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 September 30, 2020

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 001-39096

AKERNA CORP.
(Exact name of registrant as specified in its charter)

Delaware	**83-2242651**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1630 Welton Street, Floor 4 Denver, Colorado	**80202**
(Address of principal executive offices)	(Zip Code)

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

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, $0.0001 par value per share	KERN	Nasdaq Stock Market LLC (Nasdaq Capital Market)
Warrants to purchase one share of common stock	KERNW	Nasdaq Stock Market LLC (Nasdaq Capital Market)

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

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

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

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

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

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

As of November 12, 2020, there were 19,685,932 shares of the registrant's common stock, par value $0.0001 per share, outstanding.

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AKERNA CORP.
Condensed Consolidated Balance Sheets
(unaudited)

	September 30, 2020	June 30, 2020
Assets		
Current assets:		
Cash	$ 14,257,858	$ 24,155,828
Restricted cash	500,000	500,000
Accounts receivable, net	2,799,225	1,861,534
Prepaid expenses and other current assets	1,475,613	1,215,341
Total current assets	19,032,696	27,732,703
Non-current assets:		
Fixed assets, net	1,395,690	131,095
Investment, net	244,774	246,308
Capitalized software, net	3,389,646	2,629,304
Intangible assets, net	10,730,021	7,493,975
Goodwill	46,500,030	20,254,309
Other non-current assets	41,925	41,925
Total Assets	$ 81,334,782	$ 58,529,619
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 5,998,001	$ 4,861,928
Contingent consideration payable	817,000	389,000
Deferred revenue	1,170,625	368,685
Current portion of long-term debt	10,146,001	6,135,364
Total current liabilities	18,131,627	11,754,977
Long-term debt, less current portion	5,481,599	10,200,236
Total liabilities	23,613,226	21,955,213
Commitments and contingencies (Note 6)		
Equity:		
Preferred stock, par value $0.0001; 4,999,999 shares authorized, none are issued and outstanding at September 30, 2020 and 5,000,000 shares authorized and none are issued and outstanding at June 30, 2020	—	—
Special voting preferred stock, par value $0.0001; 1 share authorized, issued and outstanding as of September 30, 2020, with $1.00 preference in liquidation and none authorized, issued and outstanding as of June 30, 2020; exchangeable shares, no par value, 2,667,349 shares issued and outstanding as of September 30, 2020, and none as of June 30, 2020 (See Note 3)	20,405,219	—
Common stock, par value $0.0001; 75,000,000 shares authorized, 14,685,932 issued and outstanding at September 30, 2020, and 13,258,707 shares issued and outstanding at June 30, 2020	1,464	1,321
Additional paid-in capital	83,164,840	72,906,924
Accumulated other comprehensive (loss) income	(7,000)	63,000
Accumulated deficit	(45,842,967)	(41,101,091)
Total stockholders' equity	$ 57,721,556	$ 31,870,154
Noncontrolling interests in consolidated subsidiary	—	4,704,252
Total equity	57,721,556	36,574,406
Total liabilities and equity	$ 81,334,782	$ 58,529,619

The accompanying notes are an integral part of these condensed consolidated financial statements

AKERNA CORP.
Condensed Consolidated Statements of Operations
(unaudited)

	For the Three Months Ended September 30, 2020	2019
Revenues		
Software	$ 3,154,442	$ 2,254,480
Consulting	331,080	831,363
Other	228,482	107,047
Total revenues	3,714,004	3,192,890
Cost of revenues	1,739,937	1,379,701
Gross profit	1,974,067	1,813,189
Operating expenses		
Product development	1,758,826	610,902
Sales and marketing	2,097,502	1,841,514
General and administrative	2,470,187	1,742,301
Depreciation and amortization	1,171,022	17,899
Total operating expenses	7,497,537	4,212,616
Loss from operations	(5,523,470)	(2,399,427)
Other income (expense)		
Interest (expense), net	(3,687)	73,382
Change in fair value of Convertible Notes	778,000	—
Other	—	(287)
Total other income (expense)	774,313	73,095
Net loss before income tax expense	(4,749,157)	(2,326,332)
Equity in losses of investee	(1,534)	—
Net loss	(4,750,691)	(2,326,332)
Net loss attributable to noncontrolling interest in consolidated subsidiary	8,815	—
Net loss attributable to Akerna shareholders	$ (4,741,876)	$ (2,326,332)
Basic and diluted weighted average common stock outstanding	14,058,412	10,879,112
Basic and diluted net loss per common share	$ (0.34)	$ (0.21)

The accompanying notes are an integral part of these condensed consolidated financial statements

Condensed Consolidated Statements of Comprehensive Loss
For the Three Months Ended September 30, 2020 and 2019
(unaudited)

	2020	2019
Net loss	$ (4,750,691)	$ (2,326,332)
Other comprehensive (loss) income:		
Unrealized loss on Convertible Notes	(70,000)	—
Comprehensive loss	(4,820,691)	(2,326,332)
Comprehensive loss attributable to the noncontrolling interest	8,815	—
Comprehensive loss attributable to Akerna shareholders	$ (4,811,876)	$ (2,326,332)

The accompanying notes are an integral part of these condensed consolidated financial statements

AKERNA CORP.
Condensed Consolidated Statements of Changes in Equity (unaudited)
For the Three Months Ended September 30, 2020

	Special Voting Preferred Stock	Common Shares	Common Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Akerna Shareholders' Equity	Noncontrolling Interests in Consolidated Subsidiary	Total Equity
Balance – July 1, 2020	$ —	13,203,806	$ 1,321	$ 72,906,924	$ 63,000	$ (41,101,091)	$ 31,870,154	$ 4,704,252	$ 36,574,406
Special voting preferred stock issued in business combination	25,203,490	—	—	—	—	—	25,203,490	—	25,203,490
Conversion of Exchangeable Shares to common stock	(4,798,271)	627,225	63	4,798,208	—	—	—	—	—
Acquisition of noncontrolling interest	—	800,000	80	4,695,357	—	—	4,695,437	(4,695,437)	—
Amortization of stock-based compensation	—	—	—	764,351	—	—	764,351	—	764,351
Restricted stock unit vesting	—	3,025	—	—	—	—	—	—	—
Change in fair value of convertible notes	—	—	—	—	(70,000)	—	(70,000)	—	(70,000)
Net loss	—	—	—	—	—	(4,741,876)	(4,741,876)	(8,815)	(4,750,691)
Balance – September 30, 2020	$ 20,405,219	14,634,056	$ 1,464	$ 83,164,840	$ (7,000)	$ (45,842,967)	$ 57,721,556	$ —	$ 57,721,556

The accompanying notes are an integral part of these condensed consolidated financial statements

AKERNA CORP.
Condensed Consolidated Statements of Changes in Equity (unaudited)
For the Three Months Ended September 30, 2019

	Special Voting Preferred Stock	Common Shares	Common Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Akerna Shareholders' Equity	Noncontrolling Interests in Consolidated Subsidiary	Total Equity
Balance – July 1, 2019	$ —	10,589,746	$ 1,059	$ 47,325,421	$ —	$ (25,566,746)	$ 21,759,734	$ —	$ 21,759,734
Amortization of stock-based compensation	—	—	—	161,165	—	—	161,165	—	161,165
Cash received in connection with exercise of warrants	—	368,910	37	4,242,417	—	—	4,242,454	—	4,242,454
Net loss	—	—	—	—	—	(2,326,332)	(2,326,332)	—	(2,326,332)
Balance – September 30, 2019	$ —	10,958,656	$ 1,096	$ 51,729,003	$ —	$ (27,893,078)	$ 23,837,021	$ —	$ 23,837,021

The accompanying notes are an integral part of these condensed consolidated financial statements

AKERNA CORP.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the Three Months Ended September 30, 2020	2019
Cash flows from operating activities		
Net loss	$ (4,750,691)	$ (2,326,332)
Adjustment to reconcile net loss to net cash used in operating activities:		
Equity in losses of investment	1,534	—
Bad debt	12,450	252,809
Stock-based compensation expense	681,419	161,165
Depreciation and amortization	1,171,022	17,899
Foreign currency loss	4,901	—
Change in fair value of convertible notes	(778,000)	—
Change in fair value of contingent consideration	(389,000)	—
Changes in operating assets and liabilities:		
Accounts receivable	(9,298)	(1,508,217)
Prepaid expenses and other current assets	(74,023)	(292,272)
Accounts payable and accrued liabilities	(296,802)	274,566
Deferred revenue	245,329	278,208
Net cash used in operating activities	(4,181,159)	(3,142,174)
Cash flows from investing activities		
Developed software additions	(624,863)	(519,739)
Furniture, fixtures, and equipment additions	(12,203)	—
Cash paid for business combination, net of cash acquired	(5,067,740)	—
Net cash used in investing activities	(5,704,806)	(519,739)
Cash flows from financing activities		
Cash paid for deferred stock offering costs	(12,668)	—
Cash received in connection with exercise of warrants	—	4,242,454
Net cash (used in) provided by financing activities	(12,668)	4,242,454
Effect of exchange rate changes on cash and restricted cash	663	—
Net change in cash and restricted cash	(9,897,970)	580,541
Cash and restricted cash - beginning of period	24,655,828	22,367,289
Cash and restricted cash - end of period	$ 14,757,858	$ 22,947,830
Cash paid for interest	—	1,974
Supplemental Disclosure of non-cash investing and financing activity:		
Capitalized software included in accrued expense	807,218	—
Acquisition of noncontrolling interest	4,695,437	—
Special voting preferred stock issued in business combination	25,203,490	—
Conversion of exchangeable shares to common stock	4,798,271	—

The accompanying notes are an integral part of these condensed consolidated financial statements

Note 1 - Description of Business, Liquidity and Capital Resources

Description of Business

Akerna Corp., herein referred to as we, our or Akerna, through our wholly owned subsidiaries MJ Freeway, LLC, or MJF, Trellis Solutions, Inc., or Trellis, Ample Organics, Inc, or Ample, and solo sciences, inc, or Solo, provides enterprise software solutions that enable regulatory compliance and inventory management. Our proprietary, broad and growing suite of solutions are adaptable for industries in which interfacing with government regulatory agencies for compliance purposes is required, or where the tracking of organic materials from seed or plant to end products is desired. We develop products intended to assist states in monitoring licensed businesses' compliance with state regulations and to help state-licensed businesses operate in compliance with such laws. We provide our commercial software platforms, MJ Platform®, Ample and Trellis® to state- or federally-licensed businesses, and our regulatory software platform, Leaf Data Systems®, to state government regulatory agencies. Through Solo, we provide an innovative, next-generation solution for state and national governments to securely track product and waste throughout the supply chain with solo*TAG™. The integration of MJ Platform® and solo*CODE™ results in technology for consumers and brands that brings a consumer-facing mark designed to highlight authenticity and signify transparency.

