

**Audited Annual Report to Shareholders for
The Year Ended
December 31, 2018**



P10 Holdings, Inc.

Delaware
(State of Incorporation)

74-2961657
(IRS Employer Identification No.)

**8214 Westchester Drive
Suite 950
Dallas, TX 75225**
(Address of principal executive office)

(214) 999-0149
(Company's telephone number)

**Common Stock
\$0.001 Par Value
Trading Symbol: PIOE**

Trading Market: OTC Pink Open Market

**110,000,000 Common Shares Authorized
89,411,175 Shares Issued and 89,234,816 Shares Outstanding
As of March 29, 2019**

Special Note Regarding Forward-Looking Statements

The following stockholder letter contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements about historical or current facts, including, without limitation, statements about our business strategy, plans, and objectives of management and our future prospects, are forward-looking statements.

You can identify forward-looking statements by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “seek,” “continue,” and other similar words. You should read statements that contain these words carefully because they discuss our future expectations, make projections of our future results of operations or financial condition, or state other “forward-looking” information.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this report. Unless otherwise indicated or the context requires otherwise, the words “we,” “us,” “our,” the “Company” and “P10 Holdings” refer to P10 Holdings, Inc. (formerly Active Power, Inc.) and its wholly-owned subsidiaries. References in this report to “\$” or “dollars” are to United States of America currency.

Dear Shareholder,

2018 was an extraordinary year by all measures.

Most importantly, RCP Advisors ("RCP") continued its focus on generating strong investment results for its clients. RCP strives to be the "gold standard" in lower middle market private equity, with nearly two decades of investing experience as a firm and a dedication since day one to client service.

RCP continues to perfect its investment process, refined over time with a consistent team and culture, and supported by proprietary data and analytics on tens of thousands of lower middle market companies, transactions, and managers. We believe the RCP database represents the single most comprehensive database on lower middle market private equity in the industry today, and with each passing day--and data point--our lead only builds. In a highly competitive investment landscape, having a sustainable advantage, driven by data, is paramount.

To that end, RCP clients continue to entrust an increasing amount of capital with RCP funds. In 2018, in just its core funds--primary, secondary, and direct--RCP raised an astounding \$934 million, a record year. With over 1,300 private equity general partners ("GPs") in the lower middle market today, having a trusted, experienced advisor such as RCP has never been more important to institutions and individuals alike. As investors, partners, and people, the RCP team is always striving to be best in class.

RCP's success directly parallels P10 Holdings' financial success. We began 2018 with a Q1 adjusted EBITDA of \$3.55 million (\$14.2 million annualized). We ended the year with a Q4 adjusted EBITDA of \$6.49 million (\$25.96 million annualized).

As we described in our 2017 annual letter, we believe the quality of our earnings are second to none. Our revenues by and large are locked up management fees with many years of forward visibility. As an example, we estimate the management fees from the \$934 million of capital that RCP raised in 2018 will have an average fee life in excess of eight years. Few businesses have that kind of visibility. Moreover, our business requires little to no capital expenditure and sustains exceptionally high margins. The resulting free cash flow has very little tax leakage because of the P10 tax assets and, after the required interest expense and principal amortization on our debt, is able to be reinvested back into the business in the form of increased co-investment in RCP funds, acquisitions, and de novo launches of new strategies. As we noted in our 2017 annual letter, we believe the best measure of our business is our "cash earnings."

The table below illustrates the cash earnings of P10 Holdings in 2018.

	Q1	Q2	Q3	Q4	2018
Net Income	(2,470)	(1,436)	(546)	10,440	5,988
Add back:					
+Depreciation & Amortization	2,698	2,705	2,706	2,749	10,858
+Non-Cash Expenses	1,974	1,210	1,187	396	4,767
-Non-Recurring Income	(573)	(486)	(351)	(9,683)	(11,093)
Total Cash Earnings	1,629	1,993	2,996	3,903	10,521
Shares outstanding	89,235	89,235	89,235	89,235	89,235
Cash earnings per share	0.02	0.02	0.03	0.04	0.12

One notable accounting line item in the table was the non-cash gain in the fourth quarter from the \$8.9 million write up of P10's tax asset. We hope to continue to grow our profitability such that a continued reassessment of our Deferred Tax Asset is required.

With respect to prospective growth at P10 Holdings, we see three primary drivers in coming years:

1) "core" RCP: As RCP continues to perform for its clients in its core strategies, we would expect additional fundraisings on a continual basis. The RCP primary fund of funds strategy typically raises a new fund each year, while the secondary and direct strategies typically raise a new fund every 3-4 years.

2) "adjacent" RCP: RCP has an extraordinary competitive position within lower middle market private equity. This market is large and diverse, with multiple capital needs. Just as RCP launched secondary and direct strategies to further support its primary GPs, we would expect additional strategies launched in coming years, including RCP Credit. We are in the early stages of developing relationships in credit and hope it will augment the RCP Credit opportunity. Importantly, we expect RCP to remain focused on its core niche, only launching strategies where RCP has a demonstrable competitive advantage and an ability to generate superior risk-adjusted returns.

3) acquisitions: P10 continues to assess potential acquisitions within the alternative asset manager universe that would both complement RCP and augment the P10 earnings profile. In the fourth quarter we were able to acquire certain assets of Columbia Partners L.L.C. Investment Management's Private Capital Unit ("CP"). CP manages over \$440 million on behalf of Taft-Hartley institutions through its fund-of-funds, separate account fund portfolio and separate account direct investments. CP focuses on investing in alternative fund strategies, including private equity, venture capital, mezzanine lending and related strategies. Although CP operates as a separate business unit of RCP, we are delighted to have them under the RCP umbrella.

The publicly traded alternative asset management universe is very small. Therefore, it is often difficult to benchmark our performance and our value. When we think about our lines of business and quality of after-tax cash earnings, we believe our best comparable is Hamilton Lane (HLNE- NYSE). Hamilton Lane manages and advises fund of private equity funds, direct co-invest funds, secondary funds, and a credit business.

In summary, we exit our first full year post-reorganization with palpable momentum. Given that insiders own approximately 75% of P10 Holdings shares outstanding, our interests are aligned with all shareholders. We believe we collectively own an asset that could generate, and then compound, substantial free cash flow over the coming decade. We extend a warm invitation to all P10 shareholders to join us on this journey.

