PMC COMMERCIAL TRUST /TX
Form S-4/A
November 10, 2003

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As filed with the Securities and Exchange Commission on November 10, 2003

Registration No. 333-108180

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

Form S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PMC Commercial Trust

(Exact name of Registrant as specified in its Charter)

Texas

(State or other jurisdiction of incorporation or organization)

6798	**75-6446078**
(Primary Standard Industrial Classification Code Number)	*(I.R.S. Employer Identification No.)*

18111 Preston Road, Suite 600

Dallas, Texas 75252
(972) 349-3200
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Lance B. Rosemore

Chief Executive Officer
PMC Commercial Trust
18111 Preston Road, Suite 600
Dallas, Texas 75252
(972) 349-3200
(Name, Address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Kenneth L. Betts	**Steven B. Boehm**
Locke Liddell & Sapp LLP	**Cynthia M. Krus**
2200 Ross Avenue, Suite 2200	**Sutherland Asbill & Brennan LLP**
Dallas, Texas 75201-6776	**1275 Pennsylvania Avenue, N.W.**
(214) 740-8000	**Washington, D.C. 20004**
	(202) 383-0100

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective and all conditions to the proposed transaction have been satisfied or waived.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(3)
Common Shares of Beneficial Interest, par value $.01 per share	4,385,801(1)	N/A	$55,711,525(2)	$4,508

(1) The maximum number of common shares of beneficial interest of PMC Commercial Trust to be issued in the merger of PMC Capital, Inc. with and into PMC Commercial Trust, based on the exchange ratio of one share of PMC Capital, Inc. common stock, par value $.01 per share, to be exchanged for 0.37 of a common share of beneficial interest of PMC Commercial Trust.

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, and calculated pursuant to Rule 457(f) under the Securities Act. Pursuant to Rule 457(f)(1) under the Securities Act, the proposed maximum aggregate offering price of PMC Commercial Trust common shares of beneficial interest was calculated in accordance with Rule 457(c) under the Securities Act as the product of (a) $4.70, the average of the high and low prices per share of PMC Capital, Inc. common stock as reported on the American Stock Exchange on August 20, 2003, multiplied by (b) 11,853,516, the aggregate number of shares of PMC Capital, Inc. common stock to be converted into PMC Commercial Trust common shares of beneficial interest in the merger, previously paid.

(3) Determined in accordance with Section 6(b) of the Securities Act at a rate equal to $80.90 per $1,000,000 of the proposed maximum offering price.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Subject to Completion, dated November 10, 2003

PMC CAPITAL, INC. 18111 Preston Road, Suite 600 Dallas, Texas 75252	PMC COMMERCIAL TRUST 18111 Preston Road, Suite 600 Dallas, Texas 75252

A MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

To the shareholders of PMC Capital, Inc. and PMC Commercial Trust:

PMC Capital, Inc. and PMC Commercial Trust have entered into a merger agreement pursuant to which PMC Commercial has agreed to acquire PMC Capital. If the merger is completed, PMC Capital shareholders will receive 0.37 PMC Commercial common shares of beneficial interest for each share of PMC Capital common stock they own and will hold approximately 40.49% of PMC Commercial s common shares after the merger. PMC Commercial shareholders will continue as shareholders after the merger, holding approximately 59.51% of the outstanding shares of PMC Commercial. Until the merger is completed, the value of PMC Commercial s common shares to be received in the merger will continue to fluctuate. Based upon the closing price of PMC Commercial s common shares on November 7, 2003, 0.37 common shares of PMC Commercial had a value of $5.24, and the aggregate value of the merger consideration would have been approximately $62.1 million to PMC Capital shareholders.

PMC Commercial will hold an annual meeting of shareholders on December 30, 2003 at 11:00 a.m. Central time at the principal executive offices of PMC Commercial, located at 18111 Preston Road, Suite 600, Dallas, Texas 75252. At this meeting, shareholders of PMC Commercial will be asked to (1) approve the merger agreement between PMC Commercial and PMC Capital and the transactions contemplated by the merger agreement, including the merger of PMC Capital into PMC Commercial, (2) approve certain amendments to PMC Commercial s declaration of trust, (3) approve the election of seven members of PMC Commercial s board of trust managers, (4) ratify the appointment of PricewaterhouseCoopers LLP as PMC Commercial s independent public accountants, and (5) approve the postponement or adjournment of the annual meeting for the solicitation of additional votes, if necessary.

PMC Capital will hold an annual meeting of shareholders on December 30, 2003 at 9:00 a.m. Central time at the principal executive offices of PMC Capital, located at 18111 Preston Road, Suite 600, Dallas, Texas 75252. At this meeting, shareholders of PMC Capital will be asked to (1) approve the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement, including the merger of PMC Capital into PMC Commercial, (2) elect two directors of PMC Capital, (3) ratify the appointment of PricewaterhouseCoopers LLP as PMC Capital s independent public accountants, and (4) approve the postponement or adjournment of the annual meeting for the solicitation of additional votes, if necessary.

Before the merger can be completed, holders of at least two-thirds of the outstanding PMC Commercial common shares and holders of a majority of the outstanding shares of PMC Capital common stock must vote in favor of the merger agreement and the transactions contemplated by the merger agreement.

Holders of PMC Commercial common shares representing approximately 6.5% of the outstanding common shares of PMC Commercial as of the record date for the annual meeting have agreed to vote the common shares of PMC Commercial owned by them in favor of the merger. PMC Capital shareholders representing approximately 19.9% of the outstanding shares of PMC Capital common stock as of the record date for the annual meeting have agreed to vote the shares of PMC Capital owned by them in favor of the merger.

A special committee of disinterested, independent trust managers of PMC Commercial has evaluated the merits and negotiated the terms of the merger. The special committee has received a written opinion of U.S. Bancorp Piper Jaffray Inc., the special committee s financial advisor, that, as of the date of the opinion, and based upon and subject to the assumptions, factors and limitations set forth in the written opinion, the

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exchange ratio was fair to PMC Commercial from a financial point of view. A special committee of disinterested, independent directors of PMC Capital has evaluated the merits and negotiated the terms of the merger. The special committee has received a written opinion of A.G. Edwards, the special committee s financial advisor, that, subject to certain qualifications contained in the opinion, the exchange ratio was fair to the holders of PMC Capital common stock from a financial point of view.

The completion of the merger is subject to various other conditions. The terms of the merger and related transactions are more fully described in the enclosed joint proxy statement/ prospectus.

PMC Commercial s common shares are traded on the American Stock Exchange under the symbol PCC, and the closing price of a PMC Commercial common share on November 7, 2003 was $14.16 per share. PMC Capital s common stock is traded on the American Stock Exchange under the symbol PMC, and the closing price of a share of PMC Capital common stock on November 7, 2003 was $5.05 per share.

The board of trust managers of PMC Commercial has approved the merger and has determined that the merger is in the best interest of PMC Commercial s shareholders. The board of trust managers recommends that PMC Commercial shareholders vote FOR the merger, the merger agreement and the other transactions contemplated by the merger agreement, and FOR approval of all other items to be voted upon at the annual meeting.

The board of directors of PMC Capital has approved the merger and has determined that the merger is in the best interest of PMC Capital s shareholders. The board of directors recommends that PMC Capital shareholders vote FOR the merger, the merger agreement and the other transactions contemplated by the merger agreement, and FOR approval of all other items to be voted upon at the annual meeting.

This joint proxy statement/ prospectus provides PMC Commercial shareholders and PMC Capital shareholders with detailed information about the annual meetings and the proposed merger. You can also obtain information from publicly available documents filed by PMC Capital and PMC Commercial with the SEC. **PMC Commercial and PMC Capital encourage you to read this entire document carefully, including the section entitled Risk Factors beginning on page 19.**

Your vote is very important. Whether you plan to attend the annual meeting, please take time to vote on the proposal by completing and mailing the enclosed proxy card, or by voting over the telephone or via the Internet.

Sincerely,

/s/ DR. ANDREW S. ROSEMORE	/s/ DR. FREDRIC M. ROSEMORE
Dr. Andrew S. Rosemore *Chairman of the Board, Executive Vice President and Chief Operating Officer* *PMC Commercial Trust*	Dr. Fredric M. Rosemore *Chairman of the Board and Treasurer* *PMC Capital, Inc.*

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Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this joint proxy statement/ prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/ prospectus is dated November , 2003

and is first being mailed to shareholders on or about November , 2003.

SOURCES OF ADDITIONAL INFORMATION

This joint proxy statement/ prospectus includes information also set forth in documents filed by PMC Commercial and PMC Capital with the SEC, and those documents include information about our companies that is not included in or delivered with this document. If you are a shareholder of PMC Capital or PMC Commercial, you can obtain any of those documents filed with the SEC from PMC Capital or PMC Commercial, as the case may be, or through the SEC or the SEC s web site. The address of that site is http://www.sec.gov. Documents filed with the SEC are available from the companies, without charge, excluding all exhibits unless specifically incorporated by reference as an exhibit to this document. Shareholders of PMC Capital or PMC Commercial may obtain documents filed with the SEC or documents incorporated by reference in this document by requesting them in writing or by telephone from the appropriate company at the following addresses:

PMC Capital, Inc. 18111 Preston Road, Suite 600 Dallas, TX 75252 Attention: Investor Relations (972) 349-3256 (800) 486-3223 ext. 3256	PMC Commercial Trust 18111 Preston Road, Suite 600 Dallas, TX 75252 Attention: Investor Relations (972) 349-3235 (800) 486-3223 ext. 3235

If you would like to request documents, in order to ensure timely delivery, you must do so at least five business days before the date of your annual meeting. This means you must request this information no later than December 22, 2003. If you request any documents, PMC Capital or PMC Commercial will mail them to you by first class mail, or another equally prompt means, within one business day after it receives your request.

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PMC COMMERCIAL TRUST

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On December 30, 2003

To the shareholders of PMC Commercial Trust:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of PMC Commercial Trust, a Texas real estate investment trust (PMC Commercial), will be held at 11:00 a.m., Central time, on Tuesday, December 30, 2003, at 18111 Preston Road, Suite 600, Dallas, Texas, for the following purposes:

1. To consider and approve the Agreement and Plan of Merger, dated March 27, 2003, by and between PMC Commercial Trust and PMC Capital, Inc., a Florida corporation (PMC Capital), and the transactions contemplated by the merger agreement, including without limitation, the merger of PMC Capital with and into PMC Commercial.

2. To consider and approve the proposed amendments to PMC Commercial s declaration of trust to:

   provide that the holders of PMC Commercial common shares may vote on all matters presented at all meetings of shareholders; and

   provide that the board of trust managers may amend, repeal or adopt new bylaws.

3. To consider and elect seven members of PMC Commercial s board of trust managers to hold office until the next annual meeting of shareholders and until their respective successors have been elected and qualified.

4. To consider and ratify the appointment of PricewaterhouseCoopers LLP as independent public accountants of PMC Commercial for the year ending December 31, 2003.

5. To consider the postponement or adjournment of the annual meeting for the solicitation of additional votes, if necessary.

6. To transact any other business as may properly come before the annual meeting or any adjournments or postponements of that meeting.

Only PMC Commercial shareholders of record at the close of business on November 10, 2003, the record date for the annual meeting, may vote at the annual meeting and any adjournments or postponements of the annual meeting. A complete list of PMC Commercial shareholders of record entitled to vote at the annual meeting will be available for the 10 days before the annual meeting at our executive offices for inspection for proper purposes by PMC Commercial shareholders during ordinary business hours.

Your vote is very important. The PMC Commercial board of trust managers has unanimously approved the merger agreement and the merger of PMC Capital with and into PMC Commercial, and recommends that you vote for all of the proposals set forth above, including the merger agreement and the merger. Whether or not you plan to attend the annual meeting, please sign, date and return the enclosed proxy card as soon as possible to make sure that your shares are represented at the annual meeting. You may also be able to vote by telephone or the Internet if so instructed by a broker, bank or other nominee.

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For more information about the merger described above and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/ prospectus and the merger agreement attached to it as Annex A.

By order of the PMC Commercial Trust
Board of Trust Managers

/s/ LANCE B. ROSEMORE

Lance B. Rosemore
Secretary

Dallas, Texas
November 10, 2003

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PMC CAPITAL, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On December 30, 2003

To the shareholders of PMC Capital, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of PMC Capital, Inc., a Florida corporation (PMC Capital), will be held at 9:00 a.m., Central time, on Tuesday, December 30, 2003, at 18111 Preston Road, Suite 600, Dallas, Texas, for the following purposes:

1. To consider and approve the Agreement and Plan of Merger, dated March 27, 2003, by and between PMC Capital, Inc. and PMC Commercial Trust, a Texas real estate investment trust (PMC Commercial), and the transactions contemplated by the merger agreement, including without limitation, the merger of PMC Capital with and into PMC Commercial.

2. To consider and elect two members of PMC Capital s board of directors, each to hold office for a term of three years and until their respective successors have been elected and qualified.

3. To consider and ratify the appointment of PricewaterhouseCoopers LLP as independent public accountants of PMC Capital for the year ending December 31, 2003.

4. To approve the postponement or adjournment of the annual meeting for the solicitation of additional votes, if necessary.

5. To transact any other business as may properly come before the annual meeting or any adjournments or postponements of that meeting.

Only PMC Capital shareholders of record at the close of business on November 10, 2003, the record date for the annual meeting, may vote at the annual meeting and any adjournments or postponements of the annual meeting. A complete list of PMC Capital shareholders of record entitled to vote at the annual meeting will be available for the 10 days before the annual meeting at our executive offices for inspection for proper purposes by PMC Capital shareholders during ordinary business hours.

Your vote is very important. The PMC Capital board of directors has unanimously approved the merger agreement and the merger of PMC Capital with and into PMC Commercial, and recommends that you vote for all of the proposals set forth above, including the merger agreement and the merger. Whether or not you plan to attend the annual meeting, please sign, date and return the enclosed proxy card as soon as possible to make sure that your shares are represented at the annual meeting. You may also be able to vote by telephone or the Internet if so instructed by a broker, bank or other nominee.

For more information about the merger described above and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/ prospectus and the merger agreement attached to it as Annex A.

By order of the PMC Capital, Inc.
Board of Directors

/s/ LANCE B. ROSEMORE

Lance B. Rosemore
Secretary

Dallas, Texas
November 10, 2003

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: When and where are the annual shareholder meetings?

A: The annual meeting of PMC Commercial shareholders will take place on Tuesday, December 30, 2003, at 11:00 a.m. Central time, at 18111 Preston Road, Suite 600, Dallas, Texas 75252.

The annual meeting of PMC Capital shareholders will take place on Tuesday, December 30, 2003, at 9:00 a.m. Central time, at 18111 Preston Road, Suite 600, Dallas, Texas 75252.

Q: What is happening at each annual meeting?

A: PMC Commercial shareholders are being asked to vote on the following items at the PMC Commercial annual meeting:

The approval of the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement.

The approval of proposed amendments to PMC Commercials declaration of trust to (i) provide that the holders of PMC Commercial common shares may vote on all matters presented at all meetings of shareholders; and (ii) provide that the board of trust managers may amend, repeal or adopt new bylaws.

The election of seven members of the PMC Commercial board of trust managers.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Commercial for 2003.

The consideration of the postponement or adjournment of the PMC Commercial annual meeting for the solicitation of additional votes, if necessary.

Any other business that may properly come before the PMC Commercial annual meeting or any adjournments or postponements of that meeting.

PMC Capital shareholders are being asked to vote on the following items at the PMC Capital annual meeting:

The approval of the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement.

The election of two members of the PMC Capital board of directors.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Capital for 2003.

The approval of the postponement or adjournment of the PMC Capital annual meeting for the solicitation of additional votes, if necessary.

Any other business that may properly come before the PMC Capital annual meeting or any adjournments or postponements of that meeting.

As of the PMC Capital record date, PMC Capital directors and officers held and were entitled to vote shares of PMC Capital common stock representing approximately 19.9% of the outstanding shares of common stock of PMC Capital. Each of these directors and officers has agreed to vote his or her PMC Capital shares in favor of the approval of the merger agreement and the merger as long as the merger agreement is in effect.

As of the PMC Commercial record date, PMC Commercial trust managers and officers held and were entitled to vote approximately 6.5% of PMC Commercial common shares outstanding. Each of these trust managers and officers has agreed to vote his or her PMC

Commercial common shares in favor of the approval of the merger agreement and the merger as long as the merger agreement is in effect.

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Q: What will happen in the merger?

A: If the merger is approved and all other conditions to the merger have been satisfied or waived, PMC Capital will merge with and into PMC Commercial. As a result of the merger:

PMC Capital will cease to exist as a matter of law, and PMC Commercial will survive the merger and own and operate the businesses of PMC Capital and its subsidiaries under the name PMC Commercial Trust. Following the merger, PMC Commercial intends to continue to qualify as a Texas real estate investment trust (REIT).

Q: Why are PMC Commercial and PMC Capital proposing to merge?

A: PMC Commercial and PMC Capital believe that the merger will provide important strategic and financial benefits to PMC Commercial and PMC Capital and their shareholders.

From PMC Commercial s point of view, these benefits include:

Larger Market Capitalization PMC Commercial expects that the larger equity market capitalization of the combined company would help create new business flexibility and earnings stability.

Stabilization of cash flow PMC Commercial expects that the merger would provide stability to cash flow available for dividends and ultimately increase PMC Commercial s cash available for distribution.

Support for revenue stream PMC Commercial believes that PMC Commercial s greater size resulting from the merger would help maintain PMC Commercial s revenue stream.

Internal management PMC Commercial anticipates that becoming internally managed would provide cost savings opportunities and lessen or eliminate any potential conflict of interest with PMC Capital. PMC Commercial s decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that PMC Commercial will achieve any cost savings.

Fairness Opinion The PMC Commercial special committee received a written opinion from U.S. Bancorp Piper Jaffray Inc. (U.S. Bancorp Piper Jaffray), its financial advisor, that, as of March 27, 2003 and as updated as of November 10, 2003, based upon and subject to the assumptions, factors and limitations set forth in the written opinion, the exchange ratio of 0.37 was fair, from a financial point of view, to PMC Commercial.

From PMC Capital s point of view, these benefits include:

Exchange ratio PMC Capital received a written opinion from A.G. Edwards & Sons (A.G. Edwards), its financial advisor, that, as of March 27, 2003 and updated as of November 10, 2003, the exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock was fair, from a financial point of view, to PMC Capital s shareholders. PMC Capital also asked A.G. Edwards to analyze the financial fairness of the merger against comparable transactions and available strategic alternatives. PMC Capital considered this information in light of the historical market prices of the PMC Capital common stock and PMC Commercial common shares.

Future environment of the small business lending industry PMC Capital expects that the merger would mitigate some of the present and possible future economic and competitive risks relating to the small business lending industry in which PMC Capital operates.

Need to increase capital base in a cost-effective manner PMC Capital expects that the merger would allow PMC Capital to increase its capital base at a reduced cost to achieve operating efficiencies. PMC Capital s decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that any cost savings will be achieved.

Need to diversify investment portfolio PMC Capital believes that the merger would diversify PMC Capital s investment assets to provide PMC Capital shareholders with greater earnings performance and operating and dividend stability.

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Offering a stake in a larger company The combined company would have a larger equity market capitalization, which could generate greater research coverage and institutional investor interest as well as potentially increase the trading volume of the PMC Commercial common shares to be received by PMC Capital shareholders in the merger, as compared to the trading volume of PMC Capital common stock before the merger.

Reduction in complexity of corporate structure and elimination of potential conflicts of interest PMC Capital believes that the merger would simplify PMC Capital s complex business structure. It would also help to eliminate potential conflicts of interest arising out of transactions between PMC Commercial and PMC Capital and from having common members of management and two common board members.

Q: What will PMC Capital shareholders receive in the merger?

A: Each PMC Capital shareholder will receive 0.37 of a common share of beneficial interest of PMC Commercial for each share of PMC Capital common stock owned. For example, if a PMC Capital shareholder currently owns 100 shares of PMC Capital common stock, then, if the merger is consummated, the shareholder will receive 37 common shares of beneficial interest of PMC Commercial in exchange for the 100 shares of PMC Capital common stock.

Until the merger is completed, the value of PMC Commercial common shares to be received in the merger will continue to fluctuate. On March 27, 2003, the last full trading day before the public announcement of the proposed merger, the closing price of a PMC Commercial common share of beneficial interest on the American Stock Exchange was $13.20. Based upon this closing price, 0.37 common shares of PMC Commercial had a value of $4.88, and the aggregate value of the merger would have been approximately $57.9 million. On November 7, 2003, the most recent practicable date prior to the printing of this joint proxy statement/ prospectus, the closing price of a PMC Commercial common share of beneficial interest was $14.16, and the closing price of a share of PMC Capital common stock on the American Stock Exchange was $5.05. Based upon this closing price, 0.37 common shares of PMC Commercial had a value of $5.24, and the aggregate value of the merger would have been $62,102,941.

Each existing shareholder of PMC Commercial will continue to own the common shares of beneficial interest that such shareholder owned before the merger.

Q: Are shareholders able to exercise dissenters rights?

A: No. Shareholders of PMC Commercial and PMC Capital will not be entitled to exercise dissenters rights with respect to any matter to be voted upon at the annual meetings. Any shareholder may abstain from or vote against any of the matters to be voted on at the annual meetings.

Q: When do you expect to complete the merger?

A: We are working to complete the merger during the first quarter of 2004 and expect it to be effective no later than February 29, 2004.

Q: How will the combined company s business be different?

A: PMC Commercial and PMC Capital both originate loans to businesses in the limited service hospitality industry. Following the merger, PMC Commercial intends to combine its limited service hospitality lending business with the established lending businesses of PMC Capital and its subsidiaries. PMC Commercial believes that the combined company will benefit from the larger size, economies of scale, greater financial resources and diversity of product lines to compete more effectively in the marketplace. The economies of scale will be generated through eliminating duplicate expenses related to maintaining separate corporate entities, separate books and records, and separate boards, preparing separate audits and complying with investment management and loan origination agreements. PMC Commercial also believes that the larger capital base may enable it to make larger loans to businesses in the limited service hospitality industry. PMC Commercial also will have the combined income streams of the merged businesses.

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Q: How will the combined company be managed?

A: Following the merger, PMC Commercial will be internally managed by the same team that externally manages PMC Commercial today.

Q: What will be the composition of the PMC Commercial board of trust managers following the merger?

A: The post-merger board of trust managers of PMC Commercial will consist of the trust managers elected by the shareholders at the annual meeting and Thomas Hamill, Barry A. Imber, Fredric M. Rosemore and Theodore J. Samuel, all of whom are currently directors of PMC Capital.

Q: What are the U.S. Federal income tax consequences of the merger?

A: PMC Commercial and PMC Capital have structured the merger to be a reorganization for U.S. Federal income tax purposes. PMC Capital and PMC Commercial will not be obligated to complete the merger unless they receive legal opinions to the effect that the merger qualifies as a reorganization for U.S. Federal income tax purposes. Accordingly, PMC Capital shareholders and PMC Commercial shareholders will not recognize gain or loss for U.S. Federal income tax purposes in the transaction. You are strongly urged to consult with your tax advisor to determine the particular U.S. Federal, state, local and foreign income or other tax consequences of the merger to you.

Q: Who must approve the merger?

A: In addition to the approvals by the PMC Commercial board of trust managers and the PMC Capital board of directors, each of which has already been obtained, the merger must be approved by the PMC Commercial shareholders, the PMC Capital shareholders and the U.S. Small Business Administration (SBA). Also, PMC Capital must obtain exemptive relief from the SEC. PMC Capital has submitted filings to the SEC and the SBA. There can be no assurance such approvals will be granted.

Q: What shareholder vote is required to approve the items to be voted on at each annual meeting, including the merger?

A: With respect to the PMC Commercial annual meeting:

the affirmative vote of the holders of two-thirds of PMC Commercial common shares outstanding and entitled to vote (4,299,528 shares) is required to approve the merger agreement and the merger;

the affirmative vote of the holders of two-thirds of PMC Commercial common shares outstanding and entitled to vote (4,299,528 shares) is required to approve the amendments to PMC Commercial s declaration of trust;

the affirmative vote of two-thirds of PMC Commercial common shares outstanding and entitled to vote (4,299,528 shares) is required to elect PMC Commercial trust managers; and

on each other matter to be acted on, the approval vote of a majority of PMC Commercial common shares represented and voting at the meeting is required to approve such matter.

With respect to the PMC Capital annual meeting:

the affirmative vote of the holders of a majority of the shares of PMC Capital common stock outstanding and entitled to vote (5,926,759 shares) is required to approve the merger agreement and the merger;

the two nominees for director receiving the highest number of votes cast by holders of shares of PMC Capital common stock will be elected as directors; and

on each other matter to be voted on, for the PMC Capital shareholders to approve such matter, the number of votes cast for such matter must exceed the number of votes cast against such matter.

Q: Do the boards recommend approval of the merger proposal?

A: Yes. Based on the recommendation of their respective special committees, the board of trust managers of PMC Commercial and the board of directors of PMC Capital each unanimously approved and adopted

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the merger agreement and the transactions contemplated by the merger agreement and recommends that you vote for approval of these matters.

The board of trust managers of PMC Commercial formed a special committee of four independent trust managers with no relationship to PMC Capital, consisting of Nathan G. Cohen, Roy H. Greenberg, Irving Munn and Ira Silver. The board of directors of PMC Capital also formed a special committee of four PMC Capital directors, consisting of Irvin M. Borish, Barry A. Imber, Thomas Hamill and Theodore J. Samuel, none of whom was an employee or director of PMC Commercial or an employee of PMC Capital or its affiliates. Both the board of trust managers of PMC Commercial and the board of directors of PMC Capital adopted the recommendation of their respective special committees and recommend that shareholders approve the merger.

Q: Why were special committees formed?

A: The PMC Commercial and PMC Capital special committees were formed to protect the interests of their respective shareholders in the evaluation and negotiation of the merger agreement and the merger from potential conflicts of interest resulting from the common management of PMC Commercial and PMC Capital and the fact that certain officers and directors of PMC Capital also serve on the board of trust managers of PMC Commercial.

Q: What do I need to do now?

A: We urge you to read carefully this joint proxy statement/ prospectus, including its annexes. You also may want to review the documents referenced under Where You Can Find More Information and consult with your accounting, legal and tax advisors.

Q: How do I vote my shares?

A: You may indicate how you want to vote on your proxy card and then sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the appropriate annual meeting. PMC Commercial shareholders may also vote over the Internet or the telephone by following the instructions provided with your proxy card. If you are a record shareholder, you may also attend the annual meeting in person instead of submitting a proxy.

Unless your shares are held in a brokerage account, if you sign, date and send your proxy and do not indicate how you want to vote, your proxy will be voted for the approval of the merger agreement and the merger and for all other proposals to be voted on at the annual meeting. If your shares are held in a brokerage account, please see the answer to the next question.

If you fail either to return your proxy card or vote over the telephone or via the Internet, or if you abstain with respect to the merger, the amendments to PMC Commercial s declaration of trust, or the election of trust managers or directors, the effect will be a vote against the merger, the amendments and the trust managers or directors.

With respect to any other matter to be voted on at the PMC Commercial annual meeting, a vote to abstain will have no effect on the outcome of such other matters.

With respect to all other matters to be acted on at the PMC Capital annual meeting, a vote to abstain will have no effect on the outcome of such other matters.

Q: If my PMC Capital shares or PMC Commercial shares are held in a brokerage account or in street name, will my broker vote my shares for me?

A: With respect to the merger proposal and the amendments to PMC Commercial s declaration of trust, if you are a PMC Commercial shareholder, or with respect to the merger proposal, if you are a PMC Capital shareholder, and, in either case, you do not provide your broker with instructions on how to vote your street name shares, your broker will not be permitted to vote them. With respect to all other matters to be approved at the annual meetings, if the broker has indicated on the proxy that it does not have discretionary authority to vote such street name shares, your broker will not be permitted to vote them. Either of these situations results in a broker non-vote.

A broker non-vote with respect to the merger, the amendments to PMC Commercial s declaration of trust, or the election of PMC Commercial trust managers, will have the effect of a vote against such matters. With respect to all other matters to be voted on at each annual meeting, a broker non-vote will not have any effect on the outcome of such matters.

You should, therefore, provide your broker with instructions on how to vote your shares or arrange to attend the annual meeting and vote your shares in person to avoid a broker non-vote. Shareholders are urged to utilize telephone or Internet voting if their broker has provided them with the opportunity to do so. See your voting instruction form for instructions. If your broker holds your shares and you attend the annual meeting in person, please bring a letter from your broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the meeting.

Q: What do I do if I want to change my vote?

A: You may change your vote at any time before the vote takes place at your annual meeting. To do so, you may either complete and submit a new proxy card or send a written notice stating that you would like to revoke your proxy. PMC Commercial shareholders may also change your vote if you voted over the telephone or via the Internet simply by revoting. The last recorded vote will be what is counted at the annual meeting. In addition, you may elect to attend the annual meeting and vote in person, as described above.

Q: Should I send in my PMC Capital share certificates now?

A: No. If the merger is completed, written instructions will be sent to you for exchanging your PMC Capital share certificates for the appropriate number of PMC Commercial common share certificates.

Q: Who can I contact with any additional questions?

A: You may call Investor Relations at PMC Commercial at (800) 486-3223, extension 3235 or PMC Capital toll-free at (800) 486-3223, extension 3256.

Q: Where can I find more information about the companies?

A: You can find more information about PMC Commercial and PMC Capital in the documents described under Where You Can Find More Information on page 259.

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SUMMARY

This summary highlights selected information from this joint proxy statement/ prospectus and may not contain all the information that is important to you. To understand the merger proposal fully and for a more complete description of the legal terms of the merger, you should read carefully this entire document, including the annexes, and the other documents to which we have referred you. For information on how to obtain the documents that we have filed with the SEC, see Where You Can Find More Information on page 259.

PMC Capital, Inc. (page 165)

PMC Capital, a Florida corporation, is a diversified, closed-end management investment company that has elected to operate as a business development company, or BDC, under the Investment Company Act of 1940, as amended. Either directly or through its subsidiaries, PMC Capital is a national lender to small businesses. PMC Capital s investment objective is to achieve current income that is available to pay out to shareholders in the form of quarterly dividends. PMC Capital s operations include originating, servicing and selling commercial loans. PMC Capital operates under several licenses from the SBA. In addition to its lending operations, PMC Capital earns income through its wholly-owned subsidiary, PMC Advisers, Ltd., and its subsidiary, PMC Asset Management, Inc., which evaluate and service loans receivable and other investments pursuant to certain fee arrangements with PMC Commercial. PMC Capital common stock trades on the American Stock Exchange under the symbol PMC. PMC Capital s executive offices are located at 18111 Preston Road, Suite 600, Dallas, Texas 75252 and its telephone number is (972) 349-3200.

PMC Commercial Trust (page 106)

PMC Commercial is a Texas real estate investment trust, or REIT, that primarily originates loans to small businesses collateralized by first liens on the real estate of the related business, principally in the hospitality industry. PMC Commercial s investments also include the ownership of commercial properties in the hospitality industry. PMC Commercial originates loans for commercial real estate primarily in the service, retail, multi-family and manufacturing industries. PMC Commercial generates revenue from the yield earned on its investments, rental income from property ownership and other fee income from its lending activities. PMC Commercial is externally managed by PMC Advisers, Ltd., and its subsidiary, PMC Asset Management, Inc., both of which are direct or indirect wholly-owned subsidiaries of PMC Capital. PMC Commercial is structured to qualify as a REIT for U.S. Federal income tax purposes. PMC Commercial common shares trade on the American Stock Exchange under the symbol PCC. PMC Commercial s executive offices are located at 18111 Preston Road, Suite 600, Dallas, Texas 75252 and its telephone number is (972) 349-3200.

The PMC Commercial Annual Meeting (page 40)

PMC Commercial will hold an annual meeting of its shareholders at 11:00 a.m., Central time, on December 30, 2003, at the principal executive offices of PMC Commercial located at 18111 Preston Road, Suite 600, Dallas, Texas 75252, to vote upon the following items:

- The approval of the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement.
- The approval of proposed amendments to PMC Commercial s declaration of trust to (i) provide that the holders of PMC Commercial common shares may vote on all matters presented at all meetings of shareholders, and (ii) provide that the board of trust managers may amend, repeal or adopt new bylaws.
- The election of seven members of the PMC Commercial board of trust managers.
- The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Commercial for 2003.

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The consideration of the postponement or adjournment of the PMC Commercial annual meeting for the solicitation of additional votes, if necessary.

Any other business that may properly come before the PMC Commercial annual meeting or any adjournments or postponements of that meeting.

You can vote at the PMC Commercial annual meeting only if you owned PMC Commercial common shares at the close of business on November 10, 2003, which is the record date for the meeting.

The PMC Capital Annual Meeting (page 43)

PMC Capital will hold an annual meeting of its shareholders at 9:00 a.m., Central time, on December 30, 2003, at the principal executive offices of PMC Capital located at 18111 Preston Road, Suite 600, Dallas, Texas 75252, to vote upon the following items:

The approval of the merger agreement between PMC Capital and PMC Commercial and the transactions contemplated by the merger agreement.

The election of two members of the PMC Capital board of directors.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Capital for 2003.

The approval of the postponement or adjournment of the PMC Capital annual meeting for the solicitation of additional votes, if necessary.

Any other business that may properly come before the PMC Capital annual meeting or any adjournments or postponements of that meeting.

You can vote at the PMC Capital annual meeting only if you owned PMC Capital common stock at the close of business on November 10, 2003, which is the record date for the meeting.

The Merger Proposal (page 45)

Under the terms of the merger, PMC Capital will be merged with and into PMC Commercial, PMC Commercial will be the surviving entity, and PMC Capital will no longer exist as a separate corporation. As a result of the merger, all of the assets and liabilities of PMC Capital immediately before the merger will become assets and liabilities of PMC Commercial immediately after the merger, and all of the direct and indirect subsidiaries of PMC Capital will either be dissolved or become direct and indirect subsidiaries of PMC Commercial.

