

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 March 31, 2022

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

(State or other jurisdiction of  
incorporation or organization)

83-2242651

(I.R.S. Employer  
Identification No.)

1550 Larimer Street, #246 Denver, Colorado

(Address of principal executive offices)

80202

(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 May 9, 2022, there were 34,964,678 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)**

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 9,687,690	\$ 13,934,265
Restricted cash	508,261	508,261
Accounts receivable, net	2,579,187	1,403,774
Prepaid expenses and other current assets	2,492,089	2,383,764
Total current assets	<u>15,267,227</u>	<u>18,230,064</u>
Fixed assets, net	159,159	153,151
Investment, net	226,101	226,101
Capitalized software, net	8,012,387	7,311,676
Intangible assets, net	20,708,046	21,609,794
Goodwill	29,964,160	46,942,681
Other noncurrent assets	9,700	9,700
Total Assets	<u>\$ 74,346,780</u>	<u>\$ 94,483,167</u>
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable, accrued expenses and other accrued liabilities	\$ 7,463,341	\$ 6,063,520
Contingent consideration payable	6,300,000	6,300,000
Current portion of deferred revenue	3,369,631	3,543,819
Current portion of long-term debt	13,200,000	13,200,000
Derivative liability	45,127	63,178
Total current liabilities	<u>30,378,099</u>	<u>29,170,517</u>
Long-term portion of deferred revenue	486,201	582,676
Long-term debt, less current portion	2,137,000	4,105,000
Deferred tax liabilities	565,184	675,291
Total liabilities	<u>33,566,484</u>	<u>34,533,484</u>
Commitments and contingencies (Note 7)		
Equity:		
Preferred stock, par value \$0.0001; 5,000,000 shares authorized, 1 share special voting preferred stock issued and outstanding at March 31, 2022 and December 31, 2021	—	—
Special voting preferred stock, par value \$0.0001; 1 share authorized, issued and outstanding as of March 31, 2022 and December 31, 2021, with \$1 preference in liquidation; exchangeable shares, no par value, 306,852 and 309,286 shares issued and outstanding as of March 31, 2022 and December 31, 2021 respectively	2,347,418	2,366,038
Common stock, par value \$0.0001; 75,000,000 shares authorized, 34,175,088 and 31,001,884 issued and outstanding at March 31, 2022 and December 31, 2021, respectively	3,417	3,100
Additional paid-in capital	148,761,867	146,027,258
Accumulated other comprehensive loss	128,723	61,523
Accumulated deficit	(110,461,129)	(88,508,236)
Total equity	<u>40,780,296</u>	<u>59,949,683</u>
Total liabilities and equity	<u>\$ 74,346,780</u>	<u>\$ 94,483,167</u>

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

**AKERNA CORP.**  
**Condensed Consolidated Statements of Operations**  
**(unaudited)**

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2022</b>	<b>2021</b>
Revenue:		
Software	\$ 6,508,513	\$ 3,795,153
Consulting	427,009	172,747
Other revenue	15,319	46,124
Total revenue	<u>6,950,841</u>	<u>4,014,024</u>
Cost of revenue	<u>2,203,671</u>	<u>1,454,167</u>
Gross profit	<u>4,747,170</u>	<u>2,559,857</u>
Operating expenses:		
Product development	2,105,361	1,424,100
Sales and marketing	3,236,113	1,735,915
General and administrative	2,570,432	1,852,962
Depreciation and amortization	1,993,391	1,052,883
Impairment of long-lived assets	15,478,521	—
Total operating expenses	<u>25,383,818</u>	<u>6,065,860</u>
Loss from operations	<u>(20,636,648)</u>	<u>(3,506,003)</u>
Other (expense) income:		
Interest (expense) income, net	(740)	(774,380)
Change in fair value of convertible notes	(1,433,000)	(1,991,272)
Change in fair value of derivative liability	18,051	(175,996)
Total other (expense) income	<u>(1,415,689)</u>	<u>(2,941,648)</u>
Net loss before income taxes and equity in losses of investee	(22,052,337)	(6,447,651)
Income tax (expense) benefit	99,444	(6,270)
Equity in losses of investee	—	(3,782)
Net loss	<u>\$ (21,952,893)</u>	<u>\$ (6,457,703)</u>
Basic and diluted weighted average common stock outstanding	<u>31,605,783</u>	<u>22,209,072</u>
Basic and diluted net loss per common share	<u>\$ (0.69)</u>	<u>\$ (0.29)</u>

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

**AKERNA CORP.**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Net loss	\$ (21,952,893)	\$ (6,457,703)
Other comprehensive (loss) income:		
Foreign currency translation	(33,800)	(230)
Unrealized (loss) gain on convertible notes	101,000	(13,000)
Comprehensive loss	<u>\$ (21,885,693)</u>	<u>\$ (6,470,933)</u>

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

**AKERNA CORP.**  
**Condensed Consolidated Statements of Changes in Equity**  
**For the Three Months Ended March 31, 2022**  
**(unaudited)**

	Special Voting Preferred Stock		Common		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Equity
	Share	Amount	Shares	Amount				
Balance – January 1, 2022	309,286	\$ 2,366,038	31,001,884	\$ 3,100	\$ 146,027,258	\$ 61,523	\$ (88,508,236)	\$ 59,949,683
Conversion of Exchangeable Shares to common stock	(2,434)	(18,620)	2,434	—	18,620	—	—	—
Settlement of convertible debt	—	—	3,396,842	340	3,299,660	—	—	3,300,000
Shares withheld for withholding taxes	—	—	(4,421)	—	(5,615)	—	—	(5,615)
Shares returned in connection with 365 Cannabis acquisition	—	—	(279,762)	(28)	(939,972)	—	—	(940,000)
Stock-based compensation	—	—	—	—	316,855	—	—	316,855
Restricted stock vesting	—	—	43,479	4	(4)	—	—	—
Liabilities settled with shares	—	—	14,632	1	45,065	—	—	45,066
Foreign currency translation adjustments	—	—	—	—	—	(33,800)	—	(33,800)
Unrealized (loss) gain on convertible notes	—	—	—	—	—	101,000	—	101,000
Net loss	—	—	—	—	—	—	(21,952,893)	(21,952,893)
Balance – March 31, 2022	<u>306,852</u>	<u>\$ 2,347,418</u>	<u>34,175,088</u>	<u>\$ 3,417</u>	<u>\$ 148,761,867</u>	<u>\$ 128,723</u>	<u>\$ (110,461,129)</u>	<u>\$ 40,780,296</u>

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

**AKERNA CORP.**  
**Condensed Consolidated Statements of Changes in Equity**  
**For the Three Months Ended March 31, 2021**  
**(unaudited)**

	Special Voting Preferred Stock		Common		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Equity
	Share	Amount	Shares	Amount				
Balance – January 1, 2021	2,667,349	\$ 20,405,219	19,901,248	\$ 1,990	\$ 94,086,433	\$ (91,497)	\$ (57,179,525)	\$ 57,222,620
Conversion of Exchangeable Shares to common stock	(1,020,062)	(7,803,475)	1,020,062	102	7,803,373	—	—	—
Settlement of convertible debt	—	—	2,080,140	208	8,467,292	—	—	8,467,500
Shares withheld for withholding taxes	—	—	(48,948)	(5)	(333,842)	—	—	(333,847)
Stock-based compensation	—	—	—	—	503,379	—	—	503,379
Settlement of liabilities with shares	—	—	101,705	10	377,315	—	—	377,325
Restricted stock vesting	—	—	13,978	1	(1)	—	—	—
Forfeitures of restricted shares	—	—	(668)	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(230)	—	(230)
Unrealized (loss) gains on convertible notes	—	—	—	—	—	(13,000)	—	(13,000)
Net loss	—	—	—	—	—	—	(6,457,703)	(6,457,703)
Balance – March 31, 2021	<u>1,647,287</u>	<u>\$ 12,601,744</u>	<u>23,067,517</u>	<u>\$ 2,306</u>	<u>\$ 110,903,949</u>	<u>\$ (104,727)</u>	<u>\$ (63,637,228)</u>	<u>\$ 59,766,044</u>

