THE
PMIGROUP

March 7, 2023

Dear Shareholders:

These past several months have been a transformative time for the PMI Group, Inc ("PMI Group"). First, the Board of Directors on November 4, 2022 appointed both Mr. Kurt Lageschulte and myself to the Board (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 the PMI Group in any capacity. Mr. Lageschulte and myself are presently the only Directors of PMI Group and, I also serve as the CEO, CFO, Treasurer and Secretary of The PMI Group.

Second, as I have previously communicated, I would like to see PMI Group be more transparent and timely in the disclosure of its financial statements. Therefore, in December 2022, the Board appointed Baker Tilly as the Company's new Independent Accountants. Accordingly, accompanying today's Shareholder Letter are the Audited Consolidated Financial Statements as of and for the years ended December 31, 2022 and 2021.

Third, on November 4, 2022 PMI's Board approved a Securities Sale Agreement ("SSA"), whereby 764,542 shares of common stock (representing approximately 36.86% of the common shares issued and outstanding) owned by BTO Holdings was sold to Lancer Capital, LLC. The SSA terminated BTO Holdings' Investor Rights 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 resulting in PMI Group recording a gain of $6.1 million on the retirement of this debt. Lancer Capital is solely owned by Mr. Avram Glazer.

Fourth, on November 3, 2022 PMI Group entered into a Subordinated Loan Agreement ("Loan Agreement") with Lancer Capital for the aggregate principal amount up to $4.0 million. On November 3, 2022 PMI Group borrowed $1.4 million under this Loan Agreement in connection with the SSA. The Loan Agreement bears interest at the 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. Other than the Lancer Capital Loan Agreement, PMI Group has no other funded debt.

As we enter 2023, the transactions PMI Group undertook in November 2022 have strengthened our overall balance sheet. The PMI Group continues to pursue opportunities to enter into strategic transactions to maximize the significant tax assets it has for the longer-term value of the Company and its shareholders. In closing, thank you for your continued support of PMI Group.

Sincerely,

Michael E Kelly
CEO and Director
The PMI Group, Inc.

THE PMI GROUP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2022 and 2021

CONTENTS

bakertilly

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of The PMI Group, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in stockholders' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Milwaukee, Wisconsin
March 3, 2023

THE PMI GROUP, INC.

CONSOLIDATED BALANCE SHEET

As of December 31, 2022 and 2021

(in thousands, except share data)

	December 31, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	$ 396	$ 779
Restricted cash	671	679
Short-term investments	-	749
Prepaid expenses and other current assets (includes $9 and $9 from related party in 2022 and 2021, respectively)	150	351
Total current assets	1,217	2,558
Deferred tax assets (Note 7)	-	-
Total assets	$ 1,217	$ 2,558
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities:		
Accounts payable and accrued liabilities (includes $0 and $3 from related party in 2022 and 2021, respectively)	$ 159	$ 36
Total current liabilities	159	36
Warrant liability	-	210
Line of credit	1,431	-
Term loan, net of deferred financing costs ($0 and $33, respectively)	-	6,782
Total liabilities	1,590	7,028
Commitments and contingencies (Note 8)		
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	(8,361)	(12,458)
Total stockholders' deficit	(373)	(4,470)
Total liabilities and stockholders' deficit	$ 1,217	$ 2,558

THE PMI GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2022 and 2021

(in thousands, except share data)

	Year Ended December 31,	
	2022	2021
Revenue:		
Interest income	$ 4	$ 2
Total revenue	4	2
Expenses:		
General, administrative, and other expenses	1,570	812
Interest expense - amortization of deferred financing costs	33	27
Interest expense	626	654
Total expenses	2,229	1,493
Loss from operations	(2,225)	(1,491)
Other income (expense):		
Gain on retirement of debt	6,110	-
Unrealized gain	2	-
Change in fair value of warrant liability	210	(150)
Total other income (expense)	6,322	(150)
Income (Loss) before income tax	4,097	(1,641)
Income tax	-	-
Net income (loss)	$ 4,097	$ (1,641)

THE PMI GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

For the Years Ended December 31, 2022 and 2021

(in thousands, except share data)

