

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

FORM 8-K/A
(Amendment No. 2)

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

Date of Report (Date of earliest event reported): **January 15, 2020**

AKERNA CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

001-39096

(Commission File Number)

83-2242651

(IRS Employer
Identification No.)

1630 Welton St., Denver, Colorado

(Address of principal executive offices)

80202

(Zip Code)

Registrant's telephone number, including area code: **(888) 932-6537**

Not Applicable

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	KERN	NASDAQ Capital Market
Warrants to purchase one share of Common Stock	KERNW	NASDAQ Capital Market

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

Emerging growth company

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

Item 2.01 Results of Operations and Financial Condition

This Current Report on Form 8-K/A is being filed as the second amendment to the Current Report on Form 8-K dated January 15, 2020, (the “Original Form 8-K”) originally filed by Akerna Corp., a Delaware corporation, or Akerna, with the Securities and Exchange Commission on January 22, 2020, as amended on April 13, 2020 (the “First Amended Form 8-K”), announcing the completion of Akerna’s acquisition of all right, title and interest in 80.4% of the issued and outstanding capital stock of Solo Sciences, Inc., or Solo, (calculated on a fully diluted basis), free and clear of all liens. This Current Report on Form 8-K/A amends and supplements Item 9.01 of the First Amended Form 8-K to present certain financial statements of Solo and to present certain unaudited pro forma condensed combined financial statements of Akerna in connection with Akerna’s acquisition of the capital stock of Solo, which financial statements and unaudited pro forma condensed combined financial statements are filed as exhibits hereto and are incorporated herein by reference. All other items in the First Amended Form 8-K remain the same and are hereby incorporated by reference into this Current Report on Form 8-K/A.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements.

The audited financial statements of Solo as of December 31, 2019 and 2018 and for the years then ended are filed as Exhibit 99.1 to this Current Report on Form 8-K/A. The consent of independent auditors is attached as Exhibit 23.1 hereto.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial information of Akerna, giving effect to the acquisition of 80.4% of the equity interest in Solo, which includes the unaudited pro forma condensed combined balance sheet as of December 31, 2019, the unaudited pro forma condensed combined statements of earnings for the year ended June 30, 2019 and for the six months ended December 31, 2019 and the related notes, is filed as Exhibit 99.2.

(d) Exhibits

23.1	Consent of Marcum LLP, independent auditors of Solo
99.1	Solo’s audited financial statements as of December 31, 2019 and 2018 and for the two years then ended, the related notes thereto, and the independent auditors’ report thereon
99.2	The unaudited pro forma condensed combined financial information of Akerna, giving effect to the acquisition of Solo, which includes the unaudited pro forma condensed combined balance sheet as of December 31, 2019, the unaudited pro forma condensed combined statements of earnings for the year ended June 30, 2019 and for the six months ended December 31, 2019 and the related notes.

SIGNATURES

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

Dated: May 29, 2020

AKERNA CORP.

By: /s/ Jessica Billingsley

Name: Jessica Billingsley

Title: Chief Executive Officer

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements of Akerna Corp. on Form S-3 (File No. 333-232694) and Form S-8 (File No. 333-233480) of our report dated May 29, 2020 with respect to our audits of the financial statements of Solo Sciences, Inc. as of December 31, 2019 and 2018 and for the years then ended, which report is included in this Current Report on Form 8-K/A of Akerna Corp.

/s/ Marcum LLP

Marcum LLP
New York, NY
May 29, 2020

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Solo Sciences, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Solo Sciences, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in stockholders' equity (deficit) and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Solo Sciences, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Marcum, LLP

New York, New York
May 29, 2020

SOLO SCIENCES, INC.

Balance Sheets

		As of	
		December 31,	
Assets		2019	2018
Current assets			
Cash		\$ 101,341	\$ 76,608
Cash held in escrow		124,970	-
Accounts receivable		73,048	299
Prepaid expenses		22,135	38,105
Total current assets		<u>321,494</u>	<u>115,012</u>
Fixed assets, net		14,785	18,361
Software development cost and other intangible assets, net		5,163,072	3,620,881
Total assets		<u>\$ 5,499,351</u>	<u>\$ 3,754,254</u>
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued expenses		\$ 700,013	\$ 31,067
Total current liabilities		<u>700,013</u>	<u>31,067</u>
Deferred purchase price		3,000,000	3,000,000
Total liabilities		<u>3,700,013</u>	<u>3,031,067</u>
Commitments and Contingencies (Note 7)			
Stockholders' equity			
Preferred Stock AA, par value \$.00001; 10,000,000 and 10,000,000 shares authorized at December 31, 2019 and 2018; and 4,165,938 and 1,738,688 shares issued and outstanding at December 31, 2019 and 2018, respectively		3,332,750	1,390,950
Common stock, par value \$0.00001, 20,000,000 and 20,000,000 shares authorized and 10,156,250 and 10,020,000 issued and outstanding as of December 31, 2019 and 2018, respectively		102	100
Additional paid-in capital		2,288,269	347,576
Accumulated deficit		(3,821,783)	(1,015,439)
Total stockholders' equity		<u>1,799,338</u>	<u>723,187</u>
Total liabilities and stockholders' equity		<u>\$ 5,499,351</u>	<u>\$ 3,754,254</u>

The accompanying notes are an integral part of these financial statements

SOLO SCIENCES, INC.

Statements of Operations

	For the Year Ended	
	December 31,	
	2019	2018
Revenues		
solo*TAG™ and solo*CODE™ sales	\$ 103,250	\$ —
Membership application fees	1,520	299
Total revenues	104,770	299
Cost of revenues	4,234	—
Gross profit	100,536	299
Operating expenses:		
Research and development	59,294	27,000
Selling, general and administrative	2,852,455	988,936
Total operating expenses	2,911,749	1,015,936
Loss from operations	(2,811,213)	(1,015,637)
Other income		
Interest	4,869	198
Total other income	4,869	198
Net loss	\$ (2,806,344)	\$ (1,015,439)

The accompanying notes are an integral part of these financial statements

SOLO SCIENCES, INC.