We consult with clients on a wide range of areas to help them successfully maintain compliance with state laws and regulations. We provide project-focused consulting services to clients who are initiating our expanding their cannabis business operations or are interested in data consulting engagements with respect to the legal cannabis industry. Our consulting engagements include service offerings focused on compliance requirement assessments, readiness and best practices, compliance monitoring systems, application processes, inspection readiness and business plan and compliance reviews. We typically provide our consulting services to clients in emerging markets who are seeking consultation on newly introduced licensing regimes and assistance with the regulatory compliant build-out of operations.

Fiscal Year-End

On September 25, 2020, our Board of Directors adopted resolutions to change our fiscal year-end from June 30 to December 31, effective for the year ending December 31, 2020. We will cover the transition period from July 1, 2020 to December 31, 2020 by filing an Annual Report on Form 10-K for the transition year ending December 31, 2020.

Liquidity and Capital Resources

Since our inception, we have incurred recurring operating losses, used cash in operations, and relied on capital raising transactions to continue ongoing operations. During the three months ended September 30, 2020, we incurred a loss from operations of $5.5 million and used cash in operations of $4.2 million. As of September 30, 2020, we had cash of $14.3 million, excluding restricted cash, and working capital of $0.9 million.

During the quarter ended September 30, 2020, the Company incurred a number of one-time, non-recurring expenses of approximately $1.1 million. These expenses include business combination expenses, restructuring and other non-recurring charges. Additionally, on October 30, 2020, we closed on the public offering of 5 million shares of common stock with proceeds of approximately $11.0 million net of offering costs, which will be used for general corporate purposes. During the three months ended September 30, 2020 we implemented a number of cost reduction initiatives reducing costs and identifying costs savings that we expect to result in annual savings of an additional $3.0 million to $4.0 million. As a result, we expect that our current working capital is sufficient to fund our operations and commitments for a period of at least twelve months from the date these financial statements are issued.

In the event the Company requires additional liquidity, the Company can further reduce or defer expenses. More specifically, the Company could implement certain discretionary cost reduction initiatives relating to our spend on employee travel and entertainment, consulting costs and marketing expenses, negotiate deferred salary arrangements, furlough employees or reduce headcount or negotiate extensions of payments of rent and utilities. The Company also believes it has access to capital through future debt or equity offerings and could be successful in renegotiating the maturity dates or conversion option relating to its current outstanding notes payable, although no assurance can be provided that we would be successful in these efforts. Further, the potential continues to exist that our $2 million PPP loan could be forgiven. Management will continue to evaluate our liquidity and capital resources.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Certain footnotes and other financial information normally required by accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted in accordance with such rules and regulations. In management's opinion, these condensed consolidated financial statements have been prepared on the same basis as our annual consolidated financial statements and notes thereto and include all adjustments, consisting of normal recurring items, considered necessary for the fair presentation. The operating results for the three months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the fiscal year transition period comprised of six months ending December 31,2020.

The condensed consolidated balance sheet for the year ended June 30, 2020, has been derived from our audited financial statements at that date but does not include all disclosures and financial information required by GAAP for complete financial statements. The information included in this quarterly report on Form 10-Q should be read in conjunction with our consolidated financial statements and notes thereto for the year ended June 30, 2020, which were included in our annual report on Form 10-K filed on September 29, 2020.

Principles of Consolidation

Our accompanying condensed consolidated financial statements include the accounts of Akerna, our wholly owned subsidiaries and those entities in which we otherwise have a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

We evaluate our ownership interests, contractual rights and other interests in entities to determine if the entities are variable interest entities, or VIEs, when we have a variable interest in those entities. Generally, a VIE is a legal entity in which the equity investors do not have the characteristics of a controlling financial interest or the equity investors lack sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. These evaluations can be complex and involve judgment and the use of estimates and assumptions based on available historical information.

If we determine that we hold a variable interest in a VIE and we are the primary beneficiary of the VIE, we must consolidate the VIE in our financial statements. In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: which activities most significantly impact the VIE's economic performance and which party controls such activities; the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; and the similarity with and significance to our business activities and the business activities of the other investors. Significant judgments related to these determinations include estimates about the current and future fair values and performance of these VIE's operations and general market conditions. We determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE and reassess our status on an ongoing basis.

Segment Reporting

Our chief operating decision maker reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance and information for different revenue streams is not evaluated separately. As such, the Company has one operating segment, and the decision-making group is the senior executive management team. In the following table, revenue is disaggregated by primary geographical markets and revenue source.

	For the Three Months Ended	
	2020	2019
Primary geographical markets:		
United States	$ 2,285,211	$ 3,054,670
Canada	1,270,109	28,385
Other	158,684	109,835
Total	$ 3,714,004	$ 3,192,890

	As of September 30, 2020	As of June 30, 2020
Long-lived assets:		
United States	$ 10,170,265	$ 10,254,374
Canada	5,345,092	-
Total	$ 15,515,357	$ 10,254,374

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts included in the financial statements and accompanying notes thereto. Actual results could differ materially from those estimates.

Accounts Receivable, Net

We maintain an allowance for doubtful accounts equal to the estimated uncollectible amounts based on our historical collection experience and review of the current status of trade accounts receivable. The allowance for doubtful accounts was $0.2 million as September 30, 2020 and $0.2 million as of June 30, 2020.

Concentrations of Credit Risk

We grant credit in the normal course of business to customers in the United States. We periodically perform credit analysis and monitor the financial condition of our customers to reduce credit risk.

During the three months ended September 30, 2020, and 2019, one government client accounted for 17% and 24% of total revenues, respectively. As of September 30, 2020, two government clients accounted for a total of 38% and 20% of net accounts receivable and one government client had outstanding receivables as of September 30, 2019, which accounted for 63% of net accounts receivable.

Goodwill Impairment Assessment

We evaluate and test the recoverability of our goodwill for impairment at least annually during October of each year or more often if circumstances indicate that goodwill may not be recoverable. To date, we have not recorded any impairment of our goodwill.

Foreign Currency Translation

We have Canadian operations with Canadian Dollar as the functional currency. Foreign exchange gains and losses and translation adjustments, which result from the process of remeasuring foreign currency transactions into the appropriate functional currency, were immaterial during the quarter ended September 30, 2020.

Supplemental Information Regarding Noncash Investing and Financing Activities

During the three months ended September 30, 2020, we acquired 100% of the outstanding equity interest in Ample Organics, Inc., or Ample, in exchange for Akerna common stock valued at $25.2 million, please refer to Note 3 for additional information about the transaction and a schedule of the assets acquired and liabilities assumed in conjunction with this transaction

Stock-Based Compensation

We measured stock-based compensation based on the fair value of the share-based awards on the date of grant and recognize the related costs on a straight-line basis over the requisite service period, which is generally the vesting period. During the three months ended September 30, 2020, we granted 451,925 shares of Restricted Stock Units at an aggregate grant date fair value of approximately $2.2 million, vesting equally over four years.

Reclassifications and Revisions

Certain prior year financial statement amounts have been reclassified for consistency with the current year presentation. Additionally, certain prior year financial statement amounts have been revised to correct misstatements in the prior year, please refer to Note 9 for additional information regarding the corrections.

Recent Accounting Pronouncements

The Financial Accounting Standards Board, or the FASB, has issued guidance to simplify the remeasurement of goodwill when impairment is identified. Under existing guidance we would have to perform procedures to determine the fair value of our assets and liabilities as of the testing date in a manner similar to the procedures necessary to allocate purchase price to acquired assets and liabilities in a business combination. Under the new guidance, the goodwill impairment charge is equal to the excess of the carrying value of the reporting unit to which goodwill is assigned and the fair value of that reporting unit. We have elected to adopt the guidance early effective July 1, 2020 and will utilize this approach if necessary when we perform our annual goodwill impairment test.

The FASB has issued guidance related to the accounting for share-based compensation to nonemployees, which eliminates the separate accounting model for nonemployee share-based payment awards and generally requires companies to account for share-based payment transactions with nonemployees in the same way as share-based payment transactions with employees. Under the new guidance, nonemployee share-based payment transactions are measured at the grant-date fair value and are no longer remeasured at the then-current fair values at each reporting date until the share options have vested. The amended guidance is effective for our fiscal year end transition financial statements for the six months ending December 31, 2020 and for interim periods beginning on January 1, 2021. We have completed our implementation procedures and concluded that there will be no material impact to our results of operations or financial condition as a result of this new standard.