After the merger, persons who owned shares of PMC Capital before the merger will own approximately 40.49% of PMC Commercial common shares outstanding immediately after the merger. As a result of the merger, PMC Commercial will survive as an internally-managed company and will continue the operations conducted by PMC Commercial and PMC Capital before the merger.

The merger agreement is attached as Annex A to this joint proxy statement/ prospectus and is incorporated by reference into this joint proxy statement/ prospectus. We encourage you to read the merger agreement carefully and in its entirety, as it is the principal legal document governing the merger.

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The following diagrams summarize the structure of PMC Commercial and PMC Capital before and after the merger assuming that it is completed as provided in the merger agreement:

PMC Capital Shareholders Will Receive PMC Commercial Common Shares in the Merger (page 225)

PMC Capital Shareholders. If the merger is consummated, each share of PMC Capital common stock will be converted into the right to receive 0.37 of a common share of PMC Commercial.

The closing prices of the PMC Commercial common shares and the PMC Capital common stock, as well as the value of the PMC Commercial common shares to be received in the merger based on the exchange ratio of 0.37, were, on the day before the merger was announced and on the most recent practicable date prior to the printing of this joint proxy statement/ prospectus, as follows:

Date	PMC Commercial Closing Sale Price	PMC Capital Closing Sale Price	Implied Value of each PMC Capital Share
March 27, 2003	$13.20	$4.02	$4.88
November 7, 2003	$14.16	$5.05	$5.24

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The value of the PMC Commercial common shares to be received in the merger will continue to fluctuate and you will not know the value of the PMC Commercial common shares you will receive in the merger at the time you vote.

Please do not send in your stock certificates at this time. You will receive written instructions to do so after the merger is complete.

PMC Commercial Shareholders. If the merger is consummated, each common share of PMC Commercial issued and outstanding prior to the merger will remain outstanding without change.

Completion of the Merger (page 79)

It is currently expected that the merger will be completed after shareholders have approved the merger at the annual meetings, if regulatory approvals and other required matters are completed by that time. PMC Commercial and PMC Capital are working to complete the merger during the first quarter of 2004, but in any event, no later than February 29, 2004. See Description of the Merger Agreement Closing; Completion of the Merger. The merger agreement currently obligates the parties to complete the merger on or before February 29, 2004. If necessary or desirable, PMC Commercial and PMC Capital may agree to complete the merger at a later date.

Ownership of PMC Commercial After the Merger (page 45)

Following the merger, existing PMC Capital shareholders will own approximately 40% of the outstanding common shares of PMC Commercial based on the number of PMC Commercial common shares and shares of PMC Capital common stock expected to be outstanding at completion of the merger.

Recommendations of the Special Committees and

the Boards of Trust Managers and Directors (pages 54 and 58)

Special Committee Recommendations. The board of trust managers of PMC Commercial formed a special committee of four independent PMC Commercial trust managers with no relationship to PMC Capital. The board of directors of PMC Capital also formed a special committee of four PMC Capital directors, none of whom is an employee or director of PMC Commercial or an employee of PMC Capital or its affiliates. The PMC Commercial and PMC Capital special committees were formed to protect the interests of their respective shareholders in the evaluation and negotiation of the merger agreement and the merger from potential conflicts of interest resulting from the common management of PMC Commercial and PMC Capital and the fact that certain officers and directors of PMC Capital also serve on the board of trust managers of PMC Commercial. Each special committee unanimously recommended to its respective board that the merger proposal was advisable and fair to and in the best interests of each company and its shareholders, and that the merger should be approved.

Board Recommendations. Both the board of trust managers of PMC Commercial and the board of directors of PMC Capital unanimously adopted the recommendation of their respective special committees that the merger be approved and submitted to shareholders for approval. **The PMC Commercial board of trust managers and the PMC Capital board of directors believe that the merger is advisable and in the best interests of their respective shareholders, and they unanimously recommend that their respective shareholders vote for approval of the merger proposal.**

PMC Commercial s Reasons for the Merger (page 51)

In reaching their conclusion, the PMC Commercial special committee and PMC Commercial board of trust managers approved the merger for the following reasons, among others:

Larger Market Capitalization PMC Commercial expects that the larger equity market capitalization of the combined company would help create new business flexibility and earnings stability.

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Stabilization of cash flow PMC Commercial expects that the merger would provide stability to cash flow available for dividends and ultimately increase PMC Commercial s cash available for distribution.

Support for revenue stream PMC Commercial believes that PMC Commercial s greater size resulting from the merger would help maintain PMC Commercial s revenue stream.

Internal management PMC Commercial anticipates that becoming internally managed would provide cost savings opportunities and lessen or eliminate any potential conflict of interest with PMC Capital. PMC Commercial s decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that PMC Commercial will achieve any cost savings.

Fairness opinion The PMC Commercial special committee received a written opinion from U.S. Bancorp Piper Jaffray, its financial advisor, that, as of March 27, 2003, and updated as of November 10, 2003 based upon and subject to the assumptions, factors and limitations set forth in the written opinion, the exchange ratio of 0.37 was fair, from a financial point of view, to PMC Commercial.

PMC Capital s Reasons for the Merger (page 54)

In reaching their conclusion, the PMC Capital special committee and PMC Capital board of directors approved the merger for the following reasons, among others:

Exchange ratio PMC Capital received a written opinion from A.G. Edwards, its financial advisor, that, as of March 27, 2003 and updated as of November 10, 2003, the exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock was fair, from a financial point of view, to PMC Capital s shareholders. PMC Capital also asked A.G. Edwards to analyze the financial fairness of the merger against comparable transactions and available strategic alternatives. PMC Capital considered this information in light of the historical market prices of the PMC Capital common stock and PMC Commercial common shares.

Future environment of the small business lending industry PMC Capital expects that the merger would mitigate some of the present and possible future economic and competitive risks of the small business lending industry in which PMC Capital operates.

Need to increase capital base in a cost-effective manner PMC Capital expects that the merger would allow PMC Capital to increase its capital base at a reduced cost to achieve operating efficiencies. PMC Capital s decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that any cost savings will be achieved.

Need to diversify investment portfolio PMC Capital believes that the merger would diversify PMC Capital s investment assets to provide PMC Capital shareholders with greater earnings performance and operating and dividend stability.

Offering a stake in a larger company The combined company would have a larger equity market capitalization, which could generate greater research coverage and institutional investor interest as well as potentially increase the trading volume of the PMC Commercial common shares to be received by PMC Capital shareholders in the merger, as compared to the trading volume of PMC Capital common stock before the merger.

Reduction in complexity of corporate structure and elimination of potential conflicts of interest PMC Capital believes that the merger would simplify PMC Capital s complex business structure. It would also help to eliminate potential conflicts of interest arising out of transactions between PMC Commercial and PMC Capital and from having common members of management.

Fairness Opinions of Financial Advisors (pages 58 and 66)

PMC Commercial. The PMC Commercial special committee engaged U.S. Bancorp Piper Jaffray to act as financial advisor with respect to evaluating strategic alternatives available to PMC Commercial.

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On March 27, 2003, U.S. Bancorp Piper Jaffray delivered its opinion to the PMC Commercial special committee that, as of that date, and based upon and subject to the assumptions, factors and limitations set forth in the written opinion and described under the heading The Merger Proposal Opinion of U.S. Bancorp Piper Jaffray, the exchange ratio in the merger pursuant to the merger agreement was fair, from a financial point of view, to PMC Commercial. U.S. Bancorp Piper Jaffray s written opinion was directed to the PMC Commercial special committee and does not constitute a recommendation to any PMC Commercial shareholder as to how such shareholder should vote with respect to the proposed merger. This opinion addressed only the fairness, from a financial point of view, of the exchange ratio in the merger to PMC Commercial. The opinion does not address PMC Commercial s underlying business decision to participate in the merger. In addition, U.S. Bancorp Piper Jaffray did not express any opinion as to the prices at which common shares of PMC Commercial or shares of common stock of PMC Capital have traded or at which shares of PMC Commercial, PMC Capital or the combined company may trade in the future. A copy of the written opinion is attached to this joint proxy statement/ prospectus as Annex C. This opinion has been updated, as of November 10, 2003. **PMC Commercial shareholders should read the opinion attached as Annex C to this joint proxy statement/ prospectus carefully and in its entirety in conjunction with this joint proxy statement/ prospectus and should carefully consider the assumptions made, matters considered, and limits of the review undertaken, by U.S. Bancorp Piper Jaffray.**

PMC Capital. A.G. Edwards served as financial advisor to the PMC Capital special committee and the PMC Capital board of directors. A.G. Edwards rendered an opinion as to the fairness of the exchange ratio of the merger, from a financial point of view, to PMC Capital s shareholders. A.G. Edwards provided its opinion for the information and assistance of PMC Capital s special committee and PMC Capital s board of directors in connection with their consideration of the transactions contemplated by the merger agreement. The opinion provided by A.G. Edwards is not a recommendation as to how any holder of PMC Capital common stock should vote with respect to the transaction. In addition, the opinion provided by A.G. Edwards does not express any opinion as to the prices at which PMC Commercial common shares may trade following completion of the merger. The full text of this opinion is attached as Annex D to this joint proxy statement/ prospectus. This opinion has been updated as of November 10, 2003. **PMC Capital encourages its shareholders to read the opinion provided by A.G. Edwards carefully and in its entirety.**

Interests of PMC Commercial and PMC Capital Management in the Merger (page 73)

The trust managers of PMC Commercial and the officers and the directors of PMC Capital have interests in the merger that are different in certain respects from and may conflict with the interests of other PMC Commercial shareholders and PMC Capital shareholders, respectively.

Currently, Lance B. Rosemore, President and Chief Executive Officer, a significant shareholder and a director of PMC Capital, Andrew S. Rosemore, Executive Vice President and Chief Operating Officer and a significant shareholder of PMC Capital, and Martha R. Greenberg, a significant shareholder and a director of PMC Capital, serve as trust managers of PMC Commercial and are all children of Fredric M. Rosemore, a significant shareholder and Chairman of the Board of PMC Capital.

Upon the completion of the merger, the PMC Commercial board of trust managers will be comprised of Nathan G. Cohen, Martha R. Greenberg, Roy H. Greenberg, Irving Munn, Andrew S. Rosemore, Lance B. Rosemore and Ira Silver, all of whom are current trust managers of PMC Commercial, and Thomas Hamill, Barry A. Imber, Fredric M. Rosemore and Theodore J. Samuel, all of whom are current directors of PMC Capital.

All executive officers of PMC Capital will become paid employees of PMC Commercial upon completion of the merger.

As of November 7, 2003, directors and officers of PMC Capital beneficially owned in the aggregate 2,503,246 shares of PMC Capital common stock, representing 21.1% of the total shares of PMC

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Capital. Each of these directors and officers has agreed to vote his or her PMC Capital shares in favor of the approval of the merger agreement and the merger so long as the merger agreement is in effect.

Upon completion of the merger, trust managers and officers of PMC Commercial will beneficially own in the aggregate approximately 1,523,473 PMC Commercial common shares, representing 14.1% of PMC Commercial common shares that will be outstanding after the merger is completed.

U.S. Federal Income Tax Consequences (page 243)

PMC Commercial and PMC Capital will not be obligated to complete the merger unless each has received an opinion from its counsel, based on certain assumptions and factual representations made by PMC Commercial, PMC Capital and others, to the effect that the merger will qualify as a tax-free reorganization under the Internal Revenue Code of 1986, as amended and that, as a result, neither PMC Capital nor its shareholders will recognize gain or loss for U.S. Federal income tax purposes as a result of the merger. It is a condition to the merger that each of PMC Commercial and PMC Capital receive this legal opinion from its counsel. Tax matters are complicated, and the tax consequences of the merger to you will depend on the facts of your own situation. We urge you to contact your own tax advisor to understand fully how the merger will affect you, including how any state, local or foreign tax laws may apply to you.

Dividends and Distributions (page 74)

PMC Commercial. Under the merger agreement, (1) PMC Commercial is permitted, but not obligated, to pay distributions to shareholders of regular quarterly dividends up to $0.40 per PMC Commercial common share and (2) if PMC Capital is required to make a special distribution prior to completion of the merger, PMC Commercial is permitted and intends to make a similar distribution to its shareholders, adjusted by the exchange ratio prior to completion of the merger.

In order to qualify as a REIT for U.S. Federal income tax purposes, PMC Commercial generally must distribute to its shareholders annually at least 90% of its taxable income, excluding the retained earnings of its taxable REIT subsidiaries and its net capital gains. It is anticipated that, after the completion of the merger, PMC Commercial will maintain its existing dividend policy. The payment of dividends by PMC Commercial, however, will be subject to approval and declaration by the PMC Commercial board of trust managers and will depend on a variety of factors, including business, financial and regulatory considerations.

PMC Capital. Under the merger agreement, (1) PMC Capital is permitted, but not obligated, to pay distributions to its shareholders of regular quarterly dividends up to $0.12 per share of PMC Capital common stock and (2) PMC Capital may make distributions as required to cause PMC Capital to distribute 100% of its taxable income for the taxable year ending on the closing date of the merger.

Dissenters Rights (page 77)

PMC Commercial and PMC Capital shareholders will not be entitled to exercise dissenters rights under Texas or Florida law, respectively.

Vote Required to Approve the Merger and the Other Annual Meeting Proposals (pages 41 and 44)

Merger Proposal. The merger proposal requires the approval of the holders of two-thirds of the outstanding PMC Commercial common shares and the approval of the holders of a majority of the outstanding PMC Capital common stock. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the merger proposal. Brokers who hold shares of stock in street name cannot vote those shares unless you instruct them to vote in accordance with their procedures, which would also have the effect of a vote against the merger proposal.

Other PMC Commercial Proposals.

Approval of amendments to PMC Commercial s declaration of trust. The approval of the amendments to PMC Commercial s declaration of trust requires the affirmative vote of the holders of at least two-thirds of the outstanding PMC Commercial common shares. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the amendments to PMC Commercial s declaration of trust. Brokers who hold shares of beneficial interest in street name cannot vote those shares if the brokers are not provided with voting instructions in accordance with their procedures, and this would also be counted as a vote against the amendments to PMC Commercial s declaration of trust.

Election of board of trust managers. The election of the members of the PMC Commercial board of trust managers will require the approval of the holders of two-thirds of the outstanding PMC Commercial common shares. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the election of trust managers. Brokers who hold shares of beneficial interest in street name cannot vote those shares if you have withheld authority for them to do so. These shares are referred to as broker non-votes. Broker non-votes would also have the effect of a vote against the election of trust managers.

Other proposals. The other proposals to be acted upon at the PMC Commercial annual meeting will require the approval of the holders of a majority of the PMC Commercial common shares represented and voting at the PMC Commercial annual meeting. Shares that are not voted and broker non-votes will not have any effect with respect to each of these proposals.

Other PMC Capital Proposals.

Election of board members. PMC Capital s board is composed of seven members divided into three classes, with each class serving a three-year term and one class being elected by the shareholders annually. The two nominees for election to the PMC Capital board of directors who receive the highest number of votes will be elected to a three-year term. Thus, abstentions, failures to cast a vote and broker non-votes will have no effect on the outcome of this proposal.

Other proposals. Each of the other proposals to be voted upon at the PMC Capital annual meeting will be approved if the number of votes cast in favor of the proposal exceed the number of votes cast against the proposal. Thus, abstentions, failures to vote and broker non-votes will have no effect on the outcome of these proposals.

Voting Power and Voting by Management (page 92)

On the record date, 6,449,291 PMC Commercial common shares were outstanding, of which 419,966 shares, or 6.5% of the total outstanding shares, were owned by trust managers and executive officers of PMC Commercial. On the record date, 11,853,516 shares of PMC Capital common stock were outstanding, of which 2,353,446 shares, or 19.9% of the total outstanding shares, were owned by directors and executive officers of PMC Capital and subject to the voting agreements. Each PMC Commercial common share and each share of PMC Capital common stock entitles the holder to one vote on all proposals.

So long as the merger agreement is in effect, each of the trust managers and executive officers of PMC Commercial and each of the directors and executive officers of PMC Capital has agreed to vote his or her shares in favor of the merger proposal and the merger.

Revoking Proxies (pages 42 and 45)

You can revoke a proxy previously given by you by:

sending a written notice to the secretary of PMC Commercial or PMC Capital, as appropriate, at the address shown on the proxy card;

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- completing and signing a new proxy card;
- revoting your shares over the telephone or via the Internet; or
- attending the annual meeting and voting in person.

Regulatory Approvals Required to Complete the Merger (page 76)

PMC Commercial and PMC Capital must obtain certain approvals, including approval of the SBA and exemptive relief from the SEC, before they can complete the merger.

PMC Commercial and PMC Capital cannot predict whether all required regulatory approvals for the merger will be obtained, or whether any approvals will include conditions that may be detrimental to PMC Commercial or PMC Capital.

Conditions to the Merger (page 84)

The merger will be completed only if specific conditions, including, among other things, the following, are met or waived by the board of trust managers of PMC Commercial or the board of directors of PMC Capital, as applicable:

- the merger agreement is approved by the required vote of PMC Commercial shareholders and PMC Capital shareholders;
- no legal prohibition on completion of the merger is in effect;
- PMC Commercial common shares to be issued in the merger are approved for listing on the American Stock Exchange;
- the registration statement, including this joint proxy statement/ prospectus, is declared effective by the SEC;
- all approvals, consents and authorizations of, filings and registrations with, and applications and notifications to all third parties and regulatory authorities required for the completion of the merger are obtained or made and are in full force and effect and all waiting periods required by applicable law have expired;
- the representations and warranties made by each party continue to be accurate except for inaccuracies that would not have a material adverse effect;
- covenants of the parties are performed in all material respects;
- each of PMC Commercial and PMC Capital receives an opinion of its respective tax counsel to the effect that the merger will qualify as a reorganization under the Internal Revenue Code;
- each of PMC Commercial and PMC Capital receives an opinion of tax counsel to the effect that PMC Capital was organized and has operated in conformity with the requirements for qualification as a regulated investment company under the Internal Revenue Code;
- each of PMC Commercial and PMC Capital receives an opinion of tax counsel to the effect that PMC Commercial was organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code; and
- since the date of the merger agreement, there has been no change that would have had a material adverse effect on PMC Commercial.

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Termination of the Merger Agreement (page 87)

Even if shareholders of PMC Commercial and PMC Capital approve the merger, PMC Commercial and PMC Capital can jointly agree to terminate the merger agreement at any time. Either PMC Commercial or PMC Capital may also terminate the merger agreement if, among other things, any of the following occurs:

- the merger is not completed on or before February 29, 2004, as long as the failure to complete the merger before that date is not the result of the failure by the terminating company to fulfill any of its obligations under the merger agreement;
- a court or other governmental authority prohibits the merger;
- either the PMC Commercial shareholders or the PMC Capital shareholders do not approve the merger agreement;
- the other company s board of directors or trust managers withdraws or changes its recommendation that the shareholders approve the merger in connection with a superior proposal as provided in the merger agreement; or
- prior to the receipt of the approval of shareholders, either PMC Commercial or PMC Capital terminates the merger agreement in connection with a superior proposal as provided in the merger agreement.

PMC Commercial will pay a termination fee to PMC Capital in the amount of $870,000 in cash to the extent set forth in the merger agreement if the merger agreement is terminated because PMC Commercial withdraws or changes its recommendation that the shareholders approve this merger or terminates the merger agreement in connection with a superior proposal.

PMC Capital will pay a termination fee to PMC Commercial in the amount of $870,000 in cash to the extent set forth in the merger agreement if the merger agreement is terminated because PMC Capital withdraws or changes its recommendation that the shareholders approve this merger or terminates the merger agreement in connection with a superior proposal.

In the event that the merger agreement is terminated for any other reason, no termination fees will be payable, but under certain circumstances termination expenses of up to $750,000 may be payable by either company to the other.

The Parties Cannot Solicit Other Offers (page 85)

The merger agreement contains provisions prohibiting PMC Commercial and PMC Capital from actively seeking an alternative transaction prior to the time the merger agreement is terminated or the merger is completed. The no solicitation covenant generally prohibits PMC Commercial and PMC Capital, as well as their officers, trust managers, directors, subsidiaries, employees, agents and representatives, from taking any action to solicit an acquisition proposal. The merger agreement does not, however, prohibit either PMC Commercial or PMC Capital or its respective board of trust managers or directors from considering, and potentially recommending, an unsolicited written superior proposal from a third party under certain circumstances.

Termination of Exchange Act Registration (page 79)

PMC Commercial common shares and shares of PMC Capital common stock are listed on the American Stock Exchange. Following the merger, PMC Capital common stock will be delisted and will no longer trade on the American Stock Exchange or any other exchange. PMC Capital intends to terminate the registration of its common stock under the Securities Exchange Act of 1934 promptly upon completion of the merger.

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Fluctuations in Market Price (pages 19 and 31)

The value of the PMC Commercial common shares that PMC Capital shareholders will receive in the merger will depend on the market value of the PMC Commercial common shares at the time the merger is completed. The market value of PMC Commercial common shares is likely to change, both before and after the PMC Capital annual shareholders meeting and the merger. No one can accurately predict what the market value will be for these shares at any particular time.

Listing of PMC Commercial Common Shares (page 74)

PMC Commercial will have the common shares to be issued in the merger listed on the American Stock Exchange and intends that its common shares will continue to be listed on the American Stock Exchange.

Risk Factors (page 19)

Shareholders voting on the merger should consider, among other things, the risks associated with ownership of PMC Commercial common shares and the other risks set forth in the section Risk Factors of this joint proxy statement/ prospectus.

Comparison of Shareholder Rights (page 227)

The rights of PMC Capital shareholders are currently governed by Florida law, PMC Capital s articles of incorporation and PMC Capital s bylaws. When the merger is completed, shareholders of PMC Capital will become shareholders of PMC Commercial, a Texas REIT, and their rights will be governed by Texas law, PMC Commercial s declaration of trust and its bylaws. The rights of PMC Capital shareholders and the rights of PMC Commercial shareholders differ in many respects.

Furthermore, for PMC Commercial to qualify as a REIT under the Internal Revenue Code, among other things:

- not more than 50% in value of its outstanding shares may be owned, directly or indirectly, by five or fewer individuals, as defined in the Internal Revenue Code, during the last half of a taxable year; and

- the shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year.

PMC Commercial s declaration of trust, subject to certain exceptions, provides that no holder other than any person approved by the trust managers, at their option and in their discretion, may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.8% of the lesser of the number or value, as determined in good faith by the trust managers, of the total outstanding shares of PMC Commercial.

Cautionary Statement Regarding Forward-Looking Statements

This document and the documents to which we refer you in this document include various forward-looking statements about PMC Commercial and PMC Capital that are subject to risks and uncertainties. Forward-looking statements include information concerning future results of operations of PMC Commercial and PMC Capital. Also, statements that use the words anticipate, believe, could, estimate, expect, forecast, intend, plan, may, possible, project, should, will or similar expressions are forward-looking statements. Many factors, som are discussed elsewhere in this document and in documents to which we have referred you, could affect the future financial results of PMC Commercial and PMC Capital. These factors could cause actual results to differ materially from those expressed in the forward-looking statements contained in this document or related documents. These factors include adverse changes in economic conditions and in the markets served by PMC Commercial and PMC Capital and a

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significant delay in the completion of the merger, as well as the factors, risks and uncertainties discussed in Risk Factors.

Market Price and Dividend Information

The PMC Commercial common shares and the shares of PMC Capital common stock are each listed on the American Stock Exchange. The following table sets forth the periods indicated the high and low per share closing sale prices of the PMC Commercial common shares and the shares of PMC Capital common stock and the cash dividends declared per share:

	PMC Commercial			PMC Capital		
	High	Low	Dividend	High	Low	Dividend
2000 (Calendar Year)	$12.63	$ 8.69	$1.745	$10.38	$7.75	$1.000
2001 (Calendar Year)	$15.24	$ 9.00	$1.520	$ 9.50	$6.75	$0.850
2002 (Calendar Year)	$15.50	$11.25	$1.620	$ 8.00	$3.20	$0.560
2003:						
First Quarter	$13.57	$12.49	$0.400	$ 5.30	$3.90	$0.120
Second Quarter	$14.20	$11.67	$0.380	$ 5.22	$4.08	$0.120
Third Quarter	$14.00	$13.06	$0.380	$ 5.05	$4.67	$0.120
Fourth Quarter through November 7, 2003	$14.16	$13.58	*	$ 5.05	$4.77	*

* No dividend has been declared as of November 7, 2003.

Listing on the American Stock Exchange of the PMC Commercial common shares issuable in connection with the merger is a condition to the completion of the merger.

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RISK FACTORS

In considering whether to vote in favor of the merger, you should consider all of the information included in this joint proxy statement/ prospectus, including the matters addressed in Cautionary Statement Regarding Forward-Looking Statements. In addition, you should carefully consider the following risk factors considered by PMC Commercial and PMC Capital, based on the information available to them, to be material to the approval of the merger agreement and the merger and/or inherent in the business of the combined company and in the ownership of the combined company s shares. These factors are important, and PMC Commercial and PMC Capital have not attempted to quantify their potential effects on the combined company that will result from the merger.

Risks Related to the Merger and the Combined Company

PMC Capital and PMC Commercial have agreed to a fixed exchange ratio, and, as a result, the PMC Commercial common shares to be issued in the merger may have a market value that is lower than expected.

The exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock was fixed on March 27, 2003, the time of the signing of the merger agreement, and is not subject to adjustment based on changes in the trading price of the PMC Commercial or the PMC Capital common shares before the closing of the merger. It is the parties intention, subject to shareholder approval, to complete the merger during the first quarter of 2004, and not later than February 29, 2004; however, if other conditions to close the merger are not satisfied or duly waived at that time, there may be a significant amount of time between the date of the two annual meetings and the date when the merger is completed. As a result, the market price of the PMC Commercial common shares at the time of the merger may vary significantly from the price on the date the merger agreement was signed or from the price on either the date of this joint proxy statement/ prospectus or the date of the annual meetings. These variances may arise due to, among other things:

- changes in the business, operations and prospects of PMC Commercial or PMC Capital;
- the financial condition of current or prospective borrowers of PMC Commercial or PMC Capital or tenants of PMC Commercial;
- interest rates, general market and economic conditions and other factors;
- market assessments of the likelihood that the merger will be completed and the timing of the merger; and
- market perception of the future profitability of the combined company.

Substantially all of these factors are beyond the control of PMC Commercial and PMC Capital. It should be noted that during the 12-month period ending November 7, 2003, the closing per common share price of PMC Commercial varied from a low of $11.25 to a high of $14.20. Historical trading prices are not necessarily indicative of future performance.

In addition, although both the PMC Capital special committee and the PMC Commercial special committee obtained updated opinions from their respective financial advisors as to the fairness, from a financial point of view, of the exchange ratio in the merger immediately prior to the mailing of the joint proxy statement/ prospectus, such opinions necessarily will be based upon the information available to the financial advisors, the facts and circumstances known by them and the economic, market or other conditions as they exist on the dates of their respective updated opinions and as such no assurance can be given that subsequent developments prior to the completion of the merger would not affect their opinions.

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The merger is subject to the receipt of consents and approvals from government entities and third party lenders that could delay completion of the merger or impose conditions that could have a material adverse effect on PMC Capital or PMC Commercial or cause abandonment of the merger, which may adversely affect the value of the common shares of PMC Capital or PMC Commercial.

Completion of the merger is conditioned upon the issuance by the SEC of an order exempting the merger from the provisions of Section 57(a) of the 1940 Act. In addition, the SBA must consent to the merger prior to its consummation. A substantial delay in obtaining exemptive relief from the SEC or consent from the SBA or the imposition of unfavorable terms or conditions by the SEC or SBA could have an adverse effect on the business, financial condition or results of operations of PMC Capital or PMC Commercial, or may cause the abandonment of the merger.

Completion of the merger is also subject to approval by certain third party lenders to PMC Capital and PMC Commercial. A substantial delay in obtaining such approvals, the failure to obtain such approvals or the imposition of unfavorable terms or conditions could have an adverse effect on the business, financial condition or results of operations of PMC Capital or PMC Commercial, or may cause the abandonment of the merger.

The intended benefits of the merger may not be realized, which could have a negative impact on the market price of PMC Commercial s common shares after completion of the merger.

No assurance can be given that the anticipated expense reductions or other operating synergies will be realized by PMC Commercial following the merger or that unanticipated costs will not arise as a result of the merger. For example, transaction costs, such as increased transfer taxes, consent fees or professional expenses, could exceed PMC Commercial s original estimates or future operating expenses, such as increased personnel costs, could be higher than anticipated, all of which could have a material adverse effect on the results of operations and financial condition of the combined company after the merger. In addition, U.S. Federal income taxes incurred by PMC Commercial following the merger could be higher than anticipated. If the expected savings are not realized or unexpected costs are incurred, the merger could have a significant dilutive effect on PMC Commercial s per share operating results.

In addition, the completion of the merger poses risks for the ongoing operations of the combined company, including the fact that PMC Commercial s portfolio may not perform as well as anticipated due to various factors, including the financial condition of significant borrowers or tenants and changes in macro-economic conditions.

You will experience a reduction in percentage ownership and voting power with respect to your shares as a result of the merger.

PMC Commercial shareholders and PMC Capital shareholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power relative to their respective percentage ownership interests in PMC Commercial and PMC Capital prior to the merger. If the merger is consummated, PMC Capital shareholders will own approximately 40% of PMC Commercial s outstanding common stock and current shareholders of PMC Commercial will own approximately 60% of the combined entity. In the future, PMC Commercial may issue additional common shares in public offerings, mergers and acquisitions or otherwise, all of which would further reduce your percentage ownership of PMC Commercial.

PMC Commercial may acquire the net assets of PMC Capital for less than the estimated fair value of PMC Capital s net assets as determined in accordance with GAAP.

At the time of completion of the merger, if the estimated fair value of the net assets of PMC Capital exceeds the purchase price paid by PMC Commercial, then an extraordinary gain will be recorded. Based on PMC Commercial s pro forma purchase price allocation as of June 30, 2003 (which was based on a $13.10 share price for PMC Commercial), PMC Commercial would be acquiring the net assets of PMC Capital for $14 million less than the estimated fair value of PMC Capital s net assets as determined in accordance with GAAP. The estimated fair value of PMC Capital s net assets and the market price of PMC Commercial s stock price will continue to fluctuate until the consummation of the merger. As a result, the amount of extraordinary gain, if any, will be higher or lower than the pro forma extraordinary gain determined as of June 30, 2003. See The Merger Proposal Accounting Treatment and Unaudited Pro Forma Consolidated Financial Information.

Under certain circumstances, PMC Capital is obligated to pay PMC Commercial a termination fee upon termination of the merger agreement, and vice versa.

No assurance can be given that the merger will be completed. The merger agreement provides for the payment by PMC Capital of a break-up fee of $870,000 or break-up expenses of $750,000 if the merger is terminated by PMC Capital under certain circumstances; the merger agreement likewise provides that PMC Commercial will pay the same break-up fees or expenses under certain circumstances. The obligation to make that payment may adversely affect the ability of the terminating company to engage in another transaction in the event the merger is not completed and may have an adverse impact on the financial condition of that company. See Description of the Merger Agreement Termination of the Merger Agreement and Expenses; Termination Fees and The Merger Proposal PMC Commercial Reasons for the Merger and PMC Capital Reasons for the Merger. If the merger is not consummated, both companies will nonetheless be responsible for non-refundable payments to financial advisors and other payments, including but not limited to legal fees and accounting fees.

Failure of PMC Commercial to qualify as a REIT could result in a significant tax liability for the combined company, which would adversely affect its results of operations.

PMC Commercial believes that it has operated in a manner that allows it to qualify as a REIT under the Internal Revenue Code, and it intends to continue to so operate through and including the effective time of the merger. If the merger is consummated, PMC Commercial intends to operate the combined business in a manner so that it will continue to qualify as a REIT. Although PMC Commercial believes that it is organized and operates as a REIT, no assurance can be given that PMC Commercial will remain qualified as a REIT following the merger. Qualification as a REIT involves the application of technical and complex provisions of the Internal Revenue Code for which there are limited judicial or administrative interpretations and involves the determination of various factual matters and circumstances not entirely within PMC Commercial s control. In addition, no assurance can be given that new legislation, regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification.

If the combined company fails to qualify as a REIT, it may, among other things:

- not be allowed a deduction for distributions to shareholders in computing its taxable income;
- be subject to U.S. Federal income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates;
- be subject to increased state and local taxes; and
- unless entitled to relief under certain statutory provisions, be disqualified from treatment as a REIT for the taxable year in which it lost its qualification and the four taxable years following the year during which it lost its qualification.

As a result of these factors, the failure of PMC Commercial to qualify as a REIT following the merger also could impair its ability to expand its business and raise capital, substantially reduce the funds available for distribution to its shareholders and reduce the trading price of its common shares following the merger.

The trust managers and executive officers of PMC Commercial and the directors and executive officers PMC Capital have interests in the completion of the merger that may differ from or conflict with the interests of the shareholders of their respective companies.

PMC Commercial shareholders and PMC Capital shareholders should note that the trust managers and officers of PMC Commercial and the directors and officers of PMC Capital have interests in the merger that

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are different in certain respects from and may conflict with the interests of other PMC Commercial shareholders and PMC Capital shareholders. If re-elected, all current trust managers of PMC Commercial will remain as trust managers of the merged company. In addition, certain directors of PMC Capital will become trust managers, and all existing officers of PMC Capital will become paid employees, of the merged company. PMC Commercial is currently managed by two wholly-owned subsidiaries of PMC Capital. The executive officers of PMC Commercial are the same as the executive officers of PMC Capital. Two trust managers of PMC Commercial, Lance B. Rosemore and Andrew S. Rosemore, also serve as executive officers of PMC Capital, and two trust managers of PMC Commercial, Lance B. Rosemore and Martha R. Greenberg, also serve as directors of PMC Capital. See The Merger Proposal Interests of Certain Persons in the Merger.

The directors and executive officers of PMC Capital, who hold approximately 21.1% of the beneficial and record ownership of PMC Capital as of November 7, 2003, have agreed to vote their shares in favor of the merger agreement and the transactions contemplated by the merger. The trust managers (of which Lance B. Rosemore and Martha R. Greenberg are directors of PMC Capital) and executive officers of PMC Commercial (all of whom are executive officers of PMC Capital), who hold approximately 9.0% of the beneficial and record ownership of PMC Commercial as of November 7, 2003, have agreed to vote their shares in favor of the merger agreement and the transactions contemplated by the merger.