*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 March 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (21,952,893)	\$ (6,457,703)
Adjustment to reconcile net loss to net cash used in operating activities:		
Equity in losses of investment	—	3,782
Bad debt	174,794	(10,516)
Stock-based compensation expense	304,237	503,379
Amortization of deferred contract cost	113,251	118,519
Non-cash interest expense	—	769,773
Depreciation and amortization	1,993,391	1,052,882
Foreign currency loss (gain)	5,596	(18,801)
Impairment of long-lived assets	15,478,521	—
Change in fair value of convertible notes	1,433,000	1,991,272
Change in fair value of derivative liability	(18,051)	175,996
Changes in operating assets and liabilities:		
Accounts receivable	(1,335,939)	(177,832)
Prepaid expenses and other current assets	178,869	236,339
Accounts payable and accrued liabilities	445,969	152,455
Deferred tax liabilities	(110,107)	—
Deferred revenue	(296,032)	286,637
Net cash used in operating activities	<u>(3,585,394)</u>	<u>(1,373,818)</u>
Cash flows from investing activities:		
Developed software additions	(647,022)	(704,637)
Net cash used in investing activities	<u>(647,022)</u>	<u>(704,637)</u>
Cash flows from financing activities:		
Value of shares withheld related to tax withholdings	(5,615)	(333,847)
Net cash used in financing activities	<u>(5,615)</u>	<u>(333,847)</u>
Effect of exchange rate changes on cash and restricted cash	(8,544)	(1,579)
Net change in cash and restricted cash	(4,246,575)	(2,413,881)
Cash and restricted cash - beginning of period	14,442,526	18,340,640
Cash and restricted cash - end of period	<u>\$ 10,195,951</u>	<u>\$ 15,926,759</u>
Cash paid for interest	<u>\$ —</u>	<u>\$ —</u>
Cash paid for taxes	<u>5,210</u>	<u>—</u>
Supplemental Disclosure of non-cash investing and financing activity:		
Settlement of convertible notes in common stock	\$ 3,300,000	\$ 8,467,292
Conversion of exchangeable shares to common stock	18,620	7,803,475
Settlement of other liabilities in common stock	45,065	377,325
Stock-based compensation capitalized as software development	12,618	—
Vesting of restricted stock units	4	—
Capitalized software included in accrued expenses	1,114,108	—
Fixed asset purchases accrued or in accounts payable	24,614	—
Shares returned in connection with 365 Cannabis acquisition	940,000	—
365 Cannabis working capital funds released from accrued expenses	160,000	—
365 Cannabis working capital adjustment funds recorded in other current assets	400,000	—

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



**AKERNA CORP.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1 - Description of Business**

***Description of Business***

Akerna Corp., herein referred to as we, us, our or Akerna, through our wholly-owned subsidiaries MJ Freeway, LLC, or MJF, Trellis Solutions, Inc., or Trellis, Ample Organics, Inc, or Ample, solo sciences, inc., or Solo, Viridian Sciences Inc., or Viridian, and The NAV People, Inc. d.b.a. 365 Cannabis, or 365 Cannabis, 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 law. We provide our commercial software platform, MJ Platform®, Trellis®, Ample, Viridian and 365 Cannabis to state-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 the authenticity and signify transparency.

Our Viridian and 365 Cannabis offerings are considered enterprise offerings and all other solutions are considered non-enterprise offerings that meet the needs of our small and medium business customers.

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 or expanding their cannabis business operations 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.

***Going Concern and Management's Liquidity Plans***

In accordance with the Financial Accounting Standards Board's ("FASB") standard on going concern, Accounting Standard Update No. 2014-15, or ASU No. 2014-15, the Company assesses going concern uncertainty in its consolidated financial statements to determine if it has sufficient cash, cash equivalents and working capital on hand, including marketable equity securities, and any available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued, which is referred to as the "look-forward period" as defined by ASU No. 2014-15. As part of this assessment, based on conditions that are known and reasonably knowable to the Company, it will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions, including the timing and nature of projected cash expenditures or programs, and its ability to delay or curtail expenditures or programs, if necessary, among other factors. Based on this assessment, as necessary or applicable, the Company makes certain assumptions around implementing curtailments or delays in the nature and timing of programs and expenditures to the extent The Company deems probable those implementations can be achieved and it has the proper authority to execute them within the look-forward period in accordance with ASU No. 2014-15.

The accompanying condensed consolidated financial statements have been prepared on the basis that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business. However, since our inception we have incurred recurring operating losses, used cash from operations, and relied on capital raising transactions to continue ongoing operations. During the three months ended March 31, 2022 and March 31, 2021, we incurred a loss from operations of \$20.6 million and \$3.5 million, respectively, and used cash in operations of \$3.6 million and \$1.4 million, respectively. As of March 31, 2022, a working capital deficit of \$15.1 million with \$9.7 million in cash available to fund future operations.

Management's plan for the Company to continue as a going concern includes raising additional capital from our ATM program, subject to certain effects on the Senior Convertible Notes should we utilize the program, including resetting the conversion price of the Senior Convertible Notes should we raise more than \$5 million under the ATM program and an increase of 10% in the amount payable on the monthly installment payments if they are paid in cash and we have used the ATM program in the 12 months prior to the installment date, settling our contingent consideration and Senior Convertible Notes in common stock rather than cash as it comes due, to the extent that this is permissible, and implementing certain cost cutting strategies throughout the organization, while continuing to seek to grow our customer base and realize synergies as we continue to integrate our recent acquisitions. If the Company is unable to raise sufficient additional funds through the ATM Program and make its convertible debt payments in stock, it will have to develop and implement a plan to extend payables, reduce expenditures (including by laying off employees and reducing or eliminating the funding of certain business units and initiatives of the Company), or scale back our business plan until sufficient additional capital is raised through other equity or debt offerings to support further operations and satisfaction of the debt, and the Company may be subject to additional risks, including retention of key employees. Such offerings may include the issuance of shares of common stock, warrants to purchase common stock, preferred stock, convertible debt or other instruments that may dilute our current stockholders. If we are required to raise additional capital as discussed above and if we cannot timely raise additional funds, we may also be unable to meet the financial covenants of the Senior Convertible Notes, which could result in an event of default under those instruments which could negatively impact the Company. See the risks detailed in our Form 10-K under "Item 1A. Risk Factors – Risks Relating to our Convertible Debt".

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. We will require additional financing in the second quarter of 2022 to meet our ongoing operational working capital requirements and continue to meet the financial covenants of the Senior Convertible Notes. As noted above, we plan to meet those requirements in part through the use of our ATM Facility, but there are no guarantees that the ATM Facility will permit us to raise sufficient cash to meet our ongoing requirements. We also assume that we will be able to pay our convertible debt in common stock rather than cash, however if at any point our stock price is below \$2.00 (which it is as of the date hereof), the debt holders may request the payments in cash rather than stock. These factors raise substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of the consolidated financial statements. If we are unable to raise sufficient capital we may have to reduce operations which could significantly affect our results of operations. If we fail to meet the financial covenants of the Senior Convertible Notes and cannot obtain a waiver from such provisions or otherwise come to an agreement with the holders of our debt, such holders may declare a default on the debt which could subject our assets to seizure and sale, negatively impacting our business. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary if the Company is unable to continue as a going concern.

## **Note 2 - Summary of Significant Accounting Policies**

### ***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and with the instructions to the Quarterly Report on Form 10-Q and Article 8 of Regulation S-X for interim financial information. Accordingly, these financial statements do not include all of the information normally required by GAAP or Securities and Exchange Commission rules and regulations for complete financial statements. In management’s opinion, these condensed consolidated financial statements include all adjustments, consisting of normal recurring items, considered necessary for the fair presentation of the results of operations for the interim periods presented. The operating results for the three months ended March 31, 2022 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2022.

The condensed consolidated balance sheet as of and for the period ended December 31, 2021, 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 period ended December 31, 2021, which were included in our report on Form 10-K filed on March 31, 2022.

### ***Principles of Consolidation***

Our accompanying 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.

### ***Use of Estimates***

The preparation of our consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts included in the consolidated financial statements and accompanying notes thereto. Our most significant estimates and assumptions are related to the valuation of acquisition-related assets and liabilities, capitalization of internal costs associated with software development, fair value measurements, impairment assessments, loss contingencies, valuation allowance associated with deferred tax assets, stock based compensation expenses, and useful lives of long-lived intangible assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results could differ 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. Receivables are written-off and charged against the recorded allowance when we have exhausted collection efforts without success. The allowance for doubtful accounts was \$0.6 million and \$0.3 million as of March 31, 2022 and December 31, 2021, respectively.

### ***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 March 31, 2022 and 2021, one government client accounted for 12% and 12% of total revenues, respectively. As of March 31, 2022, one government client accounted for 19% of net accounts receivable and as of December 31, 2021 two government clients accounted for 34% of net accounts receivable.

### **Segment Reporting**

The Company operates its business as one operating segment. Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker, the Company's Chief Executive Officer, in deciding how to allocate resources and assess performance. The Company's chief operating decision maker allocates resources and assesses performance based upon discrete financial information at the consolidated level.

In the following table, we disclose the combined gross balance of our fixed assets, capitalized software, and intangible assets by geographical location (in thousands):

	<b>As of March 31, 2022</b>	<b>As of December 31, 2021</b>
Long-lived assets:		
United States	\$ 33,793	\$ 32,356
Canada	5,590	5,229
Total	<u>\$ 39,383</u>	<u>\$ 37,585</u>

### **Recent Accounting Pronouncements**

#### *ASU 2016-02*

The Financial Accounting Standards Board, or 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. We have adopted this new standard on January 1, 2022 and due to the immaterial impact of applying this standard to our limited assets subject to operating leases, there was no material impact to our results of operations.

#### *ASU 2016-13*

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.

#### *ASU 2020-01*

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. We have adopted this new standard on January 1, 2022 and there was no material impact to our results of operations as a result.

