Audited Annual Report to Shareholders for The Year Ended December 31, 2019

P10 Holdings, Inc.

Delaware	**74-2961657**
(State of Incorporation)	*(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 November 1, 2020

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

Independent Auditors' Report

The Board of Directors and Stockholders
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, 2019 and 2018, and the related consolidated statements of operations, changes in stockholders' 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2019, the Company adopted new accounting guidance, Accounting Standards Codification 606, *Revenue from Contracts with Customers* and ASU No. 2016-2, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

KPMG LLP

Chicago, Illinois
November 1, 2020

P10 Holdings, Inc.

Consolidated Balance Sheets

(in thousands, except share amounts)

	As of December 31, 2019	As of December 31, 2018
ASSETS		
Cash and cash equivalents	$ 18,710	$ 8,195
Restricted cash	756	756
Accounts receivable	704	385
Due from related parties	1,901	1,323
Prepaid expenses and other	1,132	266
Property and equipment, net	46	46
Right-of-use assets	5,711	-
Deferred tax assets	21,707	10,798
Intangibles, net	54,814	65,366
Goodwill	97,323	97,323
Total assets	$ 202,804	$ 184,458
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 106	$ 83
Accrued expenses	6,277	4,891
Post-closing payment	250	875
Deferred revenues	7,706	6,120
Lease liabilities	6,578	-
Credit and guaranty facility, net	104,963	90,129
Notes payable to sellers, net	40,883	58,677
Total liabilities	166,763	160,775
Common stock - $0.001 par value; 110,000,000 and 110,000,000 shares authorized, respectively; 89,411,175 and 89,411,175 issued, respectively; 89,234,816 and 89,234,816 outstanding, respectively	89	89
Treasury stock	(273)	(273)
Additional paid-in-capital	323,570	323,153
Accumulated deficit	(287,345)	(299,286)
Total stockholders' equity	36,041	23,683
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 202,804	$ 184,458

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

P10 Holdings, Inc.

Consolidated Statements of Operations

(in thousands, except per share amounts)

	For the Years Ended December 31, 2019	2018
REVENUES		
Management fees	$ 39,240	$ 30,211
Other revenue	5,662	3,790
Total revenues	44,902	34,001
OPERATING EXPENSES		
Compensation and benefits	12,343	9,829
Professional fees	4,572	764
General, administrative and other	4,624	4,373
Amortization of intangibles	10,552	11,026
Other expense	-	747
Total operating expenses	32,091	26,739
INCOME FROM OPERATIONS	12,811	7,262
OTHER INCOME (EXPENSE)		
Interest expense implied on notes payable to sellers	(1,957)	(3,515)
Interest expense, net	(9,415)	(6,640)
Total other expense	(11,372)	(10,155)
Net income (loss) before income taxes	1,439	(2,893)
Income tax benefit	10,502	8,787
NET INCOME	$ 11,941	$ 5,894
Earnings per share		
Basic earnings per share	$ 0.13	$ 0.07
Diluted earnings per share	$ 0.13	$ 0.07
Weighted average shares outstanding, basic	89,235	89,235
Weighted average shares outstanding, diluted	90,601	90,411

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

P10 Holdings, Inc.

Consolidated Statements of Changes in Stockholders' Equity

(in thousands)

	Common Stock		Treasury stock		Additional	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Paid-in-capital	Deficit	Equity
Balance at December 31, 2017	89,235	$ 89	176	$ (273)	$ 322,950	$ (305,180)	$ 17,586
Stock-based compensation	-	-	-	-	203	-	203
Net income	-	-	-	-	-	5,894	5,894
Balance at December 31, 2018	89,235	$ 89	176	$ (273)	$ 323,153	$ (299,286)	$ 23,683
Stock-based compensation	-	-	-	-	417	-	417
Net income	-	-	-	-	-	11,941	11,941
Balance at December 31, 2019	89,235	$ 89	176	$ (273)	$ 323,570	$ (287,345)	$ 36,041

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 Years Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,941	$ 5,894
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	417	203
Depreciation expense	30	36
Amortization of intangibles	10,552	11,026
Amortization of debt issuance costs and debt discount	2,683	4,353
Benefit for deferred taxes	(10,909)	(8,887)
Change in operating assets and liabilities:		
Accounts receivable	(319)	(385)
Due from related parties	(578)	(632)
Prepaid expenses and other	(866)	699
Right-of-use assets	829	-
Accounts payable	23	(108)
Accrued expenses	2,291	2,252
Deferred revenues	1,586	1,651
Lease liabilities	(867)	-
Net cash provided by operating activities	16,813	16,102
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of RCP Advisors 3, net of cash acquired	-	(12,888)
Acquisition of Columbia Partners assets	-	(125)
Post-closing payments for Columbia Partners assets	(625)	-
Loss on disposal of property and equipment	-	138
Purchases of property and equipment	(30)	(42)
Net cash used in investing activities	(655)	(12,917)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable to sellers	(19,750)	(72,250)
Repayment of loans payable	-	(16,710)
Borrowings on credit and guaranty facility	19,750	100,000
Repayments on credit and guaranty facility	(5,643)	(7,137)
Debt issuance costs	-	(288)
Net cash provided by (used in) financing activities	(5,643)	3,615
Net change in cash and cash equivalents and restricted cash	10,515	6,800
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	8,951	2,151
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of period	$ 19,466	$ 8,951
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 5,756	$ 5,574
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

Note 1. Description of Business and Basis of Presentation

Description of Business

P10 Holdings, Inc. and its majority-owned subsidiaries ("P10 Holdings" or the "Company," which also may be referred to as "we," "our" or "us") operates as an alternative asset management investment firm. The subsidiaries include P10 RCP Holdco, LLC ("Holdco"), which is the entity holding the acquisition financing debt and owns the subsidiaries RCP Advisors 2, LLC ("RCP 2") and RCP Advisors 3, LLC ("RCP 3"). Through the Company's subsidiaries, RCP 2 and RCP 3, we provide investment management and advisory services to affiliated private equity funds, funds-of-funds, secondary funds and co-investment funds (collectively the "Funds").