The FASB has issued guidance to revise accounting for revenue from contracts with customers, which supersedes the revenue recognition requirements and industry-specific guidance currently in effect for us. The new revenue standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The new revenue standard is effective for our fiscal 2021 annual reporting period and for interim periods thereafter. The new revenue standard allows for either full retrospective or modified retrospective adoption. We will adopt the new standard using the modified retrospective approach and anticipate that the timing of recognition of incremental costs of obtaining contracts will be the most significant change to our results of operations upon adoption. As a result of our announced change in fiscal year end to December 31, 2020, as further discussed in Note 1, we will adopt the new standard in our transition period financial statements for the six months ending December 31, 2020. We are in the process of finalizing our implementation of this standard and expect to record a cumulative catch up adjustment to defer certain direct contract costs that have previously been recognized as expense as incurred, Additionally, we expect to adjust the recognition pattern for certain implementation fees earned in connection with government contracts.

The FASB has issued new guidance related to the accounting for leases. The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. Following our change in fiscal year effective on December 31, 2020, the new standard is effective for us beginning with our fiscal year ending December 31, 2022 and in interim periods thereafter. We have limited assets subject to operating lease and therefore expect the adoption of the new standard to result in the recognition of right of use assets and lease liabilities for any office or vehicle leases in effect at that date, we do not expect a significant impact to our results of operations.

The FASB has issued guidance to introduce a new model for recognizing credit losses on financial instruments based on estimated current expected credit losses, or CECL. Under the new standard, an entity is required to estimate CECL on trade receivables at inception, based on historical information, current conditions, and reasonable and supportable forecasts. Following our change in fiscal year-end effective December 31, 2020, the new guidance is effective for us beginning on January 1, 2023. We are evaluating the impact of adoption of the new standard on our consolidated financial statements.

The FASB has issued guidance regarding whether internal-use software development costs should be capitalized or charged to expense. Depending upon on the nature of the costs and the project stage in which they are incurred. Capitalized development costs are subject to amortization and impairment guidance consistent with existing internal-use software development cost guidance. Following our change in fiscal year end effective December 31, 2020, the guidance is applicable for us for the year ending December 31, 2021 and in interim periods thereafter, with early adoption permitted, including adoption in an interim period. We are evaluating the impact of adoption of the new standard on our financial statements.

The FASB has issued guidance clarifying the interactions between various standards governing investments in equity securities. The new guidance addresses accounting for the transition into and out of the equity method and measurement of certain purchased options and forward contracts to acquire investments. The standard is effective for us for annual and interim periods beginning on January 1, 2022, with early adoption permitted. Adoption of the standard requires changes to be made prospectively. We do not anticipate a significant impact to our financial statements as a result of this new guidance.

Note 3 – Significant Transactions

Business Combinations

On July 7, 2020, we completed the acquisition of Ample Organics ("Ample"), Ample provides a seed-to-sale platform to clients in Canada, which offers tracking, reporting, and compliance tools to cannabis cultivators, processors, sellers, and clinics. We acquired 100% of the stock of Ample Organics by issuing 3.3 million exchangeable shares of one of our wholly-owned subsidiaries. The exchangeable shares may be exchanged, at the option of the holder, for shares of Akerna common stock on a one-for-one basis, therefore the exchangeable shares issued were valued at $7.65 per share, the closing price of an equivalent share of Akerna common stock, for an aggregate value of $25.2 million. The exchangeable shares are economically equivalent to shares of Akerna common stock. In addition to the stock consideration, we paid $5.7 million in cash, which was used to settle all of Ample's then outstanding debt and transaction costs. The agreement provides for contingent consideration of up to CAD$10,000,000, payable in exchangeable shares, payable if Ample's Recurring Revenue recognized during the 12 months after the acquisition date is CAD$9,000,000 or more. The contingent consideration amount is reduced by an amount equal to the product of CAD$6.67 multiplied by the difference between CAD$9,000,000 and the amount of Recurring Revenue realized during the 12 months following the acquisition. The contingent consideration was recorded as the estimated fair value of $0.8 million as of the acquisition date and will be adjusted to the estimated fair value in each subsequent reporting period until settlement. The preliminary fair value of consideration transferred consisted of the following (in thousands):

		Preliminary Fair Value
Common shares issued	$	25,203
Cash		5,724
Contingent consideration		817
Total preliminary fair value of consideration transferred	$	31,744

We incurred $1.0 million of transaction costs directly related to the acquisition that is reflected in selling, general and administrative expenses in our condensed consolidated statements of operations.

The following table summarizes the preliminary fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

		Preliminary Fair Value
Cash	$	445
Accounts receivable		917
Prepaid expenses		149
Intangible assets and goodwill		30,433
Furniture, fixtures and equipment		1,327
Accounts payable and accrued expenses		(978)
Deferred revenue		(549)
Net assets acquired	$	31,744

The excess of purchase consideration over the preliminary fair value of assets acquired and liabilities assumed was recorded as goodwill, which is primarily attributed to the assembled workforce and expanded market opportunities, for which there is no basis for U.S. income tax purposes. The fair values assigned to identifiable assets acquired and liabilities assumed are preliminary based on management's estimates and assumptions and will change as additional information is received. We expect to finalize the valuation as soon as practicable, but no later than one year from the acquisition date.

The amounts of Ample's revenue and net loss included in our condensed consolidated statement of operations from the acquisition date of July 7, 2020, to September 30, 2020 were $1.2 million and $0.4 million, respectively.

Pro Forma Financial Information

The following unaudited pro forma financial information summarizes the combined results of operations for Akerna, Trellis, Solo, and Ample as though the companies were combined as of the beginning of our fiscal 2019 (in thousands):

	Three Months Ended September 30,	
	2020	**2019**
Revenues	$ 3,790	$ 4,130
Net loss	$ (4,686)	$ (4,185)

The pro forma financial information for all periods presented above has been calculated after adjusting the results of Solo, Trellis, and Ample to reflect the business combination accounting effects resulting from this acquisition, including the amortization expense from acquired intangible assets as though the acquisition occurred as of the beginning of the Company's fiscal year 2019. As noted above, the allocation is preliminary and changes to the value of the contingent consideration and finalization of our valuation could result in changes to the amount of amortization expense from acquired intangible assets included in the pro forma financial information presented above. The Akerna historical condensed consolidated financial statements have been adjusted in the pro forma combined financial statements to give effect to pro forma events that are directly attributable to the business combination and factually supportable. The pro forma financial information is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the Company's fiscal 2019.

Special Voting Preferred Stock and Exchangeable Shares

In connection with the Ample acquisition, we entered into agreements with our wholly-owned subsidiary and the Ample shareholder representative that resulted in the issuance of a single share of our special voting preferred stock, for the purpose of ensuring that each Exchangeable Share is substantially the economic and voting equivalent of a share of Akerna common stock, and, following the registration of the Akerna shares issuable upon exchange of the Exchangeable Shares under the Securities Act of 1933, ensuring that each Exchangeable Share is exchangeable on a one-for-one basis for a share of Akerna common stock, subject to certain limitations. As a result of these agreements and the issuance of the special voting preferred stock, each holder of Exchangeable Shares effectively has the ability to cast votes along with holders of Akerna common stock. Additionally, these agreements grant exchange rights to the holders of exchangeable shares upon the event of our liquidation, dissolution or winding up.

The special voting preferred stock has a par value of $0.0001 per share and a preference in liquidation of $1.00. The special voting preferred stock entitles the holder to an aggregate number of votes equal to the number of the exchangeable shares issued and outstanding from time to time and which we do not own. The holder of the special voting preferred stock and the holders of shares of Akerna common stock will both together as a single class on all matters submitted to a vote of our shareholders. At such time as the special voting preferred stock has not votes attached to it, the share shall be automatically cancelled. The exchangeable shares do not have a par value.

On September 1, 2020, several Ample shareholders exchanged a total of 627,225 exchangeable shares with a value of $4,798,271 for the same number of shares of Akerna common stock. The exchange was accounted for as an equity transaction and we did not recognize a gain or loss on this transaction. As of September 30, 2020, there were a total of 2,667,349 Exchangeable Shares issued and outstanding.

Note 4 - Fair Value

Contingent Consideration

Solo

In connection with our acquisition of Solo, the Solo selling shareholders received the potential to earn the contingent consideration, which was to be calculated as the lesser of (i) $0.01 per solo*TAG™ and solo*CODE™ sold or (ii) 7% of net revenue. The fees were to 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 our 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.

We recorded the fair value of the liability in the condensed consolidated balance sheets under the caption "current contingent consideration" and recognized changes to the fair value of the liability against earnings or loss each reporting period until settlement. The fair value of the contingent consideration on the date of the acquisition of Solo was $389,000. In connection with our exercise of the option to acquire the remaining interest in Solo, the selling shareholders agreed to retrospectively and prospectively relieve the contingent consideration obligation. Therefore the settled value of the contingent consideration was $0. We have recorded a gain on settlement of the contingent consideration liability during the three months ended September 30, 2020 in general and administrative expenses in our condensed consolidated statement of operations.

Ample

In addition to the stock and cash consideration, the agreement provides for contingent consideration of up to CAD$10,000,000, payable in exchangeable shares, payable if Ample's Recurring Revenue recognized during the 12 months after the acquisition date is CAD$9,000,000 or more. The contingent consideration amount is reduced by an amount equal to the product of CAD$6.67 multiplied by the difference between CAD$9,000,000and the amount of Recurring Revenue realized during the twelve months following the acquisition.

We record the fair value of the liability in the condensed consolidated balance sheets as contingent consideration payable and recognize changes to the liability against earnings or loss in general and administrative expenses in the condensed consolidated statements of operations. The fair value of the contingent consideration on the date of the acquisition of Ample was $817,000. The carrying amount at fair value of the aggregate liability for the contingent consideration recorded on the condensed consolidated balance sheet as of September 30, 2020, is $817,000.