#### *ASU 2020-06*

In August 2020, the FASB issued ASU 2020-06, Debt - Debt with Conversion and Other Options and Derivative and Hedging - Contracts in Entity's Own Equity, which simplifies the accounting for convertible instruments. This guidance eliminates certain models that require separate accounting for embedded conversion features, in certain cases. Additionally, among other changes, the guidance eliminates certain of the conditions for equity classification for contracts in an entity's own equity. The guidance also requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and include the effect of share settlement for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. This guidance is required to be adopted by us in the first quarter of 2023 and must be applied using either a modified or full retrospective approach. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

#### *ASU 2021-04*

On May 3, 2021, FASB issued ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options. This new standard provides clarification and reduces diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (such as warrants) that remain equity classified after modification or exchange. This standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Issuers should apply the new standard prospectively to modifications or exchanges occurring after the effective date of the new standard. We have adopted this new standard on January 1, 2022 and there was no material impact to our results of operations as a result.

#### *ASU 2021-08*

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which amends the accounting related to contract assets and liabilities acquired in business combinations. Under current GAAP, an entity generally recognizes assets and liabilities acquired in a business combination, including contract assets and contract liabilities arising from revenue contracts with customers, at fair value on the acquisition date. ASU 2021-08 requires that entities recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC Topic 606, Revenue from Contracts with Customers. ASU 2021-08 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and should be applied prospectively to businesses combinations occurring on or after the effective date of the amendment. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

### **Note 3 – Revenue**

In accordance with ASC 606, revenue is recognized when a customer obtains the benefit of promised services, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those services. In determining the amount of revenue to be recognized, the Company performs the following steps: (i) identification of the contract with a customer; (ii) identification of the promised services in the contract and determination of whether the promised services are performance obligations, including whether they are distinct in the context of the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

*Software Revenue.* Our software revenue is generated from subscriptions and services related to the use of our commercial software platforms, MJ Platform®, Ample, Trellis, Viridian, 365 Cannabis, and our government regulatory platform, Leaf Data Systems, and the sale of business intelligence, data analytics and other software related services. For our SMB customers, software contracts are generally annual contracts paid monthly in advance of service and typically cancellable upon 30 days' notice after the end of the contract period. 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. Our enterprise contracts are typically multi-year contracts paid monthly in advance of services and are generally cancellable with at least a month's notice before the end of the contract period. Amounts that have been invoiced are initially recorded as deferred revenue or contract liabilities. Subscription revenue is recognized on a straight-line basis over the service term of the arrangement beginning on the date that our solution is made available to the customer and ending at the expiration of the subscription term. We typically invoice customers at the beginning of the term, in multi-year, annual, quarterly, or monthly installments. When a collection of fees occurs in advance of service delivery, revenue recognition is deferred until such services commence. Revenue for implementation fees is recognized ratably over the expected term of the contract, including expected renewals.

We include service level commitments to customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits if those levels are not met. In addition, customer contracts often include: specific obligations that require us to maintain the availability of the customer's data through the service and that customer content is secured against unauthorized access or loss, and indemnity provisions whereby we indemnify customers from third-party claims asserted against them that result from our failure to maintain the availability of their content or securing the same from unauthorized access or loss. To date, we have not incurred any material costs as a result of such commitments. Any such credits or payments made to customers under these arrangements are recorded as a reduction of revenue.

*Consulting Revenue.* Consulting services revenue is generated by providing solutions for operators in the pre-application of licensures and pre-operational phases of development and consists of contracts with fixed terms and fee structures based upon the volume and activity or fixed-price contracts for consulting and strategic services. 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 reform. When these services are not combined with subscription revenues as a single unit of account, these revenues are recognized as services are rendered and accepted by the customer.

*Other Revenue.* Our other revenue is derived primarily from point-of-sale hardware and other non-recurring revenue. We recognize revenue as these products are delivered.

*Cost of Revenue.* Cost of revenue consists primarily of costs related to providing subscription and other services to our customers, including employee compensation and related expenses for data center operations, customer support and professional services personnel, payments to outside technology service providers, security services, and other tools.

*Deferred Revenue.* Deferred revenue consists of payments received in advance of revenue recognition from subscription, implementation and consulting services. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, contract duration, and invoice frequency. Deferred revenue that will be recognized during the succeeding twelve-month period is recorded as deferred revenue, which is a current liability on the accompanying consolidated balance sheets.

#### ***Disaggregation of Revenue***

The Company derives the majority of its revenue from subscription fees paid for access to and usage of its SaaS solutions for a specified period of time, typically one to three years. In addition to subscription fees, contracts with customers may include implementation fees for launch assistance and training. Fixed subscription and implementation fees are billed in advance of the subscription term and are due in accordance with contract terms, which generally provide for payment within 30 days. The Company's contracts typically have a one to three year term. The Company's contractual arrangements include performance, termination and cancellation provisions, but do not provide for refunds. Customers do not have the contractual right to take possession of the Company's software at any time.

Sales taxes collected from customers and remitted to government authorities are excluded from revenue.

The following table summarizes our revenue disaggregation of enterprise offerings and non-enterprise offerings for the following periods (in thousands):

	For the Three Months Ended March 31,	
	2022	2021
Enterprise	\$ 3,035	\$ —
Non-enterprise	3,916	4,014
	<u>\$ 6,951</u>	<u>\$ 4,014</u>

	For the Three Months Ended March 31,	
	2022	2021
United States	\$ 4,989	\$ 2,659
Canada	1,962	1,355
	<u>\$ 6,951</u>	<u>\$ 4,014</u>

***Contracts with Multiple Performance Obligations***

Customers may elect to purchase a subscription to multiple modules, multiple modules with multiple service levels, or, for certain of the Company's solutions. We evaluate such contracts to determine whether the services to be provided are distinct and accordingly should be accounted for as separate performance obligations. If we determine that a contract has multiple performance obligations, the transaction price, which is the total price of the contract, is allocated to each performance obligation based on a relative standalone selling price method. We estimate standalone selling price based on observable prices in past transactions for which the product offering subject to the performance obligation has been sold separately. As the performance obligations are satisfied, revenue is recognized as discussed above in the product descriptions.

### ***Transaction Price Allocated to Future Performance Obligation***

ASC 606 provides certain practical expedients that limit the required disclosure of the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied. As many of the contracts the Company has entered into with customers are for a twelve-month subscription term, a significant portion of performance obligations that have not yet been satisfied as of March 31, 2022 are part of a contract that has an original expected duration of one year or less. For contracts with an original expected duration of greater than one year, for which the practical expedient does not apply, the aggregate transaction price allocated to the unsatisfied performance obligations was \$15.1 million as of March 31, 2022, of which \$8.4 million is expected to be recognized as revenue over the next twelve months.

### ***Deferred Revenue***

Deferred revenue represents the unearned portion of subscription and implementation fees. Deferred revenue is recorded when cash payments are received in advance of performance. Deferred amounts are generally recognized within one to three years. Deferred revenue is included in the accompanying consolidated balance sheets under Total current liabilities, net of any long-term portion that is included in Other long-term liabilities.

The following table summarizes deferred revenue activity for the three months ended March 31, 2022 (in thousands):

	<b>As of December 31, 2021</b>	<b>Net additions</b>	<b>Revenue recognized</b>	<b>As of March 31, 2022</b>
Deferred revenue	\$ 4,126	6,069	(6,339)	\$ 3,856

Of the \$7.0 million of revenue recognized in the three months ended March 31, 2022, \$2.4 million was included in deferred revenue at December 31, 2021.

### ***Costs to Obtain Contracts***

In accordance with ASC 606, we capitalize sales commissions that are directly related to obtaining customer contracts and that would not have been incurred if the contract had not been obtained. These costs are included in the accompanying consolidated balance sheets and are classified as Prepaid expenses and other current assets. Deferred contract costs are amortized to sales and marketing expense over the expected period of benefit, which we have determined to be one to three years based on the estimated customer relationship period.

The following table summarizes deferred contract cost activity for the three months ended March 31, 2022 (in thousand):

	<b>As of December 31, 2021</b>	<b>Additions</b>	<b>Amortized costs (1)</b>	<b>As of March 31, 2022</b>
Deferred contract costs	\$ 301	112	(113)	\$ 300

(1) Includes contract costs amortized to sales and marketing expense during the period.



## Note 4 – Significant Transactions

### 2021 Transactions

#### Viridian Sciences

On April 1, 2021, we completed the acquisition of Viridian Sciences Inc. (“Viridian”), a cannabis business management software provider that is built on SAP Business One. We acquired Viridian in exchange for 1.0 million shares of our common stock valued at \$6.0 million. In addition to the stock consideration, the agreement provides for contingent consideration of up to \$1.0 million, payable in additional common stock, if Viridian meets certain revenue criteria. We finalized our purchase price accounting during the three months ended March 31, 2022 and there were no changes to the previously disclosed purchase price accounting.

