**THE PMI GROUP, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

As of and for the years ended December 31, 2020 and 2019

**CONTENTS**

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# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
The PMI Group, Inc.

## Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of The PMI Group, Inc. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of income, stockholders' deficit, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

## Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit.

We conducted our audits in accordance with the auditing standards of the PCAOB and 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 of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

BPM LLP

We have served as the Company's auditor since 2015.
San Francisco, California
June 30, 2021

# THE PMI GROUP, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2020 AND 2019

*(in thousands, except share data)*

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ | 1,382 | $ | 2,947 |
| Restricted cash | | 681 | | 687 |
| Short-term investments | | 1,249 | | - |
| Interest receivable | | 25 | | - |
| Tax refund receivable (Note 8) | | - | | 132 |
| Prepaid expenses and other current assets (includes $6 and $16 from related party in 2020 and 2019, respectively) | | 29 | | 33 |
| Total current assets | | 3,366 | | 3,799 |
| Deferred tax assets (Note 8) | | - | | 132 |
| Total assets | $ | 3,366 | $ | 3,931 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities (includes $1 and $1 from related party in 2020 and 2019, respectively) | $ | 34 | $ | 33 |
| Total current liabilities | | 34 | | 33 |
| Term loan | | 6,160 | | 5,567 |
| Total liabilities | | 6,194 | | 5,600 |
| Commitments and contingencies (Note 6) | | | | |
| Stockholders' deficit: | | | | |
| Common stock, $0.01 par value; 10,000,000 shares authorized; 2,074,441 shares issued and outstanding | | 21 | | 21 |
| Preferred stock, $0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding | | - | | - |
| Additional paid-in capital | | 7,967 | | 7,967 |
| Accumulated deficit | | (10,816) | | (9,657) |
| Total stockholders' deficit | | (2,828) | | (1,669) |
| Total liabilities and stockholders' deficit | $ | 3,366 | $ | 3,931 |

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

# THE PMI GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

*(in thousands)*

| | Year Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Revenue: | | |
| Interest income | $ 36 | $ 2 |
| Total revenue | 36 | 2 |
| Expenses: | | |
| General, administrative, and other expenses | 602 | 495 |
| Interest expense - amortization of deferred financing costs | - | 197 |
| Interest expense | 593 | 535 |
| Total expenses | 1,195 | 1,227 |
| Income tax benefit | - | - |
| Net loss | $ (1,159) | $ (1,225) |

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

# THE PMI GROUP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

*(in thousands, except share data)*

| | Common Stock | | Preferred Stock | | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | |
| Balance, January 1, 2019 | 2,074,441 | $ 21 | - | $ - | $ 7,967 | $ (8,432) | $ (444) |
| Net loss | - | - | - | - | - | (1,225) | (1,225) |
| Balance, December 31, 2019 | 2,074,441 | 21 | - | - | 7,967 | (9,657) | (1,669) |
| Net loss | - | - | - | - | - | (1,159) | (1,159) |
| Balance, December 31, 2020 | 2,074,441 | $ 21 | - | $ - | $ 7,967 | $ (10,816) | $ (2,828) |

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

# THE PMI GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

*(in thousands)*

| | For the Years Ended December 31, 2020 | For the Years Ended December 31, 2019 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (1,159) | $ (1,225) |
| Adjustments to reconcile net loss to | | |
| net cash used in operating activities: | | |
| Deferred tax assets | 132 | 132 |
| Amortization of deferred financing costs | - | 197 |
| Paid-In-Kind interest expense | 593 | 535 |
| Change in fair value of warrant liability | - | (20) |
| Changes in assets and liabilities: | | |
| Interest receivable | (25) | - |
| Tax refund receivable | 132 | 132 |
| Prepaid expenses and other current assets | 4 | 5 |
| Accounts payable and accrued liabilities | 1 | (8) |
| Net cash used in operating activities | (322) | (252) |
| Cash flows from investing activities: | | |
| Purchases of investments | (3,239) | - |
| Sale of investments | 1,990 | - |
| Net cash used in investing activities | (1,249) | - |
| Decrease in cash, cash equivalents and restricted cash | (1,571) | (252) |
| Cash, cash equivalents and restricted cash, beginning of period | 3,634 | 3,886 |
| Cash, cash equivalents and restricted cash, end of period | $ 2,063 | $ 3,634 |

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

# THE PMI GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(in thousands, except share data)*

### 1. The 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. In connection with these efforts, PMI is pursuing and exploring a number of options, including, among others, discussions with respect to the sale or financing of PMI's assets and future operations, other potential avenues to raise additional capital including debt, preferred stock or common stock, as well as potential corporate transactions. As of December 31, 2020, PMI has not executed definitive agreements relating to any material transaction other than the BTO Transactions noted below.