As of November 7, 2003, assuming the merger is completed, the directors and officers of PMC Capital and trust managers and officers of PMC Commercial will beneficially own in the aggregate approximately 1,523,473 shares of PMC Commercial, representing 14.1% of the outstanding common shares of PMC Commercial.

The ownership limitation applicable to PMC Commercial s common shares as a result of its REIT status may discourage third parties from attempting to acquire PMC Commercial and prevent shareholders of PMC Commercial from receiving any premium above market price for their shares.

PMC Capital and PMC Commercial anticipate that PMC Commercial will continue to qualify as a REIT if the merger is consummated. PMC Commercial s declaration of trust includes a provision preventing any shareholder from owning more than 9.8% of PMC Commercial s outstanding common shares without approval by PMC Commercial s board of trust managers. This ownership limitation provision in PMC Commercial s declaration of trust may have the effect of discouraging offers to acquire control of PMC Commercial and may preclude holders of PMC Commercial common shares from receiving any premium above market price for their shares that might otherwise be offered in connection with any attempt to acquire control of PMC Commercial.

Financial forecasts and projections considered by the parties may not be realized, which may adversely affect the market price of PMC Capital or PMC Commercial common shares.

Neither PMC Capital nor PMC Commercial generally makes, as a matter of course, public forecasts or projections as to future revenues, earnings or other financial statement data, and none of the projections relating to future financial results of PMC Capital or PMC Commercial prepared by management and considered by the parties to the transaction were prepared with a view to public disclosure or compliance with the published guidelines of the SEC or the American Institute of Certified Public Accountants regarding projections and forecasts. These projections are inherently based on various estimates and assumptions that are subject to the judgment of those preparing them. These projections are also subject to significant economic, competitive, industry and other uncertainties and contingencies, all of which are difficult or impossible to predict and many of which are beyond the control of PMC Capital or PMC Commercial. Accordingly, there can be no assurance that PMC Capital s or PMC Commercial s financial results will not be significantly higher or lower than those set forth in such projections. Significantly lower financial results could have a material adverse effect on the market price of PMC Capital and PMC Commercial common shares.

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The respective financial advisers to the PMC Capital special committee and the PMC Commercial special committee reviewed and relied on, among other things, certain projected financial forecasts and costs savings and operational synergies, the date of their respective opinions, and a failure of PMC Commercial to achieve these results could have a material adverse effect on the market price of PMC Commercial s common shares.

In performing their financial analyses and rendering their opinions regarding the fairness from a financial point of view of the exchange ratio in the merger, the respective financial advisors to the PMC Capital special committee and the PMC Commercial special committee reviewed and relied on, among other things, internal financial analyses and forecasts for PMC Capital and PMC Commercial available, the date of their respective opinions, including certain pro forma financial analyses and forecasts for PMC Commercial after the merger and cost savings and operating synergies projected to result from the merger. The respective financial advisors to the PMC Capital special committee and the PMC Commercial special committee also assumed that the pro forma financial analyses and forecasts for PMC Commercial and projected cost savings and operational synergies as a result of the merger will be achieved within certain time frames. These pro forma financial analyses and forecasts and projected cost savings and operational synergies may not be achieved in full, at all, or within the projected time frames, and a failure of PMC Commercial to realize these pro forma financial analyses and forecasts and projected cost savings and operational synergies could have a material adverse effect on the earnings per share of the combined company, which could in turn have an adverse effect on the market price of PMC Commercial s common shares.

A sale of assets acquired from PMC Capital within ten years after the merger would result in federal corporate income tax, which would reduce the cash available for distribution to its shareholders.

As a result of the merger, certain subsidiaries of PMC Capital that are currently taxed as C corporations will become qualified REIT subsidiaries of PMC Commercial. As a result, these subsidiaries will be deemed liquidated into PMC Commercial for U.S. Federal income tax purposes. If PMC Commercial sells any assets of these subsidiaries within ten years after the merger and recognizes a taxable gain on the sale, PMC Commercial will be taxed at the highest corporate rate on an amount equal to the lesser of:

the amount of gain that PMC Commercial recognizes at the time of the sale; or

the amount of gain that PMC Commercial would have recognized if it had sold the asset at the time of the merger for its then fair market value.

This rule potentially could inhibit PMC Commercial from selling such other assets within ten years after the merger. PMC Commercial does not expect this rule to have a material effect on its operations. See U.S. Federal Income Tax Consequences Taxation as a REIT.

PMC Commercial s ownership of and relationship with its taxable REIT subsidiaries will be limited, and a failure to comply with the limits would jeopardize PMC Commercial s REIT status and may result in the application of a 100% excise tax.

Subject to certain restrictions, a REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries. A taxable REIT subsidiary may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a taxable REIT subsidiary. A corporation of which a taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a taxable REIT subsidiary. Overall, no more than 20% of the value of a REIT s assets may consist of stock or securities of one or more taxable REIT subsidiaries. A taxable REIT subsidiary generally will pay income tax at regular corporate rates on any taxable income that it earns. In addition, the taxable REIT subsidiary rules limit the deductibility of interest paid or accrued by a taxable REIT subsidiary to its parent REIT to assure that the taxable REIT subsidiary is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm s-length basis. See U.S. Federal Income Tax Consequences.

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PMC Capital and PMC Commercial believe that, as of the closing date of the merger, the aggregate value of the taxable REIT subsidiary stock and securities owned by PMC Commercial will be less than 20% of the value of PMC Commercial s total assets (including the taxable REIT subsidiary stock and securities). Furthermore, PMC Commercial will monitor at all times the value of its investments in its taxable REIT subsidiaries for the purpose of ensuring compliance with the rule that no more than 20% of the value of its assets may consist of taxable REIT subsidiary stock and securities (which is applied at the end of each calendar quarter). In addition, PMC Commercial will scrutinize all of its transactions with its taxable REIT subsidiaries for the purpose of ensuring that they are entered into on arm s-length terms in order to avoid incurring the 100% excise tax described above. There can be no assurance, however, that PMC Commercial will be able to comply with the 20% limitation on ownership of taxable REIT subsidiary stock and securities on an ongoing basis so as to maintain REIT status or to avoid application of the 100% excise tax imposed on certain non-arm s-length transactions.

PMC Commercial operates in a highly regulated environment which could adversely affect its results, which may, in turn, affect the market price of its shares and its ability to distribute dividends.

Changes in the laws or regulations governing REITs may significantly affect PMC Commercial s business. As a company whose common shares are publicly traded, PMC Commercial is subject to the rules and regulations of the SEC. In addition, the lending operations of certain of PMC Capital s subsidiaries are regulated by the SBA. If the merger is consummated, such subsidiaries will continue to be regulated by the SBA, and changes in laws that govern these entities may significantly affect PMC Commercial s business. Laws and regulations may be changed from time to time, and the interpretations of the relevant laws and regulations are also subject to change. Any change in the laws or regulations governing PMC Commercial s business could have a material impact on its financial condition or its results of operations.

Shareholders of PMC Capital will no longer enjoy certain protections afforded by the 1940 Act.

The 1940 Act provides certain protections to the shareholders of PMC Capital such as limitations on leverage, restrictions on transactions with affiliates and the requirement that a majority of the board of directors be persons who are not interested persons as defined in the 1940 Act. See PMC Capital Business Regulatory Overview. As a result of the merger, PMC Capital shareholders will become shareholders of PMC Commercial, a REIT that is not subject to the requirements of the 1940 Act.

Risks Related to the Business of Both PMC Commercial and PMC Capital

Set forth below are risks applicable to both PMC Commercial and PMC Capital which will continue to be applicable to the combined company if the merger is completed and may be exacerbated by virtue of the operations of PMC Commercial and PMC Capital being combined.

PMC Commercial and PMC Capital have a concentration of investments in the hospitality industry and in Texas, which may negatively impact the market price of their respective shares and their ability to make distributions.

Substantially all of PMC Commercial s revenue is generated from lending to, and leasing of, limited service hospitality properties. Its loans receivable were 100% concentrated in the hospitality industry at December 31, 2002. PMC Capital has a fundamental policy regarding investment in the hospitality industry. At December 31, 2002, PMC Capital s investment in loans to businesses in the hospitality industry comprised approximately 81% and 85% of its total assets and loans receivable, respectively. Any economic factors that negatively impact the hospitality industry could have a material adverse effect on its financial condition and results of operations. For example, the events of September 11th caused significant strain on travel related businesses in the United States. Military actions against terrorists, new terrorist attacks or other political events, including the impact of war, could cause additional strain on the hospitality industry and negatively impact PMC Commercial s or PMC Capital s financial condition and results of operations. See PMC Commercial Management s Discussion and Analysis of Financial Condition and Results of Operations Business Hospitality Industry Factors.

At December 31, 2002, approximately 27% of PMC Commercial s loans receivable were collateralized by properties in Texas and approximately 29% of PMC Capital s loans receivable were from businesses in Texas. No other state had a concentration of 10% or greater of PMC Commercial s or PMC Capital s loans receivable at December 31, 2002. Approximately 21% and 27% of the loans receivable underlying PMC Commercial s and PMC Capital s retained interests, respectively, are concentrated in Texas. A decline in economic conditions in Texas could have a material adverse effect on PMC Commercial s or PMC Capital s financial condition and results of operations.

The market for structured loan transactions may decline, which would decrease the availability of and increase the cost of working capital and negatively affect the potential for growth and cash available for distribution to shareholders.

PMC Commercial and PMC Capital will continue to need capital to fund loans. PMC Commercial s and PMC Capital s ability to continue to grow depends, to a large extent, on its ability to complete structured loan sale transactions. In certain economic markets the availability of funds may be diminished or the spread charged for funds may increase causing PMC Commercial or PMC Capital to delay a structured loan sales transaction. Terrorist attacks or political events, including the impact of war, could impact the availability and cost of PMC Commercial s or PMC Capital s capital. See PMC Commercial Management s Discussion and Analysis of Financial Condition and Results of Operations Business Asset-Backed Structured Loan Sale Transaction Market and PMC Capital Management s Discussion and Analysis of Financial Condition and Results of Operations Business Asset-Backed Structured Loan Sale Transaction Market.

Due to the economic and interest rate environments, the companies may experience difficulties in selling its variable-rate loans receivable at an acceptable spread. Certain economic conditions may cause investors in the type of asset-backed securities that PMC Commercial and PMC Capital place to widen the spreads they require in order to purchase asset-backed securities.

A reduction in the availability or an increased cost of this source of funds could have a material adverse effect on PMC Commercial s or PMC Capital s financial condition and results of operations because working capital may not be available or available at acceptable spreads to fund the companies respective current commitments, future loan originations or to acquire real estate.

Prepayment rates could negatively affect the value of loans receivable, which could result in losses or reduced earnings and negatively affect the cash available for distribution to its shareholders.

Prepayments of fixed-rate loans generally increase during times of declining interest rates. The proceeds from the prepayments PMC Commercial and PMC Capital receive are invested initially in temporary investments and have generally been re-loaned or committed to be re-loaned at lower interest rates than the prepaid loans receivable. The lower interest rates the companies receive on these new loans receivable have had an adverse effect on each of the company s results of operations and depending upon the rate of future prepayments may further affect their results of operations. The impact of the lower lending rates on PMC Commercial s and PMC Capital s net income may be partially offset by the reduced cost of its variable-rate borrowings in a lower interest rate environment. In addition, when loans receivable are repaid prior to their maturity, PMC Commercial and PMC Capital often receive prepayment fees.

Prepayments of loans receivable may affect the companies spread on the pool of loans receivable sold in its structured loan sale transactions. Prepayments of loans receivable which have higher interest rates negatively impact the value of PMC Commercial s and PMC Capital s retained interests to a greater extent than prepayments of loans receivable which have lower interest rates. Prepayments in excess of assumptions will cause a decline in the value of the companies retained interests primarily relating to the excess funds (the interest-only strip receivable) expected from PMC Commercial s and PMC Capital s structured loan sale transactions. For example, if a $1.0 million loan with an interest rate of 10% prepays and the all-in cost of the structured notes that such loan was securing was 7%, PMC Commercial or PMC Capital would lose the 3% spread expected on that loan in future periods. The companies all-in costs include interest, servicing, trustee and other ongoing costs. The spread that is lost may be offset in part or in whole by the prepayment fee that PMC Commercial or PMC Capital collects.

One of PMC Capital s subsidiaries, First Western SBLC, Inc. (First Western), sells the guaranteed portion of most of its originated loans through private placements. These sales are included in PMC Capital s retained interests and are especially sensitive to prepayments. PMC Capital s retained interest in these loan sales consists only of the spread between the interest it collects from the borrower and the interest it pays the purchaser of the guaranteed portion of the loan. Therefore, to the extent the prepayments of these loans exceed estimates, there is a significant impact on the value of the associated retained interests.

Changes in interest rates could negatively affect lending operations, which could result in reduced earnings and negatively affect the cash available for distribution to shareholders.

The net income of PMC Commercial s lending operations is materially dependent upon the spread between the rate at which PMC Commercial borrows funds (historically either short-term at variable rates or long-term at fixed rates) and the rate at which PMC Commercial loans these funds. During periods of changing interest rates, interest rate mismatches could negatively impact PMC Commercial s net income, dividend yield, and the market price of its common shares.

As a result of PMC Commercial s and PMC Capital s dependence on variable-rate loans, PMC Commercial s and PMC Capital s interest income has been, and will continue to be, reduced by the low interest rate environment. In addition, to the extent that rates remain at these historically low levels, or LIBOR decreases from current levels, interest income on PMC Commercial s and PMC Capital s currently outstanding loans receivable will decline.

PMC Capital s net interest margin is affected by changes in the spread between the rate at which it borrows funds and the rate at which it loans these funds. PMC Capital and two of its subsidiaries, Western Financial Capital Corporation (Western Financial) and PMC Investment Corporation (PMCIC), currently originate primarily variable interest rate loans and the borrowed funds of these companies are typically long-term and at fixed interest rates. First Western originates variable interest rate loans and has utilized both advances from PMC Capital and the sale of its loans receivable to obtain funds necessary to originate loans. If the yield on loans originated by PMC Capital with funds obtained from borrowings or preferred stock fails to cover the cost of such funds, its cash flow will be reduced. During periods of changing interest rates, interest rate mismatches on its loans receivable could negatively impact its net investment income, dividend yield and the market price of its common stock.

Changes in interest rates do not have an immediate impact on interest income with regard to fixed-rate loans receivable. PMC Commercial s and PMC Capital s interest rate risk on fixed-rate loans receivable is primarily due to loan prepayments and maturities. The average maturity of its loans receivable is less than their average contractual terms because of prepayments. The average life of mortgage loans tends to increase when the current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when the current mortgage loan rates are substantially lower than rates on existing mortgage loans (due to refinancings of fixed-rate loans).

Economic slowdowns, other negative political events and changes in the competitive environment could adversely affect operating results and the ability to distribute dividends.

Several factors may impact the ability of PMC Commercial s and PMC Capital s borrowers to meet their contractual payment obligations or its hotel properties to generate sufficient cash flow to support their monthly lease payments. During economic downturns, there may be reductions in business travel and consumers generally take fewer vacations. Another factor which affects the limited service sector of the hospitality industry is a significant rise in gasoline prices within a short period of time. Most of the limited service hospitality properties collateralizing PMC Commercial s and PMC Capital s loans receivable are located on interstate highways. As seen in the past, when gas prices sharply increase, occupancy rates for properties located on interstate highways decrease. These factors may cause a reduction in revenue per available room (RevPar). If RevPar for the limited service sector of the hospitality industry were to experience significant

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sustained reductions, the ability of PMC Commercial s or PMC Capital s borrowers to meet their obligations could be impaired, and loan losses could increase. In addition, the ability of the operator of PMC Commercial s properties, Arlington, to meet its obligations could be impaired.

Economic recessions or downturns could impair PMC Commercial s or PMC Capital s borrowers and harm the companies operating results. Many of the companies in which PMC Commercial and PMC Capital have made or will make loans may be susceptible to economic slowdowns or recessions. Terrorism, bankruptcies or other political events, including the impact of war, could affect PMC Commercial s or PMC Capital s borrowers. PMC Commercial s and PMC Capital s non-performing assets are likely to increase during these periods. These conditions could lead to losses in PMC Commercial s or PMC Capital s portfolio and a decrease in the companies respective interest income, net income and assets.

PMC Commercial s and PMC Capital s primary competition for lending opportunities has come from banks, financial institutions and other lending companies. Many of these competitors have greater financial and managerial resources than PMC Commercial or PMC Capital and are able to provide services PMC Commercial and PMC Capital are not able to provide (i.e., depository services). As a result of these competitors greater financial resources, they may be better able to withstand the impact of economic downturns than PMC Commercial or PMC Capital.

There is volatility in the value of the retained interests, which may adversely affect cash available for distribution to shareholders.

Due to the limited number of entities that conduct transactions with similar assets, the relatively small size of PMC Commercial s and PMC Capital s retained interests in transferred assets and the limited number of buyers for such assets, no readily ascertainable market exists for PMC Commercial s or PMC Capital s retained interests. Therefore, PMC Commercial s and PMC Capital s determination of the fair value may vary significantly from what a willing buyer would pay for these assets. If PMC Commercial or PMC Capital were forced to immediately liquidate some or all of its retained interests, the proceeds of such liquidation may be significantly less than the current value of such retained interests.

The value of PMC Commercial s and PMC Capital s retained interests is determined based on certain assumptions including, but not limited to, anticipated defaults, prepayment speeds and discount rates. PMC Commercial and PMC Capital each retain a portion of the default and prepayment risk associated with the underlying transferred loans receivable of their retained interests. As more fully described below, actual defaults and prepayments with respect to estimating future cash flows for purposes of valuing the retained interests may vary from assumptions, possibly to a material degree, and slower (faster) than anticipated prepayments of principal or lower (higher) than anticipated loan losses will increase (decrease) the fair value of its retained interests and the related estimated cash flows. The discount rates utilized are determined for each of the assets comprising the retained interests based upon an estimate of the inherent risks associated with each asset.

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The following is a sensitivity analysis of PMC Commercial s retained interests as of June 30, 2003 to highlight the volatility that results when prepayments, loan losses and discount rates are different than PMC Commercial s assumptions:

Changed Assumption	Pro Forma Value	Asset Change
	(In thousands)	
Losses increase by 50 basis points per annum(1)	$21,004	$(1,682)
Losses increase by 100 basis points per annum(1)	$19,386	$(3,300)
Rate of prepayment increases by 5% per annum(2)	$21,960	$ (726)
Rate of prepayment increases by 10% per annum(2)	$21,455	$(1,231)
Discount rates increase by 100 basis points	$21,685	$(1,001)
Discount rates increase by 200 basis points	$20,747	$(1,939)

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(1) If PMC Commercial experiences significant losses (i.e., in excess of anticipated losses), the effect on its retained interests would first reduce the value of the PMC Commercial interest-only strip receivables. To the extent the PMC Commercial interest-only strip receivables could not fully absorb the losses, the effect would then be to reduce the value of the reserve (the PMC Commercial reserve funds) funds and then the value of its required overcollateralization (the PMC Commercial required overcollateralization).

(2) For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.

The following is a sensitivity analysis of PMC Capital s retained interests as of June 30, 2003 to highlight the volatility that results when prepayments, loan losses and discount rates are different than its assumptions:

Changed Assumption	Pro Forma Value	Asset and Net Income Change
	(In thousands)	
Losses increase by 50 basis points per annum(1)	$35,140	$(2,504)
Losses increase by 100 basis points per annum(1)	$32,717	$(4,927)
Rate of prepayments increases by 5% per annum(2)	$36,352	$(1,292)
Rate of prepayments increases by 10% per annum(2)	$35,411	$(2,233)
Discount rates increase by 100 basis points	$36,133	$(1,511)
Discount rates increase by 200 basis points	$34,712	$(2,932)

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(1) If PMC Capital experiences significant losses (i.e., in excess of anticipated losses), the effect on its retained interests would first reduce the value of the interest-only strip receivables (the PMC Capital interest-only strip receivables). To the extent the PMC Capital interest-only strip receivables could not fully absorb the losses, the effect would then be to reduce the value of its reserve funds (the PMC Capital reserve funds) and then the value of its required overcollateralization (the PMC Capital required overcollateralization).

(2) For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.

These sensitivities are hypothetical and should be used with caution. Pro forma values based on changes in these assumptions generally cannot be extrapolated since the relationship of the change in assumptions to the change in fair value is not linear. The effect of a variation in a particular assumption on the fair value of PMC Commercial s or PMC Capital s retained interests is calculated without changing any other assumption. In reality, changes in one factor are not isolated from changes in another, which might magnify or counteract the sensitivities.

Changes in any of these assumptions or actual results which deviate from assumptions affect the value of PMC Commercial s or PMC Capital s retained interests, possibly to a material degree. There can be no assurance as to the accuracy of these estimates.

PMC Commercial and PMC Capital are leveraged, which could adversely affect their operations and negatively affect cash available for distribution to their shareholders.

PMC Commercial and PMC Capital have borrowed funds. PMC Commercial intends to obtain additional funds through advances under its revolving credit facility and through the issuance of mortgage notes payable, and PMC Capital intends to obtain additional funds through advances on its revolving credit facility and discretionary guidance line and through the issuance of notes payable or SBA debentures, if available. As a result, both companies use leverage to fund their capital needs. Private lenders, and in the case of PMC Capital, the SBA, have fixed dollar claims on PMC Commercial s and PMC Capital s assets superior to the claims of the holders of its common shares. Leverage magnifies the effect that rising or falling interest rates have on PMC Commercial s and PMC Capital s earnings. Any increase in the interest rate earned by PMC Commercial or PMC Capital on investments in excess of the interest rate on the funds obtained from borrowings would cause its net income and earnings per share to increase more than they would without leverage, while any decrease in the interest rate earned by PMC Commercial or PMC Capital on investments would cause net income and earnings per share to decline by a greater amount than they would without leverage. Leverage is thus generally considered a speculative investment technique. In order for PMC Commercial or PMC Capital to repay indebtedness on a timely basis, PMC Commercial or PMC Capital may be required to dispose of assets when it would not otherwise do so and at prices which may be below the net book value of such assets. Dispositions of assets could have a material adverse effect on PMC Commercial s or PMC Capital s financial condition and results of operations.

There are significant risks in lending to small businesses, which could adversely affect operations and negatively affect cash available for distribution to PMC Commercial and PMC Capital shareholders.

PMC Commercial s and PMC Capital s loans receivable consist primarily of loans to small, privately-owned companies. There is no publicly available information about these companies; therefore, PMC Commercial and PMC Capital must rely on the due diligence of the Investment Manager or employees to obtain information regarding investment decisions. PMC Commercial s and PMC Capital s borrowers may not meet net income, cash flow and other coverage tests typically imposed by bank lenders. A borrower s ability to repay its loan may be adversely impacted by numerous factors, including a downturn in its industry or other negative economic conditions. Deterioration in a borrower s financial condition and prospects may be accompanied by deterioration in the collateral for the loan. In addition, small businesses depend on the management talents and efforts of one person or a small group of people for their success. The loss of services of one or more of these persons could have an adverse impact on the operations of the small business. Small companies are typically more vulnerable to customer preferences, market conditions and economic downturns and often need additional capital to expand or compete. These factors may have an impact on the ultimate recovery of PMC Commercial s or PMC Capital s loans receivable to such businesses. Loans to small businesses, therefore, involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative.

There is volatility in PMC Commercial s and PMC Capital s loans receivable, which may adversely affect their operations and negatively affect cash available for distribution to shareholders.

There is typically no public market or established trading market for the loans PMC Commercial originates. The illiquid nature of PMC Commercial s loans receivable may adversely affect its ability to dispose of such loans receivable at times when it may be advantageous for PMC Commercial to liquidate such investments. Changes to the facts and circumstances of the borrower, the hospitality industry and the economy may require the establishment of additional loan loss reserves.

PMC Commercial s provision for loan losses was 0.09% (nine basis points) of its weighted average outstanding loans receivable during 2002. It may be difficult to maintain such a low loss rate on PMC Commercial s loans receivable. To the extent one or several of PMC Commercial s loans experience significant operating difficulties and PMC Commercial is forced to liquidate the loan, future losses may be substantial. The determination of whether significant doubt exists and whether a loan loss reserve is necessary for each loan requires judgment and consideration of the facts and circumstances existing at the evaluation date. Changes to the facts and circumstances of its borrower, the hospitality industry and the economy may require the establishment of significant additional loan loss reserves.

The valuation of PMC Capital s loans receivable and assets acquired in liquidation are determined in good faith by its board of directors. There is typically no public market or established trading market for the loans PMC Capital originates. The illiquid nature of PMC Capital s loans receivable and assets acquired in liquidation may adversely affect its ability to dispose of these investments at times when it may be advantageous for it to liquidate them. The valuation of PMC Capital s loans receivable and assets acquired in liquidation is adjusted on a quarterly basis to reflect the good faith determination of its board of directors as to its current fair value. The determination of fair value requires judgment and consideration of the facts and circumstances existing at the evaluation date. Adverse changes to the facts and circumstances of the collateral, borrower, industry and/or the economy will impact the board of director s determination of value and may require valuation losses which may be material to PMC Capital s results of operations. In the absence of a readily ascertainable market, the value of the loans receivable may differ from the values that would be placed if a ready market existed. If PMC Capital was forced to immediately liquidate some or all of its loans receivable, the proceeds of such liquidation may be significantly less than the current value of such loans receivable.

Losses on PMC Capital s loans (realized and unrealized) were 0.56% (56 basis points) of its weighted average outstanding loans receivable during the year ended December 31, 2002. To the extent PMC Capital is forced to liquidate one or several of its loans, future losses may be substantial. The change in assets and net income if the valuation of its loan portfolio were to decline is as follows:

	Change in Assets and Net Income
	(In thousands)
Loan portfolio valuation declines by 1%	$ (885)
Loan portfolio valuation declines by 2%	$(1,770)

PMC Commercial and PMC Capital have an ongoing need for additional capital and the failure to procure adequate capital would adversely affect PMC Commercial s and PMC Capital s results and may, in turn, negatively affect the market price of its shares and its ability to distribute dividends.

PMC Commercial and PMC Capital will continue to need working capital to fund loans. Historically, the companies have sold loans receivable, borrowed from financial institutions and issued equity securities to raise working capital. A reduction in the availability of funds from financial institutions or the asset-backed securities market could have a material adverse effect on the companies financial condition and results of operations. PMC Commercial must distribute at least 90% of its REIT taxable income to its shareholders to maintain its REIT status under the Internal Revenue Code. As a result, that income will not be available to fund loan originations or acquire real estate. PMC Commercial expects to be able to borrow from financial institutions and sell loans receivable in the asset-backed securities market.

PMC Capital must distribute at least 90% of its investment company taxable income to its shareholders to maintain its regulated investment company (RIC) status under the Internal Revenue Code. As a result, such earnings are not available to fund loan originations. PMC Capital expects to be able to borrow from financial institutions and sell loans receivable in the asset-backed securities market. It does not anticipate selling additional equity securities at its current market price. If PMC Capital fails to obtain funds from such sources or from other sources to fund its loans and pay dividends, it could have a material adverse effect on PMC Capital s financial condition and results of operations. In addition, as a BDC, PMC Capital is generally required to maintain a ratio of at least 200% of total assets to total borrowings, which restricts its ability to borrow in certain circumstances.

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PMC Commercial and PMC Capital may experience significant fluctuations in their quarterly results due to factors beyond their control, such as fluctuations in interest rates, and they may therefore fail to meet profitability and/or dividend expectations, which may, in turn, affect the market price of their common shares.

PMC Commercial s and PMC Capital s quarterly operating results will fluctuate based on a number of factors, including, among others:

The completion of a structured loan sale transaction in a particular period;

Interest rate changes;

The volume and timing of loan originations and prepayments of PMC Commercial s and PMC Capital s loans receivable;

The recognition of gains or losses on investments;

The level of competition in each companies markets; and

General economic conditions, especially those which affect the hospitality industry.

As a result of the above factors, quarterly results should not be relied upon as being indicative of performance in future quarters.

To the extent a structured loan sale transaction is completed, (i) PMC Commercial s and PMC Capital s interest income on loans receivable in future periods will be reduced until the proceeds received are reinvested in new loan originations, (ii) interest expense will be reduced if PMC Commercial or PMC Capital repays outstanding debt with the proceeds and (iii) PMC Commercial and PMC Capital will earn income from their ownership of the retained interests in the loans receivable sold. Until the proceeds are fully reinvested, the net impact of a structured loan sale transaction on future operating periods should be a reduction in interest income, net of interest expense.

Risks Related to PMC Commercial

PMC Commercial is dependent on third party management of its hotel properties, which could result in additional costs or losses and negatively affect the cash available for distribution to its shareholders.

As a REIT, PMC Commercial cannot operate the hotel properties it owns. As a result, PMC Commercial is dependent upon a third party operator, Arlington Inns, Inc., a wholly-owned subsidiary of Arlington Hospitality, Inc. (Arlington) to operate and manage its hotel properties under a master lease agreement. The operating results of its hotel properties are subject to a variety of risks which could affect its ability to generate sufficient cash flow to support the payment obligations under the master lease agreement. In the event Arlington defaults on the master lease agreement, there can be no assurance that PMC Commercial would be able to find a new operator for its hotel properties, negotiate to receive the same amount of lease income or that PMC Commercial would be able to collect on the guarantee of the parent of Arlington. In addition, in the event Arlington defaults, PMC Commercial may incur costs including holding costs, legal fees and costs to re-franchise the properties.

Failure to qualify as a REIT would subject PMC Commercial to U.S. Federal income tax, which would reduce the cash available for distribution to its shareholders.

If a company meets certain income, asset diversification and income distribution requirements under the Internal Revenue Code, it can qualify as a REIT and be entitled to pass-through tax treatment. PMC Commercial would cease to qualify for pass-through tax treatment if PMC Commercial were unable to comply with these requirements. PMC Commercial would also be subject to a nondeductible 4% excise tax (and, in certain cases, corporate level income tax) if PMC Commercial were to fail to make certain distributions. Failure to qualify as a REIT would subject PMC Commercial to U.S. Federal income tax as if PMC Commercial were an ordinary corporation, resulting in a substantial reduction in both its net assets and

the amount of income available for distribution to PMC Commercial s shareholders. PMC Commercial anticipates that it will continue to qualify as a REIT under the Internal Revenue Code.

Ownership limitation may restrict change of control or business combination opportunities in which shareholders of PMC Commercial might receive a premium for their shares.

In order for PMC Commercial to qualify as a REIT, no more than 50% in value of its outstanding capital shares may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. Individuals include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to preserve PMC Commercial s REIT status, its declaration of trust generally prohibits any shareholder from directly or indirectly owning more than 9.8% of any class or series of PMC Commercial s outstanding common shares or preferred shares.

The ownership limitation could have the effect of discouraging a takeover or other transaction in which holders of PMC Commercial s common shares might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests. See Description of PMC Commercial Shares of Beneficial Interest and U.S. Federal Income Tax Consequences REIT Qualification.

U.S. Federal income tax requirements may restrict PMC Commercial s operations, which could restrict PMC Commercial s ability to take advantage of attractive investment opportunities, which could negatively affect the cash available for distribution to its shareholders.

PMC Commercial believes it has operated and, following the merger, if completed, PMC Commercial intends to continue to operate in a manner that is intended to cause it to qualify as a REIT for U.S. Federal income tax purposes. However, the U.S. Federal income tax laws governing REITs are extremely complex, and interpretations of the U.S. Federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT will require PMC Commercial to meet various tests regarding the nature of its assets and its income, the ownership of its outstanding shares, and the amount of its distributions on an ongoing basis.

At any time, new laws, interpretations, or court decisions may change the federal tax laws regarding, or the U.S. Federal income tax consequences of, qualification as a REIT. In addition, compliance with the REIT qualification tests could restrict PMC Commercial s ability to take advantage of attractive investment opportunities in non-qualifying assets, which would negatively affect the cash available for distribution to its shareholders.

Failure to make required distributions would subject PMC Commercial to tax, which would reduce the cash available for distribution to its shareholders.

In order to qualify as a REIT, an entity generally must distribute to its shareholders, each taxable year, at least 90% of its taxable income, other than any net capital gain and excluding any retained earnings of taxable REIT subsidiaries. To the extent that a REIT satisfies the 90% distribution requirement, but distributes less than 100% of its taxable income, it will be subject to federal corporate income tax on its undistributed income. In addition, the REIT will incur a 4% nondeductible excise tax on the amount, if any, by which its distributions in any calendar year are less than the sum of:

85% of its ordinary income for that year;

95% of its capital gain net income for that year; and

100% of its undistributed taxable income from prior years.

PMC Commercial has paid out, and intends to continue to pay out, its REIT taxable income to its shareholders in a manner intended to satisfy the 90% distribution requirement and to avoid both federal corporate income tax and the 4% excise tax. See U.S. Federal Income Tax Consequences REIT Qualification.

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PMC Commercial s taxable income may substantially exceed its net income as determined based on generally accepted accounting principles (GAAP) because, for example, capital losses will be deducted in determining its GAAP income, but may not be deductible in computing its taxable income. In addition, PMC Commercial may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets, referred to as excess non-cash income. Although some types of non-cash income are excluded in determining the 90% distribution requirement, PMC Commercial will incur federal corporate income tax and the 4% excise tax with respect to any non-cash income items if it does not distribute those items on an annual basis. See U.S. Federal Income Tax Consequences REIT Qualification. As a result of the foregoing, PMC Commercial may generate less cash flow than taxable income in a particular year. In that event, PMC Commercial may be required to use cash reserves, incur debt, or liquidate non-cash assets at rates or times that it regards as unfavorable in order to satisfy the distribution requirement and to avoid federal corporate income tax and the 4% excise tax in that year.

Adverse legislative or regulatory tax changes may affect the tax treatment of PMC Commercial or its shareholders.

