

PMI Group, Inc

January 2,2023

Dear Shareholders;

I would like to take this opportunity to both introduce myself and update you on some recent events at PMI Group, Inc ("PMI"). First, on November 4, 2022 Mr. Kurt Lageschulte and myself were both appointed to the Board of Directors of PMI (see Board of Directors bios on Company website). Subsequent to our appointment Mr. John Becker and Mr. Charles Jacobson both resigned from the Board and are no longer associated with PMI in any capacity. Mr. Lageschulte and myself are now the only Directors of PMI and I, also, in addition to being a Director serve as the CEO, CFO, Treasurer, and Secretary of PMI.

Second, on November 4, 2022 PMI approved a transaction whereas, BTO PMI Holdings LP ("BTO") in accordance with a Securities Sale Agreement ("SSA") would sell to Lancer PMI Acquisition LLC ("Lancer") 764,542 shares of common stock. The SSA which has closed terminated BTO'S Investor Rights Agreement, Registration Rights Agreement and warrants dated as of June 25,2021 with BTO. 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 also made on November 4,2022. Lancer is solely owned by Mr. Avram Glazer.

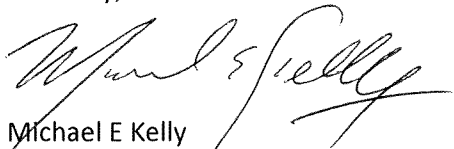
Third, on November 3,2022, PMI entered into a Subordinated Loan Agreement ("Loan Agreement") with Lancer Capital LLC for the aggregate principal amount up to \$4.0 million. On November 3,2022 PMI borrowed \$1.645 million under this Loan Agreement in connection with the SSA. The Loan Agreement bears interest at a rate of 10% per annum, payable monthly in arrears. All Payments of interest on each Loan Agreement are payable monthly in-kind ("PIK") and will be added to the principal amount of the Loan Agreement. The Loan Agreement has a maturity date of November 3, 2027.

Lastly, in the spirit of full disclosure, PMI will now begin to post its unaudited quarterly financial statements commencing with the period ending September 30,2022 (copies attached).

PMI is a Delaware corporation with significant tax assets seeking to enter into strategic transactions to maximize the long-term value of the Company for its shareholders.

In closing, I look forward to 2023 and wish all of you a happy New Year.

Sincerely,



Michael E Kelly
CEO and Director
PMI Group, Inc

THE PMI GROUP, INC.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Period Ending September 30, 2022

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THE PMI GROUP, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of September, 2022 and December 31, 2021

(in thousands, except share data)

	September 30, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	\$ 397	\$ 779
Restricted cash	671	679
Short-term investments	375	749
Interest receivable	1	-
Prepaid expenses and other current assets (includes \$16 and \$9 from related party in 2022 and 2021, respectively)	64	351
Total current assets	1,507	2,558
Deferred tax assets	0	-
Total assets	\$ 1,507	\$ 2,558
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities:		
Accounts payable and accrued liabilities (includes \$0 and \$3 from related party in 2022 and 2021, respectively)	\$ 29	\$ 36
Total current liabilities	29	36
Warrant liability	520	210
Term loan, net of deferred financing costs (\$0 and \$33, respectively)	7,349	6,782
Total liabilities	7,898	7,028
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	(14,379)	(12,458)
Total stockholders' deficit	(6,391)	(4,470)
Total liabilities and stockholders' deficit	\$ 1,507	\$ 2,558

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

THE PMI GROUP, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended September 30, 2022 and 2021

(in thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Interest income	\$ 1	\$ -	\$ 2	\$ 2
Total revenue	1	-	2	2
Expenses:				
General, administrative, and other expenses	150	145	1,050	327
Interest expense - amortization of deferred financing costs	5	1	33	1
Interest expense	185	161	535	316
Total expenses	339	307	1,617	644
Loss from operations	(338)	(307)	(1,615)	(642)
Other income (expense):				
Unrealized gain / loss	2	-	3	-
Change in fair value of warrant liability	10	-	(310)	-
Total other income (expense)	12	-	(307)	-
Loss before income tax	(326)	(307)	(1,922)	(642)
Income tax	-	-	-	-
Net Loss	\$ (326)	\$ (307)	\$ (1,922)	\$ (642)

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

THE PMI GROUP, INC.

