

The PMI Group, INC

JUNE 16, 2023

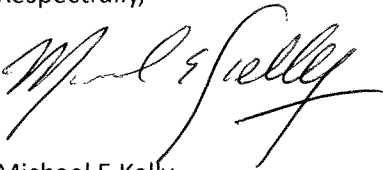
Dear Fellow Shareholders,

As we approach the mid-point of 2023, the business community in general is faced with rising interest rates, recession concerns, a continual call by some political leaders to increase federal tax rates on both companies and wealthy individuals and a continued polarization of our system of government. All of these conditions can create uncertainty and stress for many companies. We, however, at The PMI Group continue to move forward and take advantage of the transformative changes we experienced in November 2022. In the three-month period ended March 31, 2023 we saw our Net Loss decrease approximately 67.4%, compared to the three-month period ended March 31, 2022. Our general and administrative expenses decreased approximately 15.8% and our interest expense as a result of less debt outstanding, decreased approximately 79.1%. The PMI Group continues to carefully manage our cost structure and I anticipate further efficiencies in the general and administrative expense line in 2023, which will allow us to further maximize our cash resources.

The PMI Group, unlike other companies with significant tax assets, possesses a stream-lined balance sheet together with a low level of debt, has an efficient cost structure, a seasoned leadership team, a strong equity sponsor (Lancer Capital solely owned by Avram Glazer) and the overall life of the significant federal tax assets is fairly robust stretching beyond 2030. All of these factors propel The PMI Group to the top of its class.

The PMI Group continues to pursue opportunities to enter into strategic transactions to maximize the significant tax assets it has for the value of the Company and its shareholders. In closing, thank you for your continued support of The PMI Group.

Respectfully,

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

Michael E Kelly

CEO and Director

The PMI Group , INC

THE PMI GROUP, INC.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Period Ending March 31, 2023

These financial statements are unaudited.

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THE PMI GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of March 31, 2023 and December 31, 2022

(in thousands, except share data)

	March 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	\$ 410	\$ 396
Restricted cash	471	671
Short-term investments	-	-
Interest receivable	-	-
Tax refund receivable	-	-
Prepaid expenses and other current assets	115	150
Total current assets	995	1,217
Deferred tax assets	-	-
Total current assets	995	1,217
Deposits	-	-
Total assets	\$ 995	\$ 1,217
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities:		
Accounts payable and accrued liabilities	\$ 153	\$ 159
Total current liabilities	153	159
Warrant liability	-	-
Line of Credit	1,467	1,431
Total liabilities	1,620	1,590
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	(8,613)	(8,361)
Total stockholders' deficit	(624)	(373)
Total liabilities and stockholders' deficit	\$ 995	\$ 1,217

THE PMI GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

For three months Ended March 31, 2023 and 2022

(in thousands, except share data)

	Three Months Ended March 31,	
	2023	2022
Revenue:		
Interest income	\$ 1	\$ -
Total revenue	1	-
Expenses:		
General, administrative, and other expenses	218	259
Interest expense - amortization of deferred financing costs	-	14
Interest expense	36	172
Total expenses	254	445
Loss from operations	(253)	(445)
Other income (expense):		
Gain on retirement of debt	-	-
Unrealized gain	-	-
Change in fair value of warrant liability	-	(330)
Total other income (expense)	-	(330)
Loss before income tax	(253)	(775)
Income tax	-	-
Net loss	\$ (253)	\$ (775)

THE PMI GROUP, INC.
UNAUDITED CONSOLIDATED CHANGES IN STOCKHOLDERS' DEFICIT
For the Three Months Ended March 31, 2023 and 2022
(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, 2023	2,074,441	\$ 21	-	\$ -	\$ 7,967	\$ (8,360)	(373)
Net loss	-	-	-	-	-	(253)	(253)
Balance, March 31, 2023	<u>2,074,441</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>7,967</u>	<u>(8,613)</u>	<u>(624)</u>
	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	<u>2,074,441</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>7,967</u>	<u>(13,233)</u>	<u>(5,245)</u>

These financial statements are unaudited.

THE PMI GROUP, INC.
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Three Months Ended March 31, 2023 and 2022
(in thousands, except share data)

	For the Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (253)	\$ (775)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred tax assets	-	-
Amortization of deferred financing costs	-	14
Paid-In-Kind interest expense	36	172
Interest on short-term investments	-	-
Change in fair value of warrant liability	-	330
Changes in assets and liabilities:		
Interest receivable	-	-
Tax refund receivable	-	-
Prepaid expenses and other current assets	38	212
Accounts payable and accrued liabilities	(6)	56
Net cash used in operating activities	(186)	10
Cash flows from investing activities:		
Purchases of investments	-	(749)
Sale of investments	-	750
Net cash used in investing activities	-	1
Decrease in cash, cash equivalents and restricted cash	(186)	11
Cash, cash equivalents and restricted cash, beginning of period	1,067	1,458
Cash, cash equivalents and restricted cash, end of period	\$ 881	\$ 1,469
Supplemental disclosure of non-cash financing activity:		
Issuance of warrants in connection with loan extension	\$ -	\$ -

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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”) 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 periods ended March 31, 2023 and 2022, 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

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 March 31, 2023, the Company had approximately \$99 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.

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 three months ended March 31, 2023 and 2022, 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 March 31, 2023 and December 31, 2022, PMI had approximately \$471 and \$671, respectively, of restricted cash which is for the escrow of the CAA (See Note 4).

As of March 31, 2023, the Company has no investments in U.S. Treasury Bills.

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Cash, cash equivalents and restricted cash as of March 31, 2023 and December 31, 2022 is comprised as follows:

	March 31, 2023	December 31, 2022
Cash	\$ 311	\$ 298
Cash equivalents	99	98
Restricted cash	471	671
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	<u>\$ 881</u>	<u>\$ 1,067</u>

4. MIC Transactions

On December 12, 2012, PMI and MIC agreed to the Second Amended and Restated Cost Allocation Agreement (the “CAA”), pursuant to which MIC provided certain Transition Services and Additional Services (both as defined in the CAA) to PMI. The agreement required the deposit of funds into an escrow account (the “Escrow Account”) for the benefit of both PMI and MIC. The total funds contained in the escrow account are approximately \$521 and \$919 as of March 31, 2023 and December 31, 2022, respectively.

As of March 31, 2023 and December 31, 2022, the Company had approximately \$471 and \$671, 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 March 31, 2023 and December 31, 2022, related party receivables from MIC totaled approximately \$7 and \$9, respectively, which are included in prepaid expenses and other current assets on the consolidated statements of financial condition. As of March 31, 2023 and December 31, 2022, related party payables to MIC totaled approximately \$0 and \$0, respectively, which are included in accounts payable and accrued liabilities on the consolidated statements of financial condition.

THE PMI GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Subordinated Term Loan

Subordinated Loan Agreement - Lancer Capital LLC

On November 4, 2022, the Company entered into a Securities Sale Agreement, whereby 764,542 shares of common stock owned by BTO Holdings 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 \$36 for the three month period ended March 31, 2023 and \$22 for the year ended December 31, 2022.

6. 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.

7. Subsequent Events

The Company has evaluated all subsequent events for recognition and disclosure through June 1, 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 March 31, 2023.