At any time, the U.S. Federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations thereof may take effect retroactively and could adversely affect PMC Commercial or you, as a shareholder. On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduces the tax rate on both dividends and long-term capital gains for most non-corporate taxpayers to 15% until 2008. This reduced maximum tax rate generally does not apply to ordinary REIT dividends, which continue to be subject to tax at the higher tax rates applicable to ordinary income (a maximum rate of 35% under the new legislation). However, the new 15% maximum tax rate does apply to certain REIT distributions. See U.S. Federal Income Tax Consequences Recent Legislation to Reduce the Maximum Tax Rate on Certain Corporate Dividends. This legislation may cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs and may adversely affect the market price of the common shares of PMC Commercial.

PMC Commercial is subject to the Americans with Disabilities Act, which may adversely affect PMC Commercial s cash flow and may, in turn, negatively affect its ability to distribute dividends to its shareholders.

The Americans with Disabilities Act of 1990 (ADA) requires all public accommodations and commercial facilities to meet federal requirements related to access and use by disabled persons. Compliance with the ADA requirements could require removal of access barriers, and noncompliance could result in imposition of fines by the U.S. Government or an award of damages to private litigants. Although PMC Commercial believes that the properties that it owns or finances are substantially in compliance with these requirements, a determination that the properties are not in compliance with the ADA could result in the imposition of fines or an award of damages to private litigants. Pursuant to the master lease agreements relating to the hotel properties, costs and fines associated with the ADA are the responsibility of the tenant. However, a substantial expense may affect the borrowers or tenants ability to pay their obligations, and consequently, PMC Commercial s cash flow and the amounts available for distributions to shareholders may be adversely affected.

Risks Related to PMC Capital

No readily ascertainable market exists for valuing PMC Capital s investments and the value of its investments may differ materially from the value that would have been derived if a ready market existed for PMC Capital s investments.

Pursuant to the requirements of the 1940 Act, PMC Capital values its investments at fair value on a quarterly basis as determined in good faith by its board of directors. Since there is typically no readily ascertainable market value for the investments in its portfolio, PMC Capital s board of directors determines the fair value of these investments pursuant to a valuation policy and a consistently applied valuation process.

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There is no single standard for determining fair value. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments PMC Capital makes. Unlike banks, it is not permitted to provide a general reserve for anticipated losses. Instead, PMC Capital is required by the 1940 Act to specifically value each individual investment and record unrealized depreciation for an investment that it believes has become impaired or where collection of a loan is in doubt. Conversely, PMC Capital will record unrealized appreciation if it has an indication that the underlying assets in the portfolio have appreciated in value and therefore, its security has also appreciated in value, as appropriate. Due to the inherent uncertainty of valuation, fair value of PMC Capital s investments determined in good faith by its board of directors may differ from the values that would have been used had a ready market existed for the investments and the differences could be material.

PMC Capital is subject to government regulations affecting its assets acquired in liquidation, which may adversely affect its cash flow and may in turn, negatively affect the ability to distribute dividends to shareholders.

In conjunction with its assets acquired in liquidation, PMC Capital is subject to numerous Federal, state and local laws and government regulations including environmental, occupational health and safety, state and local taxes and laws relating to access for disabled persons.

Under various Federal, state and local laws, ordinances and regulations, a current or former owner or operator of real estate may be considered liable for the costs of remediating or removing hazardous substances found on its property, regardless of whether or not the property owner or operator was responsible for its presence. Such liability may be imposed regardless of fault and may be joint and several. PMC Capital has not been informed by the Environmental Protection Agency or any state or local government authority of any non-compliance likely to be material to its financial condition or results of operations.

PMC Capital is also subject to the ADA, which requires all public accommodations and commercial facilities to meet federal requirements related to access and use by disabled persons. Compliance with ADA requirements could require removal of access barriers, and noncompliance could result in imposition of fines by the United States government or an award of damages to private litigants. Although PMC Capital believes that the properties it owns are substantially in compliance with these requirements, a determination that the properties are not in compliance with the ADA could result in the imposition of fines or an award of damages to private litigants.

Adverse legislative or regulatory tax changes may affect the tax treatment of PMC Capital or its shareholders.

At any time, the U.S. Federal income tax laws governing RICs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations thereof may take effect retroactively and could adversely affect PMC Capital or you, as a shareholder. On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduces the tax rate on both dividends and long-term capital gains for most non-corporate taxpayers to 15% until 2008. This reduced maximum tax rate generally does not apply to ordinary RIC dividends, which continue to be subject to tax at the higher tax rates applicable to ordinary income (a maximum rate of 35% under the new legislation). However, the new 15% maximum tax rate does apply to certain RIC distributions. See U.S. Federal Income Tax Consequences Recent Legislation to Reduce the Maximum Tax Rate on Certain Corporate Dividends. This legislation may cause shares in non-RIC corporations to be a more attractive investment to individual investors than shares in RICs and may adversely affect the market price of the common shares of PMC Capital.

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Failure to qualify as a regulated investment company would subject PMC Capital to U.S. Federal income tax, which would reduce the cash available for distribution to shareholders.

PMC Capital intends to continue to qualify as a RIC under the Internal Revenue Code until the time of the merger. If a company meets certain income, asset diversification and income distribution requirements under the Internal Revenue Code, it can qualify for pass-through tax treatment. PMC Capital would cease to qualify for pass-through tax treatment if it was unable to comply with these requirements or if it ceased to qualify as an investment company under the 1940 Act. PMC Capital would also be subject to a nondeductible 4% excise tax (and, in certain cases, corporate level income tax) if PMC Capital was to fail to make certain distributions. Failure to qualify as a RIC would subject PMC Capital to Federal income tax as if it were an ordinary corporation, resulting in a substantial reduction in both its net assets and the amount of income available for distribution to its shareholders.

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SELECTED HISTORICAL FINANCIAL DATA

Selected Historical Financial Data of PMC Commercial

The following tables set forth selected historical consolidated financial information for PMC Commercial. The selected historical information is presented as of and for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and as of and for the six months ended June 30, 2002 and 2003. PMC Commercial derived the historical information for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 from its consolidated financial statements and the notes thereto, audited by PricewaterhouseCoopers LLP, independent accountants. The selected historical financial information as of and for the six months ended June 30, 2002 and 2003 has been derived from the unaudited financial statements which have been prepared by PMC Commercial s management on the same basis as the audited financial statements and, in the opinion of PMC Commercial s management, include all adjustments consisting of normal recurring accruals that are considered necessary for a fair presentation of the results for those periods. The results of operations for the six months ended June 30, 2002 and 2003 are not necessarily indicative of results to be anticipated for the entire year. The selected information set forth below should be read in conjunction with PMC Commercial s consolidated financial statements and related footnotes, as well as the disclosure under the heading PMC Commercial Management s Discussion and Analysis of Financial Condition and Results of Operations, in this joint proxy statement/ prospectus.

	Years Ended December 31,					Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
	(In thousands, except per share information)						
Total revenues	$18,939	$21,261	$19,038	$16,407	$16,036	$8,365	$7,415
Total expenses	$ 7,805	$11,466	$11,559	$ 8,230	$ 7,640	$3,985	$3,874
Income from continuing operations	$11,134	$ 9,795	$ 7,479	$ 8,177	$ 8,396	$4,380	$3,541
Discontinued operations	$ 237	$ 469	$ 465	$ 475	$ 978	$ 870	$ 110
Gain on sales of assets	$	$	$ 1,421	$ 2,783	$ 562	$ 562	$
Net income	$11,371	$10,264	$ 9,365	$11,435	$ 9,936	$5,812	$3,651
Basic weighted average common shares outstanding	6,498	6,530	6,520	6,431	6,444	6,442	6,447
Basic and diluted earnings per common share:							
Income from continuing operations and gain on sale of assets	$ 1.71	$ 1.50	$ 1.37	$ 1.71	$ 1.39	$ 0.77	$ 0.55
Net income	$ 1.75	$ 1.57	$ 1.44	$ 1.78	$ 1.54	$ 0.90	$ 0.57
Dividends declared, common	$11,592	$12,016	$11,367	$ 9,789	$10,440	$5,155	$5,029
Dividends declared per common share	$ 1.78	$ 1.84	$ 1.75	$ 1.52	$ 1.62	$ 0.80	$ 0.78

	At December 31,					At June 30,	
	1998	1999	2000	2001	2002	2002	2003
	(In thousands)						
Loans receivable, net	$119,712	$115,265	$ 65,645	$ 78,486	$ 71,992	$ 56,065	$ 89,614
Real estate investments, net	$ 61,774	$ 70,683	$ 65,674	$ 52,718	$ 44,928	$ 45,618	$ 44,283
Real estate investments, held for sale, net	$	$	$	$	$ 1,877	$ 1,877	$ 1,877
Retained interests in transferred assets	$	$	$ 11,203	$ 17,766	$ 23,532	$ 23,267	$ 22,686
Total assets	$196,690	$197,237	$151,399	$156,347	$149,698	$143,519	$165,085
Notes payable and revolving credit facility	$ 95,387	$ 97,757	$ 53,235	$ 57,070	$ 48,491	$ 44,068	$ 64,588
Beneficiaries equity	$ 93,437	$ 91,932	$ 89,785	$ 92,771	$ 93,929	$ 94,330	$ 92,292
	$196,690	$197,237	$151,399	$156,347	$149,698	$143,519	$165,085

Total liabilities and beneficiaries equity

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Selected Historical Financial Data of PMC Capital

The following tables set forth selected historical consolidated financial information for PMC Capital. The selected historical information is presented as of and for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and as of and for the six months ended June 30, 2002 and 2003. PMC Capital derived the historical information for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 from its consolidated financial statements and the notes thereto, audited by PricewaterhouseCoopers LLP, independent accountants. The selected historical financial information as of and for the six months ended June 30, 2002 and 2003 has been derived from the unaudited financial statements which have been prepared by PMC Capital s management on the same basis as the audited financial statements and, in the opinion of PMC Capital s management, include all adjustments consisting of normal recurring accruals that are considered necessary for a fair presentation of the results for those periods. The results of operations for the six months ended June 30, 2002 and 2003 are not necessarily indicative of results to be anticipated for the entire year. The selected information set forth below should be read in conjunction with PMC Capital s consolidated financial statements and related footnotes, as well as the disclosure under the heading PMC Capital Management s Discussion and Analysis of Financial Condition and Results of Operations, in this joint proxy statement/ prospectus.

	As of and for the Years Ended December 31,					As of and for the Six Months Ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
	(In thousands, except per share information)						
Operating Data:							
Total investment income	$ 24,314	$ 22,627	$ 21,584	$ 20,752	$ 16,662	$ 8,753	$ 7,456
Net investment income	$ 13,223	$ 11,487	$ 10,304	$ 9,344	$ 5,956	$ 3,340	$ 2,345
Sale of assets	$ 925	$ 2,564	$ 564	$ 2,732	$ 1,446	$ 1,463	$
Net income	$ 13,949	$ 13,420	$ 11,253	$ 10,567	$ 5,983	$ 4,144	$ 1,746
Dividends declared, common	$ 14,473	$ 12,007	$ 11,846	$ 10,076	$ 6,638	$ 3,794	$ 2,845
Basic and diluted earnings per common share:							
Net investment income	$ 1.10	$ 0.95	$ 0.85	$ 0.77	$ 0.48	$ 0.27	$ 0.19
Net income	$ 1.16	$ 1.11	$ 0.93	$ 0.87	$ 0.48	$ 0.34	$ 0.14
Dividends declared per common share	$ 1.23	$ 1.02	$ 1.00	$ 0.85	$ 0.56	$ 0.32	$ 0.24
Basic weighted average common shares outstanding	11,800	11,829	11,841	11,854	11,854	11,854	11,854
Balance Sheet Data:							
Loans receivable	$116,711	$106,325	$100,353	$107,392	$ 87,245	$ 67,193	$ 94,976
Retained interests in transferred assets	$ 20,151	$ 28,423	$ 32,341	$ 33,537	$ 40,003	$ 40,138	$ 37,644
Total assets	$163,349	$165,191	$161,478	$162,698	$140,266	$162,528	$144,803
Current and long-term debt	$ 74,790	$ 73,973	$ 72,977	$ 76,310	$ 54,310	$ 76,310	$ 60,568
Cumulative preferred stock of subsidiary	$ 7,000	$ 7,000	$ 7,000	$ 7,000	$ 7,000	$ 7,000	$ 7,000
Common shareholders equity	$ 72,151	$ 73,314	$ 72,667	$ 72,908	$ 72,003	$ 71,508	$ 70,779
Number of common shares outstanding	11,829	11,829	11,854	11,854	11,854	11,854	11,854
Other Data:							
Loans funded	$ 66,450	$ 84,264	$ 44,158	$ 65,977	$ 46,138	$ 19,468	$ 19,561

SELECTED STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED

FINANCIAL DATA AND COMPARATIVE PER SHARE DATA

Selected Unaudited Proforma Consolidated Financial Data

The following tables set forth unaudited pro forma condensed consolidated financial data for PMC Commercial and PMC Capital as a consolidated entity, giving effect to the merger as if it had occurred on the dates indicated and after giving effect to the pro forma adjustments. The unaudited pro forma condensed consolidated operating data are presented as if the merger had been completed on January 1, 2002. The unaudited pro forma condensed consolidated balance sheet data at June 30, 2003 is presented as if the merger had occurred on June 30, 2003. In the opinion of management of PMC Commercial, all adjustments necessary to reflect the effect of these transactions have been made. The merger will be accounted for under the purchase method of accounting as provided by Statement of Financial Accounting Standard No. 141. Based on PMC Commercial s current estimate of value for the PMC Capital assets to be acquired in the amount of approximately $143.2 million, and liabilities and preferred stock to be assumed in the amount of approximately $71.0 million, PMC Commercial will record an extraordinary gain in the amount of approximately $13.9 million.

The unaudited pro forma condensed consolidated financial data should be read together with the respective historical audited and unaudited consolidated financial statements and financial statement notes of PMC Commercial and PMC Capital in this joint proxy statement/ prospectus and the Unaudited Pro Forma Consolidated Financial Information. The unaudited pro forma condensed consolidated financial data are presented for comparative purposes only and does not necessarily indicate what the future operating results or financial position of PMC Commercial will be following completion of the merger. The unaudited pro forma condensed consolidated financial data does not include adjustments to reflect any cost savings or other operational efficiencies that may be realized as a result of the merger of PMC Commercial and PMC Capital or any future merger related restructuring or integration expenses.

	Pro Forma (Unaudited)	
	Year Ended December 31, 2002	Six Months Ended June 30, 2003
	(In thousands, except **per share information)**	
Statements of Income Data:		
Total revenues	$30,500	$13,806
Total expenses	18,187	7,543
Income from continuing operations	12,313	6,263
Earnings per share data:		
Basic weighted average common shares outstanding	10,830	10,833
Income from continuing operations	$ 1.11	$ 0.56

	Pro Forma (Unaudited) June 30, 2003
	(In thousands)
Balance Sheet Data:	
Loans receivable, net	$184,590
Retained interests in transferred assets	$ 60,330
Real estate investments, net	$ 44,283
Real estate investments, held for sale, net	$ 1,877
Total assets	$307,330
Debt current and long-term	$125,677
Cumulative preferred stock of subsidiary	$ 4,250
Total beneficiaries equity	$162,987

Comparative Per Share Data

The following tables set forth certain per common share information for PMC Commercial and PMC Capital on a historical basis, pro forma basis for PMC Commercial and an equivalent pro forma basis for PMC Capital. The PMC Capital equivalent pro forma per share amounts are calculated by multiplying the pro forma per share amounts for PMC Commercial by the common stock exchange ratio of 0.37.

The following information should be read together with the historical and pro forma financial statements in this joint proxy statement/ prospectus.

	Six Months Ended June 30, 2003			
	PMC Commercial Historical	PMC Capital Historical	PMC Commercial Pro Forma	PMC Capital Equivalent Pro Forma
Basic and diluted income from continuing operations per common share	$ 0.55	$0.14(1)	$ 0.56	$0.21
Cash distributions per common share	$ 0.78	$0.24	$ 0.78(2)	$0.29
Book value per common share	$14.32	$5.97	$15.05	$5.57

(1) *PMC Capital s historical financial statements do not include discontinued operations. Accordingly, the amount represents net increase in net assets resulting from operations (e.g. net income) per share. As a historical fair value reporter, this amount includes both valuation increases and valuation decreases of its investment portfolio.*

(2) *PMC Commercial does not anticipate that there will be any change from its historical distribution policy as a result of the merger.*

	Year Ended December 31, 2002			
	PMC Commercial Historical	PMC Capital Historical	PMC Commercial Pro Forma	PMC Capital Equivalent Pro Forma
Basic and diluted income from continuing operations per common share	$ 1.30	$0.48(1)	$1.11	$0.41
Cash distributions per common share	$ 1.62(3)	$0.56	$1.62(2)(3)	$0.60
Book value per common share	$14.57	$6.07	$	$

(1) *PMC Capital s historical financial statements do not include discontinued operations. Accordingly, the amount represents net increase in net assets resulting from operations (e.g. net income) per share. As a historical fair value reporter, this amount includes both valuation increases and valuation decreases of its investment portfolio.*

(2) *PMC Commercial does not anticipate that there will be any change from its historical distribution policy as a result of the merger.*

(3) *Includes a $0.02 year-end special dividend.*

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/ prospectus contains forward looking statements. These statements may be made directly in this joint proxy statement/ prospectus by reference to other documents filed with the SEC by PMC Commercial or PMC Capital, and they also may be incorporated by reference into this joint proxy statement/ prospectus. These statements may include statements regarding the period following the completion of the merger and the transactions contemplated by the merger agreement.

Some of the forward-looking statements can be identified by the use of forward-looking words such as believes, expects, may, will, shoul seeks, approximately, intends, plans, estimates or anticipates or the negative of those words or other comparable terminology. Statements concerning projections, future performance, developments, events, market forecasts, revenues, expenses, earnings, run rates and any other guidance on present or future periods constitute forward-looking statements. These forward-looking statements are subject to a number of factors, risks and uncertainties that might cause actual results to differ materially from stated expectations or current circumstances. These factors include, but are not limited to, the overall environment for interest rates, prepayment speeds, risk associated with equity investments, competition for business and personnel and general economic, political, and market conditions. In addition to the risks related to the business of PMC Commercial and PMC Capital, the factors related to the merger and PMC Commercial discussed under Risk Factors, among others, could cause actual results to differ materially from those described in the forward-looking statements. Shareholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this joint proxy statement/ prospectus or as of the date of any document incorporated by reference in this joint proxy statement/ prospectus, as applicable. Neither PMC Commercial nor PMC Capital is under any obligation, and each expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All forward-looking statements in this joint proxy statement/ prospectus attributable to PMC Commercial and PMC Capital or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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THE PMC COMMERCIAL ANNUAL MEETING

PMC Commercial is furnishing this joint proxy statement/ prospectus and the accompanying Notice of Annual Meeting and proxy card to PMC Commercial shareholders as part of the solicitation of proxies by the PMC Commercial board of trust managers for use at the PMC Commercial annual meeting.

Date, Time and Place of PMC Commercial Annual Meeting

PMC Commercial will hold the PMC Commercial annual meeting on Tuesday, December 30, 2003, at 11:00 a.m., local time, at 18111 Preston Road, Suite 600, Dallas, Texas 75252.

Purpose of the PMC Commercial Annual Meeting

At the PMC Commercial annual meeting, PMC Commercial is asking holders of record of PMC Commercial common shares to consider and vote on the following proposals:

The approval of the merger agreement by and between PMC Commercial and PMC Capital and the transactions contemplated by the merger agreement.

The approval of proposed amendments to PMC Commercial s declaration of trust to (i) provide that the holders of PMC Commercial common shares may vote on all matters presented at all meetings of shareholders, and (ii) provide that the board of trust managers may amend, repeal or adopt new bylaws.

The election of seven trust managers to serve until the next annual meeting of shareholders or until their respective successors have been duly elected and qualified.

The ratification of PricewaterhouseCoopers LLP as the independent public accountants of PMC Commercial for 2003.

The consideration of the postponement or adjournment of the PMC Commercial annual meeting for the solicitation of additional votes, if necessary.

As determined by the holder of the proxy in his or her discretion with respect to any other business that may properly come before the PMC Commercial annual meeting or any adjournments or postponements of that meeting.

See The Merger Proposal and Description of the Merger Agreement.

The PMC Commercial board of trust managers unanimously recommends that PMC Commercial shareholders vote for approval of the merger agreement and the transactions contemplated by the merger agreement, for approval of the proposed amendments to PMC Commercial s declaration of trust, for the election of the trust managers, for the ratification of PricewaterhouseCoopers LLP, and for the approval of the postponement or adjournment of the PMC Commercial annual meeting, if necessary.

Record Date

Only holders of record of PMC Commercial common shares at the close of business on November 10, 2003, the PMC Commercial record date, are entitled to notice of and to vote at the PMC Commercial annual meeting. On the PMC Commercial record date, approximately 6,449,291 PMC Commercial common shares were issued and outstanding and held by approximately 600 holders of record.

Quorum and Adjournments

A quorum is required to be present in order to conduct business at the PMC Commercial annual meeting. A quorum will be present if a majority of the votes entitled to be cast are present, in person or by proxy. Proxies properly executed and marked with a positive vote, a negative vote or an abstention, as well as broker non-votes, will be considered to be present at the PMC Commercial annual meeting for purposes of determining whether a quorum is present for the transaction of all business at the PMC Commercial annual

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meeting. Broker non-votes exist where a broker proxy indicates that the broker is not authorized to vote on a particular proposal.

The PMC Commercial shareholders will also be asked to consider a proposal to adjourn or postpone of the meeting for the solicitation of additional votes, if necessary. Any such adjournment will only be permitted if approved by the holders of shares representing a majority of the votes present in person or by proxy at the meeting, whether or not a quorum exists. Abstentions and broker non-votes will be treated for purposes of the adjournment vote as votes cast against the adjournment.

Vote Required

Holders of record of PMC Commercial common shares on the PMC Commercial record date are entitled to one vote per share.

Merger proposal. The merger proposal requires the affirmative vote of the holders of two-thirds of the outstanding PMC Commercial common shares entitled to vote on the merger. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the merger proposal. Brokers who hold shares of stock in street name cannot vote those shares if the brokers are not provided with voting instructions in accordance with their procedures, and this would also be counted as a vote against the merger proposal.

Proposed amendments to PMC Commercial s declaration of trust. The approval of the amendments to PMC Commercial s declaration of trust requires the affirmative vote of the holders of at least two-thirds of the outstanding PMC Commercial common shares entitled to vote on the amendments. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the amendments to PMC Commercial s declaration of trust. Brokers who hold shares of stock in street name cannot vote those shares if the brokers are not provided with voting instructions in accordance with applicable procedures, and such a broker non-vote would also be counted as a vote against the amendments to PMC Commercial s declaration of trust.

Election of board of trust managers. The election of the members of the PMC Commercial board of trust managers will require the affirmative vote of the holders of two-thirds of the outstanding PMC Commercial common shares entitled to vote at the annual meeting. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the election of trust managers. Broker non-votes would also have the effect of a vote against this proposal.

Other proposals. The other proposals to be acted upon at the PMC Commercial annual meeting will require the affirmative vote of the holders of a majority of the PMC Commercial common shares represented and voting at the PMC Commercial annual meeting. Shares that are not voted and broker non-votes will not have any effect with respect to each of these proposals.

Voting Agreements

At the close of business on November 7, 2003, PMC Commercial trust managers and executive officers owned and were entitled to vote 419,966 PMC Commercial common shares, representing 6.5% of the outstanding PMC Commercial common shares on that date and subject to the voting agreements. Each PMC Commercial trust manager and executive officer has agreed to vote his or her PMC Commercial common shares in favor of the approval of the merger and the merger agreement as long as the merger agreement is in effect.

Voting of Proxies

All shares represented by properly executed proxies received in time for the PMC Commercial annual meeting will be voted at the PMC Commercial annual meeting in the manner specified by the shareholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted for the approval of each matter to be voted on at the PMC Commercial annual meeting, including approval of the merger and the merger agreement. PMC Commercial shareholders may also vote over the Internet or by telephone by following the instructions provided with your proxy card.

Also, under American Stock Exchange rules applicable to PMC Commercial, brokers that hold PMC Commercial common shares in street name for customers that are the beneficial owners of those shares may not give a proxy to vote those shares with respect to the merger proposal or the proposal to amend PMC Commercial s declaration of trust without specific instructions from those customers. If a PMC Commercial shareholder owns shares through a broker and desires to attend the PMC Commercial annual meeting, the shareholder must obtain proper authorization from that shareholder s broker to vote the shares held by the broker.

PMC Commercial does not expect that any matters other than those discussed above will be brought before the PMC Commercial annual meeting. If, however, other matters are properly presented at the PMC Commercial annual meeting, the individuals named as proxies will vote on such matters in their discretion.

Revocability of Proxies

Submitting a proxy on the enclosed form does not preclude a PMC Commercial shareholder from voting in person at the PMC Commercial annual meeting. A PMC Commercial shareholder may revoke a proxy at any time before it is voted by filing with PMC Commercial a duly executed revocation of proxy, by submitting a duly executed proxy to PMC Commercial with a later date, by revoting by telephone or the Internet, or by appearing at the PMC Commercial annual meeting and voting in person. PMC Commercial shareholders may revoke a proxy by any of these methods, regardless of the method used to deliver a shareholder s previous proxy. Attendance at the PMC Commercial annual meeting without voting will not itself revoke a proxy.

Solicitation of Proxies

PMC Commercial and PMC Capital will share equally the expenses incurred in connection with the printing and mailing of this joint proxy statement/ prospectus. In addition to solicitation by mail, the trust managers, officers and employees of PMC Commercial and its subsidiaries, who will not be specially compensated, may solicit proxies from PMC Commercial shareholders by telephone, facsimile, telegram or other electronic means or in person. PMC Commercial has retained Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies from shareholders for fees and expenses of approximately $35,000. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of shares held of record by these persons, and PMC Commercial will reimburse them for their reasonable out-of-pocket expenses.

PMC Commercial will mail a copy of this joint proxy statement/ prospectus, including the Notice of Annual Meeting and the proxy card included in these materials, to each holder of record of PMC Commercial common shares on the PMC Commercial record date.

Dissenters Rights

PMC Commercial shareholders do not have the right to exercise dissenters rights with respect to any matter to be voted upon at the PMC Commercial annual meeting.

THE PMC CAPITAL ANNUAL MEETING

PMC Capital is furnishing this joint proxy statement/ prospectus and the accompanying Notice of Annual Meeting and proxy card to PMC Capital shareholders as part of the solicitation of proxies by the PMC Capital board of directors for use at the PMC Capital annual meeting.

Date, Time and Place of PMC Capital Annual Meeting

PMC Capital will hold the PMC Capital annual meeting on Tuesday, December 30, 2003, at 9:00 a.m., local time, at 18111 Preston Road, Suite 600, Dallas, Texas 75252.

Purpose of the PMC Capital Annual Meeting

At the PMC Capital annual meeting, PMC Capital is asking holders of record of PMC Capital common stock to consider and vote on the following proposals:

- The approval of the merger agreement by and between PMC Commercial and PMC Capital and the transactions contemplated by the merger agreement.
- The election of two directors to serve a term of three years or until their respective successors have been duly elected and qualified.
- The ratification of PricewaterhouseCoopers LLP as the independent public accountant of PMC Capital for 2003.
- The approval of the postponement or adjournment of the PMC Capital annual meeting for the solicitation of additional votes, if necessary.
- As determined by the holder of the proxy in his or her discretion with respect to any other business that may properly come before the PMC Capital annual meeting or any adjournments or postponements of that meeting.

See The Merger Proposal and Description of the Merger Agreement.

The PMC Capital board of directors unanimously recommends that PMC Capital shareholders vote for approval of the merger agreement and the transactions contemplated by the merger agreement, for the election of two directors, for the ratification of PricewaterhouseCoopers LLP, and for the approval of the postponement or adjournment of the PMC Capital annual meeting, if necessary.

Record Date

Only holders of record of PMC Capital common stock at the close of business on November 10, 2003, the PMC Capital record date, are entitled to notice of and to vote at the PMC Capital annual meeting. On the PMC Capital record date, approximately 11,853,516 shares of PMC Capital common stock were issued and outstanding and held by approximately 1,100 holders of record.

Quorum and Adjournments

A quorum is required to be present in order to conduct business at the PMC Capital annual meeting. A quorum will be present if a majority of the votes entitled to be cast are present, in person or by proxy. Proxies properly executed and marked with a positive vote, a negative vote or an abstention, as well as broker non-votes, will be considered to be present at the PMC Capital annual meeting for purposes of determining whether a quorum is present for the transaction of all business at the PMC Capital annual meeting. Broker non-votes exist where a broker proxy indicates that the broker is not authorized to vote on a particular proposal.

The PMC Capital shareholders will also be asked to consider and vote on a proposal to grant discretionary authority to vote in favor of an adjournment or postponement of the meeting for the solicitation of additional votes, if necessary. Any adjournment may be made from time to time by approval of the holders of shares representing a majority of the votes present in person or by proxy at the meeting, whether or not a quorum exists. Abstentions and broker non-votes will be treated for purposes of the adjournment vote as votes cast against the adjournment.

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Vote Required

Holders of record of shares of PMC Capital common stock on the PMC Capital record date are entitled to one vote per share.

Merger proposal. The merger proposal requires the affirmative vote of the holders of a majority of the outstanding shares of PMC Capital common stock. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the merger proposal. Brokers who hold shares of stock in street name cannot vote those shares if the brokers are not provided with voting instructions in accordance with their procedures, and this would also be counted as a vote against the merger proposal.

Election of two directors. PMC Capital s board of directors is composed of seven members divided into three classes, with each class serving a three-year term and one class being elected by the shareholders annually. The two nominees for election to the PMC Capital board of directors who receive the highest number of votes will be elected to a three-year term. Thus, abstentions, failures to cast a vote and broker non-votes will have no effect on the outcome of this proposal.

Other proposals. Each of the other proposals to be voted upon at the PMC Capital annual meeting will be approved if the number of votes cast in favor of the proposal exceed the number of votes cast against the proposal. Thus, abstentions, failures to vote and broker non-votes will have no effect on the outcome of these proposals.

Voting Agreements

At the close of business on November 7, 2003, PMC Capital directors and executive officers owned and were entitled to vote 2,353,446 shares of PMC Capital common stock, representing 19.9% of the outstanding shares of PMC Capital common stock on that date and subject to the voting agreements. Each PMC Capital director and executive officer has agreed to vote his or her shares of PMC Capital common stock in favor of the approval of the merger and the merger agreement as long as the merger agreement is in effect.

Voting of Proxies

All shares represented by properly executed proxies received in time for the PMC Capital annual meeting will be voted at the PMC Capital annual meeting in the manner specified by the shareholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted for the approval of each matter to be voted on at the PMC Capital annual meeting, including approval of the merger and the merger agreement.

Also, under American Stock Exchange rules, brokers that hold shares of PMC Capital common stock in street name for customers that are the beneficial owners of those shares may not give a proxy to vote those shares with respect to the merger proposal without specific instructions from those customers. If a PMC Capital shareholder owns shares through a broker and desires to attend the PMC Capital annual meeting, the shareholder must obtain proper authorization from that shareholder s broker to vote the shares held by the broker.

PMC Capital does not expect that any matters other than those discussed above will be brought before the PMC Capital annual meeting. If, however, other matters are properly presented at the PMC Capital annual meeting, the individuals named as proxies will vote on such matters in their discretion.

Revocability of Proxies

Submitting a proxy on the enclosed form does not preclude a PMC Capital shareholder from voting in person at the PMC Capital annual meeting. A PMC Capital shareholder may revoke a proxy at any time before it is voted by filing with PMC Capital a duly executed revocation of proxy, by submitting a duly executed proxy to PMC Capital with a later date or by appearing at the PMC Capital annual meeting and voting in person. PMC Capital shareholders may revoke a proxy by any of these methods, regardless of the

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method used to deliver a shareholder s previous proxy. Attendance at the PMC Capital annual meeting without voting will not itself revoke a proxy.

Solicitation of Proxies

PMC Commercial and PMC Capital will share equally the expenses incurred in connection with the printing and mailing of this joint proxy statement/ prospectus. In addition to solicitation by mail, the directors, officers and employees of PMC Capital and its subsidiaries, who will not be specially compensated, may solicit proxies from PMC Capital shareholders by telephone, facsimile, telegram or other electronic means or in person. Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of shares held of record by these persons, and PMC Capital will reimburse them for their reasonable out-of-pocket expenses.

PMC Capital will mail a copy of this joint proxy statement/ prospectus, including the Notice of Annual Meeting and the proxy card included in these materials, to each holder of record of PMC Capital common stock on the PMC Capital record date.

Dissenters Rights

PMC Capital shareholders do not have the right to exercise dissenters rights with respect to any matter to be voted upon at the PMC Capital annual meeting.

THE MERGER PROPOSAL

The discussion in this joint proxy statement/ prospectus, which includes all of the material terms of the merger and the principal terms of the merger agreement, is subject to, and is qualified in its entirety by reference to, the merger agreement, a copy of which is attached as Annex A to this joint proxy statement/ prospectus and is incorporated by reference in this joint proxy statement/ prospectus.

General Description of the Merger

Pursuant to the merger agreement, PMC Capital will merge with and into PMC Commercial with PMC Commercial as the surviving entity and PMC Capital no longer existing as a separate corporation. In the merger, each outstanding share of PMC Capital common stock will be converted into the right to receive 0.37 of a common share of beneficial interest of PMC Commercial.

If the merger is consummated, all the assets and liabilities of PMC Capital immediately before the merger will become assets and liabilities of PMC Commercial immediately after the merger, and all of the direct and indirect subsidiaries of PMC Capital will either become direct and indirect subsidiaries of PMC Commercial after the merger or be dissolved. Former PMC Capital shareholders will hold approximately 40% of the outstanding common shares of PMC Commercial and current shareholders of PMC Commercial will own 60% of the outstanding common shares of PMC Commercial following completion of the merger.