Fair Value Option Election – Convertible Notes

We issued Convertible Notes with a principal amount of $17.0 million at a purchase price of $15.0 million on June 9, 2020. We have elected to account for the Convertible Notes using the fair value option. Under the fair value option, the financial liability is initially measured at its issue-date estimated fair value and subsequently remeasured at its estimated fair value on a recurring basis at each reporting period date. The change in estimated fair value resulting from changes in instrument-specific credit risk is recorded in other comprehensive income as a component of equity. The remaining estimated fair value adjustment is presented as a single line item within other income (expense) in our condensed consolidated statement of operations under the caption, change in fair value of convertible notes.

For the Convertible Notes, which are measured at fair value categorized within Level 3 of the fair value hierarchy, the following is a reconciliation of the fair values from June 30, 2020, to September 30, 2020:

Fair value balance as of June 30, 2020	$	14,131,000
Change in fair value reported in the statements of operations		(778,000)
Change in fair value reported in other comprehensive income		70,000
Fair value balance as of September 30, 2020	$	13,423,000

The estimated fair value of the Convertible Notes as of June 30, 2020, and September 30, 2020, was computed using a Monte Carlo simulation, which incorporates significant inputs that are not observable in the market, and thus represents a Level 3 measurement as defined by GAAP. The unobservable inputs utilized for measuring the fair value of the Convertible Notes reflect our assumptions about the assumptions that market participants would use in valuing the Convertible Notes as of the issuance date and subsequent reporting period.

We estimated the fair value by using the following key inputs to the Monte Carlo Simulation Model:

Fair Value Assumptions - Convertible Notes		September 30, 2020		June 30, 2020
Face value principal payable	$	17,000,000	$	17,000,000
Original conversion price	$	11.50	$	11.50
Value of Common Stock	$	3.64	$	8.80
Expected term (years)		2.67		2.90
Volatility		68%		45%
Market yield		28.0%		23.9%
Risk free rate		0.1% to 0.2%		0.2%

Note 5 - Loss Per Share

During the three months ended September 30, 2020, we used the two-class method to compute net loss per share because we issued securities other than common stock that is economically equivalent to a common share in that the class of stock has the right to participate in dividends should a dividend be declared payable to holders of Akerna common stock. These participating securities were the Exchangeable Shares issued by our wholly owned subsidiary in exchange for interest in Ample. The two-class method requires earnings for the period to be allocated between common stock and participating securities based on their respective rights to receive distributed and undistributed earnings. Under the two-class method, for periods with net income, basic net income per common share is computed by dividing the net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Net income attributable to common stockholders is computed by subtracting from net income the portion of current period earnings that the participating securities would have been entitled to receive pursuant to their dividend rights had all of the period's earnings been distributed. No such adjustment to earnings is made during periods with a net loss, as the holders of the Exchangeable Shares have no obligation to fund losses.

Diluted net loss per common share is calculated under the two-class method by giving effect to all potentially dilutive common stock, including warrants, restricted stock awards, restricted stock units, and shares of common stock issuable upon conversion of our Convertible Notes. We analyzed the potential dilutive effect of any outstanding convertible securities under the "if-converted" method, in which it is assumed that the outstanding Exchangeable Shares and Convertible Notes are converted to shares of common stock at the beginning of the period or date of issuance, if later. We report the more dilutive of the approaches (two-class or "if-converted) as the diluted net loss per share during the period. The dilutive effect of unvested restricted stock awards and restricted stock units is reflected in diluted loss per share by application of the treasury stock method and is excluded when the effect would be anti-dilutive.

The weighted-average number of shares outstanding used in the computation of diluted earnings per share does not include the effect of potential outstanding common shares that would have been anti-dilutive for the period. There were no potentially outstanding shares as of September 30, 2019. The table below details potentially outstanding shares on a fully diluted basis as of September 30, 2020 that were not included in the calculation of diluted earnings per share:

	Three Months Ended September 30,	
	2020	2019
Shares issuable upon exchange of Exchangeable Shares	2,667,349	—
Shares of common stock issuable in upon conversion of Convertible Notes	1,542,632	—
Warrants	5,813,804	5,814,205
Unvested restricted stock units	824,143	—
Unvested restricted stock awards	64,296	215,063
Total	10,912,224	6,029,268

Note 6 - Commitments and Contingencies

Operating Leases

We lease office facilities and vehicles under non-cancelable operating leases. Rent expense for the three months ended September 30, 2020 and 2019, was $273,000 and $36,000, respectively. Future minimum lease payments under these leases for the remainder of the fiscal year transition period ending December 31, 2020 and each of the five years ending on December 31 thereafter are as follows:

Three months ending December 31, 2020	$	226,687
2021		918,847
2022		439,633
2023		421,418
2024		426,495
2025		464,575
Thereafter		983,731
Total	$	3,881,386

Litigation

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We will accrue a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees and other directly related costs expected to be incurred. As of September 30, 2020, and through the date these financial statements were issued, there were no legal proceedings requiring recognition or disclosure in the financial statements.

Note 7 – Equity Method Investment and Related Party Transactions

Investment in and License Agreement with Zol Solutions, Inc.

We hold an investment in 203,000 shares of preferred stock of Zol Solutions, Inc., or ZolTrain. In connection with the investment, we received the right to appoint one of three members of ZolTrain’s board of directors and the Akerna board member may only be removed from the ZolTrain board by us and we retain the right to fill the vacancy. The ZolTrain preferred stock is convertible into shares of common stock of ZolTrain at a conversion rate of $1.232 per share at our option and contains certain anti-dilution protection in the event of certain future issuances of securities by ZolTrain. We are entitled to vote the number of common shares in which the ZolTrain preferred stock is convertible into at any meeting of the ZolTrain stockholders. The investment also provides us with rights of first refusal with respect to newly issued securities of ZolTrain as well as issued and outstanding securities of ZolTrain that are offered to third parties.

We have determined that ZolTrain is a VIE for accounting purposes. However, we are not required to consolidate ZolTrain in our financial statements because we are not ZolTrain’s primary beneficiary. As of September 30, 2020, our maximum exposure to loss was equal to the carrying value of our initial investment of $250,000. We have concluded that the ZolTrain Preferred is in substance common stock because the liquidation preference provided is not substantive, as such, the equity method of accounting is applicable to in substance common stock. As a result of our representation on the board of directors, we determined that we can exert significant influence over the day to day operations of ZolTrain therefore; we account for this investment using the equity method of accounting, which requires we recognize our share of the ZolTrain operations in our results of operations. For the three months ended September 30, 2020 we have recognized equity in loss of investee of $1,535, which represents our share of ZolTrain's losses since our investment.

Subsequent to our investment, we entered into a nonexclusive license/reseller agreement with ZolTrain, effective October 24, 2019, to provide ZolTrain's online cannabis training platform as a co-branded integration option into our MJ Platform and Leaf Data Systems, which is a related party transaction. ZolTrain will share subscription-based revenue generated from our customers with us. The amount of the share of the revenue for each of us and ZolTrain will depend on both (a) the number of training modules accessed by a customer and (b) which party created the accessed content. In addition to the revenue sharing arrangement, the license/reseller agreement provides us with the right to receive additional consideration from ZolTrain in the form of an equity earnout if certain revenue milestones are achieved during 2020, 2021, and 2022. Our ability to recognize revenue from the additional earnout consideration in the future will mainly depend on whether it becomes probable that such revenue milestones will be achieved. For the three months ended September 30, 2020 we have not recognized any revenue from this agreement.

Employment of Scott Sozio

In July 2019, we hired Mr. Scott Sozio, at will, to serve as our Head of Corporate Development. Mr. Sozio receives an annual base salary of $150,000, which is to be credited against certain variable bonus compensation to be paid in a combination of cash and equity pursuant to the Incentive Plan once every twelve-month period. The terms of such bonus payment include the payment of 1% of the transaction value of acquisition transactions completed by Akerna, payable one-half as cash compensation and one-half in restricted stock units of Akerna.

In April 2020, Mr. Sozio was granted 1,230 restricted stock units of the Akerna under our 2019 Equity Incentive Plan in relation to the closing of our acquisition of Trellis, which vested immediately. In August of 2020, Mr. Sozio's compensation was restructured and he was granted 92,166 restricted stock units, which vest one quarter each year beginning on July 1, 2021. In September 2020, Mr. Sozio was granted 10,000 restricted stock units as part of our annual employee grants, which vest one quarter each year beginning on July 1, 2021 and 38,527 restricted stock units in connection with the closing of our acquisition of Ample, which vested immediately. Additionally, Mr. Sozio received a cash bonus of $225,000 in connection with the Ample acquisition.

TechMagic Software Development Services

During the three months ended September 30, 2020, our wholly-owned subsidiary Solo was invoiced by TechMagic USA LLC, a Massachusetts limited liability, or TechMagic, for an amount of $291,000. When we acquired Solo in January 2020, we recognized a preacquisition liability of payable to TechMagic of $265,000. Following our acquisition and for the remainder of our fiscal year ended June 30, 2020, we received invoices totaling an aggregate additional amount of $392,000. The invoices set forth services that TechMagic purports to have provided to Solo regarding development of mobile software applications for MJF and Solo between March and September 2020. Mr. Ashesh Shah, our Chief Technology Officer from the date of the Solo acquisition through June 30, 2020, formerly the president of Solo and as of September 30, 2020, a minority holder of common stock, to our knowledge, the founder and one of the principal managers of TechMagic. The invoices state that the services were rendered pursuant to the terms of an agreement regarding the development of mobile software products for Solo, entered into between Solo and TechMagic at a time when Mr. Shah was a principal at both entities. As of September 30, 2020, a $553,000 payable to TechMagic was included in accounts payable and accrued liabilities on our condensed consolidated balance sheet.