	Common Stock		Preferred Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balance, January 1, 2021	2,074,441	$ 21	-	$ -	$ 7,967	$ (10,817)	$ (2,829)
Net loss	-	-	-	-	-	(1,641)	(1,641)
Balance, December 31, 2021	2,074,441	21	-	-	7,967	(12,458)	(4,470)
Net income	-	-	-	-	-	4,097	4,097
Balance, December 31, 2022	2,074,441	$ 21	-	$ -	$ 7,967	$ (8,361)	$ (373)

THE PMI GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

(in thousands, except share data)

	For the Years Ended December 31, 2022	For the Years Ended December 31, 2021
Cash flows from operating activities:		
Net income (loss)	$ 4,097	$ (1,641)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs	33	27
Interest expense	626	654
Gain on retirement of debt	(6,110)	-
Change in fair value of warrant liability	(210)	150
Changes in assets and liabilities:		
Interest receivable	-	25
Prepaid expenses and other current assets	201	(322)
Accounts payable and accrued liabilities	123	2
Net cash provided by (used in) operating activities	(1,240)	(1,105)
Cash flows from financing activities:		
Payment term loan	(1,309)	-
Draw on line of credit	1,409	-
Net cash used in financing activities	100	-
Cash flows from investing activities:		
Purchases of investments	(749)	(3,998)
Sale of investments	1,498	4,498
Net cash provided by investing activities	749	500
Decrease in cash, cash equivalents and restricted cash	(391)	(605)
Cash, cash equivalents and restricted cash, beginning of period	1,458	2,063
Cash, cash equivalents and restricted cash, end of period	$ 1,067	$ 1,458
Supplemental disclosure of non-cash financing activity:		
Issuance of warrants in connection with loan extension	$ -	$ 60

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.

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 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 consolidated financial statements of PMI as of and for the years ended December 31, 2022 and 2021, 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.

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, 2022 and 2021, the Company had approximately $98 and $ 743, respectively, 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.

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.

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

2. Summary of Significant Accounting Policies, continued

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, 2021 and adjusted for the amortization or accretion of premiums or discounts. No short-term investments existed on the Company's balance sheet as of December 31, 2022.

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

2. Summary of Significant Accounting Policies, continued

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 year ended December 31, 2022 and 2021, the Company had no items of other comprehensive income (loss). Therefore, the net income (loss) equals comprehensive income (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 consolidated financial statements.

In August 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years, with early adoption permitted, but only at the beginning of the fiscal year. The Company has elected to adopt ASU 2020-06 as of the beginning of calendar year 2021. The Company has no convertible debt before 2021 and therefore the adoption has no cumulative effect on the Company's retained earnings.

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, 2022 and 2021, PMI had approximately $671 and $679, respectively, of restricted cash which is for the escrow of the CAA (See Note 4).

As of December 31, 2022, the Company has no investments in U.S. Treasury Bills. As of December 31, 2021, the Company had invested in U.S. Treasury Bills maturing through January 2022, yielding interest of approximately 0.02%.

(in thousands, except share data)

3. Cash, Cash Equivalents and Restricted Cash (continued)

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

	December 31, 2022	December 31, 2021
Cash	$ 298	$ 36
Cash equivalents	98	743
Restricted cash	671	679
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	$ 1,067	$ 1,458

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 $919 and $956 as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 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 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, 2022 and 2021, related party receivables from MIC totaled approximately $9 and $9, respectively, which are included in prepaid expenses and other current assets on the consolidated statements of financial condition. As of December 31, 2022 and, 2021, related party payables to MIC totaled approximately $0 and $3, respectively, which are included in accounts payable and accrued liabilities on the consolidated statements of financial condition.

5. Investments

As of December 31, 2022, the Company did not have any funds invested in U.S. Treasury Bills or any other active investments. As of December 31, 2021, the Company invested in U.S. Treasury Bills maturing January 2022, yielding interest at 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 December 31, 2021 consolidated statements of financial condition and adjusted for the amortization or accretion of premiums or discounts. As of December 31, 2021, 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, 2021.

6. Subordinated Term Loan

Subordinated Loan Agreement - BTO PMI Holdings-NQ, L.P.