Statements of Changes in Stockholders' Equity
For the years ended December 31, 2019 and 2018

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholder's Equity
	Shares	Amount	Shares	Amount			
Balance at December 31, 2017	—	\$ —	—	\$ —	\$ —	\$ —	\$ —
Common shares issued	6,570,000	66	—	—	(66)	—	—
Common shares issued to acquire intangible assets	230,000	2	—	—	66,698	—	66,700
Series AA Preferred shares issued	—	—	1,738,688	1,390,950	—	—	1,390,950
Restricted shares granted to nonemployees	3,220,000	32	—	—	(32)	—	—
Stock-based compensation expense	—	—	—	—	280,976	—	280,976
Net loss	—	—	—	—	—	(1,015,439)	(1,015,439)
Balance at December 31, 2018	10,020,000	100	1,738,688	1,390,950	347,576	(1,015,439)	723,187
Common shares issued upon warrant exercise	156,250	2	—	—	124,998	—	125,000
Series AA Preferred shares issued	—	—	2,427,250	1,941,800	—	—	1,941,800
Restricted shares forfeited	(20,000)	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	1,815,695	—	1,815,695
Net loss	—	—	—	—	—	(2,806,344)	(2,806,344)
Balance at December 31, 2019	10,156,250	\$ 102	4,165,938	\$ 3,332,750	\$ 2,288,269	\$ (3,821,783)	\$ 1,799,338

The accompanying notes are an integral part of these financial statements

SOLO SCIENCES, INC.

Statements of Cash Flows

	For the Year Ended	
	December 31,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (2,806,344)	\$ (1,015,439)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	398,820	240,382
Stock-based compensation expense	1,275,490	194,504
Changes in operating assets and liabilities:		
Accounts receivable	(72,749)	(299)
Prepaid expenses	15,970	(38,105)
Accounts payable and accrued liabilities	668,946	31,067
Net cash used in operating activities	<u>(519,867)</u>	<u>(587,890)</u>
Cash flows from investing activities		
Purchase of fixed assets	-	(21,228)
Software development	(1,397,230)	(705,224)
Net cash used in investing activities	<u>(1,397,230)</u>	<u>(726,452)</u>
Cash flows from financing activities		
Proceeds from issuance of Series AA preferred shares	1,941,800	1,390,950
Proceeds from exercise of warrants	125,000	—
Net cash provided by financing activities	<u>2,066,800</u>	<u>1,390,950</u>
Net increase in cash and cash held in escrow	149,703	76,608
Cash and cash held in escrow at beginning of year	76,608	-
Cash and cash held in escrow at end of year	<u>\$ 226,311</u>	<u>\$ 76,608</u>
Cash paid for interest	\$ 4,869	\$ 198
Cash paid for income taxes	\$ —	\$ —
		—
Supplemental disclosures of noncash investing and financing activities:		
Share based compensation for software development	\$ 540,205	\$ 86,472
Common stock issued to acquire intangible assets	\$ —	\$ 66,700
Deferred purchase obligation for intangible assets acquired	\$ —	\$ 3,000,000

The accompanying notes are an integral part of these financial statements

SOLO SCIENCES, INC.

Notes to Financial Statements

Note 1 - Description of Business, Liquidity and Capital Resources

Description of Business

Solo Sciences, Inc. (the “Company” or “Solo”) was founded in January 2018. Since its inception the Company has been developing anti-counterfeiting technology for sale to retailers and government consumers and a mobile phone application for use by end consumers.

Note 2 - Summary of Significant Accounting Policies

Basis of presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States, (“GAAP”).

Use of estimates

The preparation of financial statements in conformity with GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates for the years ended December 31, 2019 and 2018 were the Company’s estimated useful lives of long-lived assets, which include capitalized software development costs, assumptions used to value of stock-based compensation, including valuation of common stock underlying the compensation agreements, and assumptions used to value the Company’s intellectual property. Actual results could differ from those estimates.

Cash

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2019 and 2018. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As December 31, 2019 and 2018, and periodically throughout the year, the Company has maintained balances in various operating accounts in excess of federally insured limits. The Company has not experienced any losses on such accounts.

Cash Held in Escrow

Cash held in escrow is recorded at fair value. Cash held in escrow consisted of cash was contractually restricted to be paid to distributed to the Company’s selling shareholders prior to the of the partial sale of their interests in January 15, 2020, as further described in Note 9.

Prepaid Expenses

Prepaid expenses consist primarily of third-party technology and software used by the Company in its day-to-day operations paid in advance and recognized as expense ratably over the term of the contract.

Accounts Receivable, Net

When estimating its allowance for doubtful accounts the Company’s estimate is based on historical collection experience and a review of the status of trade accounts receivable. It is reasonably possible that the Company’s estimate of the allowance for doubtful accounts will change and that losses ultimately incurred could differ materially from the amounts estimated in determining the allowance. The Company did not record an allowance for doubtful accounts as of December 31, 2019 or 2018.

SOLO SCIENCES, INC.

Notes to Financial Statements

Concentrations of Credit Risk

The Company grants credit in the normal course of business to customers in the United States. The Company periodically performs credit analysis and monitors the financial condition of its customers to reduce credit risk.

During the year ended December 31, 2019, Akerna Corp. (“Akerna”) accounted for 82% of total revenues. At December 31, 2019, Akerna accounted for 82% and another customer accounted for 17% of net accounts receivable. During the year ended December 31, 2018, the Company did not have significant operations.

Fixed Assets

Fixed assets are stated at cost. Depreciation is provided utilizing the straight-line method over the estimated useful lives for owned assets, ranging from three to ten years. Fixed assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company did not recognize any property impairment charges in fiscal 2019 or 2018.

Intangible Assets

Finite-lived intangible assets resulting from the acquisition of intellectual property, trademarks and patents are recorded at the estimated fair value on the date of acquisition. The fair value of acquired intangible assets is determined using appropriate valuation techniques. Amortization expense is computed using the straight-line basis of accounting over their estimated useful lives, a weighted average of 11 years as of December 31, 2019. Costs incurred to renew or extend the term of recognized intangible assets are capitalized and amortized over the estimated useful life of the asset.