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") (See Note 6) 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.

### 2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements of PMI as of and for the years ended December 31, 2020 and 2019, 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.

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

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 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 consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company believes that the estimates used in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates and may have an impact on future periods.

***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 maturities of less than one year. As of December 31, 2020, the Company had approximately $1,201 invested in certificates of deposit and money market funds. Investments in certificates of deposit and money market funds are carried at cost, plus accrued interest, which approximates fair value. The Company did not have any of its cash invested in certificates of deposit and money market funds as of December 31, 2019.

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

***Fair Value***

FASB Accounting Standards Codification ("ASC") 820 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Company's investments and requires additional disclosure about fair value. Fair value is an estimate of the price the Company would receive to sell an asset or pay to transfer a liability in an orderly arm's length transaction between market participants at the measurement date and sets out a fair value hierarchy. The valuation hierarchy is based upon the transparency of inputs used to measure fair value. In accordance with U.S. GAAP, investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted prices (unadjusted) are available in active markets for identical investments as of the reporting date. The types of financial instruments in Level 1 include listed equities and listed derivatives. The Company's investments are U.S. Treasury Bills and therefore are level 1 since the Company is able to value the investments based on quoted prices in an active market.

Level 2: Pricing inputs are other than quoted prices in active markets for identical investments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Financial instruments in this category generally include corporate bonds and loans, less liquid and restricted equity securities, certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Pricing inputs include those that are generally less observable or unobservable and include situations where there is little, if any, market activity for the investment. Financial instruments in this category generally include equity and debt positions in private companies.

Fair value for these investments are determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local markets conditions, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

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

The fair value of the Company's cash and cash equivalents, restricted cash, short-term investments, accounts payable and accrued liabilities, which qualify as financial instruments under the FASB ASC 820, "Fair Value Measurements and Disclosures," approximates the carrying amounts represented in the consolidated statements of financial condition due to their short-term nature.

***Short-Term Investments***

The Company's short-term investments consist of U.S. Treasury Bills with maturities of less than 1 year but greater than 3 months. U.S. Treasury Bills are recorded at amortized cost on the accompanying consolidated statements of financial condition as of December 31, 2020 and adjusted for the amortization or accretion of premiums or discounts. The Company had no investments in U.S. Treasury Bills at December 31, 2019.

***Income Taxes***

PMI accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

PMI recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that it would be able to realize our deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for 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 on the income tax expense line in the accompanying consolidated statement of operations. Accrued interest and penalties are included on the related tax liability line in the accompanying consolidated statements of financial condition.

*(in thousands, except share data)*

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

***Comprehensive Loss***

Comprehensive 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 years ended December 31, 2020 and 2019, the Company had no items of other comprehensive loss. Therefore, the net loss equals comprehensive loss for the years then ended.

***Recent Accounting Pronouncements***

In March 2020, the FASB issued ASU 2020-03, "Codification Improvements to Financial Instruments" ("ASU 2020-03"). ASU 2020-03 improves and clarifies various financial instruments topics. ASU 2020-03 includes seven different issues that describe the areas of improvement and the related amendments to GAAP, intended to make the standards easier to understand and apply by eliminating inconsistencies and providing clarifications. The Company adopted ASU 2020-03, effective January 1, 2020, which did not have a material effect on the Company's consolidated financial statements.

**3. Cash, Cash Equivalents and Restricted Cash**

Cash and cash equivalents includes 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 December 31, 2020, and 2019, PMI had approximately $700 of restricted cash which is for the escrow of the CAA (See Note 4).

As of December 31, 2020, the Company invested in certificate of deposits maturing through January 2021, yielding interest from 1.60% to 1.65% and U.S. Treasury Bill maturing through April 2021, yielding interest of approximately 0.10%, which were subsequently renewed on a monthly basis or transferred to an operating account upon maturity. Certificate of deposits are carried at cost, plus accrued interest, which approximates fair value.

Cash, cash equivalents and restricted cash as of December 31, 2020 and 2019 is as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 1,382 | $ 2,947 |
| Restricted cash | 681 | 687 |
| Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows | $ 2,063 | $ 3,634 |

## 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 total funds contained in the escrow account are approximately $989 and $1,036 as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Company had approximately $700 held in the Escrow Account. The cash held in the Escrow Account is presented as restricted cash on the consolidated statements of financial condition. 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 December 31, 2020 and 2019, related party receivables from MIC totaled approximately $6 and $16, respectively, which are included in prepaid expenses and other current assets on the consolidated statements of financial condition. As of December 31, 2020 and 2019, related party payables to MIC totaled approximately $1 and $1, respectively, which are included in accounts payable and accrued liabilities on the consolidated statements of financial condition.