UNAUDITED CONSOLIDATED CHANGES IN STOCKHOLDERS' DEFICIT

For the Nine Months Ended September 30, 2022 and 2021

(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, 2022	2,074,441	\$ 21	-	\$ -	\$ 7,967	\$ (12,458)	\$ (4,470)
Net loss	-	-	-	-	-	(775)	(775)
Balance, March 31, 2022	2,074,441	21	-	-	7,967	(13,233)	(5,245)
Net loss	-	-	-	-	-	(821)	(821)
Balance, June 30, 2022	2,074,441	21	-	-	7,967	(14,054)	(6,066)
Net loss	-	-	-	-	-	(326)	(326)
Balance, September 30, 2022	<u>2,074,441</u>	<u>\$ 21</u>	<u>-</u>	<u>-</u>	<u>\$ 7,967</u>	<u>\$ (14,380)</u>	<u>\$ (6,392)</u>
	Common Stock		Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance, January 1, 2021	2,074,441	\$ 21	-	\$ -	\$ 7,967	\$ (10,816)	\$ (2,828)
Net loss	-	-	-	-	-	(335)	(335)
Balance, March 31, 2021	2,074,441	21	-	-	7,967	(11,151)	(3,163)
Net loss	-	-	-	-	-	(307)	(307)
Balance, June 30, 2021	2,074,441	21	-	-	7,967	(11,458)	(3,470)
Net loss	-	-	-	-	-	(669)	(669)
Balance, September 30, 2021	<u>2,074,441</u>	<u>\$ 21</u>	<u>-</u>	<u>-</u>	<u>\$ 7,967</u>	<u>\$ (12,127)</u>	<u>\$ (4,139)</u>

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

THE PMI GROUP, INC.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2022 and 2021

(in thousands, except share data)

	For the Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (1,922)	\$ (642)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred tax assets	-	-
Amortization of deferred financing costs	33	1
Paid-In-Kind interest expense	536	316
Interest on short-term investments	-	-
Change in fair value of warrant liability	310	-
Changes in assets and liabilities:		
Interest receivable	(0)	14
Tax refund receivable	(0)	-
Prepaid expenses and other current assets	287	(71)
Accounts payable and accrued liabilities	(7)	41
Net cash used in operating activities	(764)	(341)
Cash flows from investing activities:		
Purchases of investments	(749)	(1,750)
Sale of investments	1,123	1,499
Net cash used in investing activities	374	(251)
Decrease in cash, cash equivalents and restricted cash	(390)	(592)
Cash, cash equivalents and restricted cash, beginning of period	1,458	2,063
Cash, cash equivalents and restricted cash, end of period	\$ 1,068	\$ 1,471
Supplemental disclosure of non-cash financing activity:		
Issuance of warrants in connection with loan extension	\$ -	\$ 60

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

THE PMI GROUP, INC.

NOTES TO UNAUDITED 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.

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.

On November 4, 2022, PMI entered into a Securities Sale Agreement (“SSA”) with Lancer Capital LLC (“Lancer”) to consent to BTO Holdings selling of 764,542 common shares., as well as an Investor Rights Agreement and Registration 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 years ended December 31, 2021 and 2020, 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.

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

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 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 September 30, 2022, the Company had approximately \$372 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. As of December 31, 2021, the Company had approximately \$743 invested in certificates of deposit and money market funds.

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

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 is 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.

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

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

2. Summary of Significant Accounting Policies, continued

Measurements and Disclosures,” approximates the carrying amounts represented in the unaudited 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 unaudited consolidated statements of financial condition as of September 30, 2022 and December 31, 2021 and adjusted for the amortization or accretion of premiums or discounts.

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 unaudited consolidated statement of operations. Accrued interest and penalties are included on the related tax liability line in the accompanying unaudited consolidated statements of financial condition.

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

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

2. Summary of Significant Accounting Policies, continued

owners. For the nine months ended September 30, 2022 and 2021, the Company had no items of other comprehensive loss. Therefore, the net loss equals comprehensive loss for the periods then ended.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-- Credit Losses: Measurement of Credit Losses of Financial Instruments (ASC 326). The guidance is effective for the Company beginning January 1, 2023 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 is currently evaluating the impact of the new standard 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 September 30, 2022 and December 31, 2021, PMI had approximately \$671 and \$679, respectively, of restricted cash which is for the escrow of the CAA (See Note 4).

As of September 30, 2022, the Company invested in U.S. Treasury Bills maturing through October 2022, yielding interest of approximately 0.02%. As of December 31, 2021, the Company invested U.S. Treasury Bill maturing through January 2022, yielding interest of approximately 0.02%.