Note 8 - Subsequent Events

Issuance of Common Stock

On October 30, 2020, we issued 5,000,000 shares of Akerna common stock in a public offering for net proceeds after offering costs of approximately $11.0 million dollars.

Note 9 – Revisions of Previously Issued Financial Statements

During the course of preparing the annual report on Form 10-K for the year ended June 30, 2020, we determined that costs incurred during the application development phase of certain new software applications and enhancements were not properly capitalized, which resulted in the overstatement of operating expenses and net loss, and an understatement of amortization expense for each of the quarters during the year ended June 30, 2020. We assessed the materiality of these errors on prior periods' financial statements and concluded that the errors were not material to any prior annual or interim periods, but the cumulative adjustments necessary to correct the errors would be material if we recorded the corrections the period in which the errors were identified. In accordance with GAAP, we are revising the prior periods' financial statements when they are next issued. See Item. 4 of Part I, Controls, and Procedures.

The tables below disclose the effects on the financial statements included in this Quarterly Report on Form 10-Q and the financial statements yet to be reissued:

	Three Months Ended September 30, 2019		
	As reported	Adjustment	As revised
Condensed Consolidated Statements of Operations			
Cost of revenue	$ 1,397,361	$ (17,660)	$ 1,379,701
Gross profit	1,795,529	17,660	1,813,189
Product development	1,130,880	(519,978)	610,902
Selling, general and administrative	3,583,815	17,899	3,601,714
Net loss	(2,846,071)	519,739	(2,326,332)
Net loss per share	(0.26)	—	(0.21)

	Three Months Ended December 31, 2019		
	As reported	Adjustment	As revised
Condensed Consolidated Statements of Operations			
Cost of revenue	$ 1,638,840	$ (23,601)	$ 1,615,239
Gross profit	1,667,363	23,601	1,690,964
Product development	1,261,509	(638,008)	623,501
Selling, general and administrative	4,796,404	86,768	4,883,172
Net loss	(4,338,536)	574,841	(3,763,695)
Net loss per share	(0.40)	—	(0.34)

	Six Months Ended December 31, 2019		
	As reported	Adjustment	As revised
Condensed Consolidated Statements of Operations			
Cost of revenue	$ 3,036,201	$ (41,261)	$ 2,994,940
Gross profit	3,462,892	41,261	3,504,153
Product development	2,392,389	(1,157,986)	1,234,403
Selling, general and administrative	8,380,219	104,667	8,484,886
Net loss	(7,184,607)	1,094,580	(6,090,027)
Net loss per share	(0.66)	—	(0.56)

	Three Months Ended March 31, 2020		
	As reported	Adjustment	As revised
Condensed Consolidated Statement of Operations			
Cost of revenue	$ 1,420,909	$ (24,690)	$ 1,396,219
Gross profit	1,649,637	24,690	1,674,327
Product development	1,632,353	(757,566)	874,787
Selling, general and administrative	5,500,837	177,405	5,678,242
Net loss	(5,348,980)	604,851	(4,744,129)
Net loss per share	(0.43)	—	(0.38)

	Nine Months Ended March 31, 2020		
	As reported	Adjustment	As revised
Condensed Consolidated Statements of Operations			
Cost of revenue	$ 4,457,110	$ (65,951)	$ 4,391,159
Gross profit	5,112,529	65,951	5,178,480
Product development	4,024,742	(1,915,552)	2,109,190
Selling, general and administrative	13,881,056	282,072	14,163,128
Net loss	(12,533,587)	1,699,431	(10,834,156)
Net loss per share	(1.11)	—	(0.96)

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

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements for the three months ended September 30, 2020, and the related notes thereto, which have been prepared in accordance with generally accepted accounting principles in the United States.

Forward-Looking Statements

This Quarterly Report on Form 10-Q including all exhibits hereto contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding future events or our future results of operations, financial condition, business, strategies, financial needs, and the plans and objectives of management. In some cases, forward-looking statements can be identified because they contain words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "likely," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms. Forward-looking statements are based on information available to our management as of the date of this Quarterly Report and our management's good faith belief as of such date with respect to future events and are subject to a number of risks, uncertainties, and assumptions that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements, in particular the substantial risks and uncertainties related to the ongoing COVID-19 pandemic. Important factors that could cause such differences to include, but are not limited to:

- our ability to sustain our revenue growth rate, to achieve or maintain profitability, and to effectively manage our anticipated growth;
- our short operating history makes it difficult to evaluate our business and future prospects;
- our dependence on the commercial success of our clients, the continued growth of the cannabis industry and the regulatory environment in which the cannabis industry operates
- our ability to attract new clients on a cost-effective basis and the extent to which existing clients renew and upgrade their subscriptions;
- the timing of our introduction of new solutions or updates to existing solutions;
- our ability to successfully diversify our solutions by developing or introducing new solutions or acquiring and integrating additional businesses, products, services, or content;
- our ability to respond to changes within the cannabis industry;
- the effects of adverse changes in, or the enforcement of, federal laws regarding our clients' cannabis operations or our receipt of proceeds from such operations;
- our ability to manage unique risks and uncertainties related to government contracts;
- our ability to manage and protect our information technology systems;
- our ability to maintain and expand our strategic relationships with third parties;
- our ability to deliver our solutions to clients without disruption or delay;
- our exposure to liability from errors, delays, fraud, or system failures, which may not be covered by insurance;
- our ability to expand our international reach;
- our ability to retain or recruit officers, key employees, and directors;
- our ability to raise additional capital or obtain financing in the future;
- our ability to successfully integrate acquired businesses with Akerna's business within anticipated timelines and at their expected costs;
- our ability to complete planned acquisitions on time or at all due to failure to obtain stockholder approval or governmental or regulatory clearances, or the failure to satisfy other conditions to completion, or the failure of completion for any other reason;
- our response to adverse developments in the general market, business, economic, labor, regulatory, and political conditions, including worldwide demand for cannabis and the spot price and long-term contract price of cannabis;
- our response to competitive risks;
- our ability to protect our intellectual property;
- the market reaction to negative publicity regarding cannabis;
- our ability to manage the requirements of being a public company;
- our ability to service our convertible debt;
- our ability to effectively manage any disruptions to our business and/or any negative impact to our financial performance caused by the economic and social effects of the COVID-19 pandemic and measures taken in response; and
- other factors discussed in other sections of this Quarterly Report on Form 10-Q, including the sections of this report titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and under Part II, Item 1A. "Risk Factors" and in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission, or the SEC, on September 29, 2020, under Part I, Item 1A, "Risk Factors."

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated, or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation to revise subsequently any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. We qualify all the forward-looking statements contained in this Quarterly Report by the foregoing cautionary statements.

Business Overview

We are a leading provider of enterprise software solutions that enable regulatory compliance and inventory management. Our proprietary software platforms are adaptable for industries in which interfacing with government regulatory agencies for compliance purposes is required, or where the tracking of organic materials from seed or plant to end products is desired. Over ten years ago, we identified a need for organic material tracking and regulatory compliance software as a service, or SaaS, solutions in the growing cannabis and cannabidiol, or CBD, industry. We now seek to create the backbone on which the cannabis industry is built by providing an integrated ecosystem of applications and services that enables compliance, regulation and taxation. We develop products intended to help state-licensed businesses operate in compliance with applicable laws and to assist states in monitoring licensed businesses' compliance with state regulations. We provide commercial software platforms to state and federally licensed businesses and our regulatory software platform to government regulatory agencies. Our integrated ecosystem provided additional integrations and add-ons that enhance the capabilities of our commercial software platforms. Although we have helped monitor legal compliance for more than $20 billion in cannabis sales to date, we do not handle any cannabis-related material, do not process cannabis sales transactions within the United States, and our revenue generation is not related to the type or amount of sales made by our clients, as revenues are generated by us on a fixed-fee based subscription model.

Executing upon the expansion strategy detailed by CEO Jessica Billingsley in 2019, we have acquired competitive brands Ample Organics, or Ample, on July 7, 2020 and Trellis Solutions, or Trellis, on April 10, 2020. These additions to the Akerna family of brands add two well-known seed-to-sale software options with reputable experience and significant market share. Ample Organics, the leading Health Canada approved software for Canadian Licensed Producers, or LPs, has majority market share in Canada, the only G7 country with federally legal cannabis. Trellis also brings a streamlined solution for Cultivators, Manufacturers, and Distributors, trusted by some of California's largest brands.

Through the Akerna family companies, MJ Freeway, or MJF, Ample, and Trellis, we provide highly-versatile platforms that provide our clients with a central data management system for tracking regulated products – from seed to initial plant growth to the product to the final sale of the product to a patient or consumer – throughout the complete supply chain, using a global unique identifier method. Our platforms also provide clients with integrated security, transparency, and scalability capabilities. These capabilities allow our state-licensed clients to control inventory, operate efficiently in a fast-changing industry and comply with state, local, and federal (in countries such as Canada, Italy, Macedonia, and Colombia) regulation at all times, and allows our government regulatory clients to effectively and cost-efficiently monitor licensees and ensure commercial businesses are complying with their states' regulations.

We generate revenue from software sales and by providing consulting services as follows:

- Commercial Software Products – MJ Platform® is our SaaS offering for state and legally-licensed businesses. MJ Platform is an Enterprise Resource Planning, or ERP, compliance system specific to the cannabis industry, including state-legal marijuana, hemp, and CBD industry. MJ Platform is comprised of integrated modules designed to meet the regulations and inventory management needs of cannabis and hemp CBD cultivators, manufacturers, distributors, and retailers, but has applications in other industries.