Regards,

Robert Alpert and Clark Webb



KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors and Shareholders
P10 Holdings, Inc.:

We have audited the accompanying consolidated financial statements of P10 Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of P10 Holdings, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
March 29, 2019

P10 Holdings, Inc.
Consolidated Balance Sheets
(in thousands, except par value)

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 8,195	\$ 2,109
Restricted cash	756	-
Accounts receivable third party	624	-
Receivables from affiliates	104	339
Accounts receivable from funds	281	-
Prepaid expenses and other	200	307
Purchase consideration payable	-	61,296
Property and equipment, net	46	1
Deferred tax assets	10,846	1,911
Intangibles, net	64,184	40,192
Goodwill	98,680	-
Total assets	\$ 183,916	\$ 106,155
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 80	\$ 191
Accrued expenses	4,100	148
Post-closing payment	875	-
Deferred revenues	6,145	2,511
Credit and guarantee facility, net	90,129	(3,284)
Loans payable	-	11,700
Notes payable to sellers, net	58,677	77,326
Total liabilities	160,006	88,592
STOCKHOLDERS' EQUITY		
Common stock - \$0.001 par value; 110,000 and 110,000 shares authorized, respectively; 89,411 and 89,411 issued, respectively; 89,235 and 89,235 outstanding, respectively	89	89
Treasury stock	(273)	(273)
Additional paid-in-capital	323,309	322,950
Accumulated deficit	(299,215)	(305,203)
Total stockholders' equity	23,910	17,563
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 183,916	\$ 106,155

The Notes to Consolidated Financial Statements
are an integral part of these statements.

P10 Holdings, Inc.
Consolidated Statements of Operations and Comprehensive Income
(in thousands, except for share amounts)

	For the Year Ended December 31,	
	2018	2017
REVENUES		
Management fees	\$ 30,561	\$ 4,192
Other revenue	2,497	118
Total revenues	33,058	4,310
OPERATING EXPENSES		
Compensation and benefits	9,395	859
Professional fees	821	1,150
General, administrative and other	4,307	857
Amortization of intangibles	10,858	1,884
Idle facility expense	747	-
Total operating expenses	26,128	4,750
INCOME (LOSS) FROM OPERATIONS	6,930	(440)
OTHER INCOME (EXPENSE)		
Interest expense implied on notes payable to sellers	(3,515)	(629)
Interest expense, net	(6,362)	(361)
Total other expense	(9,877)	(990)
Net loss before income taxes	(2,947)	(1,430)
Income tax benefit	8,935	1,911
INCOME FROM CONTINUING OPERATIONS	5,988	481
INCOME FROM DISCONTINUED OPERATIONS	-	633
NET INCOME	\$ 5,988	\$ 1,114
Earnings per share from continuing operations:		
Diluted earnings per share	\$ 0.06	\$ 0.01
Basic earnings per share	\$ 0.07	\$ 0.01
Earnings per share from discontinued operations:		
Diluted earnings per share	\$ -	\$ 0.01
Basic earnings per share	\$ -	\$ 0.01
Weighted average shares outstanding, basic	89,411	48,245
Weighted average shares outstanding, diluted	92,543	49,302
Comprehensive income:	\$ 5,988	\$ 1,114

The Notes to Consolidated Financial Statements are an integral part of these statements.

P10 Holdings, Inc.
Consolidated Statements of Changes in Shareholders' Equity
(in thousands)

	Common Stock		Treasury stock		Additional Paid-in-capital	Accumulated Deficit	Total Stockholders' Equity
	Units	Amount	Units	Amount			
Balance at December 31, 2016	23,414	\$ 23	176	\$ (273)	\$ 306,752	\$ (306,317)	\$ 185
Issuance of common stock to 210/P10	21,650	22	-	-	4,632	-	4,654
Issuance of common stock to RCP Advisors	44,171	44	-	-	11,264	-	11,308
Stock-based compensation	-	-	-	-	302	-	302
Net income	-	-	-	-	-	1,114	1,114
Balance at December 31, 2017	89,235	89	176	(273)	322,950	(305,203)	17,563
Stock-based compensation	-	-	-	-	359	-	359
Net income	-	-	-	-	-	5,988	5,988
Balance at December 31, 2018	<u>89,235</u>	<u>\$ 89</u>	<u>176</u>	<u>\$ (273)</u>	<u>\$ 323,309</u>	<u>\$ (299,215)</u>	<u>\$ 23,910</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

P10 Holdings, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,988	\$ 1,114
Adjustment for net income from discontinued operations	-	(633)
Net income from continuing operations	5,988	481
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	359	302
Depreciation expense	36	3
Amortization of intangibles	10,858	1,884
Amortization of debt issuance costs and debt discount	4,353	770
Provision for deferred tax	(8,935)	(1,911)
Change in operating assets and liabilities		
Accounts receivable from affiliates, third party and funds	(331)	130
Prepaid expenses and other	742	112
Accounts payable	(111)	162
Accrued expenses	1,410	(141)
Deferred revenues	1,651	62
Net cash provided by operating activities in continuing operations	16,020	1,854
Net cash used in operating activities from discontinuing operations	-	(820)
Net cash provided by operating activities	16,020	1,034
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of RCP Advisors 3	(12,888)	-
Acquisition of Columbia Partners assets	(125)	-
Acquisition of RCP Advisors 2	-	(2,225)
Loss on disposal of property and equipment	253	-
Purchase of property and equipment	(33)	-
Net cash used in investing activities	(12,793)	(2,225)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable to sellers	(72,250)	(2,924)
Repayment of loans payable	(16,710)	-
Borrowings on credit and guarantee agreement facility	100,000	-
Repayments on credit and guarantee agreement facility	(7,137)	-
Issuance of common stock	-	4,655
Debt issuance costs	(288)	-
Net cash provided by financing activities	3,615	1,731
Net change in cash and cash equivalents	6,842	540
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	2,109	1,569
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year	\$ 8,951	\$ 2,109
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 4,862	\$ 168
Cash paid for income taxes	\$ -	\$ -

The Notes to Consolidated Financial Statements are an integral part of these statements.

P10 Holdings, Inc.
Notes to Consolidated Financial Statements
(in thousands, except share and per share amounts)

Note 1. Description of Business and Basis of Presentation

Description of Business

As of November 19, 2016, P10 Holdings, Inc., formerly Active Power Inc. (collectively, “we”, “us”, “P10 Holdings” or “Company”), became a non-operating company focused on monetizing its retained intellectual property and acquiring profitable businesses. For the period December 2016 through September 2017, our business primarily consisted of cash, certain retained intellectual property assets and our net operating losses and other tax benefits. On December 1, 2017, the Company changed its name from P10 Industries, Inc. to P10 Holdings, Inc. We were founded as a Texas corporation in 1992 and reincorporated in Delaware in 2000. Our headquarters is in Dallas, Texas.