As of November 19, 2016, P10 Holdings, formerly Active Power Inc., became a non-operating company focused on monetizing its retained intellectual property and acquiring profitable businesses. For the period of 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 our assets and operations for a nominal purchase price plus the assumption of all our indebtedness, including bank debt, liabilities and customer, employee and purchase commitments going forward. The sale of substantially all 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 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 Consolidated 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 $4.7 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 2 and entered into a purchase agreement to acquire RCP 3 in January 2018. On January 3, 2018, we closed on the acquisition of RCP 3. RCP 2 and RCP 3 are registered investment advisors with the United States Securities and Exchange Commission.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of the Company and its consolidated subsidiaries. The Company performs an analysis to determine whether it is required to consolidate entities, by determining if the Company has a variable interest in each entity and whether that entity is a variable interest entity ("VIE"). The Company performs the variable interest analysis for all entities in which it has a potential variable interest, which primarily consist of all partnerships where the Company serves as the general partner or managing member, and general partner entities not wholly owned by the Company. If the Company has a variable interest in the entity and the entity is a VIE, it will also analyze whether the Company is the primary beneficiary of this entity and whether consolidation is required. The consolidated subsidiaries include Holdco, which is the entity holding the acquisition financing debt and owns the subsidiaries RCP 2 and RCP 3. 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 (except for a 5% carried interest in RCP FF Small Buyout Co-Investment Fund, LP). RCP 2 and RCP 3 serve as the advisors of the Funds and receive management fees for the services performed. In the opinion of management, all required adjustments have been made so that the Consolidated Financial Statements are presented fairly and that estimates made in preparing the Consolidated Financial Statements are reasonable and prudent.

Note 2. Significant Accounting Policies

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with U.S. GAAP 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.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. As of December 31, 2019 and 2018, cash equivalents include money market funds of $17.6 million and $0, respectively, which approximates fair value. 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.

Restricted Cash

As of December 31, 2019 and 2018, the Company had $0.8 million and $0.8 million, respectively, of compensating balances recorded in restricted cash on 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.

Accounts Receivable and Due from Related Parties

Accounts receivable is equal to contractual amounts reduced for allowances, if applicable. The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established as of December 31, 2019 or 2018. If accounts become uncollectible, they will be expensed when that determination is made.

Due from related parties represents receivables from the Funds for management fees earned but not yet received, reimbursable expenses from the Funds and affiliate notes receivable. These amounts are expected to be fully collectible.

Property and Equipment

Property and equipment are 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

Long-lived Assets

Long-lived assets including property and equipment, lease right-of-use assets, and definite lived intangibles are evaluated for impairment under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360, *Property, Plant, and Equipment*. Long-lived assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets are determined to not be recoverable if the undiscounted estimated future net operating cash flows directly related to the asset, including any disposal value, is less than the carrying amount of the asset. If the carrying value of an asset is determined to not be recoverable, the impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. An estimate of fair value is based on the best information available, including prices for similar assets and discounted cash flow.

Leases

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-2, *Leases* ("ASC 842") using the optional transition method allowed under ASU 2018-11, *Leases: Targeted Improvements*. Consequently, financial information and disclosures for the reporting periods beginning after January 1, 2019 are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting policies under ASC 840, *Leases* ("ASC 840"). ASC 842 provides a number of optional practical expedients as part of the transition from ASC 840. The Company elected the 'package of practical expedients', which permits it to not reassess, under ASC 842, prior conclusions about lease identification, lease classification and initial direct costs. On adoption, the Company recognized $5.7 million of assets and $6.6 million of liabilities related to the right-of-use asset and lease liability, respectively, for its current operating leases. The adoption did not have a material impact on the Consolidated Statements of Operations.

The Company recognizes a lease liability and right-of-use asset in the Consolidated Balance Sheets for contracts that it determines are leases or contain a lease. The Company's leases primarily consist of operating leases for various office space. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the leases. The Company's right-of-use assets and lease liabilities are recognized at lease commencement based on the present value of lease payments over the lease term. Lease right-of-use assets include initial direct costs incurred by the Company and are presented net of deferred rent, lease incentives and certain other existing lease liabilities. Absent an implicit interest rate in the lease, the Company uses its incremental borrowing rate, adjusted for the effects of collateralization, based on the information available at commencement in determining the present value of lease payments. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise those options. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Additionally, upon amendments or other events, the Company may be required to remeasure our lease liability. Upon the amendment of one of our office leases in 2019, we recorded an additional $0.9 million of right-of-use assets and lease liabilities.

The Company does not recognize a lease liability or right-of-use asset on the Consolidated Balance Sheets for short-term leases. Instead, the Company recognizes short-term lease payments as an expense on a straight-line basis over the lease term. A short-term lease is defined as a lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise. When determining whether a lease qualifies as a short-term lease, the Company evaluates the lease term and the purchase option in the same manner as all other leases.

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. As of December 31, 2019 and 2018, goodwill recorded on the Consolidated Balance Sheets relates to the acquisitions of RCP 2 and RCP 3. As of December 31, 2019 and 2018, 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 4 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, which range between 9 and 10 years.

Goodwill is reviewed for impairment at least annually utilizing a qualitative or quantitative approach and more frequently if circumstances indicate impairment may have occurred. The impairment testing for goodwill under the qualitative approach is based first on a qualitative assessment to determine if it is more likely than not that the fair value of the Company's reporting unit is less than the respective carrying value. The reporting unit is the reporting level for testing the impairment of goodwill. If it is determined that it is more likely than not that a reporting unit's fair value is less than its carrying value, or when the quantitative approach is used, a two-step quantitative assessment is performed to (a) calculate the fair value of the reporting unit and compare it to its carrying value, and (b) if the carrying value exceeds its fair value, to measure an impairment loss.

The Company performed the annual goodwill impairment assessment as of September 30, 2019 and 2018 and concluded that goodwill was not impaired. The Company has not recognized any impairment charges in any of the periods presented.

Debt Issuance Costs

Costs incurred for debt issuance are being amortized on a straight-line basis over the terms of the underlying obligation, which approximates the effective interest method, and are presented as a reduction to the carrying value of the associated debt on the Consolidated Balance Sheets and included in interest expense within the Consolidated Statements of Operations.

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.

Variable Interest Entity

VIEs are primarily entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders, as a group, lack one or more of the following characteristics: (a) direct or indirect ability to make decisions, (b) obligation to absorb expected losses or (c) right to receive expected residual returns. A VIE must be evaluated quantitatively and qualitatively to determine the primary beneficiary, which is the reporting entity that has (a) the power to direct activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

To determine a VIE's primary beneficiary, we perform a qualitative assessment to determine which party, if any, has the power to direct activities of the VIE and the obligation to absorb losses and/or receive its benefits. This assessment involves identifying the activities that most significantly impact the VIE's economic performance and determine whether it, or another party, has the power to direct those activities. When evaluating whether we are the primary beneficiary of a VIE, we perform a qualitative analysis that considers the design of the VIE, the nature of our involvement and the variable interests held by other parties. See Note 14 – Variable Interest Entities for further information.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the FASB.

At December 31, 2019 and 2018, we used the following valuation techniques to measure fair value for assets and there were no changes to these methodologies during the periods presented:

Level 1—Assets were valued using the closing price reported in the active market in which the individual security was traded.

Level 2—Assets were valued using quoted prices in markets that are not active, broker dealer quotations, and other methods by which all significant inputs were observable at the measurement date.

Level 3—Assets were valued using unobservable inputs in which little or no market data exists as reported by the respective institutions at the measurement date.

The carrying values of financial instruments comprising cash and cash equivalents, prepaid assets, accounts payable, accounts receivable and due from related parties approximate fair values due to the short-term maturities of these instruments. The fair value of the credit and guarantee facility approximates the carrying value based on the interest rates which approximate current market rates. The seller notes payable and tax amortization benefits were recorded at their discounted fair values upon issuance and a non-cash interest expense is recorded every period on the Consolidated Statements of Operations. Thus, their carrying values approximate fair value. At December 31, 2019 and 2018, the Company did not have any assets or liabilities that were measured at fair value on a recurring basis.

Revenue Recognition of Management Fees and Management Fees Received in Advance

On January 1, 2019, the Company adopted ASC 606, *Revenue from Contracts with Customers* ("ASC 606") using the modified retrospective method. As a result, prior period amounts continue to be reported under legacy GAAP. The adoption did not change the historical pattern of recognizing revenue for management fees. Accordingly, the Company did not record a cumulative adjustment upon adoption.

Revenue is recognized when the Company transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled to in exchange for those goods or services.

While the determination of who is the customer in a contractual arrangement will be made on a contract-by-contract basis, the customer will generally be the investment fund for the Company's significant management and advisory contracts.

The Company's sources of revenue currently include management fee contracts, subscriptions, consulting agreements and referral fees and advisory services fees.

The Company generally earns management fees on the Funds for ten years from the inception date for each Fund. The fee is typically a fixed percentage of limited partner committed capital during the investment period, and then typically steps down to a new rate on either limited partner committed capital, net invested capital, or underlying commitments, as appropriate, by fund. 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 Sheets.

The Company typically satisfies its performance obligation over time as the services are rendered, since the Funds simultaneously receive and consume the benefits provided as the Company performs the service. Revenue for investment management services provided is recognized at the end of the period, as that is when the Company has performed all contractual services for the period and fees have been earned.

Other revenue on the Consolidated Statements of Operations mostly consists of subscriptions, consulting agreements and referral fees, and advisory services 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 Sheets. Referral fee revenue is recognized upon closing of certain opportunities. Advisory services fees mostly include management fees earned on nondiscretionary 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.

Income Taxes

Current income tax expense represents our estimated taxes to be paid or refunded for the current period. In accordance with ASC 740, *Income Taxes* ("ASC 740"), we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets to the amount we believe is more likely than not to be realized.

Uncertain tax positions are recognized only when we believe it is more likely than not that the tax position will be upheld on examination by the taxing authorities based on the merits of the position. We recognize interest and penalties, if any, related to uncertain tax positions in income tax expense.

We file various federal and state and local tax returns based on federal and state local consolidation and stand-alone tax rules as applicable.

Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net income attributable to common stockholders by the weighted-average number of common shares. Diluted EPS includes the determinants of basic EPS and common stock equivalents outstanding during the period adjusted to give effect to potentially dilutive securities. See Note 13 for additional information.

The denominator in the computation of diluted EPS is impacted by additional common shares that would have been outstanding if dilutive potential shares of common stock had been issued. Potential shares of common stock that may be issued by the Company include shares of common stock that may be issued upon exercise of outstanding stock options. Under the treasury stock method, the unexercised options are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase shares of common stock at the average market price during the period.

Stock-Based Compensation Expense

Stock-based compensation is accounted for 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. Expected life is based on the vesting period and expiration date. Stock price volatility is estimated based on a group of similar publicly traded companies determined to be most reflective of the expected volatility of the Company due to the nature of operations of these entities. The risk-free rates are based on the U.S. Treasury yield in effect at the time of grant. Forfeitures are accounted for as they occur.

Segment Reporting

We operate as a single operating segment. According to ASC 280, *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

In accordance with ASC 805, *Business Combinations* ("ASC 805"), the Company identifies a business to have three key elements; inputs, processes, and outputs. While an integrated set of assets and activities that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. In addition, the Company also performs a screen test to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the set is not considered a business, it is accounted for as an asset acquisition using a cost accumulation model. In the cost accumulation model, the cost of the acquisition, including certain transaction costs, is allocated to the assets acquired on the basis of relative fair values.

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 using the acquisition method. 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

The Company adopted ASU No. 2016-15, Statement of Cash Flows ("ASC 320") *Classification of Certain Cash Receipts and Cash Payments* on January 1, 2019. The adoption of this new guidance did not have a material impact on the Consolidated Financial Statements and related disclosures.

The Company adopted ASU No. 2016-18, Statement of Cash Flows (ASC 320) *Restricted Cash* on January 1, 2019. The adoption of this new guidance did not have a material impact on the Consolidated Financial Statements and related disclosures.

The Company adopted ASU No. 2017-01, Business Combinations (ASC 805) *Clarifying the Definition of a Business* on January 1, 2019. The adoption of this new guidance did not have a material impact on the Consolidated Financial Statements and related disclosures.

Pronouncements not yet adopted

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 provides amendments to ASC 326, *Financial Instruments - Credit Losses,* which replaces the incurred loss impairment model with a current expected credit loss ("CECL") model. CECL requires a company to estimate lifetime expected credit losses based on relevant information about historical events, current conditions and reasonable and supportable forecasts. The guidance must be applied using the modified retrospective adoption method on January 1, 2023, with early adoption permitted. The adoption of the new guidance is not expected to have a material effect on the Consolidated Financial Statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement ("ASC 820"): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 changes the fair value measurement disclosure requirements. The amendments remove or modify certain disclosures, while others were added. Early adoption of any removed or modified disclosure requirements is permitted upon issuance of ASU 2018-13 and adoption of the additional disclosure requirements may be delayed until the effective date of January 1, 2020. The adoption is not expected to have a material impact on the Company's Consolidated Financial Statements.

Note 3. Reclassifications and Revisions

Certain reclassifications and revisions have been made to the previously reported Consolidated Financial Statements as of and for the years ended December 31, 2019 and 2018. These adjustments included reclassifying amounts between goodwill and intangible assets, the de-recognition of income recorded in 2019 related to carried interest, the recognition of certain income and expense of a subsidiary on a gross basis, and other smaller adjustments. There were only minor changes to the Consolidated Statements of Cash Flows for 2019 and 2018. The impact from these revisions were not material to the Company's Consolidated Financial Statements for 2019 or 2018. Below is a summary of these adjustments:

	2019		
	As Previously Reported	Adjustment	As Adjusted
Total Assets	$ 202,766	$ 38	$ 202,804
Total Liabilities	166,059	704	166,763
Total Stockholders' Equity	36,707	(666)	36,041
Revenues	45,031	(129)	44,902
Income from Operations	13,099	(288)	12,811
Net Income	12,017	(76)	11,941

	2018		
	As Previously Reported	Adjustment	As Adjusted
Total Assets	$ 183,916	$ 542	$ 184,458
Total Liabilities	160,006	769	160,775
Total Stockholders' Equity	23,910	(227)	23,683
Revenues	33,058	943	34,001
Income from Operations	6,930	332	7,262
Net Income	5,988	(94)	5,894

Note 4. 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 2 and RCP 3, respectively, under a Contribution and Exchange Agreement and a Membership Interest Purchase Agreement. While the acquisitions were subject to different legal documents and had different closing dates, the acquisitions were entered into at the same time and negotiated in contemplation of one another in order to achieve the overall economic and commercial effect of the transactions. Accordingly, the acquisitions were accounted for as a single transaction under ASC 805.

The following is a summary (in thousands) of consideration paid:

		Fair Value
Cash		13,718
Seller notes		99,913
Tax amortization benefits		28,870
Issuance of common stock		11,308
Assumed bank loans		17,634
Total purchase consideration	$	171,443

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 were recorded at their fair value of $78.7 million on the date of acquisition. Additionally, the Company assumed a bank loan in the amount of $12.6 million. The seller's notes are expected to be paid from borrowings under a $130.0 million Credit and Guaranty facility described in Note 8.

The owners of RCP 3 received cash of $13.7 million, non-interest-bearing seller's notes of $22.1 million which were recorded at their fair value of $21.2 million on the date of acquisition, tax amortization benefits ("TAB payments") of $48.4 million which were recorded at their fair value of $28.9 million. Additionally, the Company assumed a bank loan in the amount of $5.0 million. The seller's notes are expected to be paid from borrowings under a $130 million Credit and Guaranty facility described in Note 8.

The following table presents the fair value (in thousands) of the net assets acquired as of the acquisition dates:

		Fair Value
ASSETS		
Cash and cash equivalents	$	2,031
Due from related parties		780
Prepaid expenses and other		1,012
Property and equipment		177
Intangible assets		77,275
Total assets acquired	$	81,275
LIABILITIES		
Deferred revenues	$	4,407
Accrued expenses		2,748
Total liabilities assumed	$	7,155
Net identifiable assets acquired	$	74,120
Goodwill		97,323
Net assets acquired	$	171,443

Working capital, consisting of due from related parties, prepaid expenses and other, deferred revenues and accrued expenses, 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.

Identifiable Intangible Assets

The following table presents the fair value of identifiable intangible assets acquired (dollars in thousands):

	Fair Value	Weighted-Average Amortization Period
Value of management fund contracts	$ 53,975	10
Value of technology	5,950	4
Value of trade name	17,350	N/A
Total identifiable intangible assets	$ 77,275	

The fair value of the management fund contracts was estimated using the excess earnings method. Significant inputs to the valuation model include existing fund revenue, estimates of expenses and contributory asset charges, the economic life of the contracts and a discount rate based on a weighted average cost of capital.

The fair value of technology was estimated using the relief from royalty method. Significant inputs to the valuation model include the royalty rate, the life and the discount rate.

The fair value of the trade name was estimated using the relief from royalty method. Significant inputs to the valuation model include estimates of existing and future revenue, estimated royalty rate, economic life and a discount rate based on a weighted average cost of capital.

The management fund contracts and technology both have a finite useful life. The carrying value of the management fund contracts will be amortized in line with the pattern in which the economic benefits arise and reviewed at least annually for indicators of impairment in value that is other than temporary. The technology will be amortized on a straight-line basis.

The trade name has an indefinite useful life and is not amortized but will be tested at least annually for impairment.

Goodwill

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from assets acquired and liabilities assumed that could not be individually identified. The goodwill recorded as part of the acquisition includes the expected benefits that management believes will result from the acquisition, including the Company's build out of its investment product offering. The goodwill is expected to be deductible for tax purposes. For more information on goodwill, see Note 2.

Financial Information

During the years ended December 31, 2019 and 2018, the Company incurred $0 and $0.1 million, respectively, in acquisition costs related to the acquisition of RCP 2 and RCP 3. These amounts are included in professional fees on our Consolidated Statements of Operations.

We included in our Consolidated Statements of Operations revenues of $16.1 million and net income of $0.4 million, related to the RCP 3 business for the period from January 4, 2018 to December 31, 2018.

As the RCP 2 and RCP 3 acquisitions closed on October 5, 2017 and January 3, 2018, respectively, the transactions are fully reflected in our historical Consolidated Financial Statements as of and for the years ended December 31, 2019 and 2018, respectively. There was no material pro forma financial information to be presented for the RCP 3 acquisition which would have assumed that the transaction closed on January 1, 2018.

Columbia Partners

Effective October 9, 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 acquisition was accounted for as an asset acquisition in accordance with ASC 805.

The total purchase price consideration was $1.0 million, which was funded by cash and additional consideration payable. The Company paid $0.1 million upon closing of the transaction and the remaining balance of $0.8 million was payable over seven equal payments of $0.1 million. Five payments totaling $0.6 million were made in 2019. Accordingly, the Company had a payable balance of $0.2 million and $0.8 million related to these post-closing payments at December 31, 2019 and December 31, 2018, respectively.

The Company’s Consolidated Financial Statements include the results of operations of Columbia subsequent to October 9, 2018.

Note 5. Revenue

The following presents revenues (in thousands) disaggregated by product offering, which aligns with the identified performance obligations and the basis for calculating each amount:

	For the Years Ended December 31, 2019	For the Years Ended December 31, 2018
Management fee contracts	$ 39,240	$ 30,211
Subscriptions	788	806
Consulting agreements and referral fees	1,479	795
Advisory services fees	2,969	1,919
Other revenue	426	270
Total revenues	$ 44,902	$ 34,001

Note 6. Property and Equipment

Property and equipment consist of the following (in thousands):

	As of December 31, 2019	As of December 31, 2018
Computers and purchased software	$ 151	$ 121
Less: accumulated depreciation	(105)	(75)
Total property and equipment, net	$ 46	$ 46

Note 7. Intangibles

Intangibles consists of the following (in thousands):

	As of December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:			
Trade names	$ 17,350	$ -	$ 17,350
Total indefinite-lived intangible assets	17,350	-	17,350
Finite-lived intangible assets:			
Management fund contracts	54,976	(20,495)	34,481
Technology	5,950	(2,967)	2,983
Total finite-lived intangible assets	60,926	(23,462)	37,464
Total intangible assets	$ 78,276	$ (23,462)	$ 54,814

	As of December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived intangible assets:			
Trade names	$ 17,350	$ -	$ 17,350
Total indefinite-lived intangible assets	17,350	-	17,350
Finite-lived intangible assets:			
Management fund contracts	54,976	(11,430)	43,546
Technology	5,950	(1,480)	4,470
Total finite-lived intangible assets	60,926	(12,910)	48,016
Total intangible assets	$ 78,276	$ (12,910)	$ 65,366

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 4 years. The amortization expense for each of the next five years and thereafter are as follows:

2020	$ 9,848
2021	9,240
2022	6,114
2023	4,839
2024	3,488
Thereafter	3,935
Total amortization	$ 37,464

Note 8. Debt

Debt consists of the following (in thousands):

		As of December 31, 2019		As of December 31, 2018
Gross notes payable to sellers	$	57,814	$	77,564
Less debt discount		(16,931)		(18,887)
Notes payable to sellers, net	$	40,883	$	58,677
Gross credit and guaranty facility	$	106,971	$	92,863
Debt issuance costs		(2,008)		(2,734)
Credit and guaranty facility, net	$	104,963	$	90,129
Total Debt	$	145,846	$	148,806

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 Facility ("Facility") described below. The 2017 Seller Notes were recorded at their discounted fair value in the amount of $78.7 million. Non-cash interest expense was recorded on a periodic basis increasing the 2017 Seller Notes to their gross value. As of December 31, 2019 and 2018, the gross value of the 2017 Seller Notes was $6.4 million and $19.8 million respectively.

On January 3, 2018, the Company issued Secured Promissory Notes Payable ("2018 Seller Notes") in the amount of $22.1 million to the owners of RCP 3 in connection with the acquisition of that entity. The 2018 Seller Notes mature on January 15, 2025. The 2018 Seller Notes are non-interest bearing and will be paid using cash generated from the business operations and borrowings under the Facility described below. The 2018 Seller Notes were recorded at their discounted fair value in the amount of $21.2 million. Noncash interest expense was recorded on a periodic basis increasing the 2018 Seller Notes to their gross value. As of December 31, 2019 and 2018, the gross value of the 2018 Seller Notes was $3.0 million and $9.3 million respectively.

On January 3, 2018, the Company issued TAB payments in the amount of $48.4 million to the owners of RCP 3 in connection with the acquisition of that entity. The TAB Payments are non-interest bearing and will be paid in equal annual installments beginning April 15, 2023. The TAB Payments mature on April 15, 2037. The TAB Payments were recorded at their discounted fair value in the amount of $28.9 million. Noncash interest expense is recorded on a periodic basis increasing the TAB Payments to their gross value. As of December 31, 2019 and 2018, the gross value of the 2018 TAB Payments was $48.4 million and $48.4 million respectively.

During the years ended December 31, 2019 and 2018, we recorded combined interest expense on the 2018 Seller Notes and 2017 Seller Notes in the amount of $0.6 million and $2.4 million, respectively. During the years ended December 31, 2019 and 2018, we recorded $1.3 million and $1.3 million in interest expense related to the TAB Payments, respectively. During 2019 and 2018, payments in the amount of $19.8 million and $72.2 million, respectively, were made on the 2017 Seller Notes and 2018 Seller Notes.

The 2017 Seller Notes, the 2018 Seller Notes and the TAB Payments are collectively referred to as "Notes payable to sellers" on the Consolidated Financial Statements.

Credit and Guaranty Facility

The Company's wholly owned subsidiary, Holdco, entered into the Facility with HPS Investment Partners, LLC ("HPS"), an unrelated party, as administrative agent and collateral agent on October 7, 2017. The Facility 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. The line of credit was repaid and subsequently expired during 2018.

Subject to certain EBITDA levels and conditions, Holdco was permitted to draw up to $125 million in aggregate on the term loan in tranches through July 31, 2019. Interest is calculated upon each tranche at LIBOR 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 three-month LIBOR at the time of each draw and each subsequent repricing at the end of the chosen LIBOR 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, a $15 million draw on December 3, 2018, and a $19.8 million draw on June 12, 2019. 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, 2019, Holdco was in compliance with all the financial covenants required under the Facility. The outstanding balance of the Facility was $107.0 million and $92.9 million as of December 31, 2019 and 2018, respectively, and is reported net of unamortized debt issuance costs on the Consolidated Balance Sheets.

Phase-Out of LIBOR

In July 2017, the UK's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR as a benchmark by the end of 2021. At the present time, our Facility has a term that extends beyond 2021. The Facility provides for a mechanism to amend the underlying agreements to reflect the establishment of an alternate rate of interest. However, we have not yet pursued any amendment or other contractual alternative to our Facility to address this matter. We are currently evaluating the potential impact of the eventual replacement of the LIBOR interest rate.

Loans Payable

The Company assumed outstanding term loans with balances of $12.6 million when it acquired RCP 2. During 2018, the term loans were paid by drawing on the term loan under the Facility.

The Company assumed an outstanding revolving line of credit with a balance of $5.0 million when it acquired RCP 3. During 2018, the revolving line of credit was paid by drawing on the one-year line of credit under the Facility described above.

Future principal maturities of debt as of December 31, 2019 are as follows (in thousands):

2020	$	3,443
2021		3,443
2022		100,086
2023		3,227
2024		3,227
Thereafter		51,359
	$	164,785

Debt Issuance Costs

Debt issuance costs are offset against the Credit and Guaranty Facility. Unamortized debt issuance costs for this Facility as of December 31, 2019 and 2018 were $2.0 million and $2.7 million, respectively.

Amortization expense related to debt issuance costs totaled $0.7 million and $0.8 million for the years ended December 31, 2019 and 2018, respectively, and are included within interest expense implied on notes payable to sellers on the accompanying Consolidated Statements of Operations. There were $0 and $0.3 million of debt issuance costs incurred in 2019 and 2018, respectively.

Note 9. Related Party Transactions

Effective May 1, 2018, P10 Holdings pays a monthly services fee of $31.7 thousand for administration and consulting services along with a monthly fee of $18.8 thousand for certain reimbursable expenses to 210/P10 Acquisition Partners, LLC, which owns approximately 24.9% of P10 Holdings. In addition, P10 Holdings paid 210/P10 Acquisition Partners, LLC a one-time retainer of $46.9 thousand in 2018, plus $129.9 thousand in retroactive expenses. In total, P10 Holdings paid 210/P10 Acquisition Partners $0.6 million in 2019 and 2018.

As described in Note 1, RCP 2 and RCP 3 serve as the investment managers to the Funds. Certain expenses incurred by the Funds are paid upfront by RCP 2 and RCP 3 and are reimbursed from the Funds as permissible per fund agreements. As of December 31, 2019, the total accounts receivable from the Funds totaled $1.9 million, of which $0.5 million related to reimbursable expenses and $1.4 million related to management fees earned but not yet received. In certain instances, RCP 3 may incur expenses related to specific products that never materialize.

Note 10. Commitments and Contingencies

Operating Leases

The Company leases office space and various equipment under non-cancelable operating leases, with the longest lease expiring in 2027. 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 $1.2 million and $1.3 million for the years ended December 31, 2019 and 2018.

The following table presents information regarding the Company's operating leases as of December 31, 2019 (in thousands, except weighted-average data):

Operating lease right-of-use assets	$	5,711
Operating lease liabilities	$	6,578
Cash paid for lease liabilities	$	1,256
Weighted-average remaining lease term (in years)		5.37
Weighted-average discount rate		5.98%

The yearly estimated lease payments (in thousands) as of December 31, 2019 are as follows:

2020	$	1,425
2021		1,413
2022		1,450
2023		1,488
2024		1,308
Thereafter		606
Total undiscounted lease payments		7,690
Less discount		(1,112)
Total lease liabilities	$	6,578

As of December 31, 2018, future minimum lease payments (in thousands) under non-cancelable operating leases as presented under ASC 840 were as follows:

2019	$	941
2020		1,309
2021		1,342
2022		1,377
2023		1,412
Thereafter		1,095
Total minimum lease payments	$	7,476

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 11. Income Taxes

The Company's net income (loss) before income taxes for the periods ended December 31, 2019 and December 31, 2018, are as follows (in thousands):

	For the Years Ended December 31,			
	2019		2018	
Net income (loss) before income taxes:				
United States	$	1,439	$	(2,893)
Foreign	$	-		-
	$	1,439	$	(2,893)

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

	For the Years Ended December 31, 2019	For the Years Ended December 31, 2018
Current		
Federal	$ -	$ 100
State	407	-
Total Current	$ 407	$ 100
Deferred		
Federal	$ (11,481)	(8,868)
State	572	(19)
Total Deferred	$ (10,909)	$ (8,887)
Total provision (benefit)	$ (10,502)	$ (8,787)

The reconciliation of the Company's federal statutory rate to the effective tax rate for the years ended December 31, 2019 and 2018 is as follows:

	For the Years Ended December 31, 2019	For the Years Ended December 31, 2018
Federal statutory rate	21.0%	21.0%
State taxes, net of federal benefit	73.4%	8.8%
Expiration and adjustment of net operating losses	0.0%	(25.4%)
Permanent items and other	(18.6%)	(1.2%)
Return to provision adjustments	(1.0%)	(37.7%)
Valuation allowance increase/decrease	(805.1%)	338.2%
Effective rate	(730.3%)	303.7%

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. 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.