  The Ample suite of products includes AmpleOrganics, a seed-to-sale SaaS cannabis compliance offering for Canadian Licensed Producers; AmplePayments, a payment processing offering; AmpleCare, an API-first middleware solution that allows for the submission of both patient registration documents and medical documents in a secure electronic format to licensed producers using the AmpleOrganics seed-to-sale platform; and AmpleLearn, an education and training platform designed to educate and onboard personnel working within a licensed cannabis company.

  Trellis' seed-to-sale SaaS offering features inventory tracking to manage a licensee's cannabis inventory from cultivation to extraction and sale. The Trellis product is designed to meet the needs of smaller licensees.

- Government Regulatory Software Products – Leaf Data Systems is our SaaS product for government agencies. Leaf Data Systems is a compliance tracking system designed to give regulators visibility into the activity of licensed cannabis businesses in their jurisdictions. We are serving three clients for Leaf Data Systems, the Commonwealth of Pennsylvania, the State of Washington and the State of Utah. The Commonwealth of Pennsylvania and the State of Utah both require licensed cannabis operators to also use MJ Platform to report their compliance information. The State of Utah mandates the use of solo*TAG™ to provenance plants and products throughout the compliance supply chain.

- Consulting Services Contracts – We provide consulting services to cannabis industry operators interested in entering the cannabis industry and in integrating our platforms into their respective operations and systems. We consult with clients on a wide range of areas to help them successfully maintain compliance with state law. We work with clients to efficiently comply with state requirements in connection with the launch and operations of their cannabis businesses. Our management team and key personnel have broad experience gained from working with numerous cannabis operations. Our consulting team has experience in most aspects of cannabis operations in most verticals (*e.g.*, cultivation, processing, distribution, manufacturing, and retail). Our service providers understand the intricacies of the varying regulations governing cannabis in each jurisdiction and, to the extent necessary, modify the professional services based on the jurisdiction.

  We provide project-focused consulting services to clients that are initiating or expanding their cannabis businesses or are interested in data consulting engagements with respect to the legal cannabis industry. Our advisory engagements include service offerings focused on compliance requirement assessments, readiness and best practices, compliance monitoring systems, application processes, inspection readiness, and business plan and compliance reviews. We typically provide our consulting services to clients in emerging markets that are seeking consultation on newly introduced licensing regimes and assistance with the regulatory compliant build-out of operations in newly legal states.

- Business Intelligence and Data Analytics Products—Akerna Business Intelligence is an Infrastructure as a Service (IaS) tool which delivers supply chain analytics for the cannabis, hemp, and CBD industry. Last Call Analytics provides a subscription analytics tool for alcohol brands to analyze their retail sales analytics.

We also resell a limited number of printers for printing compliance product labels and scales that are National Type Evaluation Program certified legal for trade. Revenue from these resale activities was 2% of total revenue in each of the three months ended September 30, 2020, and September 30, 2019. Beginning late in our fiscal year ended June 30, 2020, we entered into a revenue-sharing arrangement with a printer supplier, as a result, we expect our revenue and cost of sales related to this activity to decrease in the future. Following our acquisition of solo sciences, inc., or Solo, in January 2020, we sell a cannabis tracking technology that provides our clients with seed-to-sale-to-self data throughout a product's life cycle.

We drive commercial software revenue growth by leveraging our reputation and we benefit from continued growth in the cannabis, hemp, and CBD industry. We believe we are well known in these industries and the brand recognition of our existing products, our ability to provide services in all areas of the seed-to-sale life cycle, and our wealth of relevant experience attracts operating cultivation, manufacturing, and dispensary clients who are seeking comprehensive services as well as attracting newly formed clients as they enter into existing markets or newly legalized markets. We also experience revenue growth in states and countries with an established market by providing a solution to operators seeking to vertically integrate and improve their business processes. We provide not only a vertically integrated solution across the cannabis, hemp, and CBD supply chain, but also provide a business intelligence capture, MJ Analytics, which provides operators with timely information about their business to allow them to run their businesses efficiently. This business intelligence capture is derived from the suite of services we provide and sets us apart from competitors.

Through our ecosystem strategy including acquisition, investment, and partnership strategies, we are creating the backbone on which the cannabis industry is built, enabling compliance, regulation, and taxation. With the Akerna family of companies, we are able to provide our new and existing clients with full transparency through the tracking of organic matter from seed-to-sale. We believe our integrated ecosystem creates further value by providing additional integrations and add-ons that enhance the capabilities and experience of our full client base. For example:

- our integration with tier one ERP software providers supplying sophisticated accounting solutions that collect and store business transactions to satisfy external reporting requirements;

- our integration with over 85 partners to provide full-service solutions at all points in the cannabis business life cycle, including compliance, hardware, banking, accounting, online ordering, payment solutions, CRM and loyalty, delivery, and business analytics;

- our license with ZolTrain provides our MJ Platform clients with training modules to educate their staff and improve the patient /consumer experience by pairing education with product information both in person and through digital channels;

- our Leaf Data Systems track-and-trace solution specifically customized for the State of Utah to include an electronic verification system and inventory control system, implements solo* TAG™, the world's first cryptographically-secure, cannabis product authentication system, exclusively for governments as an alternative to radio-frequency identification, or RFID, tracking; and

- MJ Analytics, a next-generation analytics platform that offers Enterprise-level data tools and provides users with unparalleled access and insight into the cannabis supply chain, from seed to sale.

We use our years of experience, proprietary databases, and resources to identify trends and predict changes in the cannabis industry in order to evolve our products and better assist our clients in operating in compliance with the applicable laws of their jurisdictions and capitalizing on commercial opportunities within the applicable regulatory framework, with accuracy, efficiency, and geographic specificity. Following our July 2020 acquisition of Ample Organics, we have four data products: The MJ Analytics, or MJA; and Akerna Acumen Business Insights, which both leverage the extensive data captured in each of MJ Platform's cultivation, E&I, distribution, and retail modules; AmpleData, which leverages data obtained through Canadian regulated retail channels; and Last Call Analytics, which provides retail sales analytics for alcohol brands. MJA gives MJ Platform clients access to aggregated data across their organization to keep track of emerging legal and commercial trends, allowing for informed actionable insights at various levels within the organization, including room, location, state, brand, and administration. MJ Platform allows users to align their operational data from three vantage points: in real-time, past trends, and predictive future. These proprietary databases assist users in making important decisions in real-time with respect to product monitoring, tracking, planning, and pricing.

Financial Results of Operations

Revenue

Our software revenue is derived from our commercial software platforms, MJ Platform®, Ample and Trellis, our data analytics offerings, our SaaS ERP offerings for state-licensed businesses, and our government regulatory platform, Leaf Data Systems, our track-and-trace product for government agencies. Commercial software contracts are generally annual contracts paid monthly in advance of service and cancellable upon 30 days' notice after the first year, although we do have some multi-year commercial software contracts. Leaf Data Systems contracts are generally multi-year contracts payable annually or quarterly in advance of service. Commercial software and Leaf Data Systems contracts generally may only be terminated early for breach of contract as defined in the respective agreements.

Consulting services revenue growth is driven by numerous factors. In new emerging states, we provide solutions for operators in the pre-application for licensure and pre-operational phases of development. These services include application and business plan preparation as they seek licenses to be granted. Consulting projects completed during the pre-application phase generally solidify us as the software vendor of choice for subsequent operational phases once the operator is granted the license. As a result, our consulting revenue is driven as new emerging states pass legislation, and as our client-operators gain licenses. Accordingly, we expect our consulting services to continue to grow as more states emerge with legalization reforms.

Our other revenue is derived primarily from the sale of business intelligence and data analytics products, point of sale hardware and labels, including solo*TAG™ and solo*CODE™.

Cost of Revenue

Our cost of revenue is derived from direct costs associated with operating our commercial and government regulatory software platforms and providing consulting services. The cost of revenue for our commercial and government regulatory platforms relates primarily to hosting and infrastructure costs and subcontractor expenses incurred in connection with certain government contracts. Consulting cost of revenue relates primarily to our employees' and consultants' salaries and other related compensation expenses. We record the cost of revenue using on the direct cost method. This method requires the allocation of direct costs including support services and materials to the cost of revenue.

Product and Development Expenses

Our product development expenses include salaries and benefits, nearshore contractor expenses, technology expenses, and other overhead related to the ongoing maintenance of our commercial and government regulatory software platforms and planning for new software development, that does not qualify for capitalization.

Selling, General and Administrative Expenses

Sales and marketing expense is primarily salaries and related expenses, including commissions, for our sales, marketing, and client service staff. We also categorize payments to partners and marketing programs as sales and marketing expenses. Marketing programs consist of advertising, events, such as trade shows, corporate communications, brand building, and product marketing activities. We plan to continue to invest in marketing and sales by expanding our domestic and international selling and marketing activities, building brand awareness, attracting new clients, and sponsoring additional marketing events. The timing of these marketing events will affect our marketing costs in a particular quarter.

Critical Accounting Policies and Estimates

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended June 30, 2020. Since the date of the Annual Report, there have been no material changes to our critical accounting policies.

