase II land; up to \$2m for JV operating costs subject to manager approval	Generally no capital obligation before vertical phase, except specified reinvestment obligation at transition

Source: [S1], Note 16, printed pp.40-41. Disclosed distribution waterfall: repay default loans, return members' capital, provide a 14% IRR tier to both members on contributed capital, pay Soluna \$100,000 per MW of contracted generating capacity, then split remaining distributions 50/50. The 14% tier is a distribution priority, not a guaranteed return. Amounts shown are disclosed JV contributions/commitments, not Phase I construction cost.

Exhibit 3. Selected consolidated financial facts

USD millions unless otherwise noted. Reported periods end 30 June 2026.

Measure	Disclosed value	Definition / caution
Cash	\$113.364	Balance-sheet cash; not the same as total cash and restricted cash
Current restricted cash	\$10.005	Restricted balance
Noncurrent restricted cash	\$7.920	Restricted balance
Total debt	\$33.119	Calculation: \$30.103m current + \$3.016m long-term debt
H1 net cash used in operating activities	\$(11.555)	Six months ended 30 Jun
H1 net cash used in investing activities	\$(65.064)	Includes \$51.415m net Briscoe acquisition; not a construction run rate
H1 net cash provided by financing activities	\$119.065	Includes \$113.465m ATM common-stock proceeds and \$24.500m notes
Common shares outstanding	225.821m	At 30 Jun; 102.531m at 31 Dec 2025
Q2 HPC segment revenue	\$0	Q2/H1 2026 segment note reports no HPC revenue

Source: [S1], balance sheet p.4, cash-flow statement p.10, segment note pp.43-47. The June balance sheet precedes the August debt prepayment described in [S1] pp.50 and 85. Consolidated cash is not a Kati 2 financing commitment.

Exhibit 4. Readiness evidence and unresolved inputs

Workstream	Evidence available by cutoff	Still undisclosed or incomplete
Customer	Prospective-tenant LOI; commercial lease negotiations	Binding lease, tenant identity/credit, MW ramp, price/escalator, term, minimum bill, deposits, termination protections, SLA and curtailment rights
Engineering/procurement	Design ~50%; general contractor onboarding; supplier LOIs for long-lead electrical equipment	Phase I scope, binding purchase orders, capex and contingency, schedule, construction risk and guaranteed delivery dates
Land/phase scope	Phase I site property in JV; Phase II land contribution commitment disclosed	Closing/status of all land transactions, Phase I full development budget and total campus phasing
Power/interconnection	Soluna-reported conditional 166 MW campus Base Load classification	Completion of ERCOT verification, final conditions, power price/shape, interconnection cost and delivery risk
Financing/governance	Soluna-funded early JV; third-party development financing expected but not obtained by 30 Jun	Binding financing, source, cost, recourse, covenant package, timing, future contribution rights/obligations and stop/transfer rights

Source: [S1] pp.40-41, 53; [S2]. “LOI” means letter of intent. Its presence does not establish a binding lease, purchase order or financing commitment.

Two paths to the next gate

Advance through a defined stage

Authorize a limited next phase of Kati 2 design and procurement. Set conditions before any larger construction release—for example, a definitive lease with minimum economics and credit protections; verified interconnection and power terms; a fixed or capped scope and credible cost schedule; and committed project-level financing that defines recourse and covenant limits. Students should specify which work continues before those conditions and how costs are capped if a condition fails.

Preserve the option while closing gaps

Continue only the work needed to keep the project technically and commercially viable, and defer larger or less reversible commitments until tenant, power, scope and financing gates are met. Soluna would retain more near-term flexibility but could face delay, supplier or customer repricing, or loss of an opportunity. Students should identify evidence that would trigger re-entry, resizing or stopping and how management would evaluate other development demands, including Dorothy 3.

These are analytical alternatives for the class. No public disclosure says that Soluna's board had scheduled a vote or that either path had been approved.

Sources and reporting conventions

S1. Soluna Holdings, Inc., [Form 10-Q for quarter ended 30 June 2026](#), filed 13 Aug 2026, accession 0001628280-26-056702. Relevant sections: Note 16, Kati 2 JV, pp.40-41; HPC strategy and Kati 2 pipeline, p.53; balance sheet, p.4; cash flows, p.10; segment revenue, pp.43-47; covenant/risk factors, pp.21-22 and 85.

S2. Soluna, [Kati 1 completion and conditional Base Load release](#), dated 8 Sep 2026. Company-reported ERCOT status remained conditional; see paragraphs 1-3 and campus description.

S3. Soluna Holdings, Inc., Form 8-K, [Exhibit 99.1, Bitdeer Kati 1 amendment](#), filed 28 Sep 2026, accession 0001493152-26-044444; Item 7.01 says the release was issued that day. Exhibit 99.1 bears a “CONFIDENTIAL DRAFT” header; it is used here only for the announcement and terms expressly described in the filed exhibit.

S4. Soluna Holdings, Inc., [Q2 2026 results release, Exhibit 99.1](#), dated 13 Aug 2026, accession 0001493152-26-037734; financial highlights, lines 77-104.

S5. Soluna, [Metrobloks memorandum of understanding for Project Kati 2](#), dated 15 Jan 2026; opening paragraphs on co-development, initial critical-IT scope, expansion roadmap and potential neocloud tenant LOI. The tenant LOI is non-binding.

The Form 10-Q reports the company's statements and estimates; forward-looking claims are attributed. Cash, restricted cash and debt are consolidated balances, not amounts committed to Kati 2. All project capex, lease cash flows, financing terms and returns omitted from the cited sources remain unknown. No post-cutoff outcomes are included.