Background of the Merger

PMC Capital, through its wholly-owned subsidiary PMC Advisers, Ltd., has managed PMC Commercial pursuant to management agreements since PMC Commercial s formation in December 1993. Lance B. Rosemore, President and Chief Executive Officer and a director of PMC Capital, and Andrew S. Rosemore, Executive Vice President and Chief Operating Officer of PMC Capital serve as trust managers of PMC Commercial.

In the course of their regular strategic planning, members of PMC Capital management have periodically reviewed and considered PMC Capital s relationship with PMC Commercial, and in June 2002 they began to consider whether a combination of PMC Capital and PMC Commercial might be beneficial to both companies. At a regularly scheduled meeting of the PMC Commercial board of trust managers held on June 14, 2002, management of PMC Commercial s external advisor, PMC Advisers, Ltd., indicated that a

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transaction between PMC Capital and PMC Commercial might be mutually beneficial and should be evaluated by PMC Commercial. The PMC Commercial board of trust managers determined that it would be prudent and appropriate to consider such a transaction and established a special committee of trust managers with no relationship to PMC Capital, consisting of Nathan G. Cohen, Roy H. Greenberg, Irving Munn and Ira Silver, to determine whether such a transaction would be in the best interests of the PMC Commercial shareholders and to report its findings back to the full board. In reaching its decision to create a special committee, the PMC Commercial board considered the fact that Lance B. Rosemore, Andrew S. Rosemore and Martha R. Greenberg are significant shareholders of PMC Capital, Lance B. Rosemore and Martha R. Greenberg are directors of PMC Capital, Lance B. Rosemore and Andrew S. Rosemore are officers of PMC Commercial and officers of PMC Capital and that all three are children of Fredric M. Rosemore, a significant shareholder and the Chairman of the Board of PMC Capital.

On June 18, 2002, the PMC Commercial special committee held its initial meeting, at which Locke Liddell & Sapp LLP (Locke Liddell & Sapp), PMC Commercial s and PMC Capital s regular outside counsel, made a presentation about the fiduciary duties of trust managers of a Texas REIT in general, and the fiduciary duties of PMC Commercial trust managers in the context of a possible business combination transaction. At this meeting, the PMC Commercial special committee elected Ira Silver to serve as chairman and engaged Locke Liddell & Sapp to act as the special committee s legal counsel.

After the June 18, 2002 meeting, the PMC Commercial special committee met several times to discuss the selection and hiring of a financial advisor in connection with the PMC Commercial special committee s evaluation of a possible transaction. The PMC Commercial special committee agreed that the potential financial advisor candidates should have specific knowledge of and recent experience with investment companies and REITs and industry experience comparable to PMC Capital and PMC Commercial. The special committee developed a list of potential candidates and after interviewing several potential financial advisors, the PMC Commercial special committee hired U.S. Bancorp Piper Jaffray on August 27, 2002.

During June and early July 2002, management of PMC Commercial and PMC Capital held preliminary discussions with a third party regarding the possibility of long-term financings, joint ventures or the acquisition of both companies by the third party. These discussions were terminated by the third party in July based on its industry concerns at that time.

On September 3, 2002, the PMC Commercial special committee met with its legal and financial advisors to discuss the proposed transaction and potential strategic alternatives to the proposed transaction. At this meeting, the PMC Commercial special committee and U.S. Bancorp Piper Jaffray agreed as to the scope of the analysis to be undertaken by U.S. Bancorp Piper Jaffray.

After the September 3, 2002 meeting, U.S. Bancorp Piper Jaffray conducted extensive due diligence and met with members of PMC Commercial and PMC Capital management about the business and operations of PMC Commercial and PMC Capital, and had discussions with management of PMC Commercial about possible strategic alternatives to the proposed transaction.

On October 15, 2002, the PMC Commercial special committee met with its financial and legal advisors to review the status of U.S. Bancorp Piper Jaffray s analysis. During this meeting, U.S. Bancorp Piper Jaffray presented the PMC Commercial special committee with its preliminary analysis of the proposed transaction and possible strategic alternatives, including a sale of PMC Commercial to a third party, entering into a joint venture relationship with a third party or remaining a stand-alone company.

After the October 15, 2002 meeting, the PMC Commercial special committee held several meetings at which it discussed the preliminary analysis presented by U.S. Bancorp Piper Jaffray. During these meetings, discussions were held as to the possible strategic alternatives to the proposed business combination with PMC Capital, including the legal and financial implications of each of the alternatives. At these meetings, the PMC Commercial special committee also discussed the proposed transaction and the preliminary financial analysis of the transaction presented by U.S. Bancorp Piper Jaffray.

On October 17, 2002 and October 24, 2002, the PMC Commercial special committee held telephonic meetings with its legal and financial advisors. At these meetings, the PMC Commercial special committee

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evaluated the financial analysis presented by U.S. Bancorp Piper Jaffray, including specific discussions regarding the assumptions generated by U.S. Bancorp Piper Jaffray underlying the projected financial performance of the merged company.

On October 29, 2002, the PMC Commercial special committee met with its financial and legal advisors. At this meeting, U.S. Bancorp Piper Jaffray presented to the PMC Commercial special committee its final analysis as to the three strategic alternatives outlined on October 15, 2002, as well as the possible combination of PMC Commercial and PMC Capital. The PMC Commercial special committee, after discussions with its legal and financial advisors, determined that a proposed business combination with PMC Capital would enhance shareholder value. In addition, after receiving the advice of its financial advisors, the PMC Commercial special committee determined that the exchange ratio to be proposed would need to result in a transaction that would ultimately be accretive to PMC Commercial on a cash available for distribution basis. Following a full discussion of the merits of the proposed business combination, including proposed terms of the transaction, and taking into consideration the advice of its legal and financial advisors, the PMC Commercial special committee decided to recommend to the full PMC Commercial board of trust managers that PMC Commercial propose to PMC Capital that PMC Commercial acquire PMC Capital in a merger transaction with an exchange ratio between 0.34 and 0.37 of a PMC Commercial common share for each outstanding share of PMC Capital common stock.

On October 29, 2002, the full board of PMC Commercial met, together with U.S. Bancorp Piper Jaffray and Locke Liddell & Sapp. At this meeting, U.S. Bancorp Piper Jaffray presented its analysis of the possible business combination between PMC Commercial and PMC Capital, as well as its analysis of the alternative strategic transactions. Following this presentation, the meeting was adjourned to provide the trust managers an opportunity to evaluate the various alternatives.

On November 1, 2002, the PMC Commercial board reconvened and unanimously approved the PMC Commercial special committee s recommendation to propose a business combination with PMC Capital. At this meeting, the PMC Commercial board also unanimously adopted resolutions, proposed by the PMC Commercial special committee, to expand the authority of the PMC Commercial special committee to permit it to make the offer to PMC Capital and to negotiate the terms of any such business combination, subject to the ultimate approval of the PMC Commercial board of trust managers of the final terms and conditions thereof.

On November 4, 2002, the PMC Commercial special committee submitted an indication of interest to the PMC Capital board of directors, indicating the interest of PMC Commercial to pursue a proposed business combination. This indication of interest requested a response from PMC Capital no later than the close of business on November 18, 2002. The PMC Commercial special committee ultimately extended the deadline to respond to January 24, 2003.

On November 8, 2002, having received and reviewed PMC Commercial s indication of interest, the PMC Capital board called and held a special meeting. The board noted that two of its seven members, Lance B. Rosemore, an officer and trust manager of PMC Commercial and Martha R. Greenberg, a trust manager of PMC Commercial, had, or may be deemed to have, actual or potential conflicts of interest in evaluating the proposed merger with PMC Commercial.

At that same meeting, the PMC Capital board then appointed a special committee composed of four of the remaining PMC Capital directors, Irvin M. Borish, Barry A. Imber, Thomas Hamill and Theodore J. Samuel, none of whom was an employee or trust manager of PMC Commercial or an employee of PMC Capital or any affiliate thereof.

The PMC Capital special committee was empowered to determine whether PMC Commercial s proposal and the proposed merger would be in the best interests of PMC Capital s shareholders and to make a recommendation to the PMC Capital board of directors with respect thereto. The PMC Capital special committee was also authorized to, among other things:

retain legal and financial advisors of its own choosing;

review documents and otherwise perform due diligence with respect to PMC Commercial; and

prepare and negotiate the terms of the proposal and all documents necessary to effect the merger.

On November 8, 2002, at the first meeting of the PMC Capital special committee, the PMC Capital special committee appointed Thomas Hamill as its chairman and engaged Sutherland Asbill & Brennan LLP (Sutherland) as the PMC Capital special committee s legal counsel. Sutherland also served as special regulatory and securities counsel to PMC Capital. The PMC Capital special committee retained Sutherland based upon a number of factors, including Sutherland s experience in transactions similar to the merger. The PMC Capital special committee decided that it would engage a financial advisor to assist it in its review of the terms of the proposed merger and determination of the fairness of the merger, from a financial point of view, to PMC Capital shareholders. The special committee appointed Thomas Hamill to serve as chairman of the special committee and designated him to negotiate the terms of the merger along with the financial advisor.

On November 13, 2002, the PMC Capital special committee held its initial meeting with its legal advisors to discuss the financial advisor selection process and to generate a list of financial advisor candidates. The PMC Capital special committee agreed that potential candidates should have specific knowledge of, and recent experience with companies operating in, the BDC and REIT industries and companies of similar size and market capitalization as PMC Capital and PMC Commercial.

During the next few weeks, members of the PMC Capital special committee interviewed a number of financial advisor candidates. On December 3, 2002, the PMC Capital special committee met, and, based on the interviews and the materials provided, agreed to appoint A.G. Edwards as its financial advisor, subject to A.G. Edwards agreement to evaluate alternative offers. A.G. Edwards had no previous relationship with PMC Capital or PMC Commercial or any of their respective affiliates. The PMC Capital special committee authorized Thomas Hamill, as chairman, together with legal counsel, to negotiate the terms and conditions of the engagement letter with A.G. Edwards and to submit a proposed engagement letter to the PMC Capital special committee for its review and approval.

On December 6, 2002, the PMC Capital special committee engaged A.G. Edwards as its financial advisor in connection with the proposed merger.

From December 9, 2002 to January 6, 2003, the PMC Capital special committee, Sutherland and A.G. Edwards, conducted extensive due diligence investigations of PMC Capital and PMC Commercial. During this time, representatives of A.G. Edwards met with senior management of both PMC Capital and PMC Commercial also to conduct due diligence.

On January 6, 2003, representatives of the PMC Capital special committee, Sutherland and A.G. Edwards met to discuss the results of the due diligence process and to discuss the terms of the indication of interest. At this meeting, A.G. Edwards presented to the PMC Capital special committee a comprehensive review of the terms of the proposal and several possible strategic alternatives thereto, including a REIT conversion and recapitalization, a partial asset liquidation and share repurchase, and an equity financing. The PMC Capital special committee discussed the indication of interest with its legal and financial advisors, and evaluated the legal and financial implications of each of the alternatives discussed by A.G. Edwards. The PMC Capital special committee also evaluated the financial analysis provided by A.G. Edwards and held specific discussions with A.G. Edwards regarding its assumptions and the projected financial performance of the combined company. As a result of these discussions and considerations, the PMC Capital special committee determined at this meeting to pursue the indication of interest with an exchange ratio range of 0.34 to 0.41, among other modifications.

On January 10, 2003, the chairman of the PMC Capital special committee contacted the chairman of the PMC Commercial special committee to discuss and deliver proposed modifications to the indication of interest originally submitted by PMC Commercial.

Following the receipt of PMC Capital s proposed modification to the indication of interest, the PMC Commercial special committee met with its legal and financial advisors on January 14, 2003 and agreed, after receiving advice from its financial advisor, to discuss a possible exchange ratio of between 0.34 to 0.41 of a PMC Commercial common share for each outstanding share of PMC Capital common stock.

On January 21, 2003, the special committees of PMC Commercial and PMC Capital executed the indication of interest. Pursuant to its terms, PMC Commercial and PMC Capital had 30 days in which to execute a definitive agreement with respect to the proposed transaction, which was ultimately extended until March 31, 2003. The indication of interest also contained a 90-day exclusivity period, pursuant to which both parties agreed not to solicit offers from or negotiate with any other party for the purpose of determining an interest in acquiring either of such entities.

Between January 21, 2003 and March 24, 2003, the PMC Commercial special committee s and the PMC Capital special committee s legal and financial advisors completed legal due diligence, negotiated the proposed exchange ratio and the terms of the merger agreement, including the scope of each company s representations, warranties and operational covenants, board composition, termination rights and fees and no solicitation covenants, and the voting agreements. During the course of these negotiations, the legal and financial advisors consulted with PMC Commercial management and PMC Capital management and the PMC Commercial special committee and the PMC Capital special committee. At the conclusion of these negotiations, the two financial advisors and special committees agreed upon an exchange ratio of 0.35 of a PMC Commercial common share for each outstanding share of PMC Capital common stock.

On March 24, 2003, the PMC Commercial special committee met and reviewed the terms of the merger agreement and the related documents with its legal and financial advisors. At the meeting, Locke Liddell & Sapp reiterated its previous advice regarding the fiduciary obligations of the PMC Commercial special committee and reviewed with the PMC Commercial special committee a summary of the merger agreement and voting agreements. U.S. Bancorp Piper Jaffray then delivered its oral opinion to the PMC Commercial special committee that, as of that date, based upon and subject to the assumptions, factors and limitations to be set forth in the written opinion, the exchange ratio of 0.35 was fair, from a financial point of view, to PMC Commercial. The PMC Commercial special committee unanimously voted to recommend to the PMC Commercial board of trust managers that:

- the merger agreement and the transactions contemplated thereby were fair to and in the best interests of the holders of PMC Commercial common shares; and

- the merger, the merger agreement and the transactions contemplated thereby be approved and recommended to PMC Commercial s shareholders.

The PMC Capital special committee also met during the evening of March 24, 2003 to review the terms of the merger agreement and related documents with its legal and financial advisors. Sutherland made a presentation to the PMC Capital special committee regarding Sutherland s due diligence examination of PMC Capital and PMC Commercial and a legal review of the terms of the merger agreement and the fiduciary duties of the members of the PMC Capital special committee regarding the merger proposal. A.G. Edwards delivered its oral opinion to the PMC Capital special committee that, based on and subject to the various assumptions and qualifications to be set forth in its written opinion as of March 24, 2003, the exchange ratio of 0.35 was fair, from a financial point of view, to the shareholders of PMC Capital. The PMC Capital special committee then unanimously voted to recommend to the PMC Capital board of directors that:

- the merger and the transactions contemplated thereby were fair to and in the best interest of, from a financial and procedural point of view, the PMC Capital shareholders; and

- the merger, the merger agreement and the transactions contemplated thereby be approved and recommended to PMC Capital s shareholders.

Following their meetings on March 24, 2003, the PMC Commercial special committee and the PMC Capital special committee distributed the merger agreement and related documents to the full boards of PMC Commercial and PMC Capital for their review in advance of the board meetings scheduled for March 27, 2003. During the course of this review, directors of PMC Capital and trust managers of PMC Commercial held further discussions with their respective financial advisors regarding the exchange ratio. On March 26, 2003 and the morning of March 27, 2003, PMC Commercial special committee s and PMC Capital special committee s financial advisors negotiated a new exchange ratio of 0.37. During the course of these negotiations, the PMC Commercial special committee and the PMC Capital special committee consulted with their respective financial advisors.

On March 27, 2003, the PMC Commercial special committee met with its legal and financial advisors. Locke Liddell & Sapp informed the PMC Commercial special committee that, other than the exchange ratio, no material changes had been made to the merger agreement. U.S. Bancorp Piper Jaffray then delivered its oral opinion to the PMC Commercial special committee that, as of that date, based upon and subject to the assumptions, factors and limitations to be set forth in the written opinion, the exchange ratio of 0.37 was fair to PMC Commercial from a financial point of view. The PMC Commercial special committee then unanimously voted to recommend to the PMC Commercial board of trust managers that:

- the merger, the merger agreement and the transactions contemplated thereby were fair to and in the best interest of the holders of PMC Commercial common shares; and
- the merger, the merger agreement and the transactions contemplated thereby be approved and recommended to PMC Commercial s shareholders.

On March 27, 2003, the PMC Capital special committee met with its legal and financial advisors to discuss the revised exchange ratio. A.G. Edwards delivered its oral opinion to the PMC Capital special committee that, based on and subject to the various assumptions and qualifications to be set forth in its written opinion as of March 27, 2003, the exchange ratio of 0.37 was fair to PMC Capital shareholders from a financial point of view. The PMC Capital special committee then unanimously voted to recommend to the PMC Capital board of directors that:

- the merger and the transactions contemplated thereby were fair to and in the best interest of PMC Capital shareholders from a financial and procedural point of view; and
- the merger, the merger agreement and the transactions contemplated thereby be approved and recommended to PMC Capital shareholders.

On March 27, 2003, the board of trust managers of PMC Commercial met. At this meeting, Locke Liddell & Sapp reviewed with the board a summary of the merger agreement and voting agreements. U.S. Bancorp Piper Jaffray then informed the PMC Commercial board of trust managers that on March 27, 2003 it had delivered an oral opinion to the PMC Commercial special committee that, as of that date and based upon and subject to the various assumptions, factors and limitations to be set forth in the written opinion, the exchange ratio of 0.37 was fair to PMC Commercial from a financial point of view. The board of trust managers then, based on the information and factors described in this joint proxy statement/ prospectus and the unanimous recommendation of the PMC Commercial special committee, unanimously approved the merger agreement and the transactions contemplated thereby.

On March 27, 2003, the full PMC Capital board of directors met to consider the merger, the merger agreement and the transactions contemplated thereby. Sutherland reviewed the terms of the merger agreement with the board and discussed the fiduciary duties to which the board members were subject. A.G. Edwards delivered its oral opinion that, based on and subject to the various assumptions and qualifications to be set forth in its written opinion as of March 27, 2003, the exchange ratio of 0.37 was fair, from a financial point of view, to PMC Capital shareholders. The chairman of the PMC Capital special committee presented the unanimous recommendation of the PMC Capital special committee that:

- the merger and the transactions contemplated thereby were fair to and in the best interest of PMC Capital shareholders from a financial and procedural point of view; and
- the merger, the merger agreement and the transactions contemplated thereby should be approved and recommended to PMC Capital shareholders.

Based on the information and factors considered by the PMC Capital special committee and the unanimous recommendation of the PMC Capital special committee, the PMC Capital board of directors:

- determined that the merger and the transactions contemplated thereby were fair to and in the best interest of the PMC Capital shareholders from a financial and procedural point of view; and

- approved the merger, the merger agreement and the transactions contemplated thereby and recommended such matters to PMC Capital s shareholders.

Following an approval by each of the boards, on the evening of March 27, 2003, the parties executed the merger agreement and the voting agreements and issued a joint press release announcing the transaction.

PMC Commercial Reasons for the Merger

The following discussion of the information and factors considered by the PMC Commercial special committee and the PMC Commercial board of trust managers is not intended to be exhaustive, but includes all material factors considered by the PMC Commercial special committee and the PMC Commercial board of trust managers.

PMC Commercial Special Committee

In reaching its decision to approve the terms of the merger agreement and the transactions contemplated by the merger agreement and to recommend that the PMC Commercial board of trust managers approve the merger agreement and the transactions contemplated by the merger agreement and declare the advisability of the same, the PMC Commercial special committee consulted with its legal counsel and financial advisor and carefully considered the following material factors:

- the expectation that the larger equity market capitalization of the combined company would help create new business flexibility and help stabilize earnings;

- the potential for the transaction to broaden PMC Commercial s investor base;

- the continued viability of PMC Commercial as a stand-alone entity in the highly competitive economic environment of the small business lending industry;

- the expectation that the resulting book equity would improve PMC Commercial s visibility and market presence, enhancing overall growth opportunities;

- the expectation that the merger would provide stability to cash flow available for dividends and ultimately increase PMC Commercial s cash available for distribution;

- by merging with PMC Capital, PMC Commercial will become internally managed, thereby eliminating any potential conflicts of interest between PMC Commercial and its external manager. For a discussion of the potential conflicts of interest, see PMC Commercial Management s Discussion and Analysis of Financial Condition and Results of Operations Related Party Transactions;

- possible cost synergies to be created by merging with PMC Capital, including eliminating management fees currently paid by PMC Commercial to PMC Capital. PMC Commercial s decision to proceed with the merger was not based on any quantified cost savings, and there can be no assurance that PMC Commercial will achieve any cost savings;

- that the combined company would have a larger equity market capitalization, which could generate greater research coverage and institutional investor interest as well as potentially increase the trading volume of PMC Commercial s common shares;

- the expectation that the merger would generally be a tax-free transaction for U.S. Federal income tax purposes;

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the terms and conditions of the merger agreement, including the right of PMC Commercial to terminate the merger agreement prior to its approval by PMC Commercial shareholders in the exercise of its fiduciary duty in connection with a superior proposal, subject to a termination fee;

the proposed composition of the board of trust managers and executive officers of PMC Commercial following the merger, which would facilitate the integration of PMC Commercial and PMC Capital following the completion of the merger;

the analysis and presentation of U.S. Bancorp Piper Jaffray and the opinion of U.S. Bancorp Piper Jaffray, that as of March 27, 2003, and based upon and subject to the assumptions, factors and limitations set forth in the opinion, the exchange ratio of 0.37 of a common share of PMC Commercial to be exchanged for each share of PMC Capital common stock is fair, from a financial point of view, to PMC Commercial (the updated written opinion of U.S. Bancorp Piper Jaffray dated November 10, 2003 is attached as Annex C to this joint proxy statement/ prospectus);

the expectation that unification of the businesses of PMC Commercial and PMC Capital would remove some of the confusion in the marketplace resulting from two separate public companies having similar names and management; and

the likelihood that the transactions contemplated by the merger agreement would be successfully completed.

The PMC Commercial special committee considered the following negative factors relating to the merger:

uncertainty regarding how the transaction would affect the trading in PMC Commercial s common shares before the completion of the merger;

the risk of a third party offering PMC Capital a superior proposal which, if accepted by PMC Capital, would result in the termination of the merger agreement;

the potential or actual conflicts of interest of the trust managers and officers of PMC Commercial, including conflicts related to the common officers and directors of PMC Capital and the familial relationships among certain of these individuals;

the termination fee of $870,000 payable by PMC Commercial to PMC Capital under certain circumstances, which may discourage other proposals to acquire PMC Commercial by a third party because of the increased price that the acquiror would have to pay;

the risk that certain PMC Commercial shareholders might view the combined company as a different and less desirable investment vehicle for their capital and that sales of shares by such shareholders could temporarily depress the share price of PMC Commercial common shares; and

the timing of receipt and the terms of approvals from appropriate government entities, including the possibility of delay in obtaining satisfactory approvals or the imposition of unfavorable terms or conditions in the approvals.

The PMC Commercial special committee also considered the following factors relating to the merger:

the review and analysis of each of PMC Commercial s and PMC Capital s business, financial condition, earnings, risks and prospects;

the historical market prices and trading information with respect to the PMC Commercial common shares and PMC Capital common stock;

the comparisons of historical financial measures for PMC Commercial and PMC Capital, including earnings, return on capital and cash flow, and comparisons of historical operational measures for PMC Commercial and PMC Capital; and

the current industry, economic and market conditions.

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This discussion of the information and factors that the PMC Commercial special committee considered in making its decision is not intended to be exhaustive but includes all material factors considered by the PMC Commercial special committee. In view of the wide variety of factors considered in connection with its evaluation of the transaction and the complexity of those matters, the PMC Commercial special committee did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of the PMC Commercial special committee may have given different weights to different factors.

The PMC Commercial special committee believed that, overall, the positive factors of the transaction to PMC Commercial and its shareholders substantially outweighed the risks related to the merger, and, therefore, unanimously recommended to the PMC Commercial board of trust managers that the merger agreement and the transactions contemplated by the merger agreement be adopted and approved.

PMC Commercial Board of Trust Managers

In reaching its decision to adopt and approve the merger agreement and the transactions contemplated by the merger agreement, and recommend that PMC Commercial shareholders approve the merger agreement, the PMC Commercial board of trust managers consulted with PMC Commercial s management, with Locke Liddell & Sapp, its legal counsel, and with U.S. Bancorp Piper Jaffray, financial advisor to the PMC Commercial special committee, and carefully considered the following material factors:

- the conclusions and recommendation of the PMC Commercial special committee;

- the factors referred to above as having been taken into account by the PMC Commercial special committee; and

- the PMC Commercial special committee having received the opinion of U.S. Bancorp Piper Jaffray that, as of March 27, 2003, and based upon and subject to the assumptions, factors and limitations set forth in the opinion, the exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock is fair, from a financial point of view, to PMC Commercial (the updated written opinion of U.S. Bancorp Piper Jaffray dated November 10, 2003 is attached as Annex C to this joint proxy statement/ prospectus).

This discussion of the information and factors that the PMC Commercial board of trust managers considered in making its decision is not intended to be exhaustive but includes all material factors considered by the PMC Commercial board of trust managers. In view of the wide variety of factors considered in connection with its evaluation of the transaction and the complexity of those matters, the PMC Commercial board of trust managers did not find it useful to, and did not attempt to, quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of the PMC Commercial board of trust managers may have given different weight to different factors.

The PMC Commercial board of trust managers believed that, overall, the potential benefits of the transaction to PMC Commercial and its shareholders outweighed the risks related to the merger.

The PMC Commercial board of trust managers believes that the merger, the transactions contemplated by the merger agreement and the manner in which they were negotiated and agreed to is procedurally fair to the holders of PMC Commercial common shares based on the following factors:

- the PMC Commercial special committee consisted of independent trust managers appointed to represent the interests of holders of PMC Commercial common shares;

- the PMC Commercial special committee, at the expense of PMC Commercial, retained its own financial advisor, U.S. Bancorp Piper Jaffray, and its own legal advisor, Locke Liddell & Sapp, to, among other things, assist in the negotiation of the merger agreement and the transactions contemplated by the merger agreement and, in the case of U.S. Bancorp Piper Jaffray, render a fairness opinion relating to the fairness, from a financial point of view, of the exchange ratio in the merger to PMC Commercial;

- the PMC Commercial special committee, with the assistance of its advisors, undertook an extensive evaluation of PMC Commercial and PMC Capital, met numerous times between the time of its formation and the execution of the merger agreement and engaged in meetings and negotiations with the PMC Capital special committee and its representatives; and

- the merger consideration and other terms of the merger were the result of extensive negotiations between the PMC Commercial special committee, and the PMC Capital special committee.

Recommendation of the PMC Commercial Special Committee and the PMC Commercial Board of Trust Managers

PMC Commercial Special Committee

On March 27, 2003, the PMC Commercial special committee unanimously voted to recommend to the PMC Commercial board of trust managers that:

- the merger agreement and the transactions contemplated by the merger agreement are advisable and fair to and in the best interests of PMC Commercial and the PMC Commercial shareholders; and

- the PMC Commercial board of trust managers approve the merger agreement and the transactions contemplated by the merger agreement, and that the PMC Commercial board of trust managers declare the advisability of the same.

PMC Commercial Board of Trust Managers

On March 27, 2003, and based on the information and factors considered by the PMC Capital special committee and the unanimous recommendation of the PMC Commercial special committee, the PMC Commercial board of trust managers:

- determined that the merger agreement and the other transactions contemplated by the merger agreement are advisable and fair to and in the best interests of PMC Commercial and its shareholders;

- approved the merger and approved and adopted the merger agreement and the transactions contemplated by the merger agreement;

- directed that the merger agreement and the transactions contemplated by the merger agreement be submitted to a vote at a meeting of the PMC Commercial shareholders; and

- recommended that the PMC Commercial shareholders approve the merger agreement and the transactions contemplated by the merger agreement.

The PMC Commercial Board of Trust Managers unanimously recommends that holders of PMC Commercial common shares vote <u>for</u> the approval of the Merger Agreement and the transactions contemplated by the Merger Agreement.

Certain trust managers of PMC Commercial will receive financial and other benefits in connection with the merger. For a discussion of the interests of certain persons in the merger, see Interests of Certain Persons in the Merger.

PMC Capital Reasons for the Merger

The following discussion of the information and factors considered by the PMC Capital special committee is not intended to be exhaustive, but includes all material factors considered by the PMC Capital special committee and the PMC Capital board of directors.

PMC Capital Special Committee

In reaching its decision to approve the merger, the terms of the merger agreement and the transactions contemplated thereby and to recommend that the PMC Capital board of directors approve and recommend such matters to PMC Capital s shareholders, the PMC Capital special committee consulted with PMC

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Capital management as well as its legal counsel and financial advisor and carefully considered the following material factors:

- the PMC Capital special committee s review and knowledge of the business, financial condition, results of operations and prospects of PMC Capital, and its general familiarity with and knowledge about PMC Capital s affairs;
- the present and possible future economic and competitive environment of the small business lending industry in which PMC Capital operates;
- the written opinion of A.G. Edwards as of March 27, 2003 that the exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock was fair, from a financial point of view, to PMC Capital s shareholders, and the analyses presented to the PMC Capital special committee by A.G. Edwards;
- the need to increase the capital base of PMC Capital at a reduced cost to achieve operating efficiencies, which the merger of PMC Capital with PMC Commercial could offer;
- the need to diversify PMC Capital s investment assets in an effort to provide PMC Capital shareholders with greater earnings performance and operating and dividend stability;
- the belief of the PMC Capital special committee that any transaction with PMC Commercial should result in maximizing shareholder value;
- after conducting a review of strategic alternatives, the belief of the PMC Capital special committee that the proposed merger provided the best method of maximizing shareholder value;
- the negotiations conducted by the PMC Capital special committee and its financial and legal advisors with the PMC Commercial special committee and its financial and legal advisors;
- the nature of the parties representations and warranties contained in the merger agreement;
- the other terms and conditions in the merger agreement, including the right of PMC Capital to terminate the merger agreement prior to its approval by PMC Capital shareholders in the exercise of its fiduciary duty in connection with a superior proposal, subject to a termination fee;
- that the combined company would have a larger equity market capitalization, which could generate greater research coverage and institutional investment as well as potentially increase the trading volume of the PMC Commercial common shares to be received by PMC Capital shareholders in the merger as compared to the trading volume of PMC Capital s common stock before the merger;
- the historical market prices and trading information with respect to the PMC Capital common stock and PMC Commercial common shares;
- the comparisons of historical financial measures for PMC Capital and PMC Commercial, including earnings, return on capital and cash flow, and comparisons of historical operational measures for PMC Commercial and PMC Capital;
- the expectation that the merger would be a tax-free transaction for U.S. Federal income tax purposes;
- the proposed composition of the management of PMC Commercial following the merger, which would facilitate the integration of both companies and assist the continuation of the best practices of PMC Capital and PMC Commercial following the completion of the merger;
- the expectation that unification of the businesses of PMC Capital and PMC Commercial would remove some of the confusion in the marketplace resulting from having two separate public companies with similar names and management;
- the timing of receipt and the terms of approvals from appropriate governmental entities, including the possibility of delay in obtaining satisfactory approvals or the imposition of unfavorable terms or conditions in the approvals;

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- the desire to simplify PMC Capital s complex business and regulatory structure;
- the likelihood that the transactions contemplated by the merger would be successfully completed; and
- the current industry, economic, market and other relevant conditions.

The PMC Capital special committee considered the following negative factors relating to the merger:

- the potential or actual conflicts of interest of the directors and officers of PMC Capital, including conflicts related to the common officers and trust managers of PMC Commercial and the familial relationships among certain of these individuals, including the chairman of PMC Capital;
- the risk that the per share value of PMC Commercial common shares actually received by PMC Capital shareholders might be less than the per share price implied by the exchange ratio prior to the announcement of the merger proposal because the exchange ratio will not be adjusted for changes in the market price of PMC Capital common stock or PMC Commercial common shares;
- uncertainty regarding the effect of the announcement of the merger on the trading price of PMC Capital s common stock;
- the character and amount of increased risk that would be assumed by PMC Capital s shareholders as a result of the merger, including the risk associated with PMC Commercial s owned hotel portfolio;
- the risk of a third party offering PMC Capital a superior proposal, which, if accepted by PMC Capital, would result in the termination of the merger agreement and the payment by PMC Capital to PMC Commercial of an $870,000 termination fee;
- the timing of the receipt of and the terms of approvals from appropriate governmental and regulatory entities, including the possibility of delay in obtaining satisfactory approvals or the imposition of unfavorable terms or conditions in the approvals;
- the risk that some or all of the benefits sought in the merger may not be achieved; and
- the risk that the merger may not be consummated.

This discussion of the information and factors that the PMC Capital special committee considered in making its decision is not intended to be exhaustive but includes all material factors considered by the PMC Capital special committee. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of those matters, the PMC Capital special committee did not find it useful to, and did not attempt to quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of the PMC Capital special committee may have given different weights to different factors.

The PMC Capital special committee believed that, overall, the positive factors of the merger to PMC Capital and its shareholders substantially outweighed the risks to the merger, and, therefore, unanimously voted to recommend to the PMC Capital board of directors that:

- the merger and the transactions contemplated thereby were fair to and in the best interest of PMC Capital shareholders from a financial and procedural point of view; and
- the merger, the merger agreement and the transactions contemplated thereby be approved and recommended to PMC Capital shareholders.

PMC Capital Board of Directors

In reaching its decision to approve the merger, the merger agreement and the transactions contemplated thereby and recommend such matters to PMC Capital s shareholders, the PMC Capital board of directors consulted with PMC Capital s management, as well as with Sutherland, its legal counsel, and A.G. Edwards,

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the financial advisor to the PMC Capital special committee, and carefully considered the following material factors:

- the conclusions and recommendations of the PMC Capital special committee;
- the factors set forth above considered by the PMC Capital special committee;
- the written opinion of A.G. Edwards as of March 27, 2003 that the exchange ratio of 0.37 of a common share of PMC Commercial for each share of PMC Capital common stock was fair, from a financial point of view, to PMC Capital s shareholders (the updated written opinion of A.G. Edwards dated November 10, 2003 is attached as Annex D to this joint proxy statement/ prospectus); and
- the analyses presented to the PMC Capital special committee by A.G. Edwards.

This discussion of the information and factors that the PMC Capital board of directors considered in making its decision is not intended to be exhaustive but includes all material factors considered by the PMC Capital board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of those matters, the PMC Capital board of directors did not find it useful to, and did not attempt to quantify, rank or otherwise assign relative weights to these factors. In addition, the individual members of the PMC Capital board of directors may have given different weights to different factors.