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. The Company then entered into a seventh amendment to the Loan agreement, dated July 26, 2022, which extended the maturity date of the Term Loan to July 31, 2023. The Company analyzed this transaction in accordance with ASC-470-50-10 and determined that this was a debt modification. The Term Loan bore interest at a rate of 10% per annum, payable monthly in arrears.

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 consolidated statements of financial condition and is being amortized to interest expense over the remaining life of the Term Loan.

Amortization expense for the years ended December 31, 2022 and 2021 was approximately $33 and $27, respectively. The determination of estimated fair value and the classification of the Warrant is discussed in.

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 on the term loan was $604 and $654 for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2021, the total outstanding principal balance under this Term Loan was $6,814, respectively. The Term Loan is subject to certain covenants and conditions which, as of December 31, 2021, the Company is in full compliance.

On November 4, 2022, in connection with the Securities Sale Agreement, payment of $1,309 was made to BTO to satisfy all amounts outstanding under, and the termination of the Loan Agreement. During 2022, the Company recognized a gain of $6,110. The Company, along with the warrant holder, BTO Holdings-NQ, agreed to terminate the warrants of $520.

(in thousands, except share data)

6. Subordinated Term Loan, continued

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 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 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. Interest expense on this Loan Agreement was $22 for the year ended December 31, 2022.

7. Taxes

A reconciliation of the Company's statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,	
	2022	2021
Income at US statutory rate	21.00%	21.00%
Change in fair value of warrants	-1.08%	-1.92%
Warrant amortization	0.17%	-0.35%
Change in valuation allowance	-20.08%	-18.72%
Other	-0.01%	-0.01%

7. Taxes, continued

The components of deferred tax assets consist of the following:

(In Thousands)	December 31, 2022	December 31, 2021
Deferred Tax Assets:		
Net operating loss carryforwards	173,178	174,001
Credits	-	-
Other	-	-
Total deferred tax assets	173,178	174,001
Less valuation allowance	(173,178)	(174,001)
Net deferred tax assets (liability)	-	-
Deferred Tax Liabilities:		
Other	-	-
Net deferred tax assets	-	-

The deferred tax asset noted in the above table for net operating losses relates to the potential financial benefit of being able to utilize approximately $824.7 million of Federal NOLs in the future.

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 associated with loss carryforwards. A significant piece of objective negative evidence is the existence of a three-year cumulative

loss position as of the reporting date. As of December 31, 2022, due to the one-time gain resulting from the termination of the Loan Agreement, the Company is in a three-year cumulative income position despite its long history of losses. While this is positive evidence that could support the realization of tax assets, it is outweighed by the negative evidence associated with the previous loss history of the Company (excluding 2022) and the inability to project future taxable income to absorb the losses being carried forward.

Excluding the one-time, non-recurring gain in 2022 from the loan termination, the Company would still be in a cumulative three-year loss position. As of December 31, 2021, the Company was in a three-year cumulative loss position. This objective negative 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, 2022, and 2021, the Company maintained a full valuation allowance against its net deferred tax asset. The valuation allowance decreased by approximately $0.8 million and increased $0.3 million during the years ended December 31, 2022 and 2021, 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

7. Taxes, continued

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, 2022 and 2021 was primarily due to changes in the Company's net operating loss carry forwards. The valuation allowance decreased in 2022 as a result of taxable income for the period, however, the Company determined a full valuation allowance remains appropriate due to the negative evidence referenced above.

As of December 31, 2022 and 2021, PMI's consolidated tax group has approximately \$0.1 million of federal tax credits, which may be available to PMI. The federal tax credits are foreign tax credits and low-income housing credits, which 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.

As of December 31, 2022 and 2021, 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, 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 any 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, 2022 and 2021 are approximately \$824.7 million and \$829.0 million, respectively. 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

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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 2018. 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, 2022 and 2021.

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, 2022, and December 31, 2021. PMI does not expect any material changes to its unrecognized tax benefits within the next twelve months.

8. 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. The Company disputes these claims and intends to assert all possible defenses.

9. Subsequent Events

The Company has evaluated all subsequent events for recognition and disclosure through March 3, 2023, the date which these 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 December 31, 2022.