Cash, cash equivalents and restricted cash as of September 30, 2022 and December 31, 2021 is comprised as follows:

	September 30, 2022	December 31, 2021
Cash	\$ 25	\$ 36
Cash equivalents	372	743
Restricted cash	671	679
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	<u>\$ 1,068</u>	<u>\$ 1,458</u>

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

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 \$980 and \$988 as of September 30, 2022 and December 31, 2021, respectively.

As of September 30, 2022 and December 31, 2021, the Company had approximately \$671 and \$679, respectively, held in the Escrow Account. The cash held in the Escrow Account is presented as restricted cash on the unaudited 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 September 30, 2022 and December 31, 2021, related party receivables from MIC totaled approximately \$16 and \$9, respectively, which are included in prepaid expenses and other current assets on the unaudited consolidated statements of financial condition. As of September 30, 2022 and December 31, 2021, related party payables to MIC totaled approximately \$0 and \$3, respectively, which are included in accounts payable and accrued liabilities on the unaudited consolidated statements of financial condition.

5. Investments

As of September 30, 2022, the Company invested in U.S. Treasury Bills maturing through October 2022, yielding interest of approximately 0.02%. 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 September 30, 2022 unaudited consolidated statements of financial condition and adjusted for the amortization or accretion of premiums or discounts. As of September 30, 2022, 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 nine months ended September 30, 2022.

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 seventh amendment to the Loan Agreement, dated June 25, 2021, which extends the maturity date of the Term Loan to July 31, 2023 (See Note 7). The Term Loan bears interest at a rate of 10% per annum, payable monthly in arrears.

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

6. Subordinated Term Loan, continued

In connection with the amendment of the Loan Agreement, the Company issued BTO warrant (the “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. The Company estimated the fair value of the warrants at the date of issuance to be \$60. The amount has been reflected as discount on the debt in the accompanying unaudited consolidated statement of financial condition and is being amortized to interest expense over the remaining life of the Term Loan. Amortization expense for the nine months ended September 30, 2022 and 2021 was approximately \$33 and \$1, respectively. The determination of estimated fair value and the classification of the Warrant is discussed in Note 7.

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 \$535 and \$316 for the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022 and December 31, 2021, the total outstanding principal balance under this Term Loan was \$7,349 and \$6,814, respectively. The Term Loan is subject to certain covenants and conditions which, as of September 30, 2022, the Company is in full compliance.

On November 4, 2022, in connection with the SSA, payment of \$1,309 was made to BTO to satisfy all amounts outstanding under, and the termination of the Loan Agreement.

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 unaudited consolidated statements of operations. The estimated fair value of the Warrant at September 30, 2022 was \$520, based on the Black-Scholes option-pricing model using the weighted-average assumptions below:

	At September 30 2022
Volatility	70%
Risk-free interest rate	4.18%
Expected term (in years)	3.73
Expected dividend yield	- %
Fair value of common stock	\$1.60
Exercise price	\$0.54

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

7. Common Stock Warrants, continued

The warrant was initially estimated to have a fair value upon issuance of \$60, based on the Black-Scholes option-pricing model. The assumptions used were as follows:

	At June 30 <u>2021</u>
Volatility	90%
Risk-free interest rate	0.92%
Expected term (in years)	5
Expected dividend yield	- %
Fair value of common stock	\$0.25
Exercise price	\$0.54

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, 2022	\$ 210
Issuance of warrants in connection with loan extension	-
Change in fair value of common stock warrants	<u>310</u>
Balance, September 30, 2022	<u>\$ 520</u>

On November 4, 2022, the Company, along with the warrant holder, BTO Holdings-NQ, agreed to terminate the warrants in connection with the SSA.

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share data)

8. Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through December 15, 2022, the date, which these unaudited consolidated financial statements were issued. The following events and transactions occurred subsequent to September 30, 2022

On November 4, 2022, the Company consented to a Securities Sale Agreement, whereby 764,542 shares of common stock owned by BTO Holdings was sold to Lancer Capital, LLC, the Company and Lancer Capital LLC also entered into an Investor Rights Agreement and a Registration Rights Agreement. 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 at an agreed upon discount 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 \$1,645 under this Loan Agreement in connection with the SSA. The Loan Agreement bears interest at a rate of 10% per annum, payable monthly in arrears. All payments of interest on each Loan Agreement are payable monthly in-kind ("PIK") and will be added to the principal amount of the Loan Agreement. The Loan Agreement has a maturity date of November 3, 2027.