Impairment of Intangible Assets

Recoverability of finite lived intangible assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is determined to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company did not recognize any intangible asset impairment charges in fiscal 2019 or 2018. At least annually, the Company assesses the useful lives of our finite lived intangible assets and may adjust the period over which these assets are amortized whenever events or changes in circumstances indicate that a shorter amortization period is more reflective of the period in which these assets contribute to our cash flows.

Software Development Costs

The Company expenses software development costs incurred before technological feasibility is reached.

Software development costs are incurred to develop software to be used solely to meet its internal needs. The Company capitalizes application development costs related to these software applications once the preliminary project stage is complete, it is probable that the project will be completed, and the software will be used to perform the function intended. Application development stage costs capitalized were \$2.2 million and \$0.8 million during the years ended December 31, 2019 and 2018. Application development costs are primarily comprised of the cost of the Company’s consultants including equity-based compensation awarded to these consultants. The Company commences amortization of capitalized software development costs when the application development stage complete and the asset is ready for its intended use. Software development costs are amortized over their estimated useful life, generally five years.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, cash held in escrow, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximated their fair value as of December 31, 2019 and 2018 because of the relatively short-term nature of these instruments. The Company accounts for fair value measurements in accordance with GAAP, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

SOLO SCIENCES, INC.

Notes to Financial Statements

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Revenue Recognition

The Company's solo*CODE products consist of a unique tag that is configured for the customers' packaged goods and an app which communicates with the Company's software that works in conjunction with the tag to identify the customers' products. The app may be accessed using handheld devices such as smart phones. The Company's solo*TAG product is a unique tag configured to facilitate tracking and tracing of cannabis plants and products to ensure compliance with government regulations. During the year ended December 31, 2019, the Company entered into an agreement with Akerna to develop cloud-based software for governments to utilize solo*TAG for compliance monitoring activities.

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. To determine revenue recognition contracts with its customers, the Company performs the following five step assessment: (i) identify the contract or contracts with a customer; (ii) identify the performance obligations in each contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when, or as, the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception and once the contract is determined to be a contract with a customer, the Company assesses the goods or services promised within each contract, determines which goods and services are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when, or as, the performance obligation is satisfied.

Income Taxes

Income taxes are accounted for using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of other assets and liabilities. The Company provides for income taxes at the current and future enacted tax rates and laws applicable in each taxing jurisdiction. The Company uses a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. The Company recognizes interest and penalties related to income tax matters in selling, general, and administrative expense in the statement of operations. The Company did not recognize any interest or penalties for the years ended December 31, 2019 and 2018.

The Company recognizes deferred tax assets to the extent that its assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, it will make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. The Company has recorded a full valuation allowance against its deferred tax assets as of December 31, 2019 and 2018.

SOLO SCIENCES, INC.

Notes to Financial Statements

Nonemployee Stock-Based Compensation

The Company accounts for nonemployee equity awards using the fair value method. Compensation cost for all stock awards expected to vest is measured at fair value on the date of grant, which typically coincides with vesting, and recognized over the service period. The Company uses the fair value of its common stock to value its restricted stock awards. The fair values of its nonqualified stock options are estimated using the Black-Scholes option pricing model. The value is recognized as expense over the service period. The Company accounts for forfeitures when they occur. The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised.

The fair values of the Company's nonemployee awards are revalued each reporting period with the change recorded as stock-based compensation expense. Certain amounts of the of stock-based compensation are capitalized as software development costs.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance for measuring credit losses on financial instruments. Among other things, this guidance will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Businesses will now use forward-looking information to better inform their credit loss estimates. The new guidance is effective for the Company beginning January 1, 2021. The Company is evaluating the impact of adoption of the new standard on its financial statements.

In November 2016, the FASB issued guidance requires that the statements of cash flows explain the change during the reporting period of the totals of cash, cash equivalents, restricted cash and restricted cash equivalents. Therefore, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Statements of cash flows. The Company adopted this guidance on January 1, 2019, using the retrospective transition guidance required by the standard, as such, the statement of cash flows for the year ended December 31, 2018 has been presented in accordance with this guidance.

In June 2018, the FASB issued new guidance for stock-based compensation paid to nonemployees. The new guidance conforms the measurement of stock-based compensation for both employees and nonemployees. This guidance is effective for the Company on January 1, 2020 and will result in measurement of stock-based compensation paid to nonemployees for services to be provided over a period of time as of the date of the agreement. The Company currently measures the value of shares transferred upon completion of the service requirement, had this new guidance been effective in 2019, the Company's net loss would have been \$0.8 million less than as reported.

In August 2018, the FASB issued new guidance for implementation costs incurred by customers in cloud computing arrangements, which broadens the scope of existing guidance applicable to internal-use software development costs. The update requires costs to be capitalized or expensed based on the nature of the costs and the project stage in which they are incurred subject to amortization and impairment guidance consistent with existing internal-use software development cost guidance. The guidance is applicable for the Company beginning January 1, 2021. The Company has not completed its evaluation of this standard or the effect it will have on the Company's financial position or results of operations once adopted.

SOLO SCIENCES, INC.

Notes to Financial Statements

Note 3 - Balance Sheet Disclosures

Fixed assets consist of the following:

	As of December 31,	
	2019	2018
Computer equipment	\$ 6,228	\$ 6,228
Artwork	15,000	15,000
	21,228	21,228
Less accumulated depreciation	(6,443)	(2,867)
	\$ 14,785	\$ 18,361

Depreciation expense for the year ended December 31, 2019 and 2018 was \$3,576 and \$2,867.

Prepaid expenses consist of the following:

	As of December 31,	
	2019	2018
	\$	\$
Software license	22,135	24,105
Contractor services	—	14,000
	\$ 22,135	\$ 38,105

Software development cost and intangibles consist of the following:

	As of December 31,	
	2019	2018
Software development cost	\$ 2,729,131	\$ 791,696
Intellectual property	3,066,700	3,066,700
Accumulated amortization	(632,759)	(237,515)
	\$ 5,163,072	\$ 3,620,881

Amortization expense for capitalized software and finite lived intellectual property for the year ended December 31, 2019 and 2018 was \$0.4 million and \$0.2 million, respectively. For each of the years ending December 31, 2020 through 2023, amortization expense related to capitalized software and finite lived intellectual property that has been placed into service as of December 31, 2019 will be \$0.7 million, for the year ending December 31, 2024, amortization expense related to these assets will be \$0.5 million.