#### 365 Cannabis

On October 1, 2021, we acquired all the issued and outstanding shares of 365 Cannabis. Under the terms of the Agreement, the aggregate consideration for the 365 Cannabis shares consisted of an initial purchase price of (1) \$5,000,000 in cash, (2) \$12,000,000 in stock, which was to be settled by issuing 3.6 million shares of our common stock, and (3) contingent value rights to be issued pursuant to a rights indenture entitling the holders thereof to receive, subject to certain adjustments as set forth in the Agreement, an aggregate of up to \$8,000,000 in stock, in the event that 365 Cannabis achieves certain revenue targets as specified in the Agreement. These rights are accounted for as contingent consideration and are currently recorded at preliminary fair value which will be updated upon finalization of purchase accounting.

We reached a working capital settlement agreement during the three months ended March 31, 2022 in the amount of \$1.5 million. As a result of this post-close adjustment, the 365 Cannabis purchase price was reduced by \$1.5 million during the first quarter of 2022. This was recorded as follows: 1) a receivable of \$400,000 was booked in other current assets in our condensed consolidated balance sheet as of March 31, 2022 and was received subsequent to March 31, 2022, 2) a reduction of \$160,000 was made to the working capital accrual that was booked as of December 31, 2021, and 3) 279,762 shares worth \$940,000 that were held in escrow were released back to Akerna to cover the remainder of the working capital adjustment. The updated consideration transferred is reflected in the table below (in thousands):

	<b>Preliminary Fair Value</b>
Shares issued	\$ 11,060
Cash	4,982
Contingent consideration	6,300
Total preliminary fair value of consideration transferred	<u>\$ 22,342</u>

The opening balance sheet presented below reflects our updated purchase price allocation, summarizing the preliminary fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	<b>Preliminary Fair Value</b>
Cash	\$ 527
Accounts receivable	486
Prepaid expenses and other current asset	261
Fixed Assets	93
Non-compete agreement	80
Acquired technology	1,040
Customer relationships	13,810
Acquired trade name	270
Goodwill	12,543
Accounts payable and accrued expenses	(826)
Deferred tax liabilities	(2,642)
Deferred revenue	(3,300)
Net assets acquired	<u>\$ 22,342</u>

The excess of purchase consideration over the 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 based on management's estimates and assumptions. We expect to finalize the valuation as soon as practicable, but no later than one year from the acquisition date.

*Pro Forma Financial Information*

The following unaudited pro forma consolidated operating results give effect to the Viridian and 365 Cannabis acquisitions, as if they had been completed as of January 1, 2020 (in thousands):

	<b>Three Months Ended March 31, 2021</b>
Revenue	\$ 7,407
Net loss	\$ (6,574)

The pro forma financial information for the period presented above has been calculated after adjusting the results of Viridian and 365 Cannabis 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 periods indicated above as well as direct acquisition costs. 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 years indicated above.

*Special Voting Preferred Stock and Exchangeable Shares*

In connection with the Ample acquisition, which was completed on July 7, 2020, 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 no votes attached to it, the share shall be automatically cancelled. The exchangeable shares do not have a par value.

During the three months ended March 31, 2022, several Ample shareholders exchanged a total of 2,434 exchangeable shares with a value of \$18,620 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 March 31, 2022, there were a total of 306,852 exchangeable shares issued and outstanding.

**Note 5 - Balance Sheet Disclosures**

Prepaid expenses and other current assets consisted of the following:

	<b>As of March 31, 2022</b>	<b>As of December 31, 2021</b>
Software and technology	\$ 723,513	\$ 687,740
Professional services, dues and subscriptions	284,333	546,126
Insurance	143,355	264,097
Deferred contract costs	254,771	260,899
Unbilled receivables	547,675	506,984
Other	538,442	117,918
<b>Total prepaid expenses and other current assets</b>	<b>\$ 2,492,089</b>	<b>\$ 2,383,764</b>

Accounts payable, accrued expenses, and other accrued liabilities consisted of the following:

	<b>As of March 31, 2022</b>	<b>As of December 31, 2021</b>
Accounts payable	\$ 3,065,862	\$ 1,943,457
Professional fees	230,127	319,590
Sales taxes	422,580	360,361
Compensation	1,217,392	1,123,467
Contractors	1,158,447	1,288,730
Settlements and legal	1,189,561	681,045
Other	179,372	346,870
<b>Total accounts payable, accrued expenses, and other accrued liabilities</b>	<b>\$ 7,463,341</b>	<b>\$ 6,063,520</b>

## Note 6- Fair Value

### 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 (the "2020 Notes") on June 9, 2020. The 2020 Notes were paid in full on October 5, 2021 and were replaced by convertible notes of \$20.0 million at a purchase price of \$18.0 million (the "2021 Notes") on the same date. We elected to account for both the 2020 Notes and the 2021 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 (expense) income in our condensed consolidated statement of operations under the caption, change in fair value of convertible notes.

For the 2020 Note and 2021 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 for the three months ended March 31, 2022 and three months ended March 31, 2021:

	Three Months Ended March 31,	
	2022	2021
Fair value balance at beginning of period	\$ 17,305,000	\$ 13,398,000
Payments on Convertible Notes	(3,300,000)	(7,697,727)
Change in fair value reported in the statements of operations	1,433,000	1,991,272
Change in fair value reported in other comprehensive loss	(101,000)	13,000
Fair value balance at end of period	<u>\$ 15,337,000</u>	<u>\$ 7,704,545</u>

The estimated fair value of the Convertible Notes as of March 31, 2022 and December 31, 2021, 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	March 31, 2022	December 31, 2021
Face value principal payable	\$ 16,700,000	\$ 20,000,000
Original conversion price	\$ 4.05	\$ 4.05
Value of Common Stock	\$ 1.14	\$ 1.75
Expected term (years)	2.5	2.8
Volatility	79 %	75 %
Market yield	40.2%	37.1%
Risk free rate	2.4 %	1 %
Issue date	October 5, 2021	October 5, 2021
Maturity date	October 5, 2024	October 5, 2024

### Fair Value Measurement – Warrants

In connection with MTech Acquisition Corp.'s ("MTech") initial public offering, MTech sold 5,750,000 units at a purchase price of \$10.00 per unit, inclusive of 750,000 units sold to the underwriters on February 8, 2018, upon the underwriters' election to fully exercise their over-allotment option. Each unit consisted of one share of MTech's common stock and one warrant of MTech ("MTech Public Warrant"). Each MTech Public Warrant entitled the holder to purchase one share of MTech's common stock at an exercise price of \$11.50. Concurrently with MTech's initial public offering, MTech sold 243,750 units at a purchase price of \$10.00 per unit on a private offering basis. Each unit consisted of one share of MTech's common stock and one warrant of MTech ("MTech Private Warrant"). Each MTech Private Warrant entitled the holder to purchase one share of MTech's common stock at an exercise price of \$11.50.

Upon completion of the mergers between MTech and MJF on June 17, 2019, as contemplated by the Merger Agreement dated October 10, 2018, as amended ("Mergers"), the MTech Public Warrants and the MTech Private Warrants were converted, respectively, at an exchange ratio of one-for-one to a warrant to purchase one share of Akerna's common stock with identical terms and conditions as the MTech Public Warrants ("Public Warrant") and the MTech Private Warrants ("Private Warrant", collectively with the Public Warrants, "Warrants"). In connection with the completion of the Mergers, we also issued 189,365 common stock purchase warrants upon the cashless exercise of a unit purchase option, which warrants have identical terms to the Public Warrants and are included in references to Public Warrants and Warrants herein.

For the Private Warrants classified as derivative liabilities, which are measured at fair value categorized within Level 3 of the fair value hierarchy, the following is a reconciliation of the fair values for the three months ended March 31, 2022 and March 31, 2021:

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Fair value balance at beginning of period	\$ 63,178	\$ 311,376
Change in fair value reported in the statements of operations	(18,051)	175,996
Fair value balance at end of period	<u>\$ 45,127</u>	<u>\$ 487,372</u>

We utilized a binomial lattice model, which incorporates significant inputs, specifically the expected volatility, that are not observable in the market, and thus represents a Level 3 measurement as defined in GAAP. The unobservable inputs utilized for measuring the fair value of the Private Warrants reflect our estimates regarding the assumptions that market participants would use in valuing the Warrants as of the end of the reporting periods.

We record the fair value of the Private Warrants in the consolidated balance sheets under the caption "derivative liability" and recognize changes to the liability against earnings or loss each reporting period. Upon exercise of the Private Warrants, holders will receive a delivery of Akerna shares on a net or gross share basis per the terms of the Private Warrants and any exercise will reclassify the Private Warrants, at the time of exercise, to shareholder's equity to reflect the equity transaction. There are no periodic settlements prior to the holder exercising the Private Warrants. There were no transfers in or out of Level 3 from other levels for the fair value hierarchy.