## 5. Investments

The Company classifies its U.S. Treasury Bills as short term investments. In accordance with FASB ASC 320, "Investments — Debt and Equity Securities." U.S. Treasury Bills are recorded at amortized cost on the accompanying December 31, 2020 consolidated statements of financial condition and adjusted for the amortization or accretion of premiums or discounts. As of December 31, 2020, the amortized cost of these investments approximate fair value. For fair value hierarchy purposes, the U.S. Treasury Bills are considered to be Level 1 investments. Transfers to/from Levels 1, 2, and 3 are recognized at the end of the reporting period. There were no transfers between levels for the year ended December 31, 2020.

## 6. Subordinated Term Loan

On August 28, 2015, PMI entered into the Subordinated Loan Agreement, as amended, ("Loan Agreement") with BTO, pursuant to which BTO has agreed to make available to the Company in one or more term loans, as defined, in an aggregate principal amount up to $8,000 ("Total Commitment"). Any amounts borrowed under the Loan Agreement, and subsequently repaid, may not be re-borrowed. On August 28, 2015, PMI borrowed $4,000 ("Term Loan") under this Loan Agreement. The Company entered into a sixth amendment to the Loan Agreement, dated June 25, 2021, which extends the maturity date of the Term Loan to July 31, 2022 (See Note 9). The Term Loan bears interest at a rate of 10% per annum, payable monthly in arrears.

*(in thousands, except share data)*

**6. Subordinated Term Loan**, continued

All payments of interest on each Term Loan are payable monthly in-kind ("PIK") and will be added to the principal amount of the Term Loan. Interest expense was $593 and $535 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the total outstanding principal balance under this Term Loan was $6,160 and $5,567, respectively. The Term Loan is subject to certain covenants and conditions which, as of December 31, 2020, the Company is in full compliance.

In connection with obtaining the Loan Agreement, PMI incurred and paid debt issuance costs of $1,350 and is presented as a direct deduction from the related Term Loan. The debt issuance costs are being amortized to interest expense over the life of Term Loan using an effective interest method. Amortization expense was approximately $180 for the year ended December 31, 2019. There was no related amortization expense in 2020.

Additionally, in connection with the Loan Agreement, PMI issued BTO a warrant to purchase 419,474 shares of the Company's common stock at an exercise price of $5.00 per share, which expired on August 28, 2020. The Company estimated the fair value of the warrants at the date of issuance to be approximately $127. The amount is reflected as a discount on the debt on the accompanying consolidated statements of financial condition and is being amortized to interest expense over the life of the Term Loan. Amortization expense was approximately $17 for the year ended December 31, 2019. There was no related amortization expense in 2020 as the warrant had expired in 2020.

**7. Common Stock Warrants**

The Company determined the Warrant is classified as a liability and is adjusted to fair value at each year end with the changes in fair value recognized in general, administrative and other expenses in the consolidated statements of operations. The Warrant has expired in 2020. The estimated fair value of the Warrant at December 31, 2019 was $0, based on the Black-Scholes option-pricing model using the weighted-average assumptions below:

| | At December 31, 2019 |
|---|---|
| Volatility | 80% |
| Risk-free interest rate | 1.55% |
| Expected term (in years) | 0.66 |
| Expected dividend yield | - % |
| Fair value of common stock | $0.25 |
| Exercise price | $5.00 |

*(in thousands, except share data)*

## 7. **Common Stock Warrants,** continued

The Company's common stock warrant liability is recorded at fair value, determined using Level 3 inputs. A reconciliation of the liability related to the warrants measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3), is as follows:

| | | |
|---|---|---|
| Balance, January 1, 2019 | $ | 20 |
| Change in fair value of common stock warrants | | (20) |
| Balance, December 31, 2019 | $ | - |

## 8. **Taxes**

As of December 31, 2019, the Company provided current and deferred U.S. Federal income tax benefits related to refundable AMT tax credits stemming from the US tax reform discussed below. As of December 31, 2020, all AMT tax credits have been realized and the Company does not have any remaining deferred tax asset or tax receivable related to refundable AMT tax credits.

The components of deferred tax assets consist of the following:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Net operating losses (1) | $ | 173,693 | $ | 173,445 |
| AMT Credits | | - | | 132 |
| Other | | - | | - |
| Total deferred tax assets | | 173,693 | | 173,577 |
| Less valuation allowance | | (173,693) | | (173,445) |
| Deferred tax assets | $ | - | $ | 132 |
| Deferred tax liabilities: | | | | |
| Other | | - | | - |
| Net deferred tax assets | $ | - | $ | 132 |

(1) The deferred tax asset noted in above table for net operating losses relates to the potential financial benefit of being able to utilize approximately $827 million of Federal NOLs in the future.