The PMC Capital board of directors believed that, overall, the positive factors of the merger to PMC Capital and its shareholders substantially outweighed the risks of the merger.

The PMC Capital board of directors believes that the merger and the transactions contemplated thereby and the manner in which they were negotiated and agreed to is procedurally fair to PMC Capital shareholders based on the following factors:

- the PMC Capital special committee consisted of independent directors appointed to represent the interests of shareholders of PMC Capital;
- the PMC Capital special committee, at the expense of PMC Capital, retained A.G. Edwards as its financial advisor, to, among other things, assist in the negotiation of the merger agreement and engage in meetings and negotiations with the PMC Commercial special committee and its representatives and advisors;
- the PMC Capital special committee, at the expense of PMC Capital, retained, and was advised by, Sutherland, its own legal counsel, and A.G. Edwards to assist it in analyzing and negotiating a transaction in the best interests of the PMC Capital shareholders;
- the PMC Capital special committee, with the assistance of its legal and financial advisors, undertook an extensive evaluation of PMC Capital and PMC Commercial, met several times between the time of its formation and the execution of the merger agreement, and engaged in meetings and negotiations with the PMC Commercial special committee and its representatives and advisors;
- the merger consideration and other terms of the merger were the result of extensive negotiations between the PMC Capital special committee, and the PMC Commercial special committee; and
- the PMC Capital special committee and its representatives and advisors had unrestricted access to information concerning PMC Capital and PMC Commercial and their businesses and operations, thereby acquiring significant information to consider and reach an informed business decision on PMC Commercial s proposal.

Recommendation of the PMC Capital Special Committee and the PMC Capital Board of Directors

PMC Capital Special Committee

On March 27, 2003, the PMC Capital special committee unanimously voted to recommend to the PMC Capital board of directors that:

- the merger and the transactions contemplated thereby were fair to and in the best interest of PMC Capital shareholders from a financial and procedural point of view; and

- the merger, the merger agreement and the transactions contemplated thereby be approved and recommended to PMC Capital shareholders.

PMC Capital Board of Directors

On March 27, 2003, and based on the unanimous recommendation of the PMC Capital special committee, the PMC Capital board of directors:

- determined that the merger and the transactions contemplated thereby were fair to and in the best interest of PMC Capital shareholders from a financial and procedural point of view; and

- approved the merger, the merger agreement and the transactions contemplated thereby and recommended such matters to PMC Capital shareholders.

The PMC Capital Board of Directors unanimously recommends that holders of PMC Capital common stock vote for the approval of the merger, the Merger Agreement and the transactions contemplated thereby.

Certain members of the PMC Capital board of directors and executive officers will receive financial and other benefits in connection with the merger. For a discussion of the interests of certain persons in the merger, see Interests of Certain Persons in the Merger.

Opinion of U.S. Bancorp Piper Jaffray

In August 2002, the PMC Commercial special committee engaged U.S. Bancorp Piper Jaffray to act as its financial advisor with respect to evaluating strategic alternatives available to PMC Commercial, including a possible transaction with PMC Capital. Pursuant to this engagement, U.S. Bancorp Piper Jaffray agreed to render to the PMC Commercial special committee, if requested, a fairness opinion in connection with any transaction that might result from one of the strategic alternatives. On March 27, 2003, U.S. Bancorp Piper Jaffray delivered its written opinion to the PMC Commercial special committee that, as of that date, and based upon and subject to the assumptions, factors and limitations set forth in the written opinion and described below, the exchange ratio in the proposed merger pursuant to the merger agreement was fair, from a financial point of view, to PMC Commercial. U.S. Bancorp Piper Jaffray has updated the opinion as of November 10, 2003. A copy of U.S. Bancorp Piper Jaffray s written opinion is attached to this joint proxy statement/ prospectus as Annex C and is incorporated by reference into this joint proxy statement/ prospectus. PMC Commercial shareholders should read the opinion carefully in its entirety in conjunction with this joint proxy statement/ prospectus and should carefully consider the assumptions made, matters considered, and limits of the review undertaken, by U.S. Bancorp Piper Jaffray.

U.S. Bancorp Piper Jaffray s written opinion, which was directed to the PMC Commercial special committee, addresses only the fairness to PMC Commercial, from a financial point of view, of the exchange ratio pursuant to the merger agreement. The opinion does not address PMC Commercial s underlying business decision to participate in the merger, and does not constitute a recommendation to any PMC Commercial shareholder as to how the shareholder should vote with respect to the merger.

In connection with its opinion, U.S. Bancorp Piper Jaffray, among other things:

- reviewed the terms of a draft of the merger agreement dated March 24, 2003, and with respect to its updated opinion, the terms of the merger agreement dated March 27, 2003, as amended on August 1, 2003;

reviewed and analyzed certain publicly available business and financial information relating to PMC Commercial and PMC Capital including annual reports on Form 10-K for the years ended December 31, 2001 and 2000 and quarterly reports on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002, and with respect to its updated opinion, annual reports on Form 10-K for the years ended December 31, 2002, 2001 and 2000 and quarterly reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003 (copies of these materials can be obtained on the SEC s web site located at *www.sec.gov*);

reviewed a draft copy of the annual report on Form 10-K for each of PMC Commercial and PMC Capital for the year ended December 31, 2002 and with respect to its updated opinion, a draft copy of the quarterly report on Form 10-Q for each of PMC Commercial and PMC Capital for the quarter ended September 30, 2003;

reviewed and analyzed certain other financial information relating to PMC Commercial and PMC Capital prepared by management of each company, including projected financial data of each company for the years ending December 31, 2003 through 2005;

met with members of management of PMC Commercial and PMC Capital to discuss the financial condition, operating performance, balance sheet characteristics and prospects of PMC Commercial and PMC Capital and the background and rationale of the proposed merger;

considered the historical stock prices and trading activity of the common shares of PMC Commercial and the common stock of PMC Capital;

considered publicly available financial and stock market data of selected publicly held companies;

considered, to the extent publicly available, the financial terms of certain other recent merger and acquisition transactions; and

considered such other information, financial studies and analyses and investigations and financial, economic and market criteria which U.S. Bancorp Piper Jaffray deemed relevant for the purpose of rendering its opinions.

The following is a summary of selected analyses performed by U.S. Bancorp Piper Jaffray in connection with the preparation of its opinion and reviewed with the PMC Commercial special committee at a meeting held on March 27, 2003. It does not purport to be a complete description of the analyses performed by U.S. Bancorp Piper Jaffray or of its presentation to the PMC Commercial special committee on March 27, 2003. This summary includes information presented in tabular format. In order to fully understand the financial analyses presented by U.S. Bancorp Piper Jaffray, these tables must be read together with the text of each analysis summary and considered as a whole. The tables alone do not constitute a complete summary of the analyses. The order in which these analyses are presented below, and the results of those analyses, should not be taken as any indication of the relative importance or weight given to these analyses by U.S. Bancorp Piper Jaffray or the PMC Commercial special committee. Except as otherwise noted, the following quantitative information, to the extent that it is based upon market data, is based upon market data as it existed on or before March 27, 2003, and is not necessarily indicative of current market conditions.

Implied Consideration

U.S. Bancorp Piper Jaffray calculated the implied value of the per share consideration to be paid by PMC Commercial to the holders of common stock of PMC Capital to be approximately $5.01, based upon an exchange ratio of 0.37 PMC Commercial common shares for each share of PMC Capital common stock and the $13.54 closing price of PMC Commercial s common shares on March 26, 2003. Based upon the number of fully diluted outstanding shares of common stock of PMC Capital on March 26, 2003, U.S. Bancorp Piper Jaffray calculated the implied value of the total consideration to be paid by PMC Commercial to the holders of common stock of PMC Capital as of March 26, 2003 to be approximately $59.4 million, using the closing price of PMC Commercial s common shares on that date. U.S. Bancorp Piper Jaffray also calculated that the

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shareholders of PMC Capital would be issued an aggregate of 40.5% of PMC Commercial s fully diluted common shares outstanding after the consummation of the proposed merger.

Exchange Ratio Analysis

U.S. Bancorp Piper Jaffray reviewed selected historical closing stock prices for the common shares of PMC Commercial and shares of common stock of PMC Capital, for purposes of comparing the exchange ratio for the merger with the implied exchange ratio based upon historical closing stock prices for the two entities. U.S. Bancorp Piper Jaffray examined the exchange ratio implied by the closing stock prices for PMC Commercial and PMC Capital on March 26, 2003 as well as the exchange ratio implied by the 10-, 30- and 60-day average closing stock prices for PMC Commercial and PMC Capital. In addition, U.S. Bancorp Piper Jaffray looked at the exchange ratio implied by the average closing stock prices for PMC Commercial and PMC Capital since September 12, 2002, the date on which PMC Capital announced a dividend reduction. This analysis produced the following implied historical exchange ratios for the periods indicated:

Period	Implied Historical Exchange Ratio
March 26, 2003 closing price	0.316
10-day period	0.319
30-day period	0.326
60-day period	0.343
September 12, 2002 March 26, 2003	0.333

U.S. Bancorp Piper Jaffray s analysis concerning PMC Commercial common shares and PMC Capital common stock was based upon information available as of March 26, 2003. U.S. Bancorp Piper Jaffray did not and does not express any opinion as to the actual value of PMC Commercial common shares or PMC Capital common stock on March 26, 2003 or the actual relative value of PMC Commercial common shares and PMC Capital common stock.

Market Analysis

U.S. Bancorp Piper Jaffray reviewed selected market information concerning PMC Commercial common shares and PMC Capital common stock. Among other things, U.S. Bancorp Piper Jaffray noted the following with respect to the trading of PMC Commercial common shares:

Closing market price as of March 26, 2003	$13.54
30-trading day average ended March 26, 2003	$13.17
60-trading day average ended March 26, 2003	$13.11
90-trading day average ended March 26, 2003	$12.89
180-trading day average ended March 26, 2003	$13.14
52-week period ended March 26, 2003	
High	$15.50
Low	$11.25

U.S. Bancorp Piper Jaffray also presented additional stock price and volume performance data for PMC Commercial s common shares for the 52-week period ended March 26, 2003. This review by U.S. Bancorp Piper Jaffray showed that the average daily volume for PMC Commercial s common shares was 7,198. U.S. Bancorp Piper Jaffray also noted PMC Commercial s market capitalization as of March 26, 2003, which was $87.3 million.

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Among other things, U.S. Bancorp Piper Jaffray noted the following with respect to the trading of PMC Capital s common stock:

Closing market price as of March 26, 2003	$4.28
30-trading day average ended March 26, 2003	$4.35
60-trading day average ended March 26, 2003	$4.51
90-trading day average ended March 26, 2003	$4.28
180-trading day average ended March 26, 2003	$4.67
52-week period ended March 26, 2003	
High	$7.30
Low	$3.40

U.S. Bancorp Piper Jaffray also presented additional stock price and volume performance data of PMC Capital s common stock for the 52-week period ended March 26, 2003. This review by U.S. Bancorp Piper Jaffray showed that the average daily volume for the shares of PMC Capital s common stock was 12,234. U.S. Bancorp Piper Jaffray also noted PMC Capital s market capitalization as of March 26, 2003, which was $50.7 million.

Pro Forma Analysis

U.S. Bancorp Piper Jaffray analyzed, on a pro forma basis, the relative contribution of the two entities and the accretive/dilutive impact of the proposed merger. U.S. Bancorp Piper Jaffray performed this analysis using estimates provided to it by the management of each of PMC Commercial and PMC Capital. These estimates have been updated in the ordinary course since they were provided to U.S. Bancorp Piper Jaffray and will continue to be updated in the ordinary course. U.S. Bancorp Piper Jaffray s pro forma analysis included examining the expected contribution of PMC Capital to the anticipated revenues, net operating income (NOI) and net income of the combined company for the fiscal years 2003, 2004 and 2005, both with and without attributing any synergies that the combined company may realize following consummation of the merger. This analysis also included examining the expected contribution of PMC Capital to the anticipated net receivables, total assets and book value of the combined company for the fiscal years 2003, 2004 and 2005 without attributing any synergies that the combined company may realize following consummation of the merger. This contribution analysis indicated the following expected contributions of PMC Capital to the operating results of the combined company:

	2003	2004	2005
Revenues			
With synergies	N/A	51.2%	53.9%
Without synergies	48.9%	50.6%	52.0%
NOI			
With synergies	N/A	43.3%	46.9%
Without synergies	39.4%	41.2%	42.0%
Net Income			
With synergies	N/A	46.8%	50.7%
Without synergies	44.4%	42.9%	44.0%
Net Receivables (without synergies)	46.2%	53.2%	55.2%
Total Assets (without synergies)	50.2%	55.5%	44.3%
Book Value (without synergies)	43.4%	44.6%	44.4%

U.S. Bancorp Piper Jaffray s pro forma analysis also included examining the impact of the proposed merger on the projected stand-alone cash flow available for distribution, NOI, earnings per share, and book value per share of PMC Commercial for the last two fiscal quarters of 2003, each fiscal quarter of 2004 and for the fiscal years 2004 and 2005 without attributing any synergies that the combined company may realize following consummation of the merger. This analysis revealed that with respect to PMC Commercial s projected stand-alone cash flow available for distribution, the merger would be dilutive for the third quarter of 2003 but would be accretive for the fourth quarter of 2003 and the fiscal years 2004 and 2005. U.S. Bancorp Piper Jaffray s pro forma analysis also indicated that the merger would be dilutive to the projected stand-alone NOI and earnings per share of PMC Commercial for the third and fourth quarters of 2003 and accretive to projected stand-alone NOI and earnings per share for the fiscal years 2004 and 2005.

U.S. Bancorp Piper Jaffray s pro forma analysis also indicated that the merger would be accretive to PMC Commercial s projected stand-alone book value per share for all of the periods it analyzed if the combined company took an extraordinary gain to account for the negative goodwill that would result from the merger, but would be dilutive to PMC Commercial s projected stand-alone book value per share for all of the periods analyzed if the combined company wrote down the book value of certain of its assets to account for the negative goodwill that would result from the merger.

Premiums Paid Analysis

U.S. Bancorp Piper Jaffray reviewed and analyzed two different groups of merger and acquisition transactions which it deemed comparable to the proposed merger, including:

a broad group of 52 transactions which, among other criteria, involved a merger-of-equals between two companies; and

a selected group of 20 transactions which, among other criteria, involved a merger-of-equals between two financial services companies.

All of the transactions involved in this analysis were announced after January 1, 1996. This analysis was based upon information obtained from SEC filings, public company disclosures, press releases, industry and popular press reports, databases and other sources. U.S. Bancorp Piper Jaffray analyzed the selected transactions and compared the implied premium to be paid by PMC Commercial in the merger to the premiums that the acquiring companies in the selected transactions agreed to pay based upon the closing stock prices of the target companies during the 1-, 30-, 60- and 90-day periods preceding the announcement of the selected transactions. This analysis revealed the following:

	PMC Capital Implied Premium*	Broad Group Transaction Premiums				Financial Services Group Transaction Premiums			
		Mean	Median	Max	Min	Mean	Median	Max	Min
1 day	16.0%	12.8%	7.8%	89.0%	(56.0%)	11.9%	8.8%	31.4%	(5.2%)
30 days	13.9%	10.7%	6.3%	76.2%	(63.6%)	11.7%	12.7%	34.1%	(6.1%)
60 days	6.4%	11.2%	11.5%	86.8%	(67.9%)	14.6%	14.5%	35.8%	(8.2%)
90 days	13.9%	12.3%	11.6%	103.6%	(74.0%)	15.4%	12.9%	42.5%	(5.2%)

* *Implied premium calculated utilizing a 0.37 exchange ratio, which equates to an implied purchase price of $5.01 per share based upon the closing price of PMC Commercial s common shares on March 26, 2003.*

Comparable Company Analysis

U.S. Bancorp Piper Jaffray reviewed selected financial data and market information for PMC Commercial and compared them to corresponding data and information for publicly traded REITs. U.S. Bancorp Piper Jaffray also reviewed selected financial data and market information for PMC Capital and compared them to corresponding data and information for publicly traded companies engaged primarily in business development.

The specific businesses that U.S. Bancorp Piper Jaffray used in this analysis and that it believes are engaged in businesses similar to the business of PMC Capital and PMC Commercial, respectively, are:

PMC Capital	PMC Commercial
Allied Capital Corporation	Annaly Mortgage Management, Inc.
American Capital Strategies, Ltd.	Anthracite Capital, Inc.
Gladstone Capital Corporation	iStar Financial, Inc.
MCG Capital Corporation	RAIT Investment Trust
Medallion Financial Corp.	Thornburg Mortgage, Inc.

The financial data and market information of each of PMC Commercial and PMC Capital that was considered as part of this analysis included, among other things, closing stock price on March 26, 2003, NOI for the last twelve months (LTM), projected earnings per share for 2003 (in the case of PMC Commercial), projected NOI for 2003 (in the case of PMC Capital) and dividend yield. This analysis produced multiples of selected valuation data as follows:

	PMC Commercial	Comparable Companies			
		Low	Mean	Median	High
Price/ LTM NOI	10.4x	6.9x	9.5x	9.2x	13.0x
Price/ Calendar Year 2003 earnings per share	9.9x	7.6x	8.2x	8.0x	9.0x
Dividend Yield	11.8%	8.6%	11.4%	11.2%	14.7%

	PMC Capital		Comparable Companies			
	Implied(1)	Market(2)	Low	Mean	Median	High
Price/ LTM NOI	10.0x	8.5x	5.5x	11.0x	10.0x	18.7x
Price/ Calendar Year 2003 NOI	11.0x	9.4x	5.7x	11.3x	11.1x	17.3x
Dividend Yield	9.6%	11.2%	3.5%	9.9%	11.5%	17.2%

(1) Based on implied value of merger consideration.

(2) Based on market value as of March 26, 2003. The earnings projections for PMC Commercial and PMC Capital used in the foregoing analysis have been updated in the ordinary course since they were provided to U.S. Bancorp Piper Jaffray and will continue to be updated in the ordinary course.

Discounted Cash Flow Analysis

Using a discounted cash flow analysis, U.S. Bancorp Piper Jaffray calculated a range of theoretical values for each of PMC Commercial and PMC Capital based upon (1) the net present value of implied future cash flows of the business of each company through 2005 and (2) the net present value of a terminal value of each of PMC Commercial and PMC Capital, which is an estimate of the future value of each company s business. U.S. Bancorp Piper Jaffray used internal projected financial planning data prepared by management of each of PMC Commercial and PMC Capital for 2003, 2004 and 2005. U.S. Bancorp Piper Jaffray calculated the range of net present values for PMC Commercial based upon a range of discount rates of 12% to 18% and a range of terminal multiples of 8.0x to 11.0x applied to the projected 2005 net income of PMC Commercial before gain on sale of assets. U.S. Bancorp Piper Jaffray calculated the range of net present values for PMC Capital based upon a range of discount rates of 16% to 22% and a range of terminal multiples of 8.0x to 11.0x applied to the projected 2005 NOI of PMC Capital. This analysis yielded a range of estimated present values for PMC Commercial of between $11.71 per share and $16.45 per share and a range of estimated present values for PMC Capital of between $3.59 per share and $5.35 per share.

Other Information

In connection with its updated written opinion dated November 10, 2003, U.S. Bancorp Piper Jaffray performed substantially the same procedures and analyses described above, based upon updated information

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available to U.S. Bancorp Piper Jaffray. U.S. Bancorp Piper Jaffray did not, however, in connection with its updated opinion, prepare and deliver to the Board written materials containing its analyses.

Although the summary set forth above does not purport to be a complete description of the analyses performed by U.S. Bancorp Piper Jaffray, the material analyses performed by U.S. Bancorp Piper Jaffray in rendering its opinion have been summarized above. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. U.S. Bancorp Piper Jaffray believes that its analyses and the summary set forth above must be considered as a whole and that selecting portions of its analyses or of the summary, without considering the analyses as a whole or all of the factors included in its analyses, would create an incomplete view of the processes underlying the analyses set forth in the U.S. Bancorp Piper Jaffray opinion. In arriving at its opinion, U.S. Bancorp Piper Jaffray considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Instead, U.S. Bancorp Piper Jaffray made its determination as to the fairness of the exchange ratio, from a financial point of view, to PMC Commercial on the basis of its experience and professional judgment after considering the results of all of its analyses. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that such analysis was given greater weight than any other analysis. No company or transaction used in the above analyses as a comparison is directly comparable to PMC Commercial, PMC Capital or the merger.

The analyses were prepared solely for purposes of U.S. Bancorp Piper Jaffray providing its opinion on March 27, 2003 to the PMC Commercial special committee that, as of such date, and based upon and subject to the assumptions, factors and limitations set forth in the written opinion, the exchange ratio set forth in the merger agreement was fair, from a financial point of view, to PMC Commercial. These analyses do not purport to be appraisals or to reflect the price at which a company might actually be sold or the prices at which any securities of PMC Commercial or PMC Capital or any other company may trade at the present time or at any time in the future. In performing its analyses, U.S. Bancorp Piper Jaffray made numerous assumptions with respect to industry performance, general business and economic conditions and other matters. The analyses performed by U.S. Bancorp Piper Jaffray are based upon forecasts of future results, which are not necessarily indicative of actual values or actual future results and may be significantly more or less favorable than suggested by such analyses. These analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors. U.S. Bancorp Piper Jaffray does not assume responsibility if future results are materially different from those forecasted.

U.S. Bancorp Piper Jaffray relied upon and assumed the accuracy, completeness and fairness of the financial statements and other information provided to it by PMC Commercial and PMC Capital or otherwise made available to U.S. Bancorp Piper Jaffray, and did not attempt to independently verify, or assume the responsibility for the independent verification, of such information. U.S. Bancorp Piper Jaffray also assumed, in reliance upon the assurances of the management of PMC Commercial and PMC Capital, respectively, that the information provided to U.S. Bancorp Piper Jaffray was prepared on a reasonable basis in accordance with industry practice and, with respect to financial planning data and other business outlook information, reflected the best currently available estimates and judgments of the management of PMC Commercial and PMC Capital, respectively, and that the management of neither PMC Commercial nor PMC Capital was aware of any information or facts that would make the information provided by such management to U.S. Bancorp Piper Jaffray incomplete or misleading. U.S. Bancorp Piper Jaffray assumed that there had been no material changes in the assets, financial condition, results of operations, business or prospects of PMC Commercial or PMC Capital since the date of the last financial statements made available to U.S. Bancorp Piper Jaffray. U.S. Bancorp Piper Jaffray also assumed that neither PMC Commercial nor PMC Capital was a party to any material pending transaction, including external financing, recapitalizations, acquisitions or merger discussions, other than the proposed merger and securitization transactions in the ordinary course of business.

U.S. Bancorp Piper Jaffray did not undertake any independent analysis of any pending or threatened litigation, material claims, possible unasserted claims or other contingent liabilities, to which either PMC Commercial, PMC Capital or any of their affiliates is a party or may be subject. U.S. Bancorp Piper Jaffray also did not undertake any independent analysis of any governmental investigation of any possible unasserted claims or other contingent liabilities to which either PMC Commercial, PMC Capital or any of their affiliates

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is a party or may be subject. At the direction of the PMC Commercial special committee, and with its consent, U.S. Bancorp Piper Jaffray s opinion made no assumption concerning, and therefore did not consider, the potential effects of such litigation, claims, investigations, or possible assertions of claims, outcomes or damages arising out of any such matters.

In arriving at its opinion, U.S. Bancorp Piper Jaffray assumed that all necessary regulatory approvals and consents required for the merger would be obtained and that no limitations, restrictions or conditions would be imposed that would have a material adverse effect on PMC Commercial, PMC Capital or the contemplated benefits to PMC Commercial of the proposed merger or will otherwise change the consideration to be paid by PMC Commercial for PMC Capital. U.S. Bancorp Piper Jaffray assumed that the merger would qualify as a reorganization under the Internal Revenue Code. In rendering its March 27, 2003 opinion that the exchange ratio of 0.37 set forth in the merger agreement was fair, from a financial point of view, to PMC Commercial, U.S. Bancorp Piper Jaffray also assumed that the final form of the merger agreement would be substantially similar to the draft merger agreement dated March 24, 2003 reviewed by U.S. Bancorp Piper Jaffray, without modification of material terms or conditions.

In arriving at its opinion, U.S. Bancorp Piper Jaffray did not perform nor was furnished any appraisals or valuations of the specific assets or liabilities of PMC Commercial or PMC Capital. U.S. Bancorp Piper Jaffray expresses no opinion regarding the liquidation value of PMC Commercial or PMC Capital. The analyses U.S. Bancorp Piper Jaffray performed in connection with its opinion were going concern analyses. U.S. Bancorp Piper Jaffray was not requested to opine, and did not render any opinion, as to whether any analysis of an entity, other than as a going concern, is appropriate in the circumstances and, accordingly, U.S. Bancorp Piper Jaffray did not perform any such analysis.

The PMC Commercial special committee did not request that U.S. Bancorp Piper Jaffray solicit, and U.S. Bancorp Piper Jaffray did not solicit, any expression of interest from any other parties with respect to any alternative transaction. U.S. Bancorp Piper Jaffray s opinion addresses solely the fairness, from a financial point of view, to PMC Commercial of the exchange ratio and does not address any other terms or agreement relating to the transaction. U.S. Bancorp Piper Jaffray s opinion does not address, nor should it be construed to address, the relative merits of the transaction with PMC Capital, on the one hand, or any alternative business strategies or alternative transactions that may be available to PMC Commercial, on the other hand. U.S. Bancorp Piper Jaffray expressed no opinion as to the prices at which common shares of PMC Commercial or shares of PMC Capital have traded or at which the shares of PMC Commercial, PMC Capital or the combined entity may trade at any future time. Except as described above, neither the PMC Commercial special committee nor any of its affiliates provided any instructions to U.S. Bancorp Piper Jaffray or placed any limitations on the scope of the investigation or analysis performed by U.S. Bancorp Piper Jaffray in rendering its opinion.

U.S. Bancorp Piper Jaffray s opinion was necessarily based upon the information available to it, the facts and circumstances known by it on the date of the opinion and the economic, market or other conditions as they existed and were subject to evaluation as of the date of the opinion. Events occurring after that date could materially affect the assumptions used in preparing the opinion. U.S. Bancorp Piper Jaffray agreed to deliver a bring-down opinion on one occasion. U.S. Bancorp Piper Jaffray has not otherwise undertaken to, and is not obligated to, update, revise or reaffirm its opinion or otherwise comment on any events occurring after the date of the opinion.

As described above, U.S. Bancorp Piper Jaffray s opinion to the PMC Commercial special committee was one of many factors taken into consideration by the PMC Commercial special committee in making its determination to recommend to the PMC Commercial board of trust managers that such board approve the merger agreement. The foregoing summary does not purport to be a complete description of the analyses performed by U.S. Bancorp Piper Jaffray in connection with the opinion and is qualified by reference to the written opinion of U.S. Bancorp Piper Jaffray set forth in Annex C.

U.S. Bancorp Piper Jaffray, as a customary part of its investment banking business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, underwritings and secondary distributions of securities, private placements and valuations for estate, corporate and other

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purposes. The PMC Commercial special committee selected U.S. Bancorp Piper Jaffray to render its fairness opinion in connection with the proposed merger on the basis of its experience and reputation in valuing securities in connection with mergers and acquisitions. The exchange ratio was determined by arm s-length negotiations between the PMC Commercial special committee and the PMC Capital special committee after consultation by each special committee with their respective financial advisors as to various matters, including preliminary ranges of value.

In the ordinary course of business, U.S. Bancorp Piper Jaffray and its affiliates may actively trade securities of PMC Commercial and PMC Capital for their own accounts or the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.

U.S. Bancorp Piper Jaffray was retained pursuant to an engagement letter dated August 27, 2002 to render a fairness opinion to the PMC Commercial special committee. Under the terms of this engagement letter, PMC Commercial paid to U.S. Bancorp Piper Jaffray a $100,000 advisory fee and $150,000 upon delivery of its opinion. U.S. Bancorp Piper Jaffray agreed to update its opinion on one occasion for no additional fee. In the event U.S. Bancorp Piper Jaffray is requested by the PMC Commercial special committee to update its opinion more than once, PMC Commercial has agreed to pay U.S. Bancorp Piper Jaffray $25,000 per updated opinion. None of these fees are contingent upon the consummation of the proposed merger. PMC Commercial has also agreed to pay U.S. Bancorp Piper Jaffray an additional advisory fee of $225,000, which is contingent upon consummation of the proposed merger. Such fees are customary amounts for transactions of this type. Whether or not the proposed merger is consummated, PMC Commercial has also agreed to reimburse U.S. Bancorp Piper Jaffray for its reasonable out-of-pocket expenses, which are not to exceed $50,000 without the consent of the PMC Commercial special committee. In addition, PMC Commercial has agreed to indemnify U.S. Bancorp Piper Jaffray against certain liabilities, including liabilities under the federal securities laws, arising out of services performed by U.S. Bancorp Piper Jaffray in rendering its opinion to the PMC Commercial special committee and acting as financial advisor to the PMC Commercial special committee.

Opinion of A.G. Edwards

Pursuant to a letter agreement dated December 6, 2002, A.G. Edwards provided to the PMC Capital special committee and the PMC Capital board of directors, financial advisory services and a fairness opinion in connection with the proposed merger. A.G. Edwards was selected by the PMC Capital special committee to act as its financial advisor and financial advisor to the PMC Capital board of directors based on A.G. Edwards qualifications, expertise and reputation. A.G. Edwards assisted the PMC Capital special committee in negotiating the significant business terms contained in the merger agreement and, at the meetings of the PMC Capital special committee and the PMC Capital board of directors on March 27, 2003, A.G. Edwards delivered its oral opinion and rendered an opinion as to the fairness of the exchange ratio of the merger, from a financial point of view, to PMC Capital s shareholders (the A.G. Edwards Opinion), as of that date, based upon and subject to the various considerations set forth in the A.G. Edwards Opinion, the exchange ratio was fair from a financial point of view to the PMC Capital shareholders. At the request of the PMC Capital special committee and board of directors, the A.G. Edwards Opinion was updated to November 10, 2003.

The full text of the A.G. Edwards Opinion which sets forth, among other things, assumptions made, procedures followed, matters considered and limitations of the scope of the review undertaken by A.G. Edwards in rendering such opinion, is attached as Annex D to this joint proxy statement/ prospectus. PMC Capital shareholders are urged to, and should, read the A.G. Edwards Opinion carefully and in its entirety. The A.G. Edwards Opinion was directed to the PMC Capital Special Committee and the PMC Capital Board and addresses only the fairness of the exchange ratio from a financial point of view as of the date of the opinion, and does not constitute a recommendation as to how any shareholder of PMC Capital should vote on any matter relating to the merger. The summary of the A.G. Edwards Opinion set forth in this joint proxy statement/ prospectus is qualified in its entirety by reference to the full text of such opinion.

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In arriving at the A.G. Edwards Opinion, A.G. Edwards, among other things:

reviewed the financial terms and conditions of the merger agreement;

analyzed certain publicly available historical business and financial information filed with the SEC and available on the SEC s website at www.sec.gov relating to PMC Capital and PMC Commercial, including but not limited to the annual reports on Form 10-K and the included audited financial statements of PMC Capital and PMC Commercial for the five years ending December 31, 2002, certain interim reports and the quarterly reports on Form 10-Q of PMC Capital and PMC Commercial for the quarters ended March 31, 2003 and June 30, 2003 and the draft of the quarterly reports on Form 10-Q of PMC Capital and PMC Commercial for the quarter ended September 30, 2003 (such draft is not publicly available);

reviewed various financial forecasts and other data provided by PMC Capital and PMC Commercial relating to their respective businesses;

held discussions with members of the senior management of PMC Capital, who are also management of PMC Commercial pursuant to an investment management agreement between PMC Capital and PMC Commercial, with respect to the business and prospects of PMC Capital and PMC Commercial, respectively, and the strategic objectives of each, including information relating to the strategic, financial and operational benefits and costs anticipated from the merger;

reviewed an original and an updated appraisal performed by a nationally recognized hospitality appraisal firm of a sample of PMC Commercial s owned hotels;

reviewed public information with respect to certain other companies in lines of businesses A.G. Edwards believes to be generally comparable to the businesses of PMC Capital and PMC Commercial;

reviewed the financial terms of certain business combinations which A.G. Edwards believes to be generally comparable to the merger;

reviewed the historical stock prices and trading volumes of PMC Capital common stock and PMC Commercial common shares; and

completed such other analyses that A.G. Edwards considered appropriate.

In preparing the A.G. Edwards Opinion, A.G. Edwards relied upon and assumed the accuracy and completeness of all financial and other information publicly available, furnished to, or otherwise discussed with A.G. Edwards including financial statements and financial projections as provided by the management of PMC Capital and PMC Commercial. A.G. Edwards was not engaged to, and therefore did not verify the accuracy or completeness of any of such information. A.G. Edwards was informed and assumed that the financial projections supplied to, discussed with or otherwise made available to it reflect the best currently available estimates and judgments of the management of PMC Capital and PMC Commercial as to the expected future financial performance of PMC Capital and PMC Commercial, in each case on a stand-alone basis and after giving effect to the merger, including, without limitation, the projected cost savings and operational synergies resulting from the merger. A.G. Edwards did not independently verify such information or assumptions, nor does it express any opinion with respect thereto. Other than as noted above, A.G. Edwards did not make any independent valuation or appraisal of the assets or liabilities of PMC Capital or PMC Commercial, nor was it furnished with any such valuations or appraisals. Further, A.G. Edwards was not engaged to and did not independently attempt to assess or value any of PMC Capital s or PMC Commercial s intangible assets (including goodwill, if any); therefore A.G. Edwards did not make any independent assumptions with respect to their application in the merger. A.G. Edwards relied upon the assurances of the management of PMC Capital and PMC Commercial that they were not aware of any facts that would make any of such information inaccurate or misleading. Except as provided above, A.G. Edwards did not receive any instructions, nor was A.G. Edwards limited by PMC Capital or its affiliates, on the scope of the investigation or analysis performed by A.G. Edwards with respect to rendering the A.G. Edwards opinion.