We estimated the fair value by using the following key inputs:

<b>Fair Value Assumptions - Private Warrants</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Number of Private Warrants	225,635	225,635
Original conversion price	\$ 11.50	\$ 11.50
Value of Common Stock	\$ 1.14	\$ 1.75
Expected term (years)	2.21	2.46
Volatility	114.4%	93.9%
Risk free rate	2.3%	0.8%

## **Note 7 - Commitments and Contingencies**

### ***Litigation***

On December 4, 2020, TechMagic USA LLC filed suit against our wholly-owned subsidiary, Solo, in Massachusetts Superior Court, Department Business Litigation, seeking recovery of up to approximately \$1.07 million for unpaid invoices pursuant to a Master Services Agreement dated February 5, 2018 by and between TechMagic and Solo. The invoices set forth services that TechMagic USA LLC purports to have provided to Solo regarding development of mobile software applications for MJF and Solo between March and November 2020 totaling approximately \$787,000. The suit seeks continued fees under the Master Services Agreement through the end of January 2021. Akerna provided a notice of termination of the Master Services Agreement on November 23, 2020 and the parties dispute the effective date of the termination. Solo disputes the validity of the invoices, in whole or in part, and intends to defend the suit vigorously. Mr. Ashesh Shah, formerly the president of Solo and currently the holder of less than 5% of our issued and outstanding shares of common stock is, to our knowledge, the founder and one of the principal managers of TechMagic USA LLC. As of December 31, 2021 and March 31, 2022, we recognized a loss contingency of \$0.5 million.

On April 2, 2021, TreCom Systems Group, Inc. ("TreCom") filed suit against Akerna and our wholly-owned subsidiary, MJ Freeway, LLC, in federal District Court for the Eastern District of Pennsylvania, seeking recovery of up to approximately \$2 million for services allegedly provided pursuant to a Subcontractor Agreement between MJ Freeway and TreCom. MJ Freeway provided a notice of termination of the operative Subcontractor Agreement on August 4, 2020. MJ Freeway disputes the validity of TreCom's invoices and the enforceability of the alleged agreement that TreCom submitted to the court. Akerna filed counterclaims against TreCom for breach of contract, a declaratory judgment, commercial disparagement, and defamation. TreCom failed to return Akerna's intellectual property and issued numerous disparaging statements to one of Akerna's clients. TreCom subsequently filed a motion to dismiss these counterclaims, which was denied by the court. Akerna intends to vigorously defend against TreCom's claims, and pursue its own claims. As of December 31, 2021 and March 31, 2022, we recognized a loss contingency of \$0.2 million.

On May 21, 2021, our wholly-owned subsidiary, Solo, filed suit against two of Solo's former directors, Ashesh Shah and Palle Pedersen. Solo seeks recovery for Mr. Shah's intentional interference with contractual relations, and the defendants' breaches of various fiduciary duties owed to Solo. Defendant Shah engaged in improper communications with Solo's customers with the intent that those customers cease their contractual relations with Solo. The defendants also entered into an improper contract with a contractual counter party that the defendants had a conflict of interest with. The defendants have filed a motion to dismiss, which the court found unpersuasive and denied. Defendants have not asserted any counterclaims, and we therefore have not recognized a loss contingency.

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 March 31, 2022, and through the date these consolidated financial statements were issued, there were no other legal proceedings requiring recognition or disclosure in the consolidated financial statements.

### ***Operating Leases***

During the three months ended March 31, 2022, we began negotiations to terminate the 365 Cannabis office lease in Las Vegas, Nevada. We booked a liability and lease termination expense of \$564,234 which is management's best estimate of the costs to exit our existing lease. The lease termination expense is included within the General and Administrative expense line item on the condensed consolidated statement of operations.

## Note 8 - Loss Per Share

During the three months ended March 31, 2022 and 2021, 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.

The table below details potentially outstanding shares on a fully diluted basis that were not included in the calculation of diluted earnings per share:

	<b>As of March 31,</b>	
	<b>2022</b>	<b>2021</b>
Shares issuable upon exchange of Exchangeable Shares	306,852	1,647,287
Shares of common stock issuable upon conversion of Convertible Notes	12,370,370	612,609
Warrants	5,813,804	5,813,804
Unvested restricted stock units	627,840	664,258
Unvested restricted stock awards	6,679	33,062
Total	<u>19,125,545</u>	<u>8,771,020</u>

## **Note 9 - Goodwill and Intangible Assets, net**

### *Impairment*

Based on our qualitative assessment of goodwill, we determined it was necessary to perform a quantitative valuation of goodwill as of March 31, 2022. Unchanged from the year ended December 31, 2021, we determined there were two reporting units: the enterprise reporting unit which is comprised of the enterprise software offerings and the non-enterprise reporting unit which is comprised of the non-enterprise software offerings. The valuation of our goodwill was determined with the assistance of an independent valuation firm using the income approach (discounted cash flows method) and the market approach (guideline public company method). Our significant assumptions in these analyses include, but are not limited to, future cash flow projections, the weighted average cost of capital, the discount rate, the implied control premium, the terminal growth rate, and the tax rate. The Company's estimates of future cash flows are based on current regulatory and economic climates, recent operating results, and planned business strategies. These estimates could be negatively affected by changes in federal, state, or local regulations or economic downturns. Future cash flow estimates are, by their nature, subjective and actual results may differ materially from the Company's estimates. If the Company's ongoing estimates of future cash flows are not met, the Company may have to record additional impairment charges in future periods. The Company also uses the Guideline Public Company Method, a form of the market approach (utilizing Level 3 unobservable inputs), which is derived from metrics of publicly traded companies or historically completed transactions of comparable businesses. The selection of comparable businesses is based on the markets in which the reporting units operate giving consideration to risk profiles, size, geography, and diversity of products and services. As such, we believe the current assumptions and estimates utilized are both reasonable and appropriate.

### *Enterprise Reporting Unit*

For the three months ended March 31, 2022, no impairment to goodwill was recorded for our enterprise reporting unit as the fair value exceeded the carrying value as of March 31, 2022. To perform our analysis, we applied a 50% weighting to the market approach and 50% weighted to the income approach.

### *Non-Enterprise Reporting Unit*

For the three months ended March 31, 2022, primarily due to a continued decline in market valuation from December 31, 2021, we recorded an impairment expense of \$15.5 million related to our non-enterprise reporting unit. To perform our analysis, we applied a 25% weighting to the income approach and a 75% weighting to the market approach.

### *Finite-lived Intangible Assets, Net*

We performed a two step impairment test for the asset groups that had indicators of impairment during the three months ended March 31, 2022 under ASC 360 and as a result of this analysis we did not identify any impairment.



**Note 10- Income Taxes**

The Company's effective tax rate was 0.45% and 0.00% for the three months ended March 31, 2022 and 2021, respectively. Differences between the statutory rate and the Company's effective tax rate resulted from changes in valuation allowance and permanent differences for tax purposes in the treatment of certain nondeductible expenses. The Company's effective tax rate is impacted by activity related to deferred tax liabilities, resulting primarily from the acquisition of 365 Cannabis, which cannot be considered as a source of future taxable income available to utilize recorded deferred tax assets based on the Company's scheduling and the 80% limit on the utilization of net operating loss carry forwards under current US tax law.

## 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 March 31, 2022, and the related notes thereto, which have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP").

Akerna Corp., herein referred to as "we", "us", "our" or "Akerna", through our wholly-owned subsidiaries MJ Freeway, LLC, Trellis Solutions, Inc., Ample Organics, Inc., solo sciences, inc., Viridian Sciences Inc., and The NAV People, Inc. d.b.a. 365 Cannabis.

### 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 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 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 accounting treatment of certain of our private warrants;
- 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 March 31, 2022, 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

Akerna is a leading provider of software solutions within the cannabis industry. Cannabis businesses face significant complexity due to the stringent regulations and restrictions that shift based on regional, state, and national governing bodies. As the first to market more than ten years ago, Akerna's family of software platforms help to enable regulatory compliance and inventory management across the entire supply chain. When the legal cannabis market started to grow, we identified a need for organic material tracking and regulatory compliance software as a service (SaaS) solution customized specifically for the unique needs of the industry. By providing an integrated ecosystem of applications and services that help our clients enable compliance, regulation, consumer safety and taxation, Akerna is building the technology backbone of the cannabis industry. While designed specifically for the unique needs of the cannabis market, our solutions are adaptable for other industries requiring government regulatory oversight, or where the tracking of organic materials from seed or plant to end products is desired.

Executing upon our expansion strategy, we acquire complementary software brands that service the cannabis industry to grow the scope of Akerna's cannabis ecosystem. Since 2019, we have integrated six new brands into the Akerna product and service offering. Our first acquisition, Solo Sciences ("Solo"), was initiated in the fall of 2019, with the full acquisition completed in July 2020. We added Trellis Solutions ("Trellis") to our portfolio on April 10, 2020 and finalized the acquisition of Ample Organics ("Ample") and Last Call Analytics ("Last Call") on July 7, 2020. On April 1, 2021 we completed our acquisition of Viridian Sciences Inc. ("Viridian"), a cannabis business management software system built on SAP Business One, followed by the acquisition of The NAV People, Inc. d.b.a 365 Cannabis ("365 Cannabis"), a cannabis business management software system built on Microsoft Business Central, on October 1, 2021. Through our growing family of companies, Akerna provides highly versatile platforms that equip our clients with a central data management system for tracking regulated products. Our solutions also provide clients with integrated security, transparency, and scalability capabilities, all while helping maintaining compliance with their governing regulations.