**8. Taxes**, continued

The 2017 Tax Cuts and Jobs Act (the "TCJA") repealed the Alternative Minimum Tax ("AMT") regime for tax years beginning after December 31, 2017. For tax years beginning in 2018, 2019, and 2020, the AMT credit carryforward can be utilized to offset regular tax with any remaining AMT carryforwards eligible for a refund of 50% of the outstanding balance. Any remaining AMT credit carryforwards were to become fully refundable beginning in the 2021 tax year. In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted into law, which accelerated the timing of the refundability of the AMT credit carryforward. As a result, any existing deferred tax assets related to the AMT credit carryforwards were reclassified to tax refund receivable during the period ended March 31, 2020 and all refunds were received as of December 31, 2020.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2020. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2020, the Company maintained a full valuation allowance against its net deferred tax asset. The valuation allowance increased by approximately $248 and $247 during the years ended December 31, 2020 and 2019, respectively. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth. The net change in the valuation allowance for the year ended December 31, 2020 and 2019 was primarily due to a change in the Company's net loss from operations.

As of December 31, 2020, PMI's consolidated tax group has approximately $0.5 million of federal tax credits, which may be available to PMI. The federal tax credits are foreign tax credits and low-income housing credits, approximately $0.4 million of which will expire in 2021. The remaining credits will be fully expired by 2023. None of these tax credits are generally available to offset tax liabilities until all applicable NOLs have been utilized. The Company believes that all of the available tax credits will expire unused based upon current and projected taxable income and the relatively short carryforward period for the tax credits. As a result, the Company believes the future realization of these credits will be remote and thus the Company has not recorded a deferred tax asset related to these credits.

**8. Taxes**, continued

As of December 31, 2020, the Company has $144.5 million in California NOLs that expire between 2028 and 2038, however the Company concluded the utilization of these tax losses is remote; and, the Company's current and expected future net operating loss utilization, thus the Company has not recorded a deferred tax asset related to these NOLs.

In general, Section 382 of the Internal Revenue Code ("Section 382") limits the amount of NOL carryforwards and other tax attributes, including certain built-in losses, arising before an "ownership change" that may be used to offset taxable income following the "ownership change." An "ownership change," as defined under Section 382, occurs when certain five percent or greater shareholders of a corporation with NOLs increase their ownership percentage in the corporation by more than 50 percentage points during a rolling three-year period. Pursuant to the Plan, PMI's then-outstanding common stock was extinguished, and new common stock of PMI was issued to creditors, resulting in an "ownership change."

The Internal Revenue Code provides limited exceptions to the application of Section 382. Such limited exception is provided in the Title 11 or similar cases (e.g. bankruptcy context). Management believes that PMI qualifies for such exception under Section 382; and, that and NOLs are not limited due to ownership changes. The tax attribute limitation rules are complex and vary from jurisdiction to jurisdiction. However, Management believes that the total available and utilizable NOLs (not subject to limitation) at December 31, 2020 are approximately $827 million, which includes approximately $3.9 million of NOLs which do not expire. The remaining NOLs will begin to expire in 2031.

PMI's ability to utilize the NOLs or other tax attributes such as tax credits is subject to a number of risks, including, but not limited to, the Company's ability to generate future taxable income. Continuing tax controversy around the net operating loss utilization and scrutiny by taxing authorities may limit the Company's ability to use tax attributes in the future or result in their complete loss.

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 2012. 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 December 31, 2020.

In December 2012, PMI entered into the Amended Tax Sharing Agreement approved by the Bankruptcy Court and the Receivership Court, which among other things, allocated a portion of the consolidated tax group's NOLs between PMI and MIC, as described above.

The Company had no unrecognized tax benefits or accrued interest and penalties related to unrecognized tax benefits as of December 31, 2020, and December 31, 2019. PMI does not expect any material changes to its unrecognized tax benefits within the next twelve months.

## 9. Subsequent Events

The Company has evaluated all subsequent events for recognition and disclosure through June 30, 2021, the date, which these consolidated financial statements were issued. Nothing has occurred outside the normal course of business operations that require disclosure or recognition as of December 31, 2020 except as disclosed below.

On June 25, 2021, the Company amended the Loan Agreement, as discussed in Note 6 to the consolidated financial statements, which extends the maturity date of the Term Loan to July 31, 2022.

In connection with the amendment of the Loan Agreement, the Company issued BTO warrant to purchase 419,474 shares of the Company's common stock, with par value of $0.01 per share, at an exercise price of $0.54 per share. The warrant expires on June 25, 2026.