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In performing its analyses, A.G. Edwards made numerous assumptions with respect to the industries in which PMC Capital and PMC Commercial operate, general business and economic conditions and government regulations, which are beyond the control of PMC Capital and PMC Commercial. The analyses performed by A.G. Edwards are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as part of A.G. Edwards analysis of the fairness, from a financial point of view, to the PMC Capital shareholders, of the exchange ratio, and were provided to the PMC Capital special committee and the PMC Capital board of directors in connection with the delivery of the fairness opinion.

In rendering the A.G. Edwards Opinion, A.G. Edwards also assumed that the merger will be accounted for in accordance with generally accepted accounting principles, that the merger generally will be treated as a tax-free reorganization pursuant to the Internal Revenue Code, and that the merger will be consummated on the terms contained in the merger agreement without any waiver of any material terms or conditions by PMC Capital.

The A.G. Edwards Opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of, the date hereof. The A.G. Edwards Opinion as summarized herein, in any event, is limited to the fairness, from a financial point of view, to PMC Capital shareholders, of the exchange ratio.

The following is a summary of certain of the analyses performed by A.G. Edwards in arriving at the A.G. Edwards Opinion.

Relative Total Return Analysis

A.G. Edwards reviewed the recent total return performance of each of PMC Capital common stock and PMC Commercial common shares. A.G. Edwards compared such performance of PMC Capital with that of a group of five BDC/ RIC companies and three mortgage REIT companies (collectively, the PMC Capital Comparable Companies), weighted by equity market capitalization, and such performance of PMC Commercial with that of a group of five BDC/ RIC companies, three mortgage REIT companies and five equity REIT companies (collectively, the PMC Commercial Comparable Companies), weighted by equity market capitalization, over the period from January 1, 1998 to March 24, 2003. The following table illustrates such performances during the period:

Total Return from January 1, 1998 to March 24, 2003

PMC Capital	PMC Capital Comparable Companies	PMC Commercial	PMC Commercial Comparable Companies
(49.1%)	41.4%	27.5%	47.9%

Exchange Ratio Analysis

A.G. Edwards performed an analysis of the ratios of the closing price of PMC Capital common stock to the closing price of PMC Commercial common shares on average over various periods ended March 24, 2003 as compared to the exchange ratio. Based on the arithmetic average prices of PMC Capital and PMC Commercial shares over a range of periods, A.G. Edwards used these formulas to calculate the following implied exchange ratios:

	Implied Exchange Ratios
March 24, 2003	0.320
10 Days	0.320
30 Days	0.329
60 Days	0.344
180 Days	0.353
One Year	0.385

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Based on the closing stock prices of PMC Capital and PMC Commercial on March 24, 2003, A.G. Edwards observed that the exchange ratio represented a premium to the implied exchange ratio on that date and to the 10 day-, 30 day-, 60 day- and 180 day-periods ended on that date. A.G. Edwards also observed that the exchange ratio represented a discount to the implied exchange ratio to the one year period ended March 24, 2003.

Premium Analysis

Using the closing prices of PMC Capital common stock and PMC Commercial common shares, A.G. Edwards analyzed the exchange ratio and historical actual trading data for each of PMC Capital and PMC Commercial to derive the transaction premium or discount as of March 24, 2003, and the averages over the 10 days, 30 days, 60 days, 180 days and one year prior to March 24, 2003, for shares of PMC Capital and PMC Commercial. The results of this analysis are set forth below:

	Average Premium (Discount)
March 24, 2003	15.6%
10 Days	15.8%
30 Days	12.4%
60 Days	7.6%
180 Days	4.4%
One Year	(4.8%)

Pro Forma Contribution Analysis

A.G. Edwards analyzed the relative pro forma contribution of each of PMC Capital and PMC Commercial to the pro forma combined entity based on PMC Capital and PMC Commercial s historical results from operations and the respective companies projections:

	PMC Capital	PMC Commercial
2002 Revenues	51.0%	49.0%
2003 Revenues	49.0%	51.0%
2004 Revenues	50.6%	49.4%
2002 NOI	41.5%	58.5%
2003 NOI	39.5%	60.5%
2004 NOI	42.0%	58.0%
2002 Net Income	37.6%	62.4%
2003 Net Income(1)	44.5%	55.5%
2004 Net Income	43.8%	56.2%
Common Shareholders Equity	43.4%	56.6%
Dividend Discount Model Equity Value	41.7%	58.3%

(1) Excludes extraordinary gain to eliminate negative goodwill as a result of the merger.

A.G. Edwards also noted that PMC Capital s and PMC Commercial s relative contributions to certain non-GAAP results of operations, in particular income available for distribution and cash available for distribution (IAD/ CAD) in each of 2002, 2003 and 2004, were comparable to the GAAP results of operations noted above.

A.G. Edwards noted that, on a pro forma basis, PMC Capital shareholders would own 40.5% of the combined entity following the merger and PMC Commercial shareholders would own 59.5% of the combined entity following the merger. A.G. Edwards compared the pro forma ownership of the combined entity to each of the pro forma contributions and noted that PMC Capital contribution to the combined entity exceeded

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PMC Capital shareholders pro forma ownership of the combined entity in all instances other than relative contribution to Net Income for the year ended December 31, 2002.

Dividend Discount Model Analysis

A.G. Edwards performed a two-stage dividend discount model to analyze the present value of PMC Capital s and PMC Commercial s future dividends, in each case on a stand-alone basis, as projected by management of PMC Capital and PMC Commercial, using discount rates, reflecting the cost of equity, ranging from 15.5% to 17.5% for PMC Capital and 12.1% to 14.1% for PMC Commercial and second stage growth rates ranging from (3.0%) to 4.0% for both companies. Based on this analysis: (a) A.G. Edwards estimated the present value of the equity of PMC Capital to range from $4.52 to $4.80, which range included the March 24, 2003 closing price per share of PMC Capital common stock and was less than the implied equity share price obtained by multiplying the exchange ratio by the March 24, 2003 closing price per share of PMC Commercial common shares, and (b) A.G. Edwards estimated the present value of the equity of PMC Commercial to range from $11.17 to $12.87 per share, which range was less than the March 24, 2003 closing price of PMC Commercial common shares.

Public Company Trading Analysis

A.G. Edwards compared certain financial information of PMC Capital with that of PMC Commercial and with that of a group of five selected BDC/ RIC companies and with that of a group of three selected mortgage REIT companies. No company used in the Public Company Trading Analysis is identical to either PMC Capital or PMC Commercial. The companies included in this analysis were:

BDC/ RIC Companies:

Allied Capital Corporation

American Capital Strategies, Ltd.

MCG Capital Corporation

Gladstone Capital Corporation

Medallion Financial Corp.

Mortgage REIT Companies:

iStar Financial Inc.

Anthracite Capital, Inc.

Capstead Mortgage Corporation

Using publicly available information and market data as of March 24, 2003, A.G. Edwards calculated the following multiples:

	Equity Market Capitalization		
	2002 NOI	**2002 Earnings**	**Book Value**
PMC Capital	8.0x	8.3x	0.71x
PMC Commercial	10.2x	8.6x	0.92x
BDC/ RIC Companies			
Mean	11.7x	25.0x	1.07x
Median	10.9x	18.5x	1.24x
Mortgage REIT Companies			

Mean	7.4x	8.4x	1.49x
Median	6.8x	7.1x	1.47x

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A.G. Edwards noted that as of March 24, 2003, on a 2002 NOI multiple basis, PMC Capital traded at a discount to PMC Commercial and the BDC/ RIC companies and at a premium to the mortgage REIT companies. On a 2002 earnings multiple basis, PMC Capital traded at a discount to PMC Commercial and the BDC/ RIC companies and at a premium to the mortgage REIT companies. On a book value multiple basis, PMC Capital traded at a discount to PMC Commercial, the BDC/ RIC companies and the mortgage REIT companies.

Pro Forma Financial Analysis

A.G. Edwards analyzed the pro forma impact of the merger on PMC Capital s estimated per share NOI, net income before extraordinary item, net income, IAD/ CAD and adjusted IAD/ CAD for the years ended December 31, 2003 and 2004, assuming completion of the merger prior to January 1, 2003. This analysis was based on the projections of management of PMC Capital and PMC Commercial for the years ended December 31, 2003 and 2004. A.G. Edwards analysis indicated the following results:

	Per Share Accretion/(Dilution)	
	2003 Projected	2004 Projected
PMC Commercial NOI	(0.1%)	4.6%
PMC Capital NOI	13.6%	7.3%
PMC Commercial net income before extraordinary item to eliminate negative goodwill as a result of the merger	8.6%	7.7%
PMC Capital net income before extraordinary item to eliminate negative goodwill as a result of the merger	0.7%	2.8%
PMC Commercial net income	97.3%	7.7%
PMC Capital net income	83.0%	2.8%
PMC Capital Shareholders Equity	1.0%	0.5%
PMC Commercial Beneficiaries Equity	5.9%	6.4%

A.G. Edwards noted that the merger would be accretive on a per share basis to PMC Capital shareholders across all observed metrics in 2003 and 2004. A.G. Edwards further noted that the merger would be neutral on a per share basis to PMC Commercial shareholders with respect to 2003 projected NOI, dilutive on a per share basis to PMC Commercial shareholders with respect to 2003 projected IAD/ CAD and 2003 projected adjusted IAD/ CAD, (adjusted to exclude a PMC Capital non-recurring tax item) and accretive on a per share basis to PMC Commercial shareholders across all other observed metrics in 2003 and 2004.

Analysis of Selected Precedent Transactions

A.G. Edwards reviewed publicly available information regarding eleven completed and one announced, but not completed, transactions involving the acquisition of selected loan origination companies since January 1998. A.G. Edwards compared certain financial measures for these precedent transactions to the same financial measures for PMC Capital based on the value of PMC Capital assuming the closing price for PMC Capital common stock as of March 24, 2003 and the exchange ratio. In connection with this analysis, A.G. Edwards reviewed the following transactions:

Acquiror	Target
HSBC Holdings plc	Household International, Inc.
GE Capital Corporation	Heller Financial, Inc.
GE Capital Corporation	Franchise Finance Corporation of America
Sterling Financial Corporation	Source Capital Corporation
Tyco International	CIT Group
Allied Capital Corporation	BLC Financial Services Inc.
Medallion Financial Corp.	Freshstart Venture Capital Corp.
Bay View Capital Corporation	Franchise Mortgage Acceptance Company
CIT Group	Newcourt Credit Group Inc.
Heller Financial, Inc.	Healthcare Financial Partners
American Express Company	Rockford Industries, Inc.
Fidelity National Financial, Inc.	Granite Financial, Inc.

Using publicly available information, A.G. Edwards compared the transaction value of the selected precedent transactions as a multiple of LTM revenue and total assets and the equity value to LTM net income, LTM NOI and book value:

	Transaction Value		Equity Value		
	LTM Revenue	Total Assets	LTM Net Income	LTM NOI	Book Value
Mean	8.2x	1.2x	18.5x	12.1x	1.87x
Median	8.2x	1.0x	15.1x	11.1x	1.74x

In certain cases, the ranges for the precedent transaction multiples excluded certain multiples deemed not meaningful by A.G. Edwards due to unusual factors associated with one or more specific transaction(s). No transaction used in the Analysis of Selected Precedent Transactions is identical to the proposed merger. Because of the nature of the merger as a merger-of-equals between PMC Capital and PMC Commercial, A.G. Edwards gave lesser weight to the precedent transactions and observed multiples in its analysis.

The foregoing summary does not purport to be a complete description of all the analyses performed by A.G. Edwards in arriving at its opinion. The preparation of a fairness opinion is a complex process and is not susceptible to partial analysis or summary description. In rendering the A.G. Edwards Opinion, A.G. Edwards applied its judgment to a variety of complex analyses and assumptions, considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor considered by it. Furthermore, selecting any portion of its analyses, without considering all analyses, would create an incomplete view of the process underlying the A.G. Edwards Opinion. In addition, A.G. Edwards may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be A.G. Edwards view of the actual value of PMC Capital and PMC Commercial. In performing its analyses, A.G. Edwards made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of PMC Capital or PMC Commercial. The assumptions made and judgments applied by A.G. Edwards in rendering its opinion are not readily susceptible to description beyond that set forth in the written text of the A.G. Edwards Opinion itself. Any estimates contained in this

section are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates. A.G. Edwards does not assume responsibility if future results are different from those projected. The analyses performed were prepared solely as part of A.G. Edwards analysis of the fairness of the exchange ratio, from a financial point of view, to PMC Capital shareholders and were conducted in connection with the delivery of the A.G. Edwards Opinion. The analyses do not purport to be appraisals or to reflect the prices at which PMC Capital or PMC Commercial might actually be sold. As described above under PMC Capital Reasons for the Merger the A.G. Edwards Opinion to the PMC Capital special committee and the PMC Capital board of directors was one of many factors taken into consideration by the PMC Capital special committee and the PMC Capital board of directors in making their recommendation and determination to approve and adopt the merger agreement. Although A.G. Edwards provided advice to the PMC Capital special committee during the course of the merger negotiations, the decision to enter into the merger agreement and to accept the exchange ratio was solely that of the PMC Capital board of directors. A.G. Edwards did not recommend any specific exchange ratio to PMC Capital or that any specific exchange ratio constituted the only appropriate exchange ratio for the merger.

A.G. Edwards, as part of its investment banking business, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. A.G. Edwards is not aware of any present or contemplated relationship between A.G. Edwards, PMC Capital, PMC Capital s directors and officers or its shareholders, or PMC Commercial, which in its opinion would affect its ability to render a fair and independent opinion in this matter.

PMC Capital has agreed to pay A.G. Edwards a fee of $250,000 in connection with the issuance of its opinion, of which $150,000 has been paid and $100,000 is payable upon issuance of an updated opinion contemporaneous with the consummation of the merger. In addition, PMC Capital has agreed to pay A.G. Edwards a fee for continuing advisory assistance in connection with the merger of $25,000 per quarter, payable in advance, commencing April 1, 2003, and terminating at such time as the merger is consummated or the engagement is otherwise terminated. PMC Capital has also agreed to reimburse A.G. Edwards for reasonable out-of-pocket expenses incurred in performing its services which are not to exceed $77,500 without the consent of the PMC Capital special committee. In addition, PMC Capital has agreed to indemnify A.G. Edwards and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling A.G. Edwards or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws, related to A.G. Edwards engagement.

Interests of Certain Persons in the Merger

Members of PMC Capital s management, and the members of the PMC Commercial board of trust managers and the members of the PMC Capital board of directors, have interests in the merger that are different from or in addition to or that may conflict with the interests they share with you as PMC Commercial or PMC Capital shareholders. Currently, Lance B. Rosemore, President and Chief Executive Officer, a significant shareholder and a director of PMC Capital, Andrew S. Rosemore, Executive Vice President and Chief Operating Officer and a significant shareholder of PMC Capital, and Martha R. Greenberg, a significant shareholder and a director of PMC Capital, all currently serve as trust managers of PMC Commercial and are all children of Fredric M. Rosemore, Chairman of the Board of PMC Capital. Each of the current trust managers of PMC Commercial will remain trust managers of the combined entity following the merger. In addition, certain directors of PMC Capital will become trust managers of PMC Commercial following the merger. All current executive officers of PMC Capital will become employees of PMC Commercial following the merger.

As of November 7, 2003, trust managers and officers of PMC Commercial beneficially owned in the aggregate 580,992 shares of PMC Commercial, representing 9.0% of the outstanding PMC Commercial common shares. As of November 7, 2003, directors and officers of PMC Capital beneficially owned in the aggregate 2,503,246 shares of PMC Capital common stock, representing 21.1% of the outstanding shares.

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Upon completion of the merger, trust managers and officers of PMC Commercial will beneficially own in the aggregate approximately 1,523,473 common shares of PMC Commercial, representing 14.1% of the outstanding shares. The PMC Commercial and PMC Capital boards of trust managers and directors were aware of these different interests and considered them, among other matters, in approving the merger agreement and the merger.

Equity Compensation Plans

The merger agreement provides that, upon the completion of the merger, each outstanding and unexercised stock option to purchase shares of PMC Capital common stock granted under The PMC Capital Option Plan, will be converted into an option to acquire common shares of PMC Commercial. Appropriate adjustments will be made to the exercise price of, and number of shares subject to, each stock option, in accordance with the exchange ratios. Following completion of the merger, PMC Commercial plans to continue granting equity-based awards.

Listing of PMC Commercial Common Shares

It is a condition to the completion of the merger that PMC Commercial common shares issuable to PMC Capital shareholders pursuant to the merger agreement be approved for listing on the American Stock Exchange.

Transfer Agent and Registrar

The American Stock Transfer & Trust Company is the transfer agent and registrar for PMC Commercial common shares as of the date of this joint proxy statement/ prospectus. The American Stock Transfer & Trust Company will continue to be the transfer agent and registrar for PMC Commercial common shares following completion of the merger.

Dividends and Distributions

The most recent quarterly dividend declared by PMC Capital was $0.12 per share of PMC Capital common stock payable on October 14, 2003 to PMC Capital shareholders of record as of September 30, 2003. The most recent quarterly dividend declared by PMC Commercial was $0.38 per common share payable on October 14, 2003 to PMC Commercial shareholders of record on September 30, 2003.

Under the merger agreement, (1) PMC Commercial is permitted, but not obligated, to pay distributions to shareholders of regular quarterly dividends up to $0.40 per PMC Commercial common share and (2) if PMC Capital is required to make a special distribution prior to completion of the merger, PMC Commercial is permitted and intends to make a similar distribution to its shareholders adjusted by the exchange ratio prior to completion of the merger. Under the merger agreement, (1) PMC Capital is permitted, but not obligated, to pay distributions to its shareholders of regular quarterly dividends up to $0.12 per share of PMC Capital common stock and (2) PMC Capital is obligated to make sufficient distributions to cause PMC Capital to distribute 100% of its taxable income for the taxable year ending on the closing date of the merger.

In order to qualify as a REIT for U.S. Federal income tax purposes, PMC Commercial must distribute to its shareholders annually at least 90% of its taxable income, excluding the retained earnings of its taxable REIT subsidiaries and its net capital gain. It is anticipated that, after the completion of the merger, PMC Commercial will maintain its existing dividend policy. The payment of dividends by PMC Commercial, however, will be subject to approval and declaration by the PMC Commercial board of trust managers, and will depend on a variety of factors, including business, financial and regulatory considerations.

Material U.S. Federal Income Tax Consequences of the Merger

The following general discussion summarizes the anticipated material U.S. Federal income tax consequences of the merger to holders of shares of PMC Capital common stock that exchange their shares for PMC Commercial common shares in the merger. This discussion addresses only those PMC Capital shareholders

that hold their shares as a capital asset, and does not address all the U.S. Federal income tax consequences that may be relevant to particular PMC Capital shareholders in light of their individual circumstances or to PMC Capital shareholders that are subject to special rules, such as:

financial institutions;

mutual funds;

tax-exempt organizations;

insurance companies;

dealers in securities or foreign currencies;

traders in securities that elect to apply a mark-to-market method of accounting;

foreign holders;

persons that hold their shares as a hedge against currency risk or as part of a straddle, constructive sale or conversion transaction; or

holders that acquired their shares upon the exercise of stock options or otherwise as compensation.

The following discussion is not binding on the Internal Revenue Service (IRS). It is based upon the Internal Revenue Code, laws, regulations, rulings and decisions in effect as of the date of this joint proxy statement/ prospectus, all of which are subject to change, possibly with retroactive effect. Tax consequences under state, local and foreign laws, and U.S. federal laws other than U.S. Federal income tax laws, are not addressed.

Holders of PMC Capital common stock are strongly urged to consult their tax advisors as to the specific tax consequences to them of the merger, including the applicability and effect of U.S. Federal, state and local and foreign income and other tax laws in their particular circumstances.

The parties have structured the merger so that it is anticipated that the merger will be a reorganization for U.S. Federal income tax purposes. It is a condition to the completion of the merger that PMC Commercial receive an opinion from Locke Liddell & Sapp and PMC Capital receive an opinion of Sutherland, in each case dated the closing date of the merger, to the effect that the merger of PMC Capital with and into PMC Commercial will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The opinions will be based on customary assumptions and customary representations made by, among others, PMC Capital and PMC Commercial. An opinion of counsel represents counsel s best legal judgment and is not binding on the IRS or any court. No ruling has been, or will be, sought from the IRS as to the U.S. Federal income tax consequences of the merger. If any of the factual assumptions or representations relied upon in the opinions of counsel are inaccurate, the opinions may not accurately describe the tax treatment of the merger, and this discussion may not accurately describe the tax consequences of the merger.

Assuming that the merger qualifies as a reorganization, holders of shares of PMC Capital common stock that exchange their shares for PMC Commercial common shares in the merger will not recognize gain or loss for U.S. Federal income tax purposes (except with respect to any cash received by holders of shares of PMC Capital common stock instead of a fractional PMC Commercial common share). Each holder s aggregate tax basis in PMC Commercial common shares received in the merger will be the same as that holder s aggregate tax basis in PMC Capital common stock surrendered in the merger in exchange therefor, decreased by the amount of any tax basis allocable to any fractional share interest for which cash is received. The holding period of the PMC Commercial common shares received in the merger by a holder of PMC Capital common stock will include the holding period of PMC Capital common stock that the holder surrendered in the merger in exchange therefor. Neither PMC Commercial nor PMC Capital will recognize gain or loss solely as a result of the merger.

A holder of PMC Capital common stock that receives cash in lieu of a fractional share of PMC Capital common stock will recognize gain or loss equal to the difference between the amount of cash received and that holder s tax basis in PMC Capital common stock that is allocable to the fractional share of PMC Capital

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common stock. That gain or loss generally will constitute capital gain or loss. In the case of an individual shareholder, any capital gain generally will be long-term capital gain, subject to tax at a maximum rate of 15%, if the individual has held his or her PMC Capital common stock for more than one year on the closing date of the merger. The deductibility of capital losses is subject to limitations for both individuals and corporations.

A successful IRS challenge to the reorganization status of the merger would result in a holder of PMC Capital common stock recognizing gain or loss with respect to each share of PMC Capital common stock surrendered equal to the difference between the shareholder s basis in such share and the fair market value, as of the effective time, of the PMC Commercial common shares received in exchange therefor. In that case, a shareholder s aggregate basis in the PMC Commercial common shares so received would equal such fair market value and his or her holding period for such stock would begin the day after the merger.

Holders of PMC Capital common stock will be required to attach a statement to their tax returns for the year of the merger that contains the information listed in Treasury Regulation Section 1.368-3(b). Such statement must include the shareholder s tax basis in the shareholder s PMC Capital common stock and a description of the PMC Commercial common shares received.

Payments to holders of PMC Capital common stock in connection with the merger may be subject to backup withholding at a rate of 28%, unless a holder (1) provides a correct taxpayer identification number (which, for an individual shareholder, is the shareholder s social security number) and any other required information to the exchange agent, or (2) is a corporation or comes within certain exempt categories and, when required, demonstrates that fact and otherwise complies with applicable requirements of the backup withholding rules. A PMC Capital shareholder who does not provide a correct taxpayer identification number may be subject to penalties imposed by the IRS. Any amount paid as backup withholding does not constitute an additional tax and will be creditable against the shareholder s U.S. Federal income tax liability.

Accounting Treatment

The merger will be accounted for as a purchase of PMC Capital by PMC Commercial in accordance with SFAS No. 141, Business Combinations (SFAS No. 141). In accordance with the purchase method of accounting, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired, if any, is first allocated to any intangible assets that can be separately recognized (as described in more detail in SFAS No. 141) and then to goodwill. If the estimated fair value of the net assets acquired may be greater than the purchase price, that excess is first allocated as a pro rata reduction to certain acquired assets that otherwise would have been assigned values in accordance with SFAS No. 141 and the remaining excess, if any, will be recognized as an extraordinary gain in the period the merger is completed.

In connection with the merger of PMC Capital and PMC Commercial, the estimated fair value of the net assets acquired may be greater than the purchase price. Accordingly, the excess will be allocated to reduce PMC Capital s property and equipment and deferred charges, deposits and certain other assets to zero and the remainder will be recorded as an extraordinary gain for accounting purposes. Based on the Company s preliminary purchase price allocation as of June 30, 2003, an extraordinary gain in the amount of approximately $14 million will be recorded by PMC Commercial in the period the merger is completed. See Unaudited Pro Forma Consolidated Financial Information.

Regulatory Approvals Required to Complete the Merger

Certain regulatory requirements imposed by U.S. regulatory authorities, including the SBA, must be complied with before the merger is completed. PMC Commercial and PMC Capital are not aware of any material governmental consents or approvals that are required prior to the completion of the merger other than those described below. PMC Commercial and PMC Capital have agreed that, if any additional governmental consents and approvals are required, PMC Commercial and PMC Capital each will use commercially reasonable efforts to obtain these consents and approvals.

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SBA regulations require the prior written consent of the SBA to the extent a change of control will occur. Certain subsidiaries of PMC Capital are subject to SBA regulation, and to the extent required, will seek the consent of the SBA. There can be no assurance that the SBA consent will be received or that it will contain requirements and conditions that are acceptable to PMC Commercial and PMC Capital.

In addition, the merger is contingent upon the SEC granting certain exemptive relief under the 1940 Act that will be requested in an application to be submitted to the SEC (the Application). In the Application, PMC Capital, PMC Commercial, PMC Advisers, Ltd., PMCIC, Western Financial, and First Western, which are affiliated parties, request an order (the Order) from the SEC permitting these entities to engage in a series of transactions that will result in the merger.

The exemptive relief requested in the Application is expected to be granted only after the solicitation of proxies from the stockholders of PMC Capital and PMC Commercial has begun. However, the board of trust managers of PMC Commercial and the board of directors of PMC Capital expect that the relief requested will be granted. The SEC previously has granted relief to permit mergers that are similar to the proposed merger, and although there can be no assurance that such relief will be granted in this case, there is no indication that they will decline to grant such relief.

The merger is also subject to the approval of or notice to certain state and self-regulating authorities. PMC Commercial and PMC Capital conduct operations in a number of jurisdictions where other regulatory filings or approvals may be required or advisable in connection with the completion of the merger. Under the merger agreement, PMC Commercial and PMC Capital are required to obtain these approvals prior to completing the merger, unless the failure to obtain the approvals would not have a material adverse effect on PMC Capital and PMC Commercial after completion of the merger. PMC Commercial and PMC Capital are currently reviewing whether filings or approvals may be required or advisable in those jurisdictions that may be material to PMC Commercial and PMC Capital and have made or will make regulatory filings in those jurisdictions.

It is possible that any of the regulatory authorities with which filings are made may seek regulatory concessions as conditions for granting approval of the merger. Under the merger agreement, each of PMC Commercial and PMC Capital agreed to use its commercially reasonable efforts to complete the merger, including to obtain other required approvals. However, neither PMC Commercial nor PMC Capital nor any of their respective subsidiaries is required to hold separate or divest any of their businesses or assets, or to take, or to agree to take, any action or agree to any limitation that could reasonably be expected to have a material adverse effect on their respective companies after giving effect to the merger or to impair substantially the benefits that PMC Commercial and PMC Capital expected to realize from the merger at the time they entered into the merger agreement.

Although PMC Commercial and PMC Capital do not expect regulatory authorities to raise any significant objections in connection with their review of the merger, PMC Commercial and PMC Capital cannot assure you that they will obtain all required regulatory approvals or that these regulatory approvals will not contain terms, conditions or restrictions that would be detrimental to PMC Capital and PMC Commercial after the completion of the merger.

Dissenters Rights

Under Texas and Florida law, neither PMC Commercial shareholders, nor PMC Capital shareholders will have any dissenters rights as a result of the merger or any other proposal to be voted upon at the annual meetings.

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Resale of PMC Commercial Common Shares

The PMC Commercial common shares issued in the merger will not be subject to any restrictions on transfer arising under the Securities Act, except for shares of the PMC Commercial common shares issued to any PMC Capital shareholder that is, or is expected to be, an affiliate of PMC Capital, as applicable, for purposes of Rule 145 under the Securities Act. Persons that may be deemed to be affiliates of PMC Capital for those purposes generally include individuals or entities that control, are controlled by, or are under common control with, PMC Capital, and include the directors of PMC Capital. PMC Commercial common shares issued to an affiliate generally must be sold in compliance with all of the requirements of Rule 145, or pursuant to another exemption from registration under the Securities Act. Rule 145 restricts the sale of PMC Commercial common shares received in the merger by such affiliates of PMC Capital and certain of the family members and related entities.

This joint proxy statement/ prospectus does not cover resales of the PMC Commercial common shares received by any person upon completion of the merger, and no person is authorized to make any use of this joint proxy statement/ prospectus in connection with any resale.

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DESCRIPTION OF THE MERGER AGREEMENT

The following summary, which includes all of the material terms of the merger agreement, is qualified by reference to the complete text of the merger agreement, which is attached as Annex A to this joint proxy statement/ prospectus and is incorporated by reference in this joint proxy statement/ prospectus.

Structure of the Merger

Subject to the terms and conditions of the merger agreement, PMC Capital will be merged with and into PMC Commercial and the separate corporate existence of PMC Capital will cease. PMC Commercial will be the surviving entity and will succeed to and assume all of the rights and obligations of PMC Capital.

Closing; Completion of the Merger

The completion of the merger, if approved, will occur no later than the second business day after the satisfaction or waiver of the conditions set forth in the merger agreement or at another date or time as may be agreed to in writing by PMC Commercial and PMC Capital. If the merger agreement is approved at the annual meetings, PMC Commercial and PMC Capital expect to complete the merger during the first quarter of 2004, but in no event later than February 29, 2004.

Merger Consideration

If the merger is completed, holders of shares of PMC Capital common stock will receive, for each share of PMC Capital common stock issued and outstanding immediately before completion of the merger at the time of completion of the merger, 0.37 shares of common stock and cash in lieu of fractional shares.

Holders of shares of PMC Capital common stock will not receive certificates representing fractional shares of PMC Commercial. Instead, each PMC Capital common shareholder otherwise entitled to a fractional share interest in PMC Commercial will be paid an amount in cash equal to the holder s proportionate interest in the net proceeds from the sale or sales in the open market by the exchange agent, on behalf of all those holders, of the aggregate fractional shares of common beneficial interest in PMC Commercial that would have otherwise been issued.

After the effective time of the merger, there will be no further registration of transfers on the stock transfer books of PMC Capital or its transfer agent of the PMC Capital common shares that were outstanding immediately prior to the effective time of the merger. Upon completion of the merger, the outstanding shares of PMC Capital common stock will evidence only the right to receive the merger consideration, and shares of PMC Capital will be cancelled and will cease to exist.

Exchange of PMC Capital Stock Certificates for PMC Commercial Share Certificates

PMC Commercial and PMC Capital have appointed The American Stock Transfer & Trust Company to act as exchange agent for the purpose of paying the merger consideration in the merger. PMC Commercial will make available to the exchange agent, upon or before the completion of the merger, PMC Commercial common shares for that purpose.

As soon as practicable after the completion of the merger, the exchange agent will mail to each holder of record of outstanding PMC Capital common stock, a letter of transmittal describing (1) the merger consideration to be issued to the holder and (2) the procedures for surrendering stock certificates in exchange for new certificates representing PMC Commercial common shares. Following completion of the merger, PMC Commercial will not make any distributions to any holder of record of PMC Capital common stock until such holder surrenders such holder s stock certificates in exchange for new certificates representing PMC Commercial common shares.

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Treatment of PMC Capital Stock Options

Upon completion of the merger, each outstanding and unexercised option to purchase PMC Capital common stock will be automatically converted into an option to purchase PMC Commercial common shares. The substituted PMC Commercial share option will permit its holder to purchase a number of PMC Commercial common shares equal to the number of shares of PMC Capital common stock that could have been purchased under the corresponding PMC Capital stock option multiplied by 0.37 (rounded down to the nearest whole share). The exercise price per share of PMC Commercial common shares of the substituted option will be equal to the per-share option exercise price specified in the PMC Capital stock option divided by 0.37 (rounded up to the nearest whole cent).

Board of Trust Managers and Officers of PMC Commercial

The trust managers of PMC Commercial immediately following completion of the merger will consist of the following current members of the PMC Commercial and PMC Capital boards of trust managers or directors, as the case may be: Nathan G. Cohen, Martha R. Greenberg, Roy H. Greenberg, Thomas Hamill, Barry A. Imber, Irving Munn, Andrew S. Rosemore, Fredric M. Rosemore, Lance B. Rosemore, Theodore J. Samuel and Ira Silver. Each of these individuals will hold office until the earlier of the trust manager s resignation or removal or until a successor is duly elected and qualified, as the case may be. The officers of PMC Commercial immediately prior to the completion of the merger will be the initial officers of PMC Commercial following completion of the merger, each to hold office until the earlier of the officer s resignation or removal or until a successor is duly elected and qualified, as the case may be.

Representations and Warranties of PMC Capital and PMC Commercial

The merger agreement contains customary representations and warranties by each of PMC Capital and PMC Commercial relating to, among other things:

- due organization, valid existence and, with respect to PMC Capital, good standing;
- authorization to enter into the merger agreement and required shareholder approvals to complete the merger;
- enforceability of the merger agreement;
- compliance with SEC reporting requirements;
- required governmental consents;
- no breach of organizational documents or material agreements as a result of the merger agreement or the completion of the merger;
- receipt of opinion of financial advisors;
- payment of fees of brokers, finders and investment bankers;
- accuracy of information contained in the documents to be filed with the SEC;
- capital structure and subsidiaries;
- absence of defaults under certain contracts;
- exemption from anti-takeover statutes;
- tax matters (including qualification as a REIT for PMC Commercial and qualification as a RIC for PMC Capital);

permits and licenses;

compliance with laws;

no changes since December 31, 2002 that would have a material adverse effect;

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- no material legal proceedings;
- environmental matters;
- ownership of real property;
- disclosure of related party transactions; and
- no material undisclosed liabilities.

The merger agreement also contains additional customary representations and warranties made by PMC Capital relating to, among other things: employee matters, including appropriate funding of employee benefit plans, compliance with applicable regulations and no payments to employees, officers or directors on a change of control.