Prior to November 19, 2016, we designed, manufactured, sold, and serviced flywheel-based uninterruptible power supply (“UPS”) products that use kinetic energy to provide short-term power as a cleaner alternative to conventional electro-chemical battery-based energy storage. We also designed, manufactured, sold, and serviced modular infrastructure solutions (“MIS”) that integrate critical power components into a pre-packaged, purpose-built enclosure that may include our UPS products as a component. Our products and solutions were based on our patented flywheel and power electronics technology and were designed to ensure continuity for data centers and other mission critical operations in the event of power disturbances.

On September 29, 2016, we entered into an Asset Purchase Agreement with Langley Holdings plc, a United Kingdom public limited company, and Piller USA, Inc., a Delaware corporation and a wholly owned subsidiary of Langley, which changed its name to Piller Power Systems, Inc. prior to closing. We refer to Langley and its subsidiaries, collectively, as “Langley”. The agreement provided, among other things, that Langley would purchase from us substantially all of our assets and operations for a nominal purchase price plus the assumption of all of our indebtedness, including bank debt, liabilities and customer, employee and purchase commitments going forward. The sale of substantially all of our assets and liabilities was approved by holders of a majority of our outstanding shares of common stock at a special meeting of our stockholders held on November 16, 2016.

On November 19, 2016, we completed the sale of substantially all of our assets and liabilities and operations to Langley. Pursuant to the terms of the purchase agreement, after the closing of the disposition of our assets and liabilities, we retained approximately \$1.6 million in cash, which equaled the amount by which the value of the acquired assets exceeded the assumed liabilities on our balance sheet by more than \$5.0 million at closing. We also retained our net operating losses and other tax benefits and certain intellectual property rights related to our patents that are not related to the purchased assets.

On March 22, 2017 we filed for re-organization under Chapter 11 of the Federal Bankruptcy Code, using a prepackaged plan of reorganization. In connection with the filing, the Company entered into a Restructuring Support Agreement with 210/P10 Investment LLC, as well as a Restructuring Support Agreement with Langley. The Company emerged from bankruptcy on May 3, 2017. The key features of the plan included: 210/P10 Investment LLC acquiring 21,650,000 shares of the Company’s common stock in exchange for a cash investment of \$4.65 million; and satisfied all liabilities with Langley associated with their asset purchase agreement including their assumption of our former manufacturing facility lease in exchange for \$0.8 million in cash and our lease deposit of \$0.2 million.

On October 5, 2017 we closed on the acquisition of RCP Advisors 2, LLC (“RCP 2”) and entered into a purchase agreement to acquire RCP Advisors 3, LLC (“RCP 3”) in January 2018. RCP 2 provides investment advisory services to affiliated private equity funds and fund-of-funds (collectively the “Funds”). RCP 2 was formed on June 15, 2012 and serves as sub-advisor to funds managed by RCP Advisors, LLC. Prior to the formation of RCP 2, RCP Advisors, LLC served as the sole investment advisor of the funds. RCP 2’s business is limited to collecting the management fees on the funds which commenced operations between 2011 and 2016. The management fees will be earned through 2026 with a declining rate of income each year as the funds mature. RCP 2 has no employees and pays RCP 3 a fee for managing the funds. P10 Holdings did not acquire the general partner’s interest or the carried interest in the funds. These interests are owned individually by others parties, including certain employees of RCP 3.

P10 Holdings, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

RCP 2 serves as investment manager of RCP Fund VIII, LP (“Fund VIII”), RCP Fund IX, LP (“Fund IX”), RCP Fund X, LP (“Fund X”), RCP Fund XI LP (“Fund XI”), RCP Secondary Opportunity Fund II, LP (“SOF II”), RCP FF Small Buyout Co-Investment Fund, LP, RCP FF Small Buyout Co-Investment Fund II, LP, and RCP Direct II, LP and owns 100% of the voting interests of the general partners of the funds. Certain nonvoting interests of the general partners are owned by the RCP 3 non-owner partners and employees, and Board of Managers.

On January 3, 2018 we closed on the acquisition of RCP 3. RCP 3 serves as investment manager of RCP Fund XII, LP (Fund XII), RCP Fund XIII, LP (“Fund XIII”), RCP Secondary Opportunity Fund III, LP (“SOF III”), RCP FF Small Buyout Co-Investment Fund III, LP, and RCP Direct III, LP, RCP Small and Emerging Fund, LP, RCP Small and Emerging Parallel Fund, LP, RCP SBIC Opportunities Fund, LP, RCP SBO Fund, LP and owns 100% of the voting interests of the general partners of the funds. Certain nonvoting interests of the general partners are owned by the RCP 3 non-owner partners and employees, and Board of Managers.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and include the accounts of the Company and its consolidated subsidiaries. The consolidated subsidiaries include P10 RCP Holdco, LLC which is the entity holding the acquisition financing debt and owns the subsidiaries RCP 2 and RCP 3 which closed on January 3, 2018. All intercompany transactions and balances have been eliminated upon consolidation. The Funds, including the general partners or managing members of such funds are not consolidated. The Company has no economic interest, ownership in or beneficiary interest in the performance of the funds. RCP 2 and RCP 3 serve as the advisor of the Funds and receives a management fee for the services performed.

Note 2. Acquisitions

RCP Advisors 2 and RCP Advisors 3

Effective October 5, 2017 and January 3, 2018, P10 Holdings, Inc. finalized acquisitions for 100% of the outstanding membership interests of RCP Advisors 2, LLC (RCP 2) and RCP Advisors 3, LLC (RCP 3), respectively, under a Contribution and Exchange Agreement and a Membership Interest Purchase Agreement. The acquisitions were accounted for using the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) 805, Business Combinations. The total purchase price consideration was \$171.4 million, which was funded by cash, the issuance of common stock, subordinated seller notes payable, tax amortization benefits (“TAB”), and assumed bank loans.

The owners of RCP 2 received 44,171,234 of newly issued shares of the Company with a fair value of \$11.3 million and non-interest-bearing seller’s notes of \$81.3 million which have been recorded at their fair value of \$78.7 million on the date of acquisition. The seller’s notes will be paid from borrowings under a \$130 million credit and guarantee facility described in Note 9. The external bank debt was refinanced with this facility.

The owners of RCP 3 received non-interest-bearing seller’s notes of \$22.1 million which have been recorded at their fair value of \$21.2 million on the date of acquisition. The seller’s notes will be paid from borrowings under a \$130 million credit and guarantee facility described in Note 9. The external bank debt was also refinanced with this facility.

P10 Holdings, Inc.
Notes to Consolidated Financial Statements
(in thousands, except share and per share amounts)

The following summarizes the purchase consideration and purchase price allocation (in thousands):

Fair value of consideration transferred		
Cash consideration	\$	13,718
Subordinated seller notes payable		99,913
Tax amortization benefits		28,870
Issuance of common stock		11,308
Assumed bank loans		17,634
		<hr/>
Total purchase consideration	\$	<u>171,443</u>
Fair value of assets purchased and liabilities assumed		
Cash	\$	2,031
Working capital		(5,703)
Property and equipment		186
Other net assets		209
Management fund contracts		52,625
Intangibles - tradename		17,350
Intangibles - technology		5,950
Goodwill		98,795
		<hr/>
Total assets acquired and liabilities assumed	\$	<u>171,443</u>

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets recognized.

Working capital assets were valued by management based on their carrying amounts due to the short term nature of these financial instruments. The fair value of property and equipment was estimated by management. Acquisition related costs were expensed during the period. During the years ended December 31, 2018 and 2017, the Company incurred \$0.1 million and \$0.7 million, respectively, in acquisition-related costs and has included them in the consolidated statements of operations and comprehensive income.

Columbia Partners

Effective September 30, 2018, RCP Advisors 2, LLC finalized an acquisition for 100% of the assets held by Columbia Partners, LLC, Investment Management (“Columbia”), under an Assignment and Purchase Agreement (“Columbia Purchase Agreement”). The total purchase price consideration was \$1 million, which was funded by cash and additional consideration payable.

Note 3. Significant Accounting Policies

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

P10 Holdings, Inc.
Notes to Consolidated Financial Statements
(in thousands, except share and per share amounts)

Cash and Cash Equivalents

The Company considers as cash equivalents all highly-liquid instruments with original maturities of three months or less to be cash equivalents. The Company maintains its cash balances at a financial institution, which may periodically exceed the Federal Deposit Insurance Corporation (“FDIC”) insured limits. The Company believes it is not exposed to any significant credit risk on cash. At December 31, 2018 and 2017, the Company had no assets classified as cash equivalents.

Restricted Cash

At December 31, 2018, and 2017, the Company had \$0.8 million and \$0, respectively, of compensating balances recorded in restricted cash in the consolidated balance sheets. These balances reflect a letter of credit issued by a third party in lieu of a cash security deposit, as required by the Company’s lease for its Chicago office.

Property and Equipment

Property and equipment is recorded at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the terms of the respective leases or service lives of the improvements, whichever is shorter, using the straight-line method. Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The estimated useful lives of the various assets are as follows:

Computers and purchased software	3 years
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Debt Issuance Costs

Costs incurred for debt issuance are being amortized on a straight-line basis over the terms of the underlying obligation and are included in interest on borrowings, which approximates the effective interest method.

Revenue Recognition of Management Fees and Management Fees Received in Advance

The Company earns management fees on the Funds for ten years from the inception date for each Fund. Fees are generally reduced in year’s six to ten. The Company receives management fees from the funds at the beginning of each quarterly anniversary of the fund anniversary date. Management fees received in advance reflects the amount of management fees that have been received prior to the period the fees are earned from the underlying Funds. These fees are recorded as deferred revenue on the consolidated balance sheet.

The Company also earns management fees on non-discretionary advisory relationships. The Company generally receives management fees from these clients in advance on a quarterly basis. These management fees are recognized and recorded in a similar fashion to the Fund management fees as described above.

Other revenue consists of subscription and consulting agreements, as well as referral fees. The subscription and consulting agreements typically have renewable one-year lives, and revenue is recognized ratably over the current term of the subscription or the agreement. If subscriptions or fees have been paid in advance, these fees are recorded as deferred revenue on the consolidated balance sheet. Referral fee revenue is recognized upon closing of certain opportunities.

Marketing Costs

The Company expenses all marketing-related costs in the period in which they are incurred.

P10 Holdings, Inc.

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

Goodwill and Intangible Assets

Goodwill is initially measured as the excess of the cost of the acquired business over the sum of the amounts assigned to assets acquired less the liabilities assumed. At December 31, 2018 and 2017, goodwill recorded on the consolidated balance sheets relates to the acquisitions of RCP 2 and RCP 3. At December 31, 2018 and 2017, the intangible assets are comprised of indefinite-lived intangible assets and finite-lived intangible assets related to the acquisitions of RCP 2 and RCP 3.

Indefinite-lived intangible assets and goodwill are not amortized. Finite-lived technology is amortized using the straight-line method over its estimated useful life of 5 years. Finite-lived management fund contracts, which relate to acquired separate accounts and funds and investor/customer relationships with a specified termination date are amortized in line with contractual revenue to be received.

Goodwill and intangible assets are tested for impairment at least annually and whenever certain triggering events are met. In assessing the recoverability of the identifiable intangible assets for 2018 and 2017, projections regarding estimated future cash flows and other factors are made to determine the fair value of those assets. No impairment was recorded during the years ended December 31, 2018 and 2017. In assessing the recoverability of goodwill for our annual impairment test, we performed a qualitative assessment of whether it was more likely than not that an impairment had occurred and concluded that a quantitative analysis was not required. No impairment was recorded during the years ended December 31, 2018 and 2017.

Income Taxes

The Company files a consolidated income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities for a change in tax rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

The Company accounts for uncertain tax positions in accordance with ASC 740-10, Income Taxes. ASC 740-10 provides several clarifications related to uncertain tax positions. Most notably, a “more likely-than-not” standard for initial recognition of tax positions, a presumption of audit detection and a measurement of recognized tax benefits based on the largest amount that has a greater than 50 percent likelihood of realization. ASC 740-10 applies a two-step process to determine the amount of tax benefit to be recognized in the financial statements. First, the Company must determine whether any amount of the tax benefit may be recognized. Second, the Company determines how much of the tax benefit should be recognized (this would only apply to tax positions that qualify for recognition.) No additional liabilities have been recognized as a result of the implementation. Accordingly, the Company has not recognized any penalty, interest or tax impact related to uncertain tax positions.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion of a deferred tax asset will not be realized. The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Tax Cuts and Jobs Act of 2017 (“TCJA”) was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and executive compensation, and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system. In accordance with a question and answer document issued by the Financial Accounting Standards Board (FASB) staff on January 11, 2018, the Company is applying the guidance in Securities and Exchange Commission Staff Accounting Bulletin (“SAB”) 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which provides guidance on applying ASC 740, Income Taxes, if the accounting for certain income tax effects of the TCJA are incomplete by the time the consolidated financial statements are issued for a reporting period. Specifically, SAB 118 permits

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companies to use reasonable estimates and provisional amounts for some line items for taxes when preparing year-end 2017 consolidated financial statements. Additional disclosures required by SAB 118 are included in Note 12 - Income Taxes.

Treasury Stock

The Company records common stock purchased for treasury at cost. At the date of subsequent reissuance, the treasury stock account is reduced by the cost of such stock using the average cost method.

Net Income Per Share

The following table sets forth the computation of basic and diluted net loss per share for the years ended December 31, 2018 and 2017 (in thousands, except per share data):

	2018	2017
Net income from continuing operations	\$ 5,988	\$ 481
Net income from discontinued operations	\$ -	\$ 633
Basic and diluted:		
Weighted-average shares of common stock outstanding used in computing basic net income per share	89,411	48,245
Weighted-average shares of common stock outstanding used in computing diluted net income per share	92,543	49,302
Basic net income per share from continuing operations	\$ 0.07	\$ 0.01
Diluted net income per share from continuing operations	\$ 0.06	\$ 0.01
Basic net income per share from discontinued operations	\$ -	\$ 0.01
Diluted net income per share from discontinued operations	\$ -	\$ 0.01

Stock-Based Compensation Expense

We account for our stock-based compensation using the Black Scholes option valuation model. Stock-based compensation cost is estimated at the grant date based on the fair-value of the award and is recognized as expense ratably over the requisite service period of the award, generally five years. We develop our estimates of expected life and forfeitures based on historical data. We estimate stock price volatility based on historical volatilities. The risk-free rates are based on the U.S. Treasury yield in effect at the time of grant. Details of our stock-based compensation include the following (in thousands):

	2018	2017
Stock-based compensation expense by caption:		
General and administrative	\$ 359	\$ 302
	\$ 359	\$ 302
Stock-based compensation expense by type of award:		
Stock options	\$ 359	\$ 302
Restricted stock awards	-	-
	\$ 359	\$ 302

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Assumptions used in the Black-Scholes model for our stock plans are presented below:

	2018	2017
Weighted average expected life in years	7.5 years	3.0 years
Weighted average expected volatility	98.57%	101.50%
Volatility	98.57%	101.50%
Risk-free interest rate	2.78%	1.50%
Weighted average forfeiture rate	0%	0%

Segment Reporting

We operate as a single operating segment. According to the FASB ASC Topic Disclosures about Segments of an Enterprise and Related Information, operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Business Acquisitions

The Company includes the results of operations of acquired businesses beginning on the respective acquisition dates. In accordance with ASC 805, the Company allocates the purchase price of an acquired business to its identifiable assets and liabilities based on the estimated fair values. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. The excess value of the net identifiable assets and liabilities acquired over the purchase price of an acquired business is recorded as a bargain purchase gain. The Company uses all available information to estimate fair values of identifiable intangible assets and property acquired. In making these determinations, the Company may engage an independent third party valuation specialist to assist with the valuation of certain intangible assets, notes payable, and tax amortization benefits.

Recent Accounting Pronouncements

In February 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The standard takes effect for all entities for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption of the amendments in this update is permitted for public business entities for reporting periods for which financial statements have not yet been issued and for all other entities for reporting periods for which financial statements have not yet been made available for issuance. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope in Modification Accounting, which clarifies and reduces diversity in practice, cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. An entity should account for the effects of a modification unless the fair value, vesting conditions and classification of the modified award are the same for the modified award as for the original award. ASU 2017-09 is effective for all entities for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, and requires a prospective approach. The amendments in this update are required to be applied prospectively to awards modified on or after the adoption date. The Company adopted this guidance on January 1, 2018 with no impact to the Company's financial position, results of operations or cash flows.

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In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. An entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which provides a screen to determine when an asset acquired or group of assets acquired is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. For public entities, ASU 2017-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2018. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period balances on the statement of cash flows upon adoption of this standard. For public entities, ASU 2016-18 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2018. We do not expect the adoption of this standard will have a material effect on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This amendment eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be prospectively as of the earliest date practicable. We are evaluating the new guidance to determine the impact that adopting this new accounting standard will have on our consolidated financial statements and footnote disclosures. ASU 2016-15 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application is permitted, including adoption in an interim period.

In February 2016, the FASB issued ASU 2016-02, which amends the guidance in U.S. GAAP for the accounting for leases. ASU 2016-02 requires a lessee to recognize assets and liabilities arising from most operating leases in the consolidated statement of financial position. It requires these operating leases to be recorded on the balance sheet as right of use assets and offsetting lease liability obligations. The Company adopted ASU 2016-02 on its effective date of January 1, 2019 on a modified retrospective basis applying the transition option permitted by ASU 2018-11, which does not require restatement of comparative periods but instead requires a cumulative adjustment to opening retained earnings at the January 1, 2019 adoption date. The Company elected the package of practical expedients to alleviate certain operational complexities related to the adoption. The Company recorded a net increase of approximately \$5.5 million in its assets and liabilities related to the right-of-use asset and lease liability for its current operating leases upon adoption of ASU 2016-02 and does not expect the adoption

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to have a material impact on its results of operations or cash flows. See Note 11, Commitments and Contingencies, for information on the Company's operating lease commitments.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes the revenue recognition requirements in the ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. The core principle of the new ASU No. 2014-09 is for companies to recognize revenue from the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled to receive in exchange for those goods or services. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. The Company adopted this guidance on January 1, 2018 and adopted the modified retrospective approach. The Company's implementation analysis has been completed, and we have identified similar performance obligations under this guidance as compared with deliverables and separate units of account previously identified under Topic 605. As a result, the timing of the recognition of our revenue remains the same as under Topic 605, and therefore the adoption does not have any effect on the timing of the recognition of revenue.

Note 4. Discontinued Operations

In 2017, the Company as part of its pre-packaged bankruptcy filing settled the liabilities associated with our discontinued operations favorably resulting in income from discontinued operations including (a) the contingent liability associated with the lease of our manufacturing facility at an amount less than accrued, resulting in earnings reported as discontinued operations of \$392 and (b) the management incentive bonus earned in 2015 of \$241 was reversed as the result of the terms of the restructuring plan.

Note 5. Property and Equipment

Property and equipment consists of the following at December 31, 2018 and 2017 (in thousands):

	2018	2017
Computers and purchased software	\$ 121	\$ 5
	121	5
Less: accumulated depreciation	(75)	(4)
	\$ 46	\$ 1

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Note 6. Intangibles

Intangibles consists of the following at December 31, 2018 (in thousands):

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Indefinite-lived intangible assets:			
Tradenames	\$ 17,350	\$ -	\$ 17,350
Total indefinite-lived intangible assets	17,350	-	17,350
Finite-lived intangible assets:			
Management fund contracts	53,626	(11,262)	42,364
Technology	5,950	(1,480)	4,470
Total finite-lived intangible assets	59,576	(12,742)	46,834
Total intangible assets	<u>\$ 76,926</u>	<u>\$ (12,742)</u>	<u>\$ 64,184</u>

Intangibles consists of the following at December 31, 2017 (in thousands):

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Indefinite-lived intangible assets:			
Tradenames	\$ -	\$ -	\$ -
Total indefinite-lived intangible assets	-	-	-
Finite-lived intangible assets:			
Management fund contracts	42,076	(1,884)	40,192
Technology	-	-	-
Total finite-lived intangible assets	42,076	(1,884)	40,192
Total intangible assets	<u>\$ 42,076</u>	<u>\$ (1,884)</u>	<u>\$ 40,192</u>

Management fund contracts are amortized over 10 years and are being amortized in line with revenues generated by the contracts. Technology is amortized on a straight-line basis over 5 years.

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Note 7. Accrued Expenses

Accrued liabilities consist of the following at December 31, 2018 and 2017 (in thousands):

	2018	2017
Compensation, severance and benefits	\$ 1,373	\$ 62
Accrued Interest	1,500	23
Idle facility costs	423	-
Provision for lease settlement	605	-
Other	199	29
Accrued franchise tax	-	34
	\$ 4,100	\$ 148

Note 8. Post-closing Payment

In connection with the Columbia acquisition on September 30, 2018, the Columbia Purchase Agreement provided post-closing payments totaling \$875 to be paid in seven equal quarterly installments beginning December 30, 2018.

Note 9. Debt

Debt consists of the following at December 31, 2018 and 2017:

	2018	2017
Notes payable to sellers	\$ 77,564	\$ 79,276
Credit and guaranty agreement - term note	92,864	-
Credit and guaranty agreement - line of credit	-	-
Loans payable	-	11,700
	170,428	90,976
Less debt issuance costs	(2,735)	(3,284)
Less debt discount	(18,887)	(1,950)
	\$ 148,806	\$ 85,742

Notes Payable to Sellers

On October 5, 2017, the Company issued Secured Promissory Notes Payable (“2017 Seller Notes”) in the amount of \$81.3 million to the owners of RCP 2 in connection with the acquisition of that entity. The 2017 Seller Notes mature on January 15, 2025. The 2017 Seller Notes are non-interest bearing and will be paid using cash generated from the business operations and borrowings under the Credit and Guaranty Agreement described below. The 2017 Seller Notes were recorded at their discounted fair value in the amount of \$78.7 million. Non cash interest expense will be recorded on a periodic basis increasing the 2017 Seller Notes to their gross value.

On Jan 3, 2018, the Company issued Secured Promissory Notes Payable (“2018 Seller Notes”) in the amount of \$22.1 million and tax amortized benefits in the amount of \$48.4 million (“TAB Payments”) to the owners of RCP 3 in connection with the

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acquisition of that entity. The 2018 Seller Notes mature on January 15, 2025. The 2018 Seller Notes and TAB Payments are non-interest bearing and will be paid using cash generated from the business operations and borrowings under the Credit and Guaranty Agreement described below. The 2018 Seller Notes and TAB Payments were recorded at their discounted fair value in the amount of \$21.2 million and \$28.9 million, respectively. Non cash interest expense will be recorded on a periodic basis increasing the 2018 Seller Notes and TAB Payments to their gross value.

During the years ended December 31, 2018 and 2017, we recorded combined interest expense on the 2018 Seller Notes and 2017 Seller Notes (collectively the “Seller Notes”) in the amount of \$2.4 million and \$0.4 million, respectively. During the years ended December 31, 2018 and 2017 we recorded \$1.3 million and \$0 in interest expense related to the TAB Payments. The Seller Notes mature on January 15, 2025, and the TAB Payments mature on April 15, 2037. During 2018, payments in the amount of \$72.2 million were made on the Seller Notes. Of that \$72.2 million, \$3.1 was paid out of operating cash generated by operations, the remainder was paid by drawing on the term loan under the Credit and Guaranty Agreement.

Credit and Guarantee Agreement

The Company’s wholly-owned subsidiary P10 RCP Holdco, LLC (“Holdco”) entered into a Credit and Guaranty Agreement (“Facility”) with HPS Investment Partners, LLC (“HPS”) as administrative agent and collateral agent on October 7, 2017. The agreement provides for a \$130.0 million senior secured credit facility in order to refinance the existing debt obligations of RCP Advisors and provide for the financing to repay the Seller Notes due resulting from the acquisition of RCP Advisors. The Facility provides for a \$125 million five year term loan and a \$5 million one year line of credit.

Subject to certain EBITDA levels and conditions, Holdco may draw up to \$125 million in aggregate on the term loan in tranches through July 31, 2019. Interest is calculated upon each tranche at the LIBO Rate for either one, two, three, or six months, as selected by Holdco, plus an applicable margin of 6.00% per annum. To date, Holdco has chosen the 3-month LIBO Rate at the time of each draw and each subsequent repricing at the end of the chosen LIBO period. Principal is repaid at a rate of 0.75% of the original tranche draw per calendar quarter. Holdco took a \$55 million draw on the term loan on January 3, 2018, a \$25 million draw on August 15, 2018, and a \$15 million draw on December 3, 2018. The maturity date of all term loan tranches is October 7, 2022.

The Facility contains affirmative and negative covenants typical of such financing transactions, and specific financial covenants which require Holdco to maintain a minimum leverage ratio, asset coverage ratio and a fixed charge ratio. The Facility also contains restrictions regarding the creation of indebtedness, the occurrence of mergers or consolidations, the payment of dividends and other restrictions. As of December 31, 2018, Holdco was in compliance with all of the financial covenants required under the Facility. The outstanding balance of the Facility was \$92.9 million and \$0 at December 31, 2018 and 2017, respectively.

Loans Payable

The Company assumed outstanding term loans with a balance of \$12.6 million when it acquired RCP 2. The primary term loan was for a five year term with sixteen remaining principal payment of \$731. Interest on the term loan was based on the banks’ prime rate plus 200 basis points. During 2018, the term note was paid by drawing on the term loan under the Credit and Guaranty Agreement. The outstanding balance at December 31, 2018 and 2017 was \$0 and \$11.7 million, respectively.

The Company assumed an outstanding revolving line of credit with a balance of \$5.0 million when it acquired RCP 3. The revolving line of credit was for a one-year term with the outstanding principal due upon maturity. Interest on the revolving line of credit was based on the banks’ prime rate plus 100 basis points. During 2018, the revolving line of credit was paid by drawing on the term loan under the Credit and Guaranty Agreement. The outstanding balance at December 31, 2018 was \$0.

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Future principal maturities of debt at December 31, 2018 are as follows:

2019	\$	2,850
2020		2,850
2021		2,850
2022 and thereafter		161,878
	\$	<u>170,428</u>

Debt Issuance Costs

During 2017 and 2018, the Company incurred \$3.4 million and \$289, respectively, of debt issuance costs with the acquisition of RCP 2 and RCP 3, which have been recorded as a direct reduction from the face amount of the debt facilities and amortized over the term of the related debt.

Debt issuance costs are offset against the debt balance with which the costs are associated. Costs were accrued prior to the issuance of the debt which resulted in a balance of (\$3,284) as of December 31, 2017 for the credit and guarantee facility. Unamortized debt issuance costs for this facility as of December 31, 2018 were \$2,735.

Amortization expense related to debt issuance costs totaled \$839 and \$180 for the years ended December 31, 2018 and 2017, respectively, and are included within interest expense implied on notes payable to sellers on the accompanying consolidated statements of operations and comprehensive (loss) income. Unamortized costs are \$2.7 million at December 31, 2018.

Note 10. Related Party Transactions

Effective May 1, 2018, P10 Holdings pays a monthly services fee of \$31.7 for administration and consulting services along with a monthly fee of \$18.8 for certain reimbursable expenses to 210/P10 Acquisition Partners, LLC, which owns approximately 24.9% of P10 Holdings and is considered under common control. In addition, P10 Holdings paid 210/P10 Acquisition Partners, LLC a one-time retainer for \$46.9 in 2018, plus \$129.9 in retroactive expenses. In total, P10 paid 210/P10 Acquisition Partners \$581 in 2018.

Note 11. Commitments and Contingencies

Operating Leases

The Company leases office space and various equipment under non-cancelable operating leases, expiring through October 2024. These lease agreements provide for various renewal options. The information in the table below does not include any renewal options unless those options have been exercised. Rent expense for the various leased office space and equipment, was approximately \$1.3 million and \$0 for the years ended December 31, 2018 and 2017.

During 2018, the Company ceased to use a Chicago office space, 100 North Riverside Plaza (“Riverside”), and entered into a sublease agreement, commencing in January 2019, for a portion of the Riverside office space. The lease has not been terminated and will continue to incur costs without future benefit. The Company estimated a lease liability (“idle facility costs”) for the lease abandonment in accordance with ASC 420, Exit or Disposal Cost Obligation, equal to the fair value of the remaining lease payments less estimated sublease rentals. The outstanding balance of the idle facility costs was \$423 at December 31, 2018 and included in accrued expenses on the accompanying consolidated balance sheets.

During 2018, the Company entered into a sublease agreement for a portion of a Chicago office space located at 353 North Clark Street. Sublease rental income was approximately \$100,000 for year ended December 31, 2018.

Our former corporate headquarters facility was a 127,000 square foot building we leased in Austin, Texas. We leased this building pursuant to a lease agreement that was set to expire in December 2021. Our discontinued manufacturing, administrative, information systems, sales and service groups utilized this facility. The purchase agreement with Langley

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contemplated that the parties would execute a sublease under which Langley would assume the full lease obligations for the facility for one year and for one third of the space and obligations for the remaining term of the lease. The landlord of the facility refused to consent to the sublease, and Langley agreed to close on the sale without the landlord's consent to the sublease of the facility. The landlord then notified us that it considered us in breach of the lease agreement for the facility. We had recorded a provision in our December 31, 2016 financial statements for vacating the lease in an amount equal to one year of lease payments amount, or approximately \$1.2 million as our best estimate of the likely exposure to settle our outstanding lease obligation. This matter led us to file under Chapter 11 of the Federal Bankruptcy Code on March 22, 2017, using a prepackaged plan of reorganization. The matter was settled during 2017 under the plan, resulting in Langley assuming the full lease obligation in exchange for a payment from us of \$1 million consisting of \$0.8 million of cash and \$0.2 million from our lease deposit.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2018 are as follows:

2019	\$	1,592
2020		1,439
2021		1,342
2022		1,377
2023		1,412
Thereafter		1,096
	<u>\$</u>	<u>8,258</u>

Severance Agreement

We have entered into Severance Benefits Agreement with our chief financial officer. This agreement generally provided that, if within 12 months following a change in control the executive officer's employment is terminated for reasons other than for cause (as defined in such executive's agreement) or by the executive for good reason, including a significant reduction in the role and/or responsibility of the executive within 12 months of the change in corporate control, then all outstanding stock options or restricted shares held by the executive would vest as of the date of the termination and certain severance payments would be payable. In the event of termination of employment by us for reasons other than for cause or by the executive for good reason, he would be entitled to a severance payment equal to 12 months of salary and be entitled to receive health benefits for 12 additional months after termination. In April 2018, the Company entered into a separation agreement with the chief financial officer and recorded a severance expense of \$316 included in compensation and benefits on the accompanying consolidated statements of operations and comprehensive loss (income). The outstanding balance of the severance was \$145 at December 31, 2018 and included in accrued expenses on the accompanying consolidated balance sheets.

Contingencies

We may be involved, either as plaintiff or defendant, in a variety of ongoing claims, demands, suits, investigations, tax matters and proceedings that arise from time to time in the ordinary course of our business. We evaluated all potentially significant litigation, government investigations, claims or assessments in which we are involved and do not believe that any of these matters, individually or in the aggregate, will result in losses that are materially in excess of amounts already recognized, if any.

Note 12. Income Taxes

The Tax Act was enacted in December 2017. The Tax Act significantly changes U.S. tax law by, among other things, lowering U.S. corporate income tax rates, implementing a territorial tax system and imposing a one-time transition tax on deemed repatriated earnings of foreign subsidiaries. The Tax Act reduces the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As the Company's ending deferred tax asset relates to net operating

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losses expected to be realized, and was determined as of 12/31/18, the reduction in the U.S. corporate income tax rate from 35% to 21% under the Tax Act did not result in a net change of ending deferred tax assets or liabilities as the revaluation was offset by a corresponding offset to the valuation allowance.