Results of Operations for the Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

The following table highlights the various sources of revenues and expenses for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019:

	Three Months Ended September 30,		Change	
	2020	2019	Period over Period	
Revenues:				
Software	$ 3,154,442	$ 2,254,480	$ 899,962	40%
Consulting	331,080	831,363	(500,283)	(60%)
Other	228,482	107,047	121,435	113%
Total revenue	3,714,004	3,192,890	521,114	16%
Cost of revenues	1,739,937	1,379,701	360,236	26%
Gross profit	1,974,067	1,813,189	160,878	9%
Gross profit margin	*53%*	*57%*		
Operating expenses:				
Product development:	1,758,826	610,902	1,147,924	188%
Sales and marketing	2,097,502	1,841,514	255,988	14%
General and administrative	2,470,187	1,742,301	727,886	42%
Depreciation and amortization	1,171,022	17,899	1,153,123	nm
Total operating expenses	7,497,537	4,212,616	3,284,921	78%
Loss from operations	$ (5,523,470)	$ (2,399,427)	$ (3,124,043)	130%

nm – percentage change not meaningful

Total Revenue

Total revenue increased to $3.7 million for the three months ended September 30, 2020 from $3.2 million for the three months ended September 30, 2019, an increase of $0.5 million, or 16%. The increase in total revenue compared to the fiscal three months ended September 30, 2019 was driven primarily by our growth achieved following our acquisition of Ample, partially offset by a decrease in consulting revenue, discussed below.

Software Revenue

Our total software revenue increased to $3.2 million for the fiscal three months ended September 30, 2020 from $2.3 million for the three months ended September 30, 2019, for an increase of $0.9 million, or 40%. Software revenue accounted for 85% and 71% of total revenue for the three months ended September 30, 2020 and 2019, respectively. The increase in software revenue during the three months ended September 30, 2020 was primarily driven by our acquisition of Ample.

Software revenues generated from government clients totaled $0.9 million and $1.1 million during the three months ended September 30, 2020 and 2019, respectively. Leaf Data Systems revenue decreased for the three months ended September 30, 2020 compared to 2019 primarily as a result of a decrease in the volume of change orders. Change orders represent out-of-scope functionality modifications requested by the client. Revenues earned from these change orders are recognized upon acceptance and delivery of the requested modifications. As a result, revenues from change orders vary and may be impacted by the timing of entering into agreements and the number of requested change orders in any given period.

Consulting Revenue

Our consulting revenue includes revenue generated from consulting services delivered to prospective and current cannabis, hemp and CBD businesses and business operators. Our consulting revenue was $0.3 million for the three months ended September 30, 2020 compared to $0.8 million for the three months ended September 30, 2019, a decrease of $0.5 million, or 60%. This decrease is mainly due to the impact of COVID-19. Consulting services are correlated to state legalizations and other regulatory expansion activity. As a result, individual year-over-year comparisons experienced variability depending on the timing of recent legislative changes. During the COVID-19 pandemic and resulting shut-down, state legislatures have turned their focus to the pandemic and tabled work on cannabis legislation, which resulted in delays in our providing consulting services during the first quarter of fiscal 2020. However, many state ballot initiatives were passed for new medical or adult-use marijuana laws in the November 2020 elections. We expect, despite the slowing of our consulting activity experienced during the pandemic, we will see increased demand for our services following the November 2020 elections.

Consulting revenue was 9% and 26% of total revenue for the three months ended September 30, 2020 and 2019, respectively. Due to the nature of consulting revenue, our dependence on emerging market activity as well as the ongoing pandemic as a driver of demand, the quarters in which we recognize consulting revenue has varied from year to year depending on whether state legislation has expanded to allow new market entrants or growth of existing market participant operations.

Other Revenue

Other revenue includes our business intelligence and data analytics revenue, retail/resale revenue, which was generated from point of sale hardware, and revenue generated by the sale of solo*TAGs™, solo*CODEs™ and the related activation fees. Other revenue increased to $0.2 million for the three months ended September 30, 2020 from $0.1 million for the three months ended September 30, 2019 due to the acquisition of Ample. Other revenue was 6% and 3% of total revenue for the three months ended September 30, 2020 and 2019. We have entered into a revenue-sharing agreement with a printer supplier, whereby our clients will acquire hardware from the supplier and the supplier will share a percentage of revenue generated by our clients with us. In accordance with GAAP, we may only recognize the portion of the revenue that the supplier shares with us pursuant to the new arrangement, as a result, we expect both revenue and cost of sales to decrease in the future, with minimal effect on gross margin.

Cost of Revenue and Gross Profit

Our cost of revenue increased to $1.7 million for the three months ended September 30, 2020 from $1.4 million for the three months ended September 30, 2019, an increase of 26%. This increase was primarily due to the addition of a subcontractor supporting our Leaf Data Systems contract with Utah, an increase in subcontractor costs to support our contract with Pennsylvania, and an increase in the cost of hosting, software and applications as a result of our increased usage fees for cloud service providers to support the growth in commercial software platform subscriptions and government regulatory platform contracts. We also incurred higher direct labor costs associated with providing our consulting services of $0.2 million.

Because the applications and services available through the Leaf Data Systems are provided through relationships with third-party service providers at higher costs than those from our commercial software platform contracts, the gross profit margins from the government contracts are generally lower than those from our commercial software clients. Total costs of government revenues incurred by us, which are included in the cost of revenues on the statement of operations, were $0.8 million and $0.7 million during the three months ended September 30, 2020 and 2019, respectively. The increase in the cost of government revenues incurred by us was due to the additional customer requests of our contracts with the state of Utah and Pennsylvania, and a higher volume of ongoing support and maintenance services provided by subcontractors in connection with the contracts with Pennsylvania and Washington.

Operating Expenses

The following table presents operating expense line items for the three months ended September 30, 2020 and 2019 and the period-over-period dollar and percentage changes for those line items:

	Three Months Ended September 30,		Change	
	2020	2019	Period over Period	
Operating expenses:				
Salary expenses, excluding Solo, Trellis, and Ample	$ 884,016	$ 317,377	$ 566,639	179%
Product development of Solo, Trellis, and Ample	592,740	—	253,292	nm
Other product development	282,070	—	592,740	nm
Product development	1,758,826	610,902	1,147,924	188%
Percentage of revenue	*47%*	*19%*		
Sales and marketing, excluding Solo, Trellis, and Ample	1,700,930	1,841,514	(140,584)	(8%)
Sales and marketing of Solo, Trellis, and Ample	396,572	—	396,572	nm
Sales and marketing	2,097,502	1,841,514	255,988	14%
Percentage of revenue	*56%*	*58%*		
General and administrative salaries, excluding Solo, Trellis, and Ample	646,530	445,647	200,883	45%
Transaction related costs	951,865	142,437	809,428	nm
Change in fair value of contingent consideration	(389,000)	—	(389,000)	nm
Bad debt expense	12,450	252,809	(240,359)	(95%)
Restructuring costs	68,190	—	68,190	nm
General and administrative expenses of Solo, Trellis, and Ample	330,538	—	330,538	nm
General and administrative stock-based compensation	346,059	41,542	304,517	733%)
Other general and administrative	503,555	859,866	(356,311)	(41%)
General and administrative	2,470,187	1,742,301	727,886	42%
Percentage of revenue	*67%*	*55%*		
Total operating expenses	$ 7,497,537	$ 4,212,616	$ 3,284,921	78%
Percentage of revenue	*202%*	*132%*		

nm – percentage change not meaningful

Our operating expenses increased to $7.5 million for the three months ended September 30, 2020, from $4.2 million for the three months ended September 30, 2019, an increase of $3.3 million, or 78%. The increased level of operating expenses for the three months ended September 30, 2020, was the result of investments made in personnel, technology and other infrastructure as we continue to position ourselves for growth both organically and through strategic acquisitions, and transactional costs associated with acquisitions and financing activities.

Product development expenses increased to $1.8 million for the three months ended September 30, 2020, from $0.6 million for the three months ended September 30, 2019, an increase of $1.2 million, or 188%. Salary expense for product development functions increased by $0.6 million, primarily due to the reduced usage of third party contractors associated with software development. Our acquisitions also contributed to the increase in product development spend for the three months ended September 30, 2020.

Sales and marketing expenses increased $0.3 million during the three months ended September 30, 2020, as compared to September 30, 2019, primarily as a result of our acquisitions.

General and administrative expenses increased to $2.5 million for the three months ended September 30, 2020, from $1.7 million for the three months ended September 30, 2019, an increase of $0.7 million, or 42%. This increase was primarily due to transactional costs we are required to expense as incurred and an increase in other general and administrative costs. During the three months ended September 30, 2020, we incurred legal and other costs totaling $1.0 million primarily in connection with our acquisition of Ample. We also recognized a $0.4 million reduction in the estimated fair value of contingent consideration paid for our acquisition of Solo in July 2020. Bad debt expense decreased by $0.2 million, during the three months ended September 30, 2020, as compared to 2019, due to our improvement in the overall quality of our revenue and client portfolio, enhancement of our sales and marketing team has resulted in a steady decline in the number and amount of delinquent accounts resulting in bad debt expense since the three months ended September 30, 2019. During the three months ended September 30, 2020, we have an additional $0.3 million in general and administrative expenses associated with Solo, Trellis, and Ample compared to the three months ended September 30, 2019. Other general and administrative expenses decreased by $0.4 million, most notably due to lower technology costs as compared to the three months ended September 30, 2019.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP.

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. Other companies, including companies in our industry, may calculate similarly titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. We attempt to compensate for these limitations by providing specific information regarding the GAAP items excluded from these non-GAAP financial measures.

Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures and not rely on any single financial measure to evaluate our business.

EBITDA and Adjusted EBITDA

We believe that EBITDA and Adjusted EBITDA, when considered with the financial statements determined in accordance with GAAP, are helpful to investors in understanding our performance and allows for comparison of our performance and credit strength to our peers. EBITDA and Adjusted EBITDA should not be considered alternatives to net loss as determined in accordance with GAAP as indicators of our performance or liquidity.