On the commercial side, our products help state-licensed businesses operate in compliance with applicable regional laws. Our integrated ecosystem provides integrations with third-party vendors and add-ons that enhance the capabilities of our commercial software platforms. On the regulatory side, we provide track and trace solutions that allow state governments to monitor compliance of licensed cannabis businesses. To date, our software has helped monitor the compliance of more than \$30 billion in legal cannabis. While our software facilitates the success of legal cannabis businesses, we do not handle any cannabis-related material, do not process cannabis sales transactions within the United States ("U.S."), and our revenue is generated from a fixed-fee based subscription and professional services model and is not related to the type or amount of sales made by our clients.

We drive revenue growth through the development of our product line, our acquisitions and from continued expansion of our software and consulting offerings within the cannabis, hemp, and cannabidiol ("CBD") industry. Businesses across the regulated cannabis industry use our solutions. 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 cultivation, manufacturing, and dispensary clients who are seeking comprehensive business optimization solutions. Our software solutions are designed to be scalable, and while mid-market and smaller customers have historically been our primary target segment, we are focused on extending our customer reach to address the needs of the emerging enterprise level operator. We believe these larger multi-state/multi-vertical operations represent significant long-term future growth opportunities as the cannabis industry continues to consolidate at a rapid rate. The sophistication of our platform accommodates the complexities of both multi-vertical and multi-state business needs, making us critical partners and allowing us to cultivate long-term, successful relationships with our clients.

Our platforms provide licensed businesses with a true enterprise solution for managing their inventory and compliance and allow government regulators to engage in accurate and real-time compliance monitoring. Key capabilities of our technology infrastructure include:

*Seed-to-Sale Tracking* allows the tracking of products from cultivation, through harvest and processing and manufacturing, to the monitoring of the final sale to the patient or consumer. Our traceability technology captures every step in an individual plant's life, providing visibility into the supply chain from any measurement of finished product dispensed to a patient or customer, back to the plant it came from, and all activity, transportation, and transactions that happen in between. While we do not provide payment processing, and never take, own, or handle any product or cash transaction, our platform records all sales as part of state and jurisdictional compliance Track-and-Trace processes. The data gathered throughout all of these processes is captured, and provides the insights and information needed to run an efficient and streamlined cannabis business. Seed-to-Sale software operates in a complementary relationship with state-mandated Track-and-Trace systems, replicating the reporting functionality and eliminating the need for operators to duplicate their compliance data into two disparate systems. Track-and-Trace systems are designed solely for government regulators to maintain compliance and do not have the sophistication or functionality to provide cannabis business owners with the insights and tools for effective business management. Our seed-to-sale platforms integrate with the state Track-and-Trace compliance system, reporting in the mandated data along the supply chain while also providing business owners with the capabilities to make informed business decisions based on the fully overview of their operations.

*Track-and-Trace* is the compliance reporting system used by regulatory bodies in most states. In order to adhere to their state-specific compliance regulations, cannabis operators are required to enter specific data points along the supply chain into the state-mandated track-and-trace system. By doing so, regulators can track the movement of cannabis inventory through the full supply chain, even when it moves between facilities or operators. The aggregated view that Track-and-Trace software seeks to ensure that the end product being sold has been grown, harvested, processed, transferred and sold compliantly, and provides assurance of safety to consumers.

*Single System Integration* allows state-licensed clients to manage inventory, customer records, and staff in one tracking system. MJ Platform and Leaf Data Systems platforms can be fully integrated with one another to create a streamlined Seed-to-Sale/Track-and-Trace solution. Additionally, our platforms can also be integrated with systems of numerous third-party suppliers. We have certified integrations with world class accounting solutions, including Sage, SAP, Microsoft and Netsuite.

*Anti-Counterfeiting Technology.* Solo sciences provides next-generation anti-counterfeiting technology fused with a direct communication system between brands and consumers. The solo sciences mission is to build confidence and establish trust among consumers, while enabling retailers and distributors to close the loop with creators and producers.

*Cannabis Market Insights* are curated using the anonymized data aggregated through our Seed-to-Sale platform for key industry intelligence. With over \$30 billion in cannabis sales tracked over the past twelve years, we have cultivated a substantial legal cannabis dataset across 30+ states and multiple countries. This data provides a detailed overview of key industry trends, giving us the ability to provide banks, investors, researchers, cannabis businesses, and non-cannabis businesses with cannabis market intelligence and comparison data.

*Enterprise Resource Planning (ERP) software* is a business process management software that manages and integrates a company's financials, manufacturing, inventory, supply chain, operations, commerce, and reporting activities. ERP systems improve an operator's efficiency and effectiveness by eliminating disparate systems, consolidating business critical information in a single location, reducing double entry data, and streamlining operations. ERP software solutions built for cannabis operators combine traditional accounting, manufacturing, inventory, and supply chain management with cannabis-specific track and trace and compliance functionality.

Using our years of experience, proprietary databases, and resources to identify trends and predict changes in the cannabis industry we 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. We have worked with clients and governments across the globe to create customized solutions that fit their specific regulatory and commercially compliant needs. While the majority of our clients are in the U.S. and Canada, our solutions allow cannabis businesses to operate efficiently in this fast-changing industry and comply with state, local, and federal (in countries such as Canada, Italy, Macedonia, and Colombia). Akerna and our family of companies is well-positioned to provide compliance solutions for the expanding national and international legal cannabis market.

## **Financial Results of Operations**

### ***Revenue***

We generate revenue from two primary sources: (1) software and (2) consulting services. Revenue from software comprised approximately 94% and 95% of our revenue for the three months ended March 31, 2022 and 2021, respectively. Revenue from consulting services comprised approximately 6% and 4% of our revenue for three months ended March 31, 2022 and 2021, respectively.

*Software.* Our software is solutioned for our key markets, small and medium-sized ("SMB") and enterprise customers. Our SMB customers become a natural funnel for our larger, more robust enterprise offerings built on SAP and Microsoft. In either market, software revenue is generated from subscriptions and services related to the use of our commercial software platforms, MJ Platform, Ample, Trellis, Viridian, and 365 Cannabis, our government regulatory platform, Leaf Data Systems, and the sale of business intelligence, data analytics and other software related services. Software contracts are generally quarterly, annual, or three-year long contracts paid monthly, quarterly, or annually in advance of service and cancellable upon 30 or 90 days' notice, although we do have many 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. Amounts that have been invoiced are initially recorded as deferred revenue or contract liabilities. Subscription revenue is recognized on a straight-line basis over the service term of the arrangement beginning on the date that our solution is made available to the customer and ending at the expiration of the subscription term.

*Consulting.* Consulting services revenue is generated by providing solutions for operators in the pre-application of licensures 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 grow over time as more states emerge with legalization reforms.

*Other Revenue.* Our other revenue is derived primarily from point-of-sale hardware.

## **Cost of Revenue and Operating Expenses**

### *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 the direct cost method. This method requires the allocation of direct costs including support services and materials to the cost of revenue.

### *Product 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. Product development costs, other than software development expenses qualifying for capitalization, are expensed as incurred. Capitalized software development costs consist primarily of employee-related costs. We devote substantial resources to enhancing and maintaining our technology infrastructure, developing new and enhancing existing solutions, conducting quality assurance testing, and improving our core technology.

### *Sales and Marketing 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.

We defer the portion of sales commissions that is considered a cost of obtaining a new contract with a customer in accordance with the revenue recognition standard and amortize these deferred costs over the period of benefit, currently one year. We expense the remaining sales commissions as incurred. The rates at which sales commissions are earned varies depending on a variety of factors, including the nature of the sale (new, renewal, or add-on service offering), the type of service or solution sold, and the sales channel.

### *General and Administrative Expenses*

Our general and administrative expenses include salaries and benefits and other costs of departments serving administrative functions, such as executives, finance and accounting, human resources, public relations and investor relations. In addition, general and administrative expense includes non-personnel costs, such as professional fees and other supporting corporate expenses not allocated to cost of revenue, product and development or sales and marketing.

### *Total Other (Expense) Income, Net*

Total other (expense) income, net consists of interest income on cash and cash equivalents, interest expense on our debt, quarterly remeasurement of the fair value of our convertible notes and derivative liability, foreign currency gains and losses, and other non-operating gains and losses.