Note 4 - Intellectual Property Acquisition

On February 2, 2018, the Company entered into an intellectual property purchase agreement for intellectual property assets, trademarks and domain names owned by Get Solo, LLC. Get Solo, LLC is a related party to the Company because an officer of the Company held a noncontrolling interest in Get Solo, LLC at the time of the transaction. At closing, the Company exchanged 230,000 shares of common stock for the worldwide rights to the intellectual property. In addition to the shares the agreement provides for deferred purchase payments in two tranches, first, following a qualified financing transaction within 180 days of closing, the Company would have been required to pay \$1.0 million in cash or shares of common stock; second on or prior to the fifth anniversary of closing, the Company was required to pay \$2.0 million, or \$3.0 million if a qualified financing transaction did not occur, also in cash or shares of common stock at the Company's option. The qualified financing did not occur during 2018, therefore the deferred purchase price liability as of December 31, 2019 and 2018 was \$3.0 million. This transaction was accounted for as an asset acquisition in accordance with GAAP. Subsequent to year end, the Company's shareholders sold 80.4% of their interests in the Company to Akerna, as further discussed in Note 9. In connection with this transaction, 375,000 shares of Akerna common stock, contractually valued at \$8 per share issued to the Company's shareholders was allocated to Get Solo, LLC in full satisfaction of the deferred purchase price liability.

SOLO SCIENCES, INC.

Notes to Financial Statements

Note 5- Stockholders' Equity

Common Stock Transactions

In January 2018, the Company issued 6,570,000 shares of common stock to its founders and received no proceeds in exchange. In February 2018, the Company issued 230,000 shares to Get Solo, LLC, a related party, in exchange for certain intellectual property, as further discussed in Note 4. The Company recorded the issuance of these shares at their estimated fair value of \$0.29 per share.

The Company did not declare or pay any dividends during the years end December 31, 2019 and 2018.

Series AA Preferred Stock Transactions

The Company has been financed through its issuance of Series AA preferred stock. Since its inception, the Company has issued 4.2 million Series AA preference shares at \$0.80 per share for proceeds of \$3.3 million. On January 15, 2020 and immediately prior to the partial sale of the Company's equity to Akerna, discussed further in Note 9, the Company converted all outstanding shares of Series AA preferred stock to common stock using a one-for-one conversion rate.

The different classes of shares carry different transfer rights and distribution rights as described in the Company's certificate of incorporation. Transfer of the common and preferred shares is conditioned on obtaining written approval from the Company.

Voting

Preferred shares and common shares vote as a single class. Each holder of the preferred stock is entitled to the number of votes equal to the number of shares that the preferred shares may be converted. The conversion price is \$0.80 per share.

Dividends

The preferred shareholders are entitled to dividends out of assets legally available in preference to common shareholders at \$0.48 per share when and if declared by the board of directors of the Company. Dividends are not cumulative.

Liquidation

In the event of liquidation, dissolution or windup, the preferred shareholders are entitled to receive the amount equal to the conversion price of \$0.80 per share. In the event the legally assets of the Company are insufficient, then the asset will be distributed pro rata based on the amount the preferred shareholders are entitled.

Conversion

Each share of preferred stock may be converted at any time at the option of the holder at the conversion rate. Each share of preferred stock is automatically converted immediately prior to a firm commitment of an initial public offering or a written request from 60% of the preferred stock shareholder then outstanding.

Note 6 – Stock-Based Compensation

During 2018, the Company's board of directors adopted its 2018 Stock Option Plan ("2018 Plan"), which was approved by its stockholders. The 2018 plan provides for the grants of restricted stock awards and nonqualified stock options to members of the Company's the board of directors and the Company's consultants. The plan allows for a maximum aggregate number of nonqualified stock options for 500,000 shares to be granted pursuant to the plan.

SOLO SCIENCES, INC.

Notes to Financial Statements

Restricted Common Stock Awards

During 2018, the Company granted 3.2 million restricted stock awards to nonemployees under the 2018 Plan at its fair value of \$0.29 per share. The restricted stock awards generally vest ratably, on a monthly basis, over a three-year period.

On November 25, 2019, the Company's shareholders entered into an agreement to sell 80.4% of their interest in the Company at a contracted value of \$1.49 per share, the subsequent sale is described in Note 9. As a result of the increase in the fair value of unvested restricted shares, the Company recorded a true-up of previously recorded stock-based compensation relating to unvested restricted shares as of November 25, 2019. The Company recognized stock-based compensation costs of \$1.7 million, of which \$0.5 million was capitalized as software development costs. During the year ended December 31, 2018, the Company recognized stock-based compensation costs related to these awards of \$0.3 million, of which \$0.1 million was capitalized as software development costs.

There were no grants of restricted stock awards for the year ended December 31, 2019.

The following table summarizes restricted stock activity during the years ended December 31, 2019 and 2018:

	<u>Number of Shares</u>	<u>Weighted- Average fair value</u>
Outstanding and unvested, as of December 31, 2017	—	\$ —
Granted	3,220,000	\$ 0.29
Vested	(1,029,552)	\$ 0.29
Outstanding and unvested, as of December 31, 2018	2,190,448	\$ 0.29
Forfeited	(20,000)	\$ 0.29
Vested	(789,440)	\$ 0.40
Outstanding and unvested, as of December 31, 2019	1,381,008	\$ 1.49

The aggregate fair value of restricted stock awards vested during each of the years ended December 31, 2019 and 2018 was \$0.3 million. There were no outstanding unvested restricted stock awards as of December 31, 2019. Total intrinsic value of outstanding unvested restricted stock awards as of December 31, 2019 and 2018 was \$2.1 million and \$0.6 million.