We define EBITDA as net loss before interest income and expense and changes in fair value of convertible notes, provision for income taxes, depreciation and amortization. We calculate Adjusted EBITDA as EBITDA further adjusted to exclude the effects of the following items for the reasons set forth below:

- share-based compensation expense, because this represents a non-cash charge and our mix of cash and share-based compensation may differ from other companies, which effects the comparability of results of operations and liquidity;
- cost incurred in connection with business combinations that are required to be expensed as incurred in accordance with GAAP, because business combination related costs are specific to the complexity and size of the underlying transactions as well as the frequency of our acquisition activity these costs are not reflective of our ongoing operations;
- costs incurred in connection with debt issuance when we elect the fair value option to account for the debt instrument because if we had not elected the fair value option such costs would be recognized as an adjustment to the effective interest and excluded from EBITDA;
- restructuring costs because we believe these costs are not representative of operating performance; and
- equity in earnings (losses) of investees because our share of the operations of investees is not representative of our own operating performance and may not be monetized for a number of years.

The reconciliation of net loss to EBITDA and Adjusted EBITDA for the three months ended September 30, 2020and 2019 is as follows:

	2020	2019
Net loss	$ (4,750,691)	$ (2,326,332)
Adjustments:		
Interest (income) expense and change in fair value of convertible notes	(774,313)	(73,382)
Depreciation and amortization	1,171,022	17,899
EBITDA	$ (4,353,982)	$ (2,381,815)
Stock-based compensation expense	681,419	161,165
Business combination and merger related costs	951,865	—
Debt issuance costs related to fair value option debt instruments	43,167	—
Restructuring charges	68,190	—
Changes in fair value of contingent consideration	(389,000)	—
Equity in losses of investee	1,534	—
Adjusted EBITDA	$ (2,996,807)	$ (2,220,650)

Liquidity and Capital Resources

Since our inception, we have incurred recurring operating losses, used cash in operations, and relied on capital raising transactions to continue ongoing operations. During the three months ended September 30, 2020, we incurred a loss from operations of $5.5 million and used cash in operations of $4.2 million. As of September 30, 2020, we had cash of $14.3 million, excluding restricted cash, and working capital of $0.9 million.

During the quarter ended September 30, 2020, the Company incurred a number of one-time, non-recurring expenses of approximately $1.1 million. These expenses include business combination expenses, restructuring, and other non-recurring charges. Additionally, on October 30, 2020, we closed on the public offering of 5 million shares of common stock with proceeds of approximately $11.0 million net of offering costs, which will be used for general corporate purposes. During the three months ended September 30, 2020, we implemented a number of cost reduction initiatives reducing costs and identifying cost savings that we expect to result in annual savings of an additional $3.0 million to $4.0 million. As a result, we expect that our current working capital is sufficient to fund our operations and commitments for a period of at least twelve months from the date these financial statements are issued.

In the event the Company requires additional liquidity, the Company can further reduce or defer expenses. More specifically, the Company could implement certain discretionary cost reduction initiatives relating to our spending on employee travel and entertainment, consulting costs and marketing expenses, negotiate deferred salary arrangements, furlough employees or reduce headcount or negotiate extensions of payments of rent and utilities. The Company also believes it has access to capital through future debt or equity offerings and could be successful in renegotiating the maturity dates or conversion option relating to its current outstanding notes payable, although no assurance can be provided that we would be successful in these efforts. Further, the potential continues to exist that our $2 million PPP loan could be forgiven. Management will continue to evaluate our liquidity and capital resources.

Cash Flows

Our cash and restricted cash balances were $14.8 million and $24.7 million as of September 30, 2020 and 2019, respectively. Cash flow information for the three months ended September 30, 2020, and 2019 is as follows:

	Three Months Ended September 30,	
	2020	**2019**
Cash provided by (used in):		
Operating activities	$ (4,181,159)	$ (3,142,174)
Investing activities	(5,704,806)	(519,739)
Financing activities	(12,668)	4,242,454
Net change in cash and restricted cash	$ (9,898,633)	$ 580,541

Sources and Uses of Cash for the three months ended September 30, 2020 and 2019

Net cash used in operating activities increased to $4.2 million during the three months ended September 30, 2020, from $3.1 million during the three months ended September 30, 2019, an increase of $1.0 million. The increase in cash used in operating activities was primarily driven by the increase in net loss from operations of $3.1 million described above, partially offset by the effect of the timing of cash received from clients relative to when we recognize revenue.

Net cash used in investing activities totaled $5.7 million during the three months ended September 30, 2020, as a result of net cash paid as consideration for the Ample acquisition and amounts invested in the development of our software products. Net cash used by investing activities during the three months ended September 30, 2019, was $0.5 million as a result of amounts invested in the development of our software products.

Net cash used in financing activities totaled $13,000 during the three months ended September 30, 2020 and represents cash paid in connection with our common stock offering that closed on October 30, 2020. Net cash provided by financing activities totaled $4.2 million and represents the proceeds from the exercise of warrants.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Exchange Act is processed, recorded, summarized, and reported within the time periods specified in the Security and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) as of September 30, 2020 with the participation, and under the supervision, of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2020, our disclosure controls and procedures were ineffective in ensuring that: (i) information required to be disclosed by us in reports that we file or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

Material Weaknesses

Pursuant to our management's review of disclosure controls and procedures, management determined that the following material weaknesses existed in our internal control over financial reporting and prevented management from determining that our disclosure controls and procedures were effective as of the end of the period covered by this report:

1) We lacked formally documented system policies and procedures to demonstrate that our system of internal control over financial reporting is designed effectively, including a lack of documentation surrounding our information technology policies and procedures.

2) We lacked documentation necessary to demonstrate the controls in place are operating effectively, including controls related to the enforcement of segregation of duties in key areas of financial reporting.

3) We did not have controls in place to ensure that we prepared complete and accurate financial statements in a timely manner in accordance with GAAP.

Remediation:

We have hired additional experienced resources to fill accounting functions and expects to add further resources. In addition, we have identified upgraded IT, accounting and finance systems, which we expect will automate critical control functions and improve operational effectiveness and efficiencies.

We have contracted an outside consultant to assist in the overall evaluation and documentation of the design and operating effectiveness of our internal controls over financial reporting.

We believe these actions will remediate the control weaknesses. However, the weaknesses will not be considered fully remediated until the applicable controls operate for a sufficient period of time for management to test the results for operating effectiveness. Once implemented, we intend to continue periodic testing and reporting of the internal controls to ensure continuity of compliance.

Changes in Internal Control over Financial Reporting

During the most recently completed fiscal quarter, there have been changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, as described above in our remediation efforts.

Inherent Limitations on Effectiveness of Controls

Management recognizes that a control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - Other Information

Item 1. Legal Proceedings.

From time to time, we may be subject to legal proceedings arising in the ordinary course of business. In addition, from time to time, third parties may assert intellectual property infringement claims against us in the form of letters and other forms of communication. Regardless of the outcome of any existing or future litigation, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

There is no material litigation currently pending or, to the knowledge of our management, contemplated by any government authority, against us, any of our officers or directors in their capacity as such or against any of our properties.

Item 1A. Risk Factors.

There have been no material changes to our Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended June 30, 2020, as filed with the SEC on September 29, 2020.

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

All unregistered sales of equity securities during the period ended September 30, 2020 were previously reported in our current reports on Form 8-K.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of Akerna Corp. (incorporated by reference to Exhibit 3.1 to Akerna Corp.'s Form 8-K as filed with the Commission on June 21, 2019)
3.2	Amended and Restated Bylaws of Akerna Corp. (incorporated by reference to Exhibit 3.1 to Akerna Corp.'s Form 8-K as filed with the Commission on June 21, 2019)
3.3	Certificate of Designation for the Special Voting Share (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Akerna on July 8, 2020)
10.1	Exchangeable Share Support Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Akerna on July 8, 2020)
10.2	Escrow Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by Akerna on July 8, 2020)
10.3	Rights Indenture (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by Akerna on July 8, 2020)
31.1	Section 302 Certification of Principal Executive Officer.
31.2	Section 302 Certification of Principal Financial Officer.
32.1	Section 906 Certification of Principal Executive Officer
32.2	Section 906 Certification of Principal Financial Officer.
101	XBRL (Extensible Business Reporting Language). The following materials from Akerna Corp's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020, tagged in XBRL: (i) condensed consolidated balance sheets; (ii) condensed consolidated statements of operations; (iii) condensed consolidated statements of comprehensive income; (iv) condensed consolidated statements of cash flows; and (v) notes to condensed consolidated financial statements.

SIGNATURES

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

By: DocuSigned by: Jessica Billingsley 0E10D5E508FE41E...

Chief Executive Officer and Director
(Principal Executive Officer)

November 16, 2020

By: DocuSigned by: John Fowle C6976686A9A4471...

Chief Financial Officer
(Principal Financial and Accounting Officer)

November 16, 2020

Exhibit 31.1

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Jessica Billingsley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Akerna 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: November 16, 2020

By:

DocuSigned by:
Jessica Billingsley
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Jessica Billingsley,
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

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

I, John Fowle, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Akerna 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: November 16, 2020

By: DocuSigned by:
John Fowle
C6976686A9A4471...

John Fowle,
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Akerna Corp. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), I, Jessica Billingsley, Chief Executive Officer, do hereby certify, to my knowledge:

(1) The Quarterly Report fully complies with the requirements of Section 13(a), or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: November 16, 2020

By: DocuSigned by:
Jessica Billingsley
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Jessica Billingsley,
Chief Executive Officer and Director
(Principal Executive Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Akerna Corp. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), I, John Fowle, Chief Financial Officer, do hereby certify, to my knowledge:

(1) The Quarterly Report fully complies with the requirements of Section 13(a), or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: November 16, 2020

By: DocuSigned by:
John Fowle
C6976686A9A4471...

John Fowle,
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.