Conduct of Business of PMC Capital and PMC Commercial Pending the Merger

Under the merger agreement, each of PMC Capital and PMC Commercial has agreed that, during the period before the completion of the merger, except as expressly contemplated by the merger agreement, it will, and will cause (or in the case of subsidiaries that PMC Capital or PMC Commercial, as applicable, does not control, will use commercially reasonable efforts to cause) its subsidiaries to:

- conduct its operations only in the ordinary course of business consistent with past practice; and
- seek to preserve intact its current business organizations, goodwill and ongoing businesses.

In addition, pending the merger, each of PMC Capital and PMC Commercial has agreed that, without the other party s written consent or except as otherwise expressly contemplated by the merger agreement, it will not, and will cause (or in the case of subsidiaries that PMC Capital or PMC Commercial, as applicable, does not control, will use commercially reasonable efforts to cause) its subsidiaries not to, among other things:

- amend its organizational documents;
- except as required pursuant to the exercise of options or the issuance of shares pursuant to share rights or warrants outstanding on the date of the merger agreement, issue, deliver or sell or grant any option or other right in respect of, any capital shares, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities except to itself or one of its subsidiaries;
- split, combine or reclassify any of its shares or partnership interests or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for such shares or partnership interests or purchase, redeem or otherwise acquire any of its shares or options, warrants or rights to acquire, or security convertible into, such shares;
- declare, set aside or pay any dividend or make any other distribution in respect of its capital stock, except that PMC Capital may make distributions equal to (1) PMC Capital s regular quarterly dividends not in excess of $0.12 per share of PMC Capital common stock in each case with the same record and payment dates as the record and payment dates relating to dividends on the PMC Commercial common shares during such calendar quarters, and (2) such distributions as may be required to cause PMC Capital to eliminate any federal tax liability for its taxable year ending on the closing date of the merger;
- declare, set aside or pay any dividend or make any other distribution in respect of its shares, except that PMC Commercial may make distributions equal to (1) PMC Commercial s regular quarterly dividends not in excess of $0.40 per share of PMC Commercial common shares, and (2) in the event that PMC Capital declares a final dividend to eliminate any U.S. Federal income tax liability for its taxable year ending on the closing date of the merger, PMC Commercial will declare a dividend per common share in an amount per share equal to the quotient obtained by dividing (a) the final dividend per share to be paid by PMC Capital by (b) 0.37, the merger exchange ratio;

take any action, or omit to take any action, which action or omission would result in PMC Capital no longer qualifying as a RIC or PMC Commercial no longer qualifying as a REIT or would subject PMC Capital or PMC Commercial to any U.S. Federal income or excise tax;

sell or otherwise dispose of any asset or property except in the ordinary course of business consistent with past practice;

amend any material contract, instrument or other agreement;

acquire any assets other than in the ordinary course of business or merge or consolidate with any person;

incur in any transaction or series of related transactions, any liabilities in excess of $5,000,000;

settle any shareholder derivative or class action claims arising out of or in connection with the merger or transactions contemplated by the merger agreement; or

adopt any new employee benefit plan, incentive plan, severance plan, stock option or similar plan, grant new stock appreciation rights or amend any existing plans or rights, except such changes as are required by law or which are not more favorable to participants than provisions presently in effect.

Additional Covenants Pending Completion of the Merger

Each of PMC Capital and PMC Commercial has agreed that it will, among other things:

use commercially reasonable efforts to cause the completion of the merger;

take all necessary actions in case at any time after the completion of the merger any further action is necessary to carry out the purposes of the merger agreement;

use commercially reasonable efforts to obtain in writing any consents required from third parties necessary to effectuate the merger and take, or cause to be taken, all other action and do, or cause to be done, all other things necessary, proper or appropriate to consummate and make effective the transactions contemplated by the merger agreement;

cooperate with each other with respect to determining what filings are required and what consents, approvals and authorizations of regulatory authorities and other third parties are necessary or advisable to consummate the transactions contemplated by the merger agreement and timely making all such filings and seeking such consents, approvals and authorizations;

consult with each other and give each other reasonable advance notice and opportunity to review and comment upon any press release or other public statements with respect to the transactions contemplated by the merger agreement;

cooperate in the prompt preparation and the filing with the SEC of the registration statement on Form S-4 of which this joint proxy statement/ prospectus forms a part;

take all actions necessary in accordance with applicable law and its articles of incorporation and bylaws to convene a meeting of its shareholders as promptly as practicable to consider and vote upon the transactions contemplated by the merger agreement;

use reasonable best efforts to cause the merger to qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code;

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PMC Commercial will take all actions necessary to increase the number of trust managers of PMC Commercial from seven trust managers to eleven trust managers; and

promptly advise the other party if (1) any of its representations or warranties contained in the merger agreement that is qualified as to materiality becomes untrue or inaccurate in any respect or any representation or warranty that is not so qualified becomes untrue or inaccurate in any material respect or (2) its failure to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under the merger agreement.

PMC Capital has agreed further that it will, among other things: include in this joint proxy statement/ prospectus the recommendation of the PMC Capital board of directors that PMC Capital shareholders approve the merger agreement and the transactions contemplated by the merger agreement, provided that the recommendation of PMC Capital s board of directors may be withdrawn if the board of directors has accepted a proposal for a superior competing transaction (as discussed below).

PMC Commercial has agreed further that it will, among other things:

include in this joint proxy statement/ prospectus the recommendation of the PMC Commercial board of trust managers that PMC Commercial shareholders approve the merger agreement and the transactions contemplated by the merger agreement, provided that the recommendation of PMC Commercial s board of trust managers may be withdrawn if the board of trust managers has accepted a proposal for a superior competing transaction (as discussed below);

declare and pay to its shareholders any dividend in an amount sufficient to comply with Section 857(a)(2) of the Internal Revenue Code for its 2003 taxable year;

take all actions necessary and appropriate to complete the merger, including, causing the PMC Commercial shares to be issued in the merger to be approved for listing on the American Stock Exchange; and

assume the bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, medical and other employee benefit plans of PMC Capital.

Pre-Merger Dividends

Under the merger agreement, (1) PMC Capital is permitted to pay its regular quarterly dividends not in excess of $0.12 per share of PMC Capital common stock, and (2) PMC Capital is obligated to make sufficient distributions to eliminate any U.S. Federal income tax liability for its taxable year ending on the closing date of the merger. On September 10, 2003, PMC Capital declared a quarterly dividend of $0.12 per share of PMC Capital common stock payable on October 14, 2003 to PMC Capital shareholders of record as of September 30, 2003. PMC Capital expects to continue to pay regular quarterly dividends for additional quarterly periods ending before the completion of the merger.

Under the merger agreement, (1) PMC Commercial is permitted to make its regular quarterly distributions not in excess of $0.40 per share of PMC Commercial common shares, and (2) in the event that PMC Capital declares a final dividend to eliminate any federal tax liability for its taxable year ending on the closing date of the merger, PMC Commercial is permitted and intends to declare a dividend per common share in an amount per share equal to the quotient obtained by dividing (a) the final dividend per share to be paid by PMC Capital by (b) 0.37, the merger exchange ratio. On September 9, 2003, PMC Commercial declared a quarterly dividend of $0.38 per PMC Commercial common share payable on October 14, 2003 to PMC Commercial shareholders of record as of September 30, 2003. PMC Commercial expects to continue to pay regular quarterly dividends for additional quarterly periods ending before the completion of the merger.

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Conditions to the Merger

Conditions to Each Party s Obligations to Effect the Merger

The obligations of PMC Capital and PMC Commercial to complete the merger are subject to the satisfaction or, where permissible, waiver of the following conditions:

- approval of the merger agreement by PMC Capital shareholders and PMC Commercial shareholders;
- each of PMC Capital and PMC Commercial will have received an opinion from Locke Liddell & Sapp, dated the closing date of the merger, (1) relating to the REIT status of PMC Commercial for all taxable years of PMC Commercial for which the U.S. Federal income tax statutory periods of limitations have not expired, and (2) that the merger will qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code;
- the registration statement on Form S-4 of which this joint proxy statement/ prospectus forms a part will have become effective and will not be the subject of any stop order or proceedings by the SEC seeking a stop order;
- the American Stock Exchange will have approved for listing the shares of PMC Commercial to be issued in the merger;
- the PMC Capital voting agreement and the PMC Commercial voting agreement will remain in full force and effect and the respective transactions contemplated thereby will have been consummated prior to, or are being consummated simultaneously with, the merger;
- all approvals, consents and authorizations of, filings and registrations with, and applications and notifications to all third parties and regulatory authorities required for the completion of the merger will have been obtained or made and will be in full force and effect and all waiting periods required by applicable law will have expired; and
- no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the merger or any of the other transactions shall be in effect.

As used in the merger agreement, material adverse effect, when used in reference to PMC Capital or PMC Commercial, means any change or effect that, individually or in the aggregate, would have a material adverse effect on the business, properties, assets, financial condition or results of operations of PMC Capital or PMC Commercial, as the case may be, and its subsidiaries taken as a whole, but excluding therefrom any such change, effect, event, occurrence or state of facts resulting from or arising in connection with (a) changes or conditions generally affecting the industries in which PMC Capital or PMC Commercial, as the case may be, operates, (b) the merger agreement, the transactions contemplated thereby or the announcement thereof or (c) any change or effect resulting from any change in general economic conditions.

Conditions to the Obligations of PMC Capital to Effect the Merger

The obligations of PMC Capital to complete the merger are subject to the satisfaction or, where permissible, waiver of the following conditions:

- material accuracy of the representations and warranties of PMC Commercial contained in the merger agreement. This condition will be deemed satisfied unless any or all breaches of PMC Commercial s representations and warranties in the merger agreement (without giving effect to any materiality qualification or limitation) is reasonably expected to have a material adverse effect on PMC Commercial;
- PMC Commercial shall have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the effective time of the merger, and PMC Capital shall have received a certificate of PMC Commercial signed on behalf of PMC Commercial by the chief executive officer or chief financial officer of PMC Commercial to such effect;

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since the date of the merger agreement, there shall have been no change that would have a material adverse effect on PMC Commercial, and PMC Capital shall have received a certificate of PMC Commercial signed on behalf of PMC Commercial by the chief executive officer or chief financial officer of PMC Commercial to such effect; and

all consents and waivers (including, without limitation, waivers or rights of first refusal) from third parties necessary in connection with the consummation of the merger and related transactions shall have been obtained, other than such consents and waivers from third parties, which, if not obtained, would not have a material adverse effect on PMC Commercial.

Conditions to the Obligations of PMC Commercial to Effect the Merger

The obligations of PMC Commercial to complete the merger are subject to the satisfaction or, where permissible, waiver of the following conditions:

material accuracy of the representations and warranties of PMC Capital contained in the merger agreement. This condition shall be deemed satisfied unless any or all breaches of PMC Capital s representations and warranties in the merger agreement (without giving effect to any materiality qualification or limitation) is reasonably expected to have a material adverse effect on PMC Capital;

PMC Capital shall have performed in all material respects all obligations required to be performed by it under the merger agreement at or prior to the effective time of the merger, and PMC Commercial shall have received a certificate of PMC Capital signed on behalf of PMC Capital by the chief executive officer or chief financial officer of PMC Capital to such effect;

since the date of the merger agreement, there shall have been no change that would have a material adverse effect on PMC Capital, and PMC Commercial shall have received a certificate of PMC Capital signed on behalf of PMC Capital by the chief executive officer or chief financial officer of PMC Capital to such effect;

PMC Commercial shall have received an opinion of Sutherland, dated as of the closing date of the merger, as to the RIC status of PMC Capital for all taxable years of PMC Capital for which the applicable U.S. Federal income tax statutory periods of limitations have not expired; and

all consents and waivers from third parties necessary in connection with the consummation of the merger transactions shall have been obtained, other than such consents and waivers from third parties, which, if not obtained, would not result, individually or in the aggregate, in a material adverse effect on PMC Capital.

No Solicitation by PMC Capital or PMC Commercial

Each of PMC Capital and PMC Commercial has agreed that, except as described below, it will not, and will use its commercially reasonable efforts to cause its officers, directors, employees, affiliates, agents and representatives not to, initiate, solicit or encourage (including by way of furnishing non-public information or assistance) any inquiries or the making of any proposal that constitutes, or may reasonably be expected to lead to any competing transaction. PMC Capital and PMC Commercial have each agreed to immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties previously conducted with respect to any competing transaction and have agreed to take the steps necessary to inform such parties of the obligations undertaken under the merger agreement in respect of any competing transaction. PMC Capital and PMC Commercial have each agreed to notify the other in writing (as promptly as practicable) if it receives any inquiries, proposals or requests for information relating to such matters.

For purposes of the merger agreement, a competing transaction means any of the following (other than the transactions contemplated by the merger agreement) with respect to PMC Capital or PMC Commercial, as applicable, or any of its material subsidiaries:

any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 20% or more of the assets or equity securities in a single transaction or series of related transactions other than pursuant to the joint

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- structured loan sale transaction PMC Capital and PMC Commercial propose to complete during the third quarter of 2003;
- any tender offer or exchange offer for 20% or more of the outstanding shares of its capital stock or shares;
- any transaction resulting in the issuance of shares representing 20% or more of its outstanding capital stock or shares, or the filing of a registration statement under the Securities Act in connection with the proposed transaction; or
- any public announcements of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

However, to the extent required by the fiduciary obligations of its board of directors or board of trust managers, as applicable, as determined in good faith after consultation with its outside legal counsel and financial advisors, PMC Capital or PMC Commercial, or its board of directors or board of trust managers, as applicable, may:

- take and disclose to its shareholders, a position complying with Rule 14e-2(a) promulgated under the Exchange Act with respect to a competing transaction;
- make any disclosure to its shareholders, if, in the opinion of its board of directors or its board of trust managers, as applicable, after receiving advice of outside legal counsel, such disclosure is required to be made under applicable law;
- in response to an unsolicited request, participate in discussions or negotiations with, or furnish information to a third party pursuant to a confidentiality agreement with the third party on terms not materially less favorable to it than the terms of the confidentiality provisions contained in the merger agreement (as determined by outside counsel) or otherwise respond to or deal with any person in connection with a competing transaction proposed by such person; and
- approve or recommend (and in connection therewith withdraw or modify its approval or recommendation of the merger agreement or the merger) a superior competing transaction (as defined below) and enter into an agreement with respect to such superior competing transaction.

For purposes of the merger agreement, a superior competing transaction means, with respect to PMC Capital or PMC Commercial, any bona fide proposal relating to a competing transaction made by a third party which has not been solicited or initiated by PMC Capital or PMC Commercial, as applicable, that is on terms which its board of directors or its board of trust managers, as applicable, determines, in its good faith judgment, (1) to be more favorable to its shareholders from a financial point of view than the merger and (2) is reasonably capable of being consummated.

However, prior to or concurrently with the execution of any agreement relating to a superior competing transaction, PMC Capital or PMC Commercial, as applicable, must terminate the merger agreement under the terms of the merger agreement and pay, or cause to be paid, to the other party the termination fee discussed under Expenses; Termination Fees.

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Termination of the Merger Agreement

Right to Terminate

The merger agreement may be terminated at any time before completion of the merger, whether before or after approval of the merger agreement and the merger by PMC Capital shareholders or PMC Commercial shareholders, as follows:

- by mutual written consent of PMC Capital and PMC Commercial;
- by either PMC Capital or PMC Commercial if:
  - any regulatory authority of competent jurisdiction issues a judgment, injunction, order, decree, or action permanently restraining, enjoining or otherwise prohibiting the merger, and the judgment, injunction, order, decree or other action becomes final and nonappealable;
  - the merger is not completed prior to February 29, 2004, except that neither PMC Capital nor PMC Commercial may terminate the merger agreement if its willful and material breach is the reason that the merger has not been completed; or
  - the required approval of the merger agreement by PMC Capital shareholders or PMC Commercial shareholders is not obtained at the applicable special meeting.
- by PMC Capital:
  - if, prior to the PMC Capital shareholders meeting, the PMC Capital board of directors has withdrawn or modified in any manner adverse to PMC Commercial its approval or recommendation of the merger or the merger agreement in connection with, or approved or recommended, a superior competing transaction and PMC Capital has paid to PMC Commercial the termination fee discussed under Expenses; Termination Fees PMC Capital Termination Fee;
  - if, prior to the PMC Commercial shareholders meeting, the PMC Commercial board of trust managers has withdrawn or modified in any manner adverse to PMC Commercial its approval or recommendation of the merger or the merger agreement in connection with, or approved or recommended, a superior competing transaction or PMC Commercial shall have entered into a definitive agreement with respect to any competing transaction; or
  - upon a violation or breach by PMC Commercial of any agreement, covenant, representation or warranty or if any representation or warranty of PMC Commercial shall have become untrue, in either case so that the conditions to the completion of the merger would be incapable of being satisfied by the closing date and such violation or breach has not been waived by PMC Capital; or
- by PMC Commercial:
  - if, prior to the PMC Commercial shareholders meeting, the PMC Commercial board of trust managers has withdrawn or modified in any manner adverse to PMC Capital its approval or recommendation of the merger or the merger agreement in connection with, or approved or recommended a superior competing transaction or PMC Commercial has paid PMC Capital the termination fee discussed under Expenses; Termination Fees PMC Commercial Termination Fee;
  - if, prior to the PMC Capital shareholders meeting, the PMC Capital board of directors has withdrawn or modified in any manner adverse to PMC Commercial its approval or recommendation of the merger or the merger agreement in connection with, or approved or recommended, a superior competing transaction or PMC Capital shall have entered into a definitive agreement with respect to any competing transaction; or
  - upon a violation or breach by PMC Capital of any agreement, covenant, representation or warranty contained in the merger agreement or if any representation or warranty of PMC Capital shall have become untrue, in either case so that the conditions to the completion of the merger would be

incapable of being satisfied by the closing date and such violation or breach has not been waived by PMC Commercial.

Because the parties expect that all conditions to the merger other than shareholder approval are likely to be satisfied prior to the special meetings, the parties anticipate that in the event either party is entitled to terminate the agreement pursuant to the provisions described above, such party would decide whether to exercise or waive that termination right as soon as possible following the special meetings, or, if later, as soon as possible following the satisfaction of all of the other conditions to closing contained in the merger agreement.

Effect of Termination

Except for provisions in the merger agreement regarding confidentiality and payment of fees and expenses, the effect of termination and specified miscellaneous provisions, if the merger agreement is terminated as described above, the merger agreement will become void and have no effect. In addition, if the merger agreement is so terminated, there will be no liability on the part of PMC Capital, PMC Commercial or their respective affiliates, directors, officers or shareholders, except to the extent that the termination results from a material breach by a party of its representations, warranties, covenants or agreements set forth in the merger agreement.

Expenses; Termination Fees

Except as described below, each party to the merger agreement will bear its own fees and expenses in connection with the transactions contemplated by the merger agreement, whether or not the merger is completed.

PMC Capital Termination Fees and Expenses

PMC Capital will pay to PMC Commercial a termination fee in the amount of $870,000, if the merger agreement is terminated:

by PMC Commercial upon a breach by PMC Capital of any agreement, covenant, representation or warranty contained in the merger agreement or if any representation or warranty of PMC Capital has become untrue, in either case so that the conditions to the completion of the merger would be incapable of being satisfied by the closing date and such breach has not been waived by PMC Commercial and PMC Capital has entered into an agreement to consummate a competing transaction; or

by PMC Commercial if, prior to the PMC Capital shareholders meeting, the PMC Capital board of directors has withdrawn or modified in any manner adverse to PMC Commercial its approval or recommendation of the merger or the merger agreement in connection with, or approved or recommended, a superior competing transaction or PMC Capital shall have entered into a definitive agreement with respect to any competing transaction; or

by PMC Capital if, prior to the PMC Capital shareholders meeting, the PMC Capital board of directors has withdrawn or modified in any manner adverse to PMC Commercial its approval or recommendation of the merger or the merger agreement in connection with, or approved or recommended, a superior competing transaction and PMC Capital has entered into an agreement to consummate a competing transaction; or

by PMC Commercial upon a breach by PMC Capital of any agreement, covenant, representation or warranty contained in the merger agreement or if any representation or warranty of PMC Capital has become untrue, in either case so that the conditions to the completion of the merger would be incapable of being satisfied by the closing date and such breach has not been waived by PMC Commercial and within one year from the date of termination, PMC Capital consummates a competing transaction limited to negotiations prior to termination or enters into an agreement to consummate such a competing transaction that is subsequently consummated; provided, however, that

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PMC Commercial was not in material breach of any of its representations, warranties or covenants set forth in the merger agreement at the time of termination.

by either PMC Capital or PMC Commercial if the merger is not completed prior to February 29, 2004 and within one year from the date of termination, PMC Capital consummates a competing transaction limited to negotiations prior to termination or enters into an agreement to consummate such a competing transaction that is subsequently consummated; provided that a party that has willfully and materially breached a representation, warranty or covenant of such party set forth in the merger agreement shall not be entitled to exercise its right to terminate.

PMC Capital will pay termination expenses in an amount equal to $750,000, if the following occurs:

the merger agreement is terminated by PMC Commercial upon a breach by PMC Capital of any agreement, covenant, representation or warranty contained in the merger agreement or if any representation or warranty of PMC Capital has become untrue, in either case so that the conditions to the completion of the merger would be incapable of being satisfied by the closing date and such breach has not been waived by PMC Commercial and PMC Commercial has not entered into an agreement for a competing transaction.

Under no circumstances will PMC Capital be required to pay to PMC Commercial both the termination fee and the termination expenses.

PMC Commercial Termination Fee and Expenses

PMC Commercial will pay to PMC Capital a termination fee in the amount of $870,000, if the merger agreement is terminated:

by PMC Capital upon a breach by PMC Commercial of any agreement, covenant, representation or warranty contained in the merger agreement or if any representation or warranty of PMC Commercial has become untrue, in either case so that the conditions to the completion of the merger would be incapable of being satisfied by the closing date and such breach has not been waived by PMC Capital and PMC Commercial has entered into an agreement to consummate a competing transaction; or

by PMC Capital if, prior to the PMC Commercial shareholders meeting, the PMC Commercial board of trust managers has withdrawn or modified in any manner adverse to PMC Commercial its approval or recommendation of the merger or the merger agreement in connection with, or approved or recommended, a superior competing transaction or PMC Commercial shall have entered into a definitive agreement with respect to any competing transaction; or

by PMC Commercial if, prior to the PMC Commercial shareholders meeting, the PMC Commercial board of trust managers has withdrawn or modified in any manner adverse to PMC Capital its approval or recommendation of the merger or the merger agreement in connection with, or approved or recommended, a superior competing transaction and PMC Commercial has entered into an agreement to consummate a competing transaction; or

by PMC Capital upon a breach by PMC Commercial of any agreement, covenant, representation or warranty contained in the merger agreement or if any representation or warranty of PMC Commercial has become untrue, in either case so that the conditions to the completion of the merger would be incapable of being satisfied by the closing date and such breach has not been waived by PMC Capital and within one year from the date of termination, PMC Commercial consummates a competing transaction limited to negotiations prior to termination or enters into an agreement to consummate such a competing transaction that is subsequently consummated; provided, however, that PMC Capital was not in material breach of its representations, warranties or covenants set forth in the merger agreement at the time of termination.

by either PMC Capital or PMC Commercial if the merger is not completed prior to February 29, 2004 and within one year from the date of termination, PMC Commercial consummates a competing transaction limited to negotiations prior to termination or enters into an agreement to consummate

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such a competing transaction that is subsequently consummated; provided that a party that has willfully and materially breached a representation, warranty or covenant of such party set forth in the merger agreement shall not be entitled to exercise its right to terminate.

PMC Commercial will pay termination expenses in an amount equal to $750,000, if the following occurs:

the merger agreement is terminated by PMC Capital upon a breach by PMC Commercial of any agreement, covenant, representation or warranty contained in the merger agreement or if any representation or warranty of PMC Commercial has become untrue, in either case so that the conditions to the completion of the merger would be incapable of being satisfied by the closing date and such breach has not been waived by PMC Capital and PMC Commercial has not entered into an agreement for a competing transaction.

Under no circumstances will PMC Commercial be required to pay to PMC Capital both the termination fee and the termination expenses.

Waiver and Amendment of the Merger Agreement

The merger agreement may be amended in writing by action of the board of directors of PMC Capital and the board of trust managers of PMC Commercial any time before or after approval of the merger by PMC Capital shareholders and PMC Commercial shareholders. However, after shareholder approvals are obtained, no amendment may be made which by law requires the further approval of shareholders without obtaining such further approval. If the merger agreement is amended after the mailing of this joint proxy statement/ prospectus and your vote is required to such amendment, PMC Commercial and PMC Capital will resolicit your vote.

At any time before the completion of the merger, the parties may, in writing:

extend the time for the performance of any of the obligations or other acts of the other parties;

waive any inaccuracies in the representations and warranties of the other parties contained in the merger agreement or in any document delivered under the merger agreement; or

waive compliance with any of the agreements or conditions of the other parties contained in the merger agreement.

Indemnification; Directors and Officers Insurance

Under the merger agreement, from and after the effective time of the merger, PMC Commercial will indemnify, defend and hold harmless the officers and directors of PMC Capital against all losses, claims, damages, costs, expenses (including attorneys fees and expenses), liabilities or judgments or amounts that are paid in settlement of, or otherwise in connection with any threatened or actual claim, action, suit, proceeding or investigation based on or arising out of the fact that such person is or was a director or officer of PMC Capital or any PMC Capital subsidiary at or prior to the effective time of the merger, whether asserted or claimed prior to, or at or after, the effective time, including all such indemnified liabilities based on, or arising out of, or pertaining to the merger agreement or the transactions contemplated by the merger agreement, in each case to the full extent permitted under applicable law.

PMC Commercial is obligated to maintain in effect for not less than six years after the closing date of the merger (1) PMC Capital s existing directors and officers liability insurance coverage (or a policy providing coverage on the same or better terms and conditions) for matters occurring prior to the closing date of the merger for the same persons who are currently covered by such insurance or (2) add such persons to the existing trust managers and officers liability insurance policy of PMC Commercial; provided that such insurance provides the same coverage as maintained for similarly situated officers and trust managers of PMC Commercial.

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If PMC Commercial or any of its respective successors or assigns consolidates with or merges into another person and is not the continuing or surviving entity, or transfers or conveys all or substantially all of its properties and assets to another person, then the successors and assigns of the surviving entity will assume the obligations regarding indemnification and insurance described above.

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THE VOTING AGREEMENTS

The following summary which includes all of the material terms of the voting agreements, is qualified by reference to the complete text of the agreements which are incorporated by reference in this joint proxy statement/ prospectus.

Irvin M. Borish, Martha R. Greenberg, Thomas Hamill, Barry A. Imber, Fredric M. Rosemore, Lance B. Rosemore, Theodore J. Samuel, Barry N. Berlin, Mary J. Brownmiller, Cheryl T. Murray, Andrew S. Rosemore and Jan F. Salit, each of whom is an officer and/or director of PMC Capital, solely in his or her respective capacity as a shareholder of PMC Capital, have each entered into a voting agreement with PMC Commercial. Nathan G. Cohen, Martha R. Greenberg, Roy H. Greenberg, Irving Munn, Andrew S. Rosemore, Lance B. Rosemore, Ira Silver, Barry N. Berlin, Mary J. Brownmiller, Cheryl T. Murray and Jan F. Salit, each of whom is an officer and/or trust manager of PMC Commercial, solely in his or her respective capacity as a shareholder of PMC Commercial, have each entered into a voting agreement with PMC Capital.

Under the terms of these voting agreements, until the date on which the merger is completed or the merger agreement is terminated according to its terms, each of these shareholders has agreed among other things, to cast, or cause to be cast, all votes attributable to shares of PMC Capital and/or PMC Commercial owned beneficially or of record by such person, at any annual or special meeting of shareholders of PMC Capital or PMC Commercial, as the case may be:

- in favor of approval of the merger agreement and the transactions contemplated by the merger agreement; and
- against approval or adoption of any action or agreement (other than the merger agreement or the transactions contemplated by the merger agreement) that would impede, interfere with, delay, postpone or attempt to discourage the merger.

Until the date on which the merger is completed or the merger agreement is terminated according to its terms, each shareholder signing a voting agreement has further agreed, directly or indirectly:

- not to sell, transfer, pledge, encumber, assign or otherwise dispose of, or enter into, any contract, option or other agreement or understanding with respect to any disposition of any common shares of PMC Capital and/or PMC Commercial owned beneficially or of record by that shareholder, except for transfers to independent charitable foundations or institutions and except for transfers approved in writing by PMC Capital or PMC Commercial, as applicable;
- not to grant any proxies or deposit any common shares of PMC Capital or PMC Commercial owned beneficially or of record by that shareholder into a voting trust or enter into a voting agreement with respect to the common shares of PMC Capital or PMC Commercial owned beneficially or of record by that shareholder; and
- not to take any action that would have the effect of preventing or disabling that shareholder from performing his or her obligations under his or her respective voting agreement.

By entering into these voting agreements, as of the record date the holders of approximately 19.9% of the voting power of the issued and outstanding shares of common stock of PMC Capital and 6.5% of the voting power of the issued and outstanding shares of beneficial interest of PMC Commercial entitled to vote at the PMC Capital or PMC Commercial special meeting have agreed to vote in favor of approval of the merger and against any approval or adoption of any action or agreement that would impede, interfere with, delay, postpone or attempt to discourage the merger and the transactions contemplated thereby.

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MARKET PRICE AND DIVIDEND INFORMATION

The PMC Commercial common shares and the shares of PMC Capital common stock are each listed on the American Stock Exchange. The following table sets forth the periods indicated the high and low per share closing sale prices of the PMC Commercial common shares and the shares of PMC Capital common stock and the cash dividends declared per share:

	PMC Commercial			PMC Capital		
	High	Low	Dividend	High	Low	Dividend
2000 (Calendar Year)	$12.63	$ 8.69	$1.745	$10.38	$7.75	$1.000
2001 (Calendar Year)	$15.24	$ 9.00	$1.520	$ 9.50	$6.75	$0.850
2002 (Calendar Year)	$15.50	$11.25	$1.620	$ 8.00	$3.20	$0.560
2003						
First Quarter	$13.57	$12.49	$0.400	$ 5.30	$3.90	$0.120
Second Quarter	$14.20	$11.67	$0.380	$ 5.22	$4.08	$0.120
Third Quarter	$14.00	$13.06	$0.380	$ 5.05	$4.67	$0.120
Fourth Quarter through November 7, 2003	$14.16	$13.58	*	$ 5.05	$4.77	*

* No dividend has been declared as of November 7, 2003.

Listing on the American Stock Exchange of the PMC Commercial common shares issuable in connection with the merger is a condition to the completion of the merger.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

On March 27, 2003, PMC Commercial and PMC Capital announced that they had signed a merger agreement, under which PMC Capital, subject to certain conditions and approvals, will merge with and into PMC Commercial, an affiliate by common management. Under the merger agreement, each holder of PMC Capital common stock will receive 0.37 of a share of PMC Commercial common stock for each share of PMC Capital common stock. Shares of PMC Commercial common stock were valued at $13.10, which is the average closing price of PMC Commercial s common stock for the three days preceding the date of the announcement less a $0.40 per share declared but unpaid dividend that was paid to shareholders of record on March 31, 2003.

PMC Capital is a diversified closed-end management investment company that has elected to operate as a BDC under the 1940 Act. PMC Capital s financial statements are reported using the accounting policies applicable to investment companies; certain of these accounting policies differ significantly from the accounting policies used by PMC Commercial. Subsequent to the merger, PMC Capital s accounting policies will conform to those policies used by PMC Commercial. The most significant of those differences are described below:

Certain wholly-owned subsidiaries of PMC Capital (consisting of PMC Funding Corp., PMC Asset Holding, LLC and PMC Advisers, Ltd. (the Unconsolidated Subsidiaries)) are accounted for using the equity method of accounting; while these entities will be consolidated by PMC Commercial. This adjustment is reflected in the PMC Capital, as Adjusted column in the accompanying pro forma consolidated financial statements and is further described in the notes to the pro forma financial statements.

PMC Capital records loans receivable and assets acquired in liquidation at fair value as determined in good faith by the board of directors pursuant to the 1940 Act; while PMC Commercial records loans receivable at net realizable value and assets acquired in liquidation at the lower of cost or fair value.

PMC Capital records realized and unrealized gains and losses from changes in the fair values of its investments in its statement of income in the period of the change; while PMC Commercial records impairments of loans receivable and assets acquired in liquidation as losses in its statement of income and does not record subsequent increases in value in excess of previously recorded impairment losses. Additionally, PMC Commercial records unrealized appreciation in the fair value of its retained interests in transferred assets in its balance sheet as a component of beneficiaries equity while any depreciation in the fair value of its retained interests in transferred assets is either included in its statement of income as a realized loss (if there is a reduction in expected future cash flows) or in beneficiaries equity as an unrealized loss.

PMC Capital recognizes all fees and costs associated with originating loans in income when incurred; while PMC Commercial recognizes such amounts into income over the life of the loan.

The following Pro Forma Consolidated Balance Sheet as of June 30, 2003 and Pro Forma Consolidated Statements of Income for the six months ended June 30, 2003 and the year ended December 31, 2002 (the Pro Forma Financial Statements) are based upon the consolidated financial statements of PMC Commercial and PMC Capital included in this joint proxy statement/ prospectus. The Pro Forma Consolidated Balance Sheet assumes that the merger transaction occurs on June 30, 2003. The Pro Forma Consolidated Statements of Income assume that the merger transaction occurs on January 1, 2002 at which time PMC Commercial issued 4,385,801 shares of its common stock to the shareholders of PMC Capital in exchange for 100% of the outstanding shares of PMC Capital.

In the opinion of PMC Commercial s management, all material adjustments necessary to reflect the effects of the merger transaction have been made. The Pro Forma Consolidated Financial Statements are presented for illustrative purposes only and are not necessarily indicative of what the actual financial position or results of operations would have been had the merger transaction occurred on the indicated dates, nor do they purport to represent PMC Commercial s results of operations for future periods.

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UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

June 30, 2003

	PMC Commercial (A)	PMC Capital, as Adjusted (B)	Elimination and Reclassification Adjