

# The PMI Group, Inc

May 15, 2024

Dear Fellow Shareholders;

I would like to take this opportunity to provide you an update on our business development activities, as well as, review our financial performance for the three- month period ended March 31, 2024.

We continue to believe The PMI Group, offers significant value to potential partners and we have recently retained the services of Jefferies & Co as a financial advisor to assist us to identify and advise us on strategic transactions that would benefit the company and our shareholders. With an experienced board, a strong sponsor in Lancer Capital (owned by Avram Glazer), together with significant tax attributes, we believe that, The PMI Group, provides an ideal platform for tax efficient growth.

With regards to our financial performance, for the three -month period ended March 31, 2024, the net loss was (\$221K) compared to a net loss in the three-month period ended March 31, 2023, of (\$252k), an improvement of approximately \$31k or 12.3%. General and administrative expenses were reduced from \$217k to \$172k, an improvement

of approximately \$45k or 20.7%, principally as a result of lower professional fees. Interest expense for the three-month period ended March 31, 2024, was \$50k compared to \$36k in the prior year's same period, an increase of approximately \$14k or 38.9%. The increase in interest expense is attributable to PIK interest. The PMI Group has not had any additional draws on the credit line since November 2022.

The Company as of March 31, 2024 had approximately \$458k in cash and cash equivalents and \$1,670k outstanding on its line of credit with Lancer.

The Company continues to maintain a streamlined operating structure as it continues to actively explore opportunities to enter into strategic transactions to maximize its assets for the value of the Company and its Shareholders. In closing, thank you for your continued support of The PMI Group.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael E Kelly", written in a cursive style.

Michael E Kelly

CEO, Director

The PMI Group, Inc

**THE PMI GROUP, INC.**

---

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

As of and for the period Ending March 31, 2024 and 2023

## CONTENTS

	Page
Unaudited Consolidated Balance Sheets	3
Unaudited Consolidated Statements of Operations	4
Unaudited Consolidated Statements of Changes in Stockholders' Deficit	5
Unaudited Consolidated Statements of Cash Flows	6
Notes to Unaudited Consolidated Financial Statements	7-10

**THE PMI GROUP, INC.**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**

As of March 31, 2024 and 2023  
(in thousands, except share data)

	March 31,	
	2024	2023
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 458	\$ 410
Restricted cash	-	471
Prepaid expenses and other current assets	138	114
Total current assets	<u>\$ 596</u>	<u>\$ 995</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	<u>\$ 304</u>	<u>\$ 153</u>
Non-Current Liabilities:		
Line of Credit	<u>1,670</u>	<u>1,467</u>
Total liabilities	<u>1,974</u>	<u>1,620</u>
Stockholders' deficit:		
Common stock, \$0.01 par value; 10,000,000 shares authorized; 2,074,441 shares issued and outstanding	21	21
Additional paid-in capital	7,967	7,967
Accumulated deficit	<u>(9,366)</u>	<u>(8,613)</u>
Total stockholders' deficit	<u>(1,378)</u>	<u>(625)</u>
Total liabilities and stockholders' deficit	<u>\$ 596</u>	<u>\$ 995</u>

See accompanying notes to the unaudited consolidated financial statements.

**THE PMI GROUP, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

For the Three Months Ended March 31, 2024 and 2023  
(in thousands, except share data)

	March 31,	
	2024	2023
Revenue:		
Interest income	\$ 1	\$ 1
Expenses:		
General, administrative, and other expenses	172	217
Interest expense	50	36
Total expenses	222	253
Net (loss) income	\$ (221)	\$ (252)

See accompanying notes to the unaudited consolidated financial statements.

# THE PMI GROUP, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

For the Three Months Ended March 31, 2024 and 2023  
(in thousands, except share data)

	Common Stock		Additional Paid-		Accumulated	Total
	Shares	Amount	in Capital	Deficit	Stockholders' Deficit	
Balance, January 1, 2024	2,074,441	\$ 21	\$ 7,967	\$ (9,145)	(1,157)	
Net loss	-	-	-	(221)	(221)	
Balance, March 31, 2024	2,074,441	21	7,967	(9,366)	(1,378)	
Balance, January 1, 2023	2,074,441	\$ 21	\$ 7,967	\$ (8,361)	(373)	
Net loss	-	-	-	(252)	(252)	
Balance, March 31, 2023	2,074,441	21	7,967	(8,613)	(625)	

See accompanying notes to the unaudited consolidated financial statements.

**THE PMI GROUP, INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the Three Months Ended March 31, 2024 and 2023

(in thousands, except share data)

	March 31,	
	2024	2023
Cash flows from operating activities:		
Net income (loss)	\$ (221)	\$ (252)
Adjustments to reconcile net loss to net cash used in operating activities:		
Interest expense	50	36
Changes in assets and liabilities:		
Prepaid expenses and other current assets	36	36
Accounts payable and accrued liabilities	22	(6)
Net cash used in operating activities	(113)	(186)
Decrease in cash, cash equivalents and restricted cash	(113)	(186)
Cash, cash equivalents and restricted cash, beginning of period	571	1,067
Cash, cash equivalents and restricted cash, end of period	<u>\$ 458</u>	<u>\$ 881</u>

See accompanying notes to the unaudited consolidated financial statements.



# THE PMI GROUP, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

### 1. Company

On October 1, 2013, The PMI Group, Inc. ("PMI" or the "Company") emerged from Bankruptcy pursuant to the First Amended Plan of Reorganization of the PMI Group, Inc. under Chapter 11 of the United States Bankruptcy Code (the "Plan"). Since emergence, PMI has sought to identify and execute strategic alternatives intended to maximize PMI value.

On August 28, 2015, PMI entered into a series of transactions ("BTO Transactions") in conjunction with the acquisition by BTO PMI Holdings L.P. ("BTO Holdings") of 764,542 common shares from another shareholder, including entry into a Subordinated Loan Agreement with BTO PMI Holdings-NQ, L.P. ("BTO Holdings-NQ") and the issuance of a Warrant to BTO Holdings-NQ (Collectively, BTO Holdings and BTO Holdings-NQ are referred to as "BTO"). Contemporaneous with the BTO transactions, PMI entered into an Investor Rights Agreement and a Registration Right Agreement with BTO which among other things provides BTO with certain governance rights and rights to demand and/or piggy-back in a registered offering under certain circumstances as defined in the agreements.

On November 4, 2022, PMI entered into a Securities Sale Agreement ("SSA") with Lancer Capital LLC ("Lancer") to consent to BTO Holdings selling 764,542 common shares, as well as entering into an Investor Rights Agreement and Registrations Rights Agreement with Lancer Capital LLC. The SSA terminated BTO Holdings Investor Rights Agreement, Registration Right Agreement and warrants dated as of June 25, 2021, with BTO Holdings-NQ.

### 2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements of PMI as of and for the periods ended March 31, 2024, and 2023, have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and in accordance with Accounting Standards Codification, as set forth by the Financial Accounting Standards Board ("FASB"). The following is a summary of significant accounting and reporting policies.

#### Principles of Consolidation

PMI is the 100% owner of PMI Mortgage Insurance Co. ("MIC"). On August 19, 2011, MIC was placed under formal supervision of the Arizona Department of Insurance ("ADI"). On October 20, 2011, the ADI filed a petition and complaint in the Arizona Superior Court, County of Maricopa (the "Receivership Court") seeking to have MIC placed into interim receivership under full possession and control of the ADI, which was granted that day (the "Possession Order"). All intercompany transactions and balances have been eliminated in consolidation.

On March 14, 2012, the Receivership Court, with the consent of PMI's bankrupt estate, entered an order ("the Receivership Order") appointing the Arizona Insurance Commissioner as Receiver and appointing a Special Deputy Receiver to manage the day-to-day affairs of MIC subject to the continuing oversight of the Receivership Court.

MIC is currently subject to the Receivership Order that effects a separation of control between PMI and MIC which, among other things, gives the Receiver exclusive custody and control of MIC's records and assets, including all of MIC's rights to control its operations and those of its subsidiaries.

## THE PMI GROUP, INC.

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

#### 2. Summary of Significant Accounting Policies, continued

The Receivership Order prohibits PMI (as MIC's stockholder) from transacting any of MIC's business or altering any of MIC's records. In accordance with the applicable accounting standards, when a subsidiary becomes subject to the control of a government, court, administrator, or regulator, deconsolidation of that subsidiary is generally required. The Company has therefore deconsolidated MIC for accounting purposes and eliminated the results of MIC's operations for all periods presented. However, MIC does remain as part of the PMI consolidated tax group.

The Company believes they have no responsibilities for liabilities of MIC. Although MIC is currently in rehabilitation, to the extent that MIC is rehabilitated and emerges from receivership, the residual interest would belong to PMI. The accounts of PMI include the accounts of PMI and its subsidiaries – PMI Insurance Co., and PMI Mortgage Service Co. On January 23, 2019, PMI Mortgage Service Co. filed a certificate of dissolution that was accepted by the California Secretary of State.

#### Use of Estimates

The preparation of unaudited consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. The Company believes that the estimates used in preparing its unaudited consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates.

#### Cash Equivalents

The Company considers all highly liquid investments with an original maturity date of three months or less at the date of purchase to be cash equivalents. The Company invests a portion of its cash and cash equivalents into certificates of deposit and money market funds with a maturity of less than one year. As of March 31, 2024, the Company had approximately \$104 invested in money market funds, which are included in cash and cash equivalents. Investments in money market funds are carried at cost, plus accrued interest, which approximates fair value.

#### Income Taxes

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company recognizes interest and penalties related to unrecognized tax benefits as interest expense on the accompanying unaudited consolidated statements of operations. As of March 31, 2024, the Company recorded no interest and penalties.

#### Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of PMI during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. For the three months ended March 31, 2024, and 2023, the Company had no items of other comprehensive income (loss). Therefore, the net (loss) income equals comprehensive (loss) income for the periods then ended.

## THE PMI GROUP, INC.

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

#### 2. Summary of Significant Accounting Policies, continued

##### *Recent Accounting Pronouncements*

In June 2016, The Financial Accounting Standards Board (FASB) issued 2016-13, Financial Instruments, Credit Losses: Measurement of Credit Losses on Financial Instruments (ASC 326). The guidance is effective for periods beginning on or after December 15, 2022, and it changes how entities account for credit losses on the financial assets and other instruments that are not measured at fair value through net income, including available-for-sale debt securities. The Company has determined that this new standard has no material impact on its unaudited consolidated financial statements.

#### 3. Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include interest-earning, highly liquid deposits and are held at financial institutions that may exceed federally insured limits. PMI has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk with respect to cash balances held in these financial institutions. As of March 31, 2024, and 2023, PMI had \$0 and \$471, respectively, of restricted cash which is for the escrow of the CAA (See Note 4).

Cash, cash equivalents and restricted cash as of March 31, 2024, and 2023, is comprised as follows:

	2024	2023
Cash	\$ 354	\$ 311
Cash equivalents	104	99
Restricted cash	-	471
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 458</u>	<u>\$ 881</u>

#### 4. MIC Transactions

On December 12, 2012, PMI and MIC agreed to the Second Amended and Restated Cost Allocation Agreement (the "CAA"), pursuant to which MIC provided certain Transition Services and Additional Services (both as defined in the CAA) to PMI. The agreement required the deposit of funds into an escrow account (the "Escrow Account") for the benefit of both PMI and MIC. The Company with the consent of the Receiver mutually closed the Escrow Account as of May 31, 2023, and transferred these funds to unrestricted cash. To obtain the consent of the Receiver, the Company advanced \$75 directly to MIC as a prepaid deposit for future cost allocations per the CAA. As of March 31, 2024, there were \$0 of costs allocated, bringing the balance to \$69, which is included in prepaid expenses and other current assets on the unaudited consolidated balance sheets. As of March 31, 2024, and 2023, the Company had approximately \$0 and \$471, respectively, held in the Escrow Account. The cash held in the Escrow Account was presented as restricted cash on the unaudited consolidated balance sheets. The parties agreed to pay their respective portions of the PMI Service Costs (as defined in the CAA) as invoiced from each party to the CAA. As of March 31, 2024, and 2023, related party receivables from MIC totaled approximately \$6 and \$7, respectively, which are included in prepaid expenses and other current assets on the unaudited consolidated balance sheets.

## THE PMI GROUP, INC.

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

#### 5. Subordinated Term Loan

##### Subordinated Loan Agreement - Lancer Capital LLC

On November 4, 2022, the Company entered into a Securities Sale Agreement, whereby 764,542 shares of common stock owned by BTO Holdings (see note 1) was sold to Lancer Capital, LLC. The SSA terminated BTO Holdings' Investor Rights Agreement, Registration Right Agreement and warrants dated as of June 25, 2021, with BTO Holdings-NQ. In connection with the SSA, payment of all amounts outstanding under, and the termination of, the Subordinated Loan Agreement dated as of August 28, 2015, with BTO was made on November 4, 2022.

On November 3, 2022, the Company entered into a Subordinated Loan Agreement ("Loan Agreement") with Lancer Capital LLC for the aggregate principal amount up to \$4,000. On November 3, 2022, the Company borrowed \$1,408 under this Loan Agreement in connection with the SSA. The Loan Agreement bears interest at a rate of 10% per annum; however, should the Company elect to pay interest in kind ("PIK") as defined in the Loan Agreement the interest increases to 12% per annum. Since the Company elected PIK, the monthly interest payment will be added to the principal amount of the Loan Agreement. The Loan Agreement has a maturity date of November 3, 2027. Interest expense on this Loan Agreement was \$50 and \$36, respectively, for the three-month period ended March 31, 2024, and 2023.

#### 6. Taxes

PMI files income tax returns in the U.S. Federal jurisdiction and various states. With few exceptions, PMI is no longer subject to U.S. Federal, state, and local income tax examinations by tax authorities for years before 2019. As a matter of course, various taxing authorities, including the IRS, could audit PMI. There were no tax years under examination by major tax jurisdictions as of March 31, 2024, and 2023.

The Company had no unrecognized tax benefits or accrued interest and penalties related to unrecognized tax benefits as of March 31, 2024, and 2023.

#### 7. Commitments and Contingencies

During 2022 a claim was made that a transaction fee in the amount of \$300 is due to a third party as a result of the consummation of a Subsequent Transaction, as such term is defined in a letter between the Company and predecessors or affiliates of the third party dated August 27, 2015. In 2022, the Company contacted the third party and disputed the claim. Through March 2024, the Company has not received any subsequent correspondence on this matter from the third party advising of their intentions or pursuing their claim and as of March 31, 2024, has not accrued any amount for this claim.

#### 8. Subsequent Events

The Company has evaluated all subsequent events for recognition and disclosure through May 7, 2024, the date which these unaudited consolidated financial statements were available to be issued. Nothing has occurred outside the normal course of business operations that require disclosure or recognition as of March 31, 2024.