The components of the provision (benefit) for income taxes attributed to continuing operations are as follows:

	2018	2017
Current state income tax expense	\$ -	\$ -
Current federal income tax expense	-	-
Deferred state income tax expense	(2,486)	(452)
Deferred federal income tax expense	(6,449)	(1,459)
	\$ (8,935)	\$ (1,911)

As of December 31, 2018, we had federal and apportioned state net operating loss carry-forwards, or NOL's, of approximately \$265.6 million and \$7.9 million, respectively, and research and development credit carry-forwards of approximately \$4.1 million. A portion of the net operating loss and credit carry-forwards will expire beginning in 2019, if not utilized. Utilization of the net operating losses and tax credits may be subject to substantial annual limitations due to the “change of ownership” provisions under the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credit carryforwards before utilization.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred taxes as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets:		
Stock compensation	\$ 284	\$ 172
Net operating loss and tax credit carryforwards	60,262	62,460
Acquired intangibles	2,006	325
Goodwill	-	395
Deferred rent	296	-
Interest expense	922	-
Other	35	-
Total Deferred Tax Assets	63,805	63,352
Valuation allowance for deferred tax assets	(51,103)	(61,328)
Deferred tax asset net of valuation allowance	12,702	2,024
Deferred tax liabilities:		
Capital expenses	(13)	-
Goodwill	(1,843)	-
Interest expense	-	(113)
	(1,856)	(113)
Net deferred tax asset (liability)	\$ 10,846	\$ 1,911

Due to the uncertainty surrounding the timing of realizing the benefits of our favorable tax attributes in future tax returns the Company has placed a valuation allowance against our net deferred tax asset, exclusive of goodwill, other than \$12.8 million we expect to realize during the next five years. During the years ended December 31, 2018 and 2017, the valuation allowance

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decreased by approximately \$10.2 million and \$34.7 million, respectively, due primarily to operations, acquisitions and the impact of changes in tax law.

Our provision for income taxes differs from the expected tax expense (benefit) amount computed by applying the statutory federal income tax rate of 34% for 2017 and 21% for 2018 to income before taxes due to the following:

	2018	2017
Federal statutory rate	-21.0%	-34.0%
State statutory rate	-8.7%	-14.5%
Expiration and adjustment of net operating losses	25.3%	0.0%
Permanent items and other	1.0%	-58.5%
Effect of Tax Act	0.0%	2,428.4%
Tax carryforwards not benefited	-299.6%	-2,455.0%
	<u>-303.0%</u>	<u>-133.6%</u>

We recognized no material adjustment in the liability for unrecognized income tax benefits under ASC 740-10. The reconciliation of our unrecognized tax benefits as of December 31, 2018 and 2017 are as follows:

	2018	2017
Balance at January 1,	\$ 1,886	\$ 2,387
Additions for tax positions of current year	-	-
Additions for tax positions of prior years	-	32
Reductions for tax positions of prior years	-	(533)
Settlements	-	-
Balance at December 31,	<u>\$ 1,886</u>	<u>\$ 1,886</u>

Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not materially impact our effective tax rate. Our assessment of our unrecognized tax benefits is subject to change as a function of the audit of our financial statements.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2018, we had no accrued interest or penalties related to uncertain tax positions. The tax years 2014 through 2018 remain open to examination by the major taxing jurisdictions to which we are subject.

Note 13. Stockholders' Equity

Common Stock

Common stock reserved for future issuance at December 31, 2018 consisted of 5,628,781 and 8,000,000 shares reserved under our 2010 Stock Incentive Plan and 2018 Stock Incentive Plan, respectively of which 93,000 and 2,000,000 shares, respectively, were subject to outstanding options and 5,535,781 and 6,000,000 shares, respectively, were available for future grants of awards.

On May 28, 2014, our stockholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 30 million shares to 40 million shares. On May 3, 2017, through the

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court reorganization process an amendment to the Company's Restated Certificate of Incorporation further increased the authorized shares of common stock from 40 million to 110 million.

Stock Option Plans

Options granted under the 2010 Incentive Plan and 2018 Incentive Plan vest over a period of up to four years and 5 years, respectively. The term of each option is no more than ten years from the date of grant. Our policy is to issue new shares when required to issue shares upon option exercises. The sale of the business to Langley triggered the change in control provisions of the stock incentive plans which resulted in the accelerated vesting of all outstanding stock options and restricted stock units. This resulted in the accelerated expense recognition of all outstanding grants outstanding at that time.

In conjunction with the bankruptcy proceeding in 2017, the Company terminated the 2000 and 2010 Stock Incentive Plans, whereby 1,113,000 shares held by the CEO, CFO and current Chairman of the Board subject to outstanding options were cancelled and returned to the stock option pool. In addition, the CEO was granted 1,600,000 nonqualified stock options at an exercise price of \$0.30. These options are fully vested, have a ten year exercise period and were issued outside of the 2010 Stock Incentive Plan. When the options are exercised the Board of Directors has the option of issuing shares of common stock or paying a lump sum cash payment on the exercise date equal to the difference between the common stock's fair market value on the exercise date and the option price.

A summary of common stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value (whole dollars)
Outstanding at December 31, 2016	1,206,000	\$ 2.44		
Granted	1,600,000	0.30		
Exercised	-	-		
Canceled	(1,113,000)	2.33		
Outstanding at December 31, 2017	1,693,000	0.49		
Granted	2,000,000	1.42		
Exercised	-	-	-	
Canceled	-	-	-	
Outstanding at December 31, 2018	<u>3,693,000</u>	<u>\$ 0.99</u>	<u>8.59</u>	<u>\$ -</u>
Vested and expected to vest at December 31, 2018	<u>1,693,000</u>	<u>0.49</u>	<u>8.08</u>	<u>\$ -</u>
Exercisable at December 31, 2018	<u>1,693,000</u>	<u>0.49</u>	<u>8.08</u>	<u>\$ -</u>

Note 14. Subsequent Events

In accordance with ASC 855, Subsequent Events, the Company evaluated all material events or transactions that occurred after December 31, 2018, the consolidated balance sheet date, through March 29, 2019, the date the consolidated financial statements were issued, and determined no additional events or transactions which would materially impact the consolidated financial statements.