On January 15, 2020 and immediately prior to the partial sale of the Company's outstanding equity, as further described in Note 9, the Company accelerated vesting of the then unvested restricted common stock awards and the shares pursuant to these agreements were converted to common stock of the Company on a one-for-one basis.

Nonqualified Stock Options

Stock options issued under the Plan generally vest over a four-year period and expire ten years from the date of grant. Certain options provide for accelerated vesting if there is a change in control, as defined in the Plan.

The Company used Black-Scholes option pricing model to estimate stock-based compensation expense for stock option awards with the following assumptions for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Expected volatility	1.89%	1.97%
Risk-free interest rate	1.53%	2.63%
Expected dividend	—	—
Expected term (in years)	5.00	6.00
Underlying common stock fair value	\$ 1.49	\$ 0.29

As a result of the Company's shareholders' agreement to sell 80.4% of their interest in the Company, described above, during the year ended December 31, 2019, the previously recognized stock-based compensation costs related to unvested stock options on November 25, 2019 was adjusted to reflect the increase in the estimated fair value of a common share.

SOLO SCIENCES, INC.

Notes to Financial Statements

A summary of option activity under the 2018 Plan is as follows:

	Number of Options	Weighted- Average Exercise Price per Share	Weighted- Average Estimated Grant Date Fair Value	Weighted- Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	253,000	\$ 0.80	\$ 0.12	9.78	\$ 30,360
Granted	240,000	\$ 0.80			
Forfeited	(109,000)	\$ 0.80			
Outstanding as of December 31, 2019	<u>384,000</u>	\$ 0.80	\$ 0.75	9.17	\$ 288,000
Exercisable as of December 31, 2019	<u>384,000</u>	\$ 0.80	\$ 0.75	9.18	\$ 288,000
Vested and expected to vest as of December 31, 2019	<u>384,000</u>	\$ 0.80	\$ 0.75	9.17	\$ 288,000

Stock-based compensation expense for the Company's stock-based awards for the years ended December 31, 2019 and 2018 was \$77,000 and \$2,000, respectively, and is included in selling, general and administrative in the Company's statements of operations. On January 15, 2020 and immediately prior to the partial sale of the Company's outstanding equity, as further described in Note 9, the Company exercised a cashless conversion of the then outstanding stock options for 178,124 shares of the Company's common stock.

Note 7 - Commitments and Contingencies

Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of its operations in the normal course of business. The Company will accrue a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. As of December 31, 2019, and through the date these financial statements were issued, there were no legal proceedings requiring recognition or disclosure in the financial statements.

Note 8 - Income Taxes

For the years ended December 31, 2019 and 2018, the Company did not incur any current or deferred tax expense or benefit at the U.S. federal or state level. The Company's effective tax rate for the years ended December 31, 2019 and 2018 was 0% because it is more likely than not that the Company will not be able to realize the tax benefit from deferred tax assets generated during the years. Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities of the Company for financial reporting purposes and the amounts used for income tax purposes.

SOLO SCIENCES, INC.

Notes to Financial Statements

Significant components of our deferred tax liabilities and assets are as follows:

	As of December 31,	
	2019	2018
Noncurrent deferred tax assets:		
Federal net operating loss	\$ 1,060,165	\$ 283,058
Stock-based compensation	188,722	40,846
Total deferred tax assets	1,248,936	373,783
Noncurrent deferred tax liabilities:		
Software development costs	\$ 675,500	\$ 161,006
Intangible assets	92,365	35,871
Total deferred tax liabilities	767,865	196,877
Valuation allowance	(481,071)	(127,026)
Net deferred tax assets after valuation allowance	\$ -	\$ -

During the years ended December 31, 2019 and 2018, valuation allowances on deferred tax assets that are not anticipated to be realized increased by \$0.4 million and \$0.1 million, respectively.

In accordance with the accounting requirements for stock-based compensation, we may recognize tax benefits in connection with the exercise of stock options by nonemployees and the vesting of restricted stock awards. We recognize the tax effects related to stock-based compensation through earnings in the period the compensation was recognized.

The Company had federal net operating loss carryforwards for which the deferred tax assets were approximately \$1.1 million and \$0.3 million, respectively, as of December 31, 2019 and 2018. The net operating loss carryforwards do not expire. The Company has evaluated the realizability of its deferred tax assets by assessing the adequacy of expected taxable income, including the reversal of existing temporary differences, historical and projected operating results, and the availability of prudent and feasible tax planning strategies. Based on this analysis, the Company has determined that the valuation allowance recorded in the period presented are appropriate.

The Company is not currently under examination for the major jurisdictions where it conducts business as of December 31, 2019. Because the statute of limitations has not yet elapsed, the Company's initial United States federal income tax return for the year ended December 31, 2018 is currently subject to examination by the Internal Revenue Service. The Company's management does not believe that there are significant uncertain tax positions in 2019. There are no interest and penalties related to uncertain tax positions in 2019.

Note 9 - Subsequent Events

The Company has evaluated subsequent events for financial statement purposes occurring through May 29, 2020, the date these financial statements were ready for issuance.

On January 15, 2020, the Company's shareholders sold 80.4% of their interests to Akerna in exchange for shares of Akerna's common stock. Pursuant to the agreement, Akerna will provide \$2.4 million of additional capital infusion to the Company during the 12 months following the closing date. Akerna has a 12-month option to acquire the remaining 19.6% interest in the Company. If Akerna does not exercise this option, the shareholders have a three-month option to repurchase between 40% and 55% of the interest in the Company. Immediately prior to the transaction, the Company's directors elected to accelerate the vesting of all unvested stock options issued to nonemployees effected a cashless exercise of these options, resulting in the issuance of 178,124 common shares. Also, immediately prior to the transaction all outstanding shares of Series AA preferred stock were converted to common stock on a one-for-one basis.

AKERNA CORP.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined balance sheet as of December 31, 2019 and the unaudited pro forma condensed combined statements of operations for the year ended June 30, 2019 and six months ended December 31, 2019, are based on the historical financial statements of Akerna Corp. (“Akerna”, “we”, “our”) and solo sciences, inc. (“Solo”), after giving effect to our acquisition of 80.4% of the issued and outstanding equity of Solo (the “Acquisition”) and after applying the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined statements of operations for the year ended June 30, 2019 and six months ended December 31, 2019, give effect to the Acquisition as if it had occurred on July 1, 2018.

The unaudited pro forma condensed combined balance sheet as of December 31, 2019, gives effect to the Acquisition as if it had occurred on December 31, 2019. The Acquisition was completed on January 15, 2020.

The Acquisition has been accounted for pursuant to Financial Accounting Standards Board Accounting Standards Codification 805: Business Combinations. The total estimated consideration to be transferred, calculated as described in Note 1 to these unaudited pro forma condensed combined financial statements, is allocated to the net tangible assets and intangible assets of Solo acquired in connection with the Acquisition, based on the estimated fair values as of the date of the Acquisition and the excess is allocated to goodwill. We have made a preliminary allocation of the estimated purchase price to the tangible and intangible assets acquired and liabilities assumed. The acquisition accounting is dependent upon certain valuations and other studies that have yet to progress to a stage where there is sufficient information for a definitive measurement. We have made significant assumptions and estimates in determining the preliminary estimated purchase price and the preliminary allocation of the estimated purchase price in the unaudited pro forma condensed combined financial statements. These preliminary estimates and assumptions are subject to change during the estimated purchase price allocation period (generally one year from the acquisition date) as we finalize the valuations of the net intangible assets. The final valuations of identifiable intangible assets, fixed assets and deferred revenue and associated tax effects may change significantly from our preliminary estimates. Differences between these preliminary estimates and the final acquisition accounting could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company’s future results of operations and financial position. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial statements.

The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the Acquisition; (2) factually supportable; and (3) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined financial statements have been prepared by management for illustrative purposes only and are not necessarily indicative of the consolidated results of operations or financial position of Akerna that would have been reported had the Acquisition been completed as of the dates presented and should not be taken as representative of the future consolidated results of operations or financial position of Akerna. The unaudited pro forma condensed combined financial statements do not reflect any operating efficiencies and cost savings that we may achieve, or any additional expenses that we may incur, with respect to the combined companies.

The unaudited pro forma condensed combined financial statements, including the notes thereto should be read in conjunction with:

- The accompanying notes to the unaudited pro forma condensed combined financial statements;
 - Our audited consolidated financial statements and accompanying notes as of and for the years ended June 30, 2019 and 2018, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on September 23, 2019;
 - Our unaudited condensed consolidated interim financial statements as of December 31, 2019 and for the three and six month periods ended December 31, 2019 and 2018, included in our Quarterly Report on Form 10-Q filed with the SEC on February 12, 2020; and
 - Solo’s audited financial statements as of and for the years ended December 31, 2019 and 2018, included in this Current Report on Form 8-K/A.
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**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF DECEMBER 31, 2019**

	<u>Historical</u>		<u>Pro forma adjustments</u>	<u>Note 2</u>	<u>Pro forma combined</u>
	<u>Akerna Corp.</u>	<u>Solo (Note 1)</u>			
ASSETS					
CURRENT ASSETS:					
Cash	\$ 18,780,897	\$ 101,341	\$ —		\$ 18,882,238
Restricted cash	500,000	124,970	(124,970)	A	500,000
Accounts receivable, net	1,753,935	73,048	(60,000)	B	1,766,983
Prepaid expenses and other current assets	1,108,917	22,135	—		1,131,052
Total current assets	<u>22,143,749</u>	<u>321,494</u>	<u>(184,970)</u>		<u>22,280,273</u>
Property and equipment, net	—	14,785	—		14,785
Goodwill	—	—	9,639,097	C	9,639,097
Intangibles, net	—	5,163,072	7,514,893	D	12,677,965
Investments	250,000	—	—		250,000
TOTAL ASSETS	<u>\$ 22,393,749</u>	<u>\$ 5,499,351</u>	<u>\$ 16,969,020</u>		<u>\$ 44,862,120</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	\$ 2,234,353	\$ 700,013	\$ 247,000	B,E	\$ 3,181,366
Deferred revenue	844,554	—	—		844,554
Total current liabilities	<u>3,078,907</u>	<u>700,013</u>	<u>247,000</u>		<u>4,025,920</u>
Deferred purchase price	—	3,000,000	(3,000,000)	F	—
TOTAL LIABILITIES	<u>3,078,907</u>	<u>3,700,013</u>	<u>(2,753,000)</u>		<u>4,025,920</u>
STOCKHOLDERS' EQUITY:					
Preferred stock	—	3,332,750	(3,332,750)	G	—
Common stock	1,093	102	74	G,H	1,269
Additional paid-in capital	52,065,102	2,288,269	15,261,555	F,G,H	69,614,926
Accumulated deficit	(32,751,353)	(3,821,783)	3,514,783	E,G	(33,058,353)
TOTAL STOCKHOLDERS' EQUITY	<u>19,314,842</u>	<u>1,799,338</u>	<u>15,443,662</u>		<u>36,557,842</u>
Noncontrolling interests in consolidated subsidiary	—	—	4,278,358	J	4,278,358
TOTAL EQUITY	<u>19,314,842</u>	<u>1,799,338</u>	<u>19,772,020</u>		<u>40,836,200</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 22,393,749</u>	<u>\$ 5,499,351</u>	<u>\$ 16,969,020</u>		<u>\$ 44,862,120</u>

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Information

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Historical</u>		<u>Pro forma adjustments</u>	<u>Note 3</u>	<u>Pro forma Combined</u>
	<u>Akerna Corp.</u>	<u>Solo</u>			
Net revenue:					
Software	\$ 8,256,492	\$ —	\$ —		\$ 8,256,492
Consulting	2,403,797	—	—		2,403,797
Other	259,496	14,770	—		274,266
Total net revenue	10,919,785	14,770	—		10,934,555
Cost of revenue	4,633,844	1,170	—		4,635,014
Gross profit	6,285,941	13,600	—		6,299,541
Operating expenses:					
Product development	5,565,097	7,787	—		5,572,884
Selling, general and administrative	13,136,522	1,038,017	778,597	A,B	14,953,136
Total operating expenses	18,701,619	1,045,804	778,597		20,526,020
Loss from operations	(12,415,678)	(1,032,204)	(778,597)		(14,226,479)
Interest income (expense), net	91,239	1,146	—		92,385
Other income	17,892	—	—		17,892
Loss before provision for income taxes	(12,306,547)	(1,031,058)	(778,597)		(14,116,202)
Provision for income taxes	—	—	—		—
Net loss	(12,306,547)	(1,031,058)	(778,597)		(14,116,202)
Net loss attributable to noncontrolling interests	—	—	354,692	C	354,692
Net loss attributable to Akerna stockholders	<u>\$ (12,306,547)</u>	<u>\$ (1,031,058)</u>	<u>(423,905)</u>		<u>\$ (13,761,510)</u>
Net loss per share:					
Basic	\$ (2.04)				\$ (1.72)
Diluted	<u>\$ (2.04)</u>				<u>\$ (1.72)</u>
Shares used in computing earnings per share:					
Basic	6,045,382		1,950,000	D	7,995,382
Diluted	6,045,382		1,950,000	D	7,995,382

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Information

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2019**

	<u>Historical</u>		<u>Pro forma adjustments</u>	<u>Note 3</u>	<u>Pro forma Combined</u>
	<u>Akerna Corp.</u>	<u>Solo</u>			
Net revenue:					
Software	\$ 4,802,654	\$ —	\$ —		\$ 4,802,654
Consulting	1,556,363	—	—		1,556,363
Other	140,076	90,000	—		230,076
Total net revenue	<u>6,499,093</u>	<u>90,000</u>	<u>—</u>		<u>6,589,093</u>
Cost of revenue	3,036,201	3,064	—		3,039,265
Gross profit	<u>3,462,892</u>	<u>86,936</u>	<u>—</u>		<u>3,549,828</u>
Operating expenses:					
Product development	2,392,389	57,195	—		2,449,584
Sales, general and administrative	8,380,219	2,495,011	(1,064,720)	A,B	9,810,510
Total operating expenses	<u>10,772,608</u>	<u>2,552,206</u>	<u>(1,064,720)</u>		<u>12,260,094</u>
Loss from operations	(7,309,716)	(2,465,270)	1,064,720		(8,710,266)
Gain on sale of business	—	—	—		—
Interest income (expense), net	125,239	3,785	—		129,024
Other income (expense), net	(130)	—	—		(130)
Loss before provision for income taxes	(7,184,607)	(2,461,485)	1,064,720		(8,581,372)
Provision for income taxes	—	—	—		—
Net loss	<u>(7,184,607)</u>	<u>(2,461,485)</u>	<u>1,064,720</u>		<u>(8,581,372)</u>
Net loss attributable to noncontrolling interests	—	—	273,766	C	273,766
Net loss attributable to Akerna stockholders	<u>\$ (7,184,607)</u>	<u>\$ (2,461,485)</u>	<u>\$ 1,338,486</u>		<u>\$ (8,307,606)</u>
Net loss per share:					
Basic	<u>\$ (0.66)</u>				<u>\$ (0.65)</u>
Diluted	<u>\$ (0.66)</u>				<u>\$ (0.65)</u>
Shares used in computing earnings per share:					
Basic	10,918,942		1,950,000	D	12,868,942
Diluted	10,918,942		1,950,000	D	12,868,942

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Information

Note 1: Basis of Pro Forma Presentation

Accounting Periods Presented

The unaudited pro forma condensed combined balance sheet as of December 31, 2019, is presented as if the Acquisition had occurred on December 31, 2019. Certain pro forma adjustments to record differences between historical book values and preliminary values as of the date of the pro forma condensed combined financial statements are based on the assumption that the Acquisition occurred on December 31, 2019. The actual adjustments to be recorded in Akerna's consolidated financial statements will be as of the January 15, 2020, acquisition date.

The unaudited pro forma condensed combined statements of operations of Akerna and Solo for the year ended June 30, 2019 and six months ended December 31, 2019, are presented as if the Acquisition had taken place on July 1, 2018.

Preliminary Purchase Consideration

On November 25, 2019, Akerna entered into a Stock Purchase Agreement (the "Agreement") with substantially all of the shareholders of Solo, Ashesh C. Shah, Lokesh Chugh and Palle Pedersen, each an adult individual, (collectively, the "Shareholder Representatives") and Solo pursuant to which Akerna acquired all right, title and interest in 80.4% of the issued and outstanding capital stock of Solo, free and clear of all liens. The consideration amount under the Agreement is 1,950,000 shares of the common stock of Akerna, which includes 570,000 shares of the common stock of Akerna to be held in escrow subject to the satisfaction of certain conditions stipulated in the Agreement. This consideration may be subject to an adjustment no later than 120 days following the closing date.

In addition to the above consideration, Akerna has agreed to pay contingent consideration in the form of fees payable to the legacy Solo shareholders equal to the lesser of (i) \$0.01 per solo*TAG™ and solo*CODE™ sold or (ii) 7% of net revenue. The fees will be paid annually until the earlier of: (1) our shares trading above \$12 per share for any consecutive 20 trading days in a 30-day period; (b) upon us no longer owning a majority stake in Solo; or (c) upon expiration of the patents related to solo*TAG™ and solo*CODE™, which is December 1, 2029. This fee represents contingent consideration and will be recorded at fair value as of the acquisition date. Due to the complexity of this financial instrument the completion of our valuation is currently in process and therefore, we have not reflected an estimated liability in the unaudited pro forma condensed combined financial information. The preliminary fair value of consideration consisted of the following (in thousands):

Fair value of equity issued	\$	17,550
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Preliminary Purchase Consideration Allocation

The following represents the preliminary allocation of the fair value of the purchase consideration to the acquired assets and assumed liabilities based on Solo's balance sheet as of December 31, 2019, and is for illustrative purposes only (in thousands):

Net liabilities assumed	\$	(489)
Intangible assets:		
Developed technology		8,494
Trademarks		4,184
Goodwill		9,639
Total fair value of net asset acquired	\$	21,828
Noncontrolling interest		(4,278)
Purchase consideration	\$	17,550

Noncontrolling interests \$4.3 million was calculated as 19.6% of the fair value of the net assets acquired. Goodwill of approximately \$9.6 million represents the excess of the purchase consideration over the fair value of the net tangible and intangible assets acquired. Goodwill is primarily attributable to expected post-acquisition synergies from integrating Solo's cryptographically secure digital trust mark technology into Akerna's supply chain solutions. None of the goodwill recorded as part of the Acquisition will be deductible for U.S. federal income tax purposes.