## **Critical Accounting Policies and Estimates**

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021. 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 March 31, 2022 Compared to Three Months Ended March 31, 2021

The following table highlights the various sources of revenues and expenses for the three months ended March 31, 2022 as compared to the three months ended March 31, 2021:

	Three Months Ended March 31,		Change	
	2022	2021	Period over Period	
Revenues:				
Software	\$ 6,508,513	\$ 3,795,153	\$ 2,713,360	71%
Consulting	427,009	172,747	254,262	147%
Other	15,319	46,124	(30,805)	(67)%
Total revenue	<u>6,950,841</u>	<u>4,014,024</u>	<u>2,936,817</u>	<u>73%</u>
Cost of revenues				
	<u>2,203,671</u>	<u>1,454,167</u>	<u>749,504</u>	<u>52%</u>
Gross profit	4,747,170	2,559,857	2,187,313	85%
<i>Gross profit margin</i>	68%	64%		
Operating expenses:				
Product development:	2,105,361	1,424,100	681,261	48%
Sales and marketing	3,236,113	1,735,915	1,500,198	86%
General and administrative	2,570,432	1,852,962	717,470	39%
Depreciation and amortization	1,993,391	1,052,883	940,508	89%
Impairment of long-lived assets	15,478,521	—	15,478,521	nm
Total operating expenses	<u>25,383,818</u>	<u>6,065,860</u>	<u>19,317,958</u>	<u>318%</u>
Loss from operations	<u>\$ (20,636,648)</u>	<u>\$ (3,506,003)</u>	<u>\$ (17,130,645)</u>	<u>489%</u>

nm – percentage change not meaningful

### Revenue

#### Software Revenue

Total software revenue increased to \$6.5 million for the three months ended March 31, 2022 from \$3.8 million for the three months ended March 31, 2021, for an increase of \$2.7 million, or 71%. Software revenue related to our enterprise offerings, Viridian and 365 Cannabis, for the three months ended March 31, 2022 were \$3.0 million, compared to \$0 for the three months ended March 31, 2021 and software revenue related to our non-enterprise offerings, which include MJ Platform, Ample, Trellis, Solo, and Leaf Data Systems, were \$3.2 million for the three months ended March 31, 2022 compared to \$3.4 million for the three months ended March 31, 2021. There was also a slight decrease in partnership and data revenue which was \$0.2 million for the three months ended March 31, 2022 compared to \$0.4 million during the same period in the prior year. Software revenue accounted for 94% and 95% of total revenue for the three months ended March 31, 2022 and 2021, respectively. As indicated above, increase in software revenue during the three months ended March 31, 2022 as compared to the three months ended March 31, 2021 was attributable to revenue generated from our enterprise offerings.

#### Consulting Revenue

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 \$0.4 million for the three months ended March 31, 2022 compared to \$0.2 million for the three months ended March 31, 2021, an increase of \$0.2 million, or 147%. Consulting revenue was 6% and 4% of total revenue for the three months ended March 31, 2022 and 2021, respectively. Due to the nature of consulting revenue, our dependence on emerging market activity and the ongoing pandemic as a driver of demand, the percentage of consulting revenue over total revenue has varied from period to period depending on whether state legislation has expanded to allow new market entrants or growth of existing market participant operations.

#### Other Revenue

Other revenue includes retail/resale revenue, which is generated from point-of-sale hardware. Other revenue was less than \$0.1 million for the three months ended March 31, 2022 and 2021, respectively.

**Cost of Revenue**

Our cost of revenue was \$2.2 million for the three months ended March 31, 2022 compared to \$1.5 million for the three months ended March 31, 2021, an increase of \$0.7 million, or 52%. Total cost of revenue increased primarily as a result of an increase in hosting expenses of \$0.3 million and fees for SAP and Microsoft licenses in the amount of \$0.5 million related to our acquisitions of Viridian and 365 Cannabis.

**Gross Profit**

Gross profit was \$4.7 million for the three months ended March 31, 2022 compared to \$2.6 million for the three months ended March 31, 2021, an increase of \$2.2 million or 86%. Gross profit margin also increased from 64% for the three months ended March 31, 2021 to 68% for the three months ended March 31, 2022. This improvement in gross margin was primarily due to operating synergies realized from our acquired assets, our ongoing initiatives to drive operating effectiveness, and acquiring additional business-to-business customers, that have a higher gross margin.

**Operating Expenses**

*Product Development*

Product development expense was \$2.1 million for the three months ended March 31, 2022, compared to \$1.4 million for the three months ended March 31, 2021, an increase of \$0.7 million, or 48%. Product development expense increased primarily due the Viridian and 365 Cannabis acquisitions, which resulted in a \$0.6 million increase in salary-related and contractor expenses for the three months ended March 31, 2022 compared to the same period in the prior year.

*Sales and Marketing*

Sales and marketing expense was \$3.2 million for the three months ended March 31, 2022, compared to \$1.7 million for the three months ended March 31, 2021, an increase of \$1.5 million, or 86%. The increase in sales and marketing expense is primarily related to the acquisitions of Viridian and 365 Cannabis which resulted in an increase of \$1.6 million in salary-related and contractor expenses for the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

*General and Administrative*

General and administrative expense was \$2.6 million for the three months ended March 31, 2022, compared to \$1.9 million for the three months ended March 31, 2021, an increase of 0.7 million, or 39%. The increase in general and administrative expense is primarily related to the termination of our Las Vegas office space during the three months ended March 31, 2022, which resulted in a restructuring charge of \$0.5 million. There was also an increase of \$0.1 million in salary-related and contractor expenses as well as bad debt expense of \$0.2 million for the three months ended March 31, 2022 compared to the same period in the prior year.

*Depreciation and Amortization*

Depreciation and amortization expense increased to \$2.0 million for the three months ended March 31, 2022 from \$1.1 million for the three months ended March 31, 2021, an increase of \$0.9 million, or 89%. The increase in amortization expense is primarily attributable to the acquired intangible assets from our Viridian and 365 Cannabis acquisitions in the amount of \$0.6 million, which both occurred after March 31, 2021, as well as an increase in capitalized software in the amount of \$0.4 million.

*Impairment of long-lived assets*

Due to a continued decline in market conditions from December 31, 2021 to March 31, 2022, we recorded an impairment charge of \$15.5 million on our non-enterprise reporting unit during the three months ended March 31, 2022, compared to no impairment charge for the three months ended March 31, 2021 (see Note 9 – Goodwill and Intangible Assets, Net to the consolidated financial statements for further discussion on the impairments recorded).

## 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, changes in fair value of convertible notes, changes in fair value of derivative liabilities, provision for income taxes, and 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:

- impairment of long-lived assets, as this is a non-cash, non-recurring item, which effects the comparability of results of operations and liquidity;
- stock-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 and mergers that are required to be expensed as incurred in accordance with GAAP, because business combination and merger 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 non-recurring financing, including fees incurred as a direct result of electing the fair value option to account for our debt instruments;
- restructuring charges, which includes costs to terminate a lease and the related write-off of leasehold improvements and furniture, as we believe these costs are not representative of operating performance;
- gain on forgiveness of PPP loan, as this is a one-time forgiveness of debt that is not recurring across all periods and we believe inclusion of the gain is not representative of operating performance;
- equity in 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;
- changes in the fair value of contingent consideration because these adjustments are not recurring across all periods and we believe these costs are not representative of operating performance; and
- other non-operating expenses which includes items such as a one-time gain on debt extinguishment and one-time loss on disposal of fixed assets, which effects the comparability of results of operations and liquidity.



The reconciliation of net loss to EBITDA and Adjusted EBITDA is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
Net loss	\$ (21,952,893)	\$ (6,457,703)
Adjustments:		
Interest expense (income)	740	774,380
Change in fair value of convertible notes	1,433,000	1,991,272
Change in fair value of derivative liability	(18,051)	175,996
Income tax expense	(99,444)	6,270
Depreciation and amortization	1,993,391	1,052,883
EBITDA	<u>\$ (18,643,257)</u>	<u>\$ (2,456,902)</u>
Impairment of long-lived assets	15,478,521	—
Stock-based compensation expense	312,925	503,379
Business combination and merger related costs (income)	(637)	43,991
Non-recurring financing fees	27,954	17,884
Restructuring charges	564,234	47,187
Equity in losses of investee	—	3,782
Adjusted EBITDA	<u>\$ (2,260,260)</u>	<u>\$ (1,840,679)</u>

### ***Going Concern and Management's Liquidity Plans***

In accordance with the Financial Accounting Standards Board's ("FASB") standard on going concern, Accounting Standard Update No. 2014-15, or ASU No. 2014-15, the Company assesses going concern uncertainty in its consolidated financial statements to determine if it has sufficient cash, cash equivalents and working capital on hand, including marketable equity securities, and any available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued, which is referred to as the "look-forward period" as defined by ASU No. 2014-15. As part of this assessment, based on conditions that are known and reasonably knowable to the Company, it will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions, including the timing and nature of projected cash expenditures or programs, and its ability to delay or curtail expenditures or programs, if necessary, among other factors. Based on this assessment, as necessary or applicable, The Company makes certain assumptions around implementing curtailments or delays in the nature and timing of programs and expenditures to the extent the Company deems probable those implementations can be achieved and it has the proper authority to execute them within the look-forward period in accordance with ASU No. 2014-15.

The accompanying consolidated financial statements have been prepared on the basis that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business. However, since our inception we have incurred recurring operating losses, used cash from operations, and relied on capital raising transactions to continue ongoing operations. During the three months ended March 31, 2022 and March 31, 2021, we incurred a loss from operations of \$20.6 million and \$3.5 million, respectively, and used cash in operations of \$3.6 million and \$1.4 million, respectively. As of March 31, 2022, a working capital deficit of \$15.1 million with \$9.7 million in cash available to fund future operations.