Significant components of the Company's deferred taxes as of December 31, 2019 and December 31, 2018 are as follows (in thousands):

	As of December 31, 2019	As of December 31, 2018
Deferred tax assets:		
Stock compensation	268	145
Net operating loss and tax credit carryforwards	59,017	60,272
Acquired intangibles	3,602	2,029
Deferred rent	2	296
Operating lease liabilities	1,914	-
Capitalized transaction costs	437	-
Interest expense	2,004	916
Other	347	35
Total deferred tax assets	67,591	63,693
Valuation allowance for deferred tax assets	(40,370)	(51,067)
Deferred taxe assets, net of valuation allowance	27,221	12,626
Deferred tax liabilities:		
Capital expenses	(12)	(13)
Goodwill	(3,840)	(1,815)
Right of use assets—operating leases	(1,662)	-
Total deferred tax liabilities	(5,514)	(1,828)
Net deferred taxes	21,707	10,798

Due to the uncertainty of realizing the benefits of our domestic favorable tax attributes in future tax returns, the Company has recorded a valuation allowance against its net deferred tax asset other than $27.2 million. During the years ended December 31, 2019 and December 31, 2018, the valuation allowance decreased by approximately $10.6 million and $10.2 million, respectively, due primarily to projected future income from operations, acquisitions and the impact of changes in tax law. Among other factors, the Company's long-term management fee and other long-term fee contracts and related projected income serve as the positive evidence to support the release of the valuation allowance.

As of December 31, 2019, the Company had federal and apportioned state net operating loss carryforwards of approximately $260.8 million and $9.2 million, respectively, and research and development credit carryforwards of approximately $4.0 million. The net operating loss and credit carryforwards will expire beginning in 2020, if not utilized. Utilization of the net operating losses and tax credits may be subject to substantial annual limitation due to the "change of ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credit carryforwards before utilization.

Tax positions are evaluated utilizing a two-step process. The Company first determines whether any of its tax positions are more-likely-than-not to be sustained upon examination, based solely on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The reconciliation of the Company's unrecognized tax benefits at the beginning and end of the year is as follows:

	For the Years Ended December 31,	
	2019	2018
Balance at January 1	$ 1,966	$ 1,886
Additions based on tax positions related to the current year	-	100
Additions for tax positions of prior years	-	-
Reductions for tax positions of prior years	-	(20)
Settlements	-	-
Balance at December 31	$ 1,966	$ 1,966

Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not materially impact the Company's effective tax rate.

The Company does not anticipate any significant changes to the unrecognized tax benefits within the next twelve months. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2019 and 2018, the Company has $0.1 million of accrued interest and penalties related to uncertain tax positions.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is not currently under audit in any other income tax jurisdictions. As of December 31, 2019, with few exceptions, the Company was no longer subject to income tax examinations by any taxing authority for years before 2015. We are generally subject to U.S. federal and state tax examinations for all tax years since 1999 due to our net operating loss carryforwards and the utilization of the carryforwards in years still open under statute.

Note 12. Stockholders' Equity

Common Stock

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 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 five years, respectively. The term of each option is no more than ten years from the date of grant. 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 then-current 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 per share. 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 Remaining (in years)	Aggregate Intrinsic Value (whole dollars)	
Outsanding as of December 31, 2018	3,690,000	$	0.99	8.79	$	768,000
Granted	2,000,000	$	0.82			
Exercised	-					
Expired/Forfeited	(20,000)	$	1.42			
Outsanding as of December 31, 2019	5,670,000	$	0.93	8.25	$	2,668,000
Exercisable as of December 31, 2019	1,690,000	$	0.48	7.20	$	1,648,000

The weighted average assumptions used in calculating the fair value of stock options granted during the years ended December 31, 2019 and 2018 were as follows:

	For the Years Ended December 31, 2019	2018
Expected life	7.5 (yrs)	7.5 (yrs)
Expected volatility	39.60%	39.80%
Risk-free interest rate	2.49%	2.78%
Expected dividend yield	0.00%	0.00%

Compensation expense equal to the grant date fair value is recognized for these awards over the vesting period. The stock-based compensation expense for the years ended December 31, 2019 and 2018 was $0.4 million and $0.2 million, respectively. Unrecognized stock-based compensation expense related to outstanding unvested stock options as of December 31, 2019 was $1.5 million and is expected to be recognized over a weighted average period of 3.58 years. Any future forfeitures will impact this amount.

Note 13. Earnings Per Share

The Company presents basic EPS and diluted EPS for our common stock. Basic EPS excludes potential dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if shares of common stock were issued pursuant to our stock-based compensation awards.

The following table presents (in thousands) a reconciliation of the numerators and denominators used in the computation of basic and diluted EPS:

	For the Years Ended December 31, 2019	For the Years Ended December 31, 2018
Numerator:		
Numerator for basic calculation—Net income attributable to P10 Holdings	$ 11,941	$ 5,894
Denominator:		
Denominator for basic calculation —Weighted-average shares	89,235	89,235
Weighted shares assumed upon exercise of stock options	1,366	1,176
Denominator for earnings per share assuming dilution assuming dilution	90,601	90,411
Earnings per share—basic	$ 0.13	$ 0.07
Earnings per share—diluted	$ 0.13	$ 0.07

The computations of diluted earnings excluded options to purchase 2.6 million and 1.6 million shares of common stock for the years ended December 31, 2019 and 2018, respectively, because the options were anti-dilutive.

Note 14. Variable Interest Entities

As of December 31, 2019 and 2018, P10 Holdings was the direct owner of 100% of the equity interests in Holdco and its 100% owned subsidiaries RCP 2 and RCP 3 and therefore P10 Holdings held variable interests in these entities. The entities are governed through a Board of Managers and the Company's analysis determined that although there was sufficient equity at risk within each entity, the equity owners are unable to exercise kick out or participating rights over the rights of the decision makers. As a result, the entities are considered VIE's. The equity holders do have the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE and have other rights that assist in directing the activities of the VIE's that most significantly impact their economic performance and thus the equity owners are considered the primary beneficiaries of the VIE's.

The majority of the balances and activity included in the Consolidated Financial Statements are those of our consolidated VIE's, RCP 2 and RCP 3, with the exception of the notes payable to sellers, the deferred tax assets and income tax benefit, as well as approximately $1.9 million and $1.8 million of operating expenses for the years ended December 31, 2019 and 2018, respectively, and an immaterial amount of accrued expenses which are those of P10 Holdings.

The Company also performed an analysis to determine whether RCP 2 and RCP 3 should consolidate its advised funds or entities related to such funds and concluded that neither RCP 2 nor RCP 3 have any variable interest in any fund or related entity.

As a result, the Company consolidates Holdco, RCP 2 and RCP 3 based on the VIE model. No further consolidation of RCP 2 or RCP 3 advised funds or related entities was performed.

Note 15. Subsequent Events

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) a global pandemic, which has resulted in significant disruption and uncertainty in the global economic markets. The extent of the operational and financial impact the COVID-19 pandemic may have on the Company has yet to be determined and is dependent on its duration and spread, any related operational restrictions and the overall economy. Currently, we have activated our Business Continuity Plan, which assures the ability for all aspects of our business to continue operating without interruption. We are unable to accurately predict how COVID-19 will affect the results of our operations because the virus's severity and the duration of the pandemic are uncertain. However, we do not expect a significant impact to our near-term results given the structure of our contracts. While it is premature to accurately predict its full impact, we do anticipate an effect on our ability to raise capital for future funds.

Acquisition of Five Points Capital

On April 1, 2020, the Company completed the acquisition of 100% of the capital stock of Five Points Capital, Inc. ("FPC"), an independent private equity manager focused exclusively on the U.S. lower middle market. FPC manages direct private equity, credit and small market, sector-focused buyout fund-of-funds strategies. The transaction was accounted for under the acquisition method of accounting pursuant to ASC 805.

Consideration paid in the transaction consisted of both cash and equity. The following is a summary (in thousands) of consideration paid:

	Fair Value
Cash	$ 46,751
Preferred Stock	20,100
Total purchase consideration	$ 66,851

As part of the purchase consideration, the Company issued redeemable convertible preferred stock of a newly formed subsidiary, P10 Intermediate Holdings, LLC ("Intermediate Holdings"). Intermediate Holdings was the acquiring entity of FPC and is also the owner of Holdco.

We recognized $1.2 million of acquisition-related costs for the year ended December 31, 2019 related to the acquisition of FPC. We have recognized an additional $1.1 million of acquisition-related costs to date in 2020. These costs are included in professional fees on our Consolidated Statements of Operations.

The acquisition date fair values of certain assets and liabilities, including intangible assets acquired and related weighted average expected lives and deferred income taxes, are provisional and subject to revision within one year of the acquisition date. As such, our estimates of fair values are pending finalization, which may result in adjustments to goodwill.

The following table presents the fair value (in thousands) of the net assets acquired as of the acquisition date:

	Fair Value
ASSETS	
Cash and cash equivalents	$ 111
Accounts receivable	322
Prepaid expenses and other	13
Right-of-use assets	339
Intangible assets	23,960
Total assets acquired	$ 24,745
LIABILITIES	
Accounts payable	$ 358
Accrued expenses	389
Long-term lease obligation	339
Deferred tax liability	5,504
Total liabilities assumed	$ 6,590
Net identifiable assets acquired	$ 18,155
Goodwill	48,696
Net assets acquired	$ 66,851

Identifiable Intangible Assets

The following table presents the fair value of identifiable intangible assets acquired (dollars in thousands):

	Fair Value	Weighted-Average Amortization Period
Value of management fund contracts	$ 19,900	10
Value of trade name	4,060	10
Total identifiable intangible assets	$ 23,960	

The fair value of the management fund contracts was estimated using the excess earnings method. Significant inputs to the valuation model include existing fund revenue, estimates of expenses and contributory asset charges, the economic life of the contracts and a discount rate based on a weighted average cost of capital.

The fair value of the trade name was estimated using the relief from royalty method. Significant inputs to the valuation model include estimates of existing and future revenue, estimated royalty rate, economic life and a discount rate based on a weighted average cost of capital.

The management fund contracts and the trade name both have a finite useful life. The carrying value of the management fund contracts and trade name will be amortized in line with the pattern in which the economic benefits arise and reviewed at least annually for indicators of impairment in value that is other than temporary.

Goodwill

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from assets acquired and liabilities assumed that could not be individually identified. The goodwill recorded as part of the acquisition includes the expected synergies and other benefits that management believes will result from the acquisition, including expanding the Company's product offering into private credit. The goodwill is not expected to be deductible for tax purposes.

Financial Information

Since the acquisition date of April 1, 2020, the revenues and net income of the business acquired were $8.5 million and $0.4 million, respectively.

Acquisition of TrueBridge Capital

On October 2, 2020, the Company completed the acquisition of 100% of the issued and outstanding membership interests of TrueBridge Capital Partners, LLC ("TCP") for a total consideration of $186.6 million, which includes cash and preferred stock of Intermediate Holdings. TCP is a leading venture capital firm that invests in both venture funds and directly in select venture-backed companies. The transaction was accounted for as a business combination under the acquisition method of accounting pursuant to ASC 805.

As a result of the limited time since the acquisition date, the initial accounting for the business combination is incomplete. As a result, the Company is unable to provide the amounts recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed and goodwill.

In accordance with ASC 855, *Subsequent Events*, the Company evaluated all material events or transactions that occurred after December 31, 2019, the Consolidated Balance Sheets date, through the date the Consolidated Financial Statements were issued, and determined there have been no additional events or transactions which would materially impact the Consolidated Financial Statements.