We have an option to acquire the noncontrolling interests in Solo during the 12 months following the close for either cash or shares. Beginning with the expiration of our option, the noncontrolling interests in Solo have a 3-month option to acquire between 40% and 55% of Solo back from us for cash. The terms of this option will result in our accounting for the instrument as a derivative. Due to the complexity of the option we have not yet completed our valuation of the option and as such have not reflected an estimated value of the option in the unaudited pro forma condensed combined financial information.

The following table sets forth the components of identifiable intangible assets acquired and their preliminary estimated useful lives as of the date of acquisition (in thousands):

Intangible asset	Preliminary fair value	Estimated useful life (in years)
Developed technology	\$ 8,494	10
Trademarks	4,184	10
Total	\$ 12,678	

These preliminary estimates of fair value and their preliminary estimated useful lives will likely be different from the amounts included in the acquisition accounting upon finalization, and the difference could have a material impact on the accompanying unaudited pro forma combined condensed financial statements. Akerna has to gain information about Solo's intangible assets, and expects additional insight will be gained that could impact (i) the estimated total value assigned to identifiable intangible assets (ii) the estimated weighted average useful life of each category of intangible assets (iii) the value of fixed assets (iv) the value of deferred revenue and (v) the value of deferred tax liabilities associated with purchase accounting adjustments. The estimated intangible asset values and their useful lives could be impacted by a variety of factors that may become known to Akerna only upon completion of the acquisition accounting valuations and analysis. These factors include, but are not limited to, historical information obtained from Solo, discussions with management and product roadmap. Increased knowledge about these or other elements could result in a change to the estimated fair value of the identifiable intangible assets or to the estimated weighted average useful lives from what Akerna has assumed in these unaudited pro forma combined condensed financial statements. The combined effect of any such changes could then also result in a significant increase or decrease to Akerna's estimate of associated amortization expense.

Prior to the Acquisition, we had a net deferred tax asset position and continue to be in a net deferred tax asset position, after adjustments for deferred tax liability related to purchase accounting adjustments, and the net deferred tax asset is subject to a full valuation allowance. Solo's U.S. net deferred tax asset was also subject to a full valuation allowance. Therefore, the combined U.S. deferred tax asset position remains unchanged. As such, the unaudited pro forma condensed combined financial information do not include adjustments for tax-related items.

Accounting Policies

We did not adopt new accounting standards for revenue or leases in the year ended June 30, 2019, and as an emerging growth company, we have elected to implement the disclosure requirements of the new revenue standard in our annual consolidated financial statements for the year ending June 30, 2020. Solo, as a private company, had not adopted these new accounting standards, which include guidance for costs incurred obtaining contracts with customers, which requires the deferral of incremental costs of obtaining a contract with a customer.

Reclassifications

The unaudited pro forma condensed combined balance sheet was not required to be adjusted to conform Solo's presentation to Akerna's presentation.

Note 2: Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

The pro forma adjustments included in the unaudited pro forma condensed combined balance sheet for the Acquisition are as follows:

- A. To record distribution of Solo restricted cash to its shareholders immediately prior to closing.
- B. To reduce acquired receivables for amounts due from Akerna and the related account payable.
- C. To record goodwill of \$9.6 million.
- D. To record the estimated preliminary fair value of \$12.7 million of Solo's identifiable intangible assets.

- E. To record transaction cost paid after the close of the Acquisition.
- F. To record settlement of the deferred purchase obligation using equity consideration.
- G. To eliminate Solo's historical equity and accumulated deficit.
- H. To record purchase accounting adjustments for equity consideration.
- J. To record noncontrolling interest retained by Solo's selling shareholders estimated as 19.6% of the fair value of the net assets acquired.

Note 3: Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended June 30, 2019

The pro forma adjustments included in the unaudited pro forma condensed combined statement of operations for the Acquisition are as follows:

- A. To reflect \$996,000 amortization expense of preliminarily estimated purchased intangible assets.
- B. To reduce stock-based compensation of \$217,403, due to accelerated vesting of Solo restricted stock and settlement of options in connection with the Acquisition.
- C. To allocate 19.6% of pro forma adjusted Solo net losses to noncontrolling interest holders.
- D. To reflect the 1.95 million shares of Akerna common stock issued in exchange for 80.4% of the equity interest in Solo.

The pro forma combined basic and diluted net loss attributable to Akerna shareholders per share are based on the number of 7,995,382 shares common stock used in computing basic and diluted net loss per share for the acquisition of Solo, respectively. Dilutive potential common shares are included only if they have a dilutive effect on earnings per share.

Note 4: Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations for the six months ended December 31, 2019

The pro forma adjustments included in the unaudited pro forma condensed combined statement of operations for the acquisition of Solo are as follows:

- A. To reflect \$498,000 of amortization expense of preliminarily estimated purchased intangible assets.
- B. To reduce stock-based compensation of \$1,562,720 due to accelerated vesting of Solo's restricted stock and settlement of options in connection with the acquisition.
- C. To allocate 19.6% of pro forma adjusted Solo net losses to noncontrolling interest holders.
- D. To reflect the 1.95 million shares of Akerna common stock issued in exchange for 80.4% of the equity interest in Solo.

The pro forma combined basic and diluted net loss per share are based on the number of 12,868,942 shares common stock used in computing basic and diluted net loss per share for the acquisition of Solo, respectively. Dilutive potential common shares are included only if they have a dilutive effect on earnings per share.