Management's plan for the Company to continue as a going concern includes raising additional capital from our ATM program, subject to certain effects on the Senior Convertible Notes should we utilize the program, including resetting the conversion price of the Senior Convertible Notes should we raise more than \$5 million under the ATM program and an increase of 10% in the amount payable on the monthly installment payments if they are paid in cash and we have used the ATM program in the 12 months prior to the installment date, settling our contingent consideration and Senior Convertible Notes in common stock rather than cash as it comes due, to the extent that this is permissible, and implementing certain cost cutting strategies throughout the organization, while continuing to seek to grow our customer base and realize synergies as we continue to integrate our recent acquisitions. If the Company is unable to raise sufficient additional funds through the ATM Program and make its convertible debt payments in stock, it will have to develop and implement a plan to extend payables, reduce expenditures (including by laying off employees and reducing or eliminating the funding of certain business units and initiatives of the Company), or scale back our business plan until sufficient additional capital is raised through other equity or debt offerings to support further operations and satisfaction of the debt, and the Company may be subject to additional risks, including retention of key employees. Such offerings may include the issuance of shares of common stock, warrants to purchase common stock, preferred stock, convertible debt or other instruments that may dilute our current stockholders. If we are required to raise additional capital as discussed above and if we cannot timely raise additional funds, we may also be unable to meet the financial covenants of the Senior Convertible Notes, which could result in an event of default under those instruments which could negatively impact the Company. See the risks detailed in our Form 10-K under "Item 1A. Risk Factors – Risks Relating to our Convertible Debt".

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. We will require additional financing in the second quarter of 2022 to meet our ongoing operational working capital requirements and continue to meet the financial covenants of the Senior Convertible Notes. As noted above, we plan to meet those requirements in part through the use of our ATM Facility, but there are no guarantees that the ATM Facility will permit us to raise sufficient cash to meet our ongoing requirements. We also assume that we will be able to pay our convertible debt in common stock rather than cash, however if at any point our stock price is below \$2.00 (which it is as of the date hereof), the debt holders may request the payments in cash rather than stock. These factors raise substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of the consolidated financial statements. If we are unable to raise sufficient capital we may have to reduce operations which could significantly affect our results of operations. If we fail to meet the financial covenants of the Senior Convertible Notes and cannot obtain a waiver from such provisions or otherwise come to an agreement with the holders of our debt, such holders may declare a default on the debt which could subject our assets to seizure and sale, negatively impacting our business. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary if the Company is unable to continue as a going concern.

## Cash Flows

Our cash and restricted cash balance was \$10.2 million as of March 31, 2022. Cash flow information is as follows:

	Three Months Ended March 31,	
	2022	2021
Cash (used in) provided by:		
Operating activities	\$ (3,585,394)	\$ (1,373,818)
Investing activities	(647,022)	(704,637)
Financing activities	(5,615)	(333,847)
Effect of change in exchange rates on cash and restricted cash	(8,544)	(1,579)
Net decrease in cash and restricted cash	<u>\$ (4,246,575)</u>	<u>\$ (2,413,881)</u>

### Operating Activities

Our largest source of operating cash is cash collections from our customers for subscriptions to our products. Our primary uses of cash in operating activities are for employee-related expenditures, marketing expenses and third-party hosting costs. Net cash used in operating activities is impacted by our net loss adjusted for certain non-cash items, including depreciation and amortization expenses, change in fair value of convertible notes and derivative liabilities, stock-based compensation, deferred income taxes, as well as the effect of changes in operating assets and liabilities.

Net cash used in operating activities increased to \$3.6 million during the three months ended March 31, 2022, from \$1.4 million during the three months ended March 31, 2021, an increase of \$2.2 million. For the three months ended March 31, 2022, cash was consumed from operations by a net loss of \$22.0 million, less non-cash items of \$19.5 million and a net change in assets and liabilities of \$1.1 million. For the three months ended March 31, 2021, cash was consumed from operations by a net loss of \$6.5 million, less non-cash items of \$4.6 million and a net change in assets and liabilities of \$0.5 million.

### Investing Activities

Our primary investing activities have consisted of capitalization of internal-use software necessary to deliver significant new features and functionality in our platform which provides value to our customers. As our business grows, we expect our capital expenditures to continue to increase. Other investing activities include cash outflows related to purchases of property and equipment, and from time-to-time, the cash paid for asset and business acquisitions.

Net cash used in investing activities totaled \$0.6 million during the three months ended March 31, 2022, as a result of cash outflows for the development of our software products. Net cash used by investing activities during the three months ended March 31, 2021, was \$0.7 million which was also related to our software development.

### Financing Activities

Our financing activities have consisted primarily of proceeds from issuance of our common stock, issuances of convertible debt and proceeds from the exercise of warrants.

Net cash used in financing activities totaled less than \$0.1 million during the three months ended March 31, 2022 and \$0.3 million for the three months ended March 31, 2021. During both periods the cash used in financing activities was related to the value of shares withheld for tax withholdings.

### Contractual Obligations

For information concerning our contingent consideration, convertible debt, and operating lease obligations, see Notes 4, 6, and 7, respectively, to our condensed consolidated financial statements.

### 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 March 31, 2022 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 March 31, 2022, 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***

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis. Pursuant to our management’s review of disclosure controls and procedures and internal control over financial reporting, management determined that the following material weaknesses in our internal control over financial reporting and prevented management from determining that our disclosure controls and procedures and internal control over financial reporting were effective as of the end of the period covered by this report:

- The Company’s internal controls over financial reporting pertaining to certain key process areas of financial reporting were not properly designed and/or operating effectively.

### ***Remediation Efforts***

We are in the process of executing our remediation plans to address the material weaknesses described above. As of March 31, 2022, we have:

- Hired additional experienced resources with the appropriate skills to fill key accounting functions.
- Engaged an outside firm to assist in the overall evaluation and documentation of the design and operating effectiveness of our internal controls over financial reporting and have remediated past deficiencies in the design of our internal control framework for certain key process areas including revenue, capitalized software, business combinations, intangibles, goodwill, stock-based compensation, general financial reporting, and information technology.
- Developed a long-term plan to both (i) complete the remediation of the design of our internal controls over financial reporting for our remaining process areas, and (ii) begin the remediation of the deficiencies in operating effectiveness of our internal controls over financial reporting across all process areas.

We believe these actions and the improvements we expect to achieve, when fully implemented, will strengthen our internal control over financial reporting and remediate the material weaknesses. However, the material 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. While no assurance can be provided, the Company believes it will make further progress in remediating these material weaknesses during 2022.

Notwithstanding the material weakness, management has concluded that the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q present fairly, in all material respects, our financial position, results of operations, and cash flows in conformity with GAAP.

### ***Changes in Internal Control over Financial Reporting***

During the most recently completed fiscal quarter, there have been no 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.

### ***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. 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.

The information required with respect to this item can be found under “Commitments and Contingencies” in Note 7 to our condensed consolidated financial statements included elsewhere in this Form 10-Q and is incorporated by reference into this Item 1.

### 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 December 31, 2021, as filed with the SEC on March 31, 2022.

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

On January 25, 2022, the Company's board of directors approved the issuance of 30,000 shares of our common stock to service providers in relation to providing investor relations services to the Company. The shares were approved for issuance in consideration for the services to be provided by such service providers. The shares have not been issued as of the date of this report. The shares are to be issued pursuant to Section 4(a)(2) of the Securities Act on the basis of the representations and warranties of the service providers in their service contracts.

From March 31, 2022 through the date of this report, we issued 751,686 shares of our common stock to the holders of Akerna's convertible notes upon conversion of installment amounts due under the terms of the notes. The shares were issued upon conversion of the installment amounts under the notes to the holders of the notes pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") provided by Section 3(a)(9) thereof.

During the quarter ended March 31, 2022, the Company did not repurchase any of its Common Shares.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

3.1	<a href="#"><u>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)</u></a>
3.2	<a href="#"><u>Amended and Restated Bylaws of Akerna Corp. (incorporated by reference to Exhibit 3.2 to Akerna Corp.'s Form 10-KT as filed with the Commission on March 31, 2021)</u></a>
31.1	<a href="#"><u>Section 302 Certification of Principal Executive Officer.</u></a>
31.2	<a href="#"><u>Section 302 Certification of Principal Financial Officer.</u></a>
32.1	<a href="#"><u>Section 906 Certification of Principal Executive Officer</u></a>
32.2	<a href="#"><u>Section 906 Certification of Principal Financial Officer.</u></a>
101	XBRL (Extensible Business Reporting Language). The following materials from Akerna Corp's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022, 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: /s/ Jessica Billingsley

Jessica Billingsley,  
Chief Executive Officer and Director  
*(Principal Executive Officer)*

**May 13, 2022**

By: /s/ John Fowle

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

**May 13, 2022**

**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: May 13, 2022

By: /s/ Jessica Billingsley  
Jessica Billingsley,  
Chief Executive Officer and Director  
(Principal Executive Officer)

**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: May 13, 2022

By: /s/ John Fowle

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

**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 March 31, 2022 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: May 13, 2022

By: /s/ Jessica Billingsley  
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.

**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 March 31, 2022 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: May 13, 2022

By: /s/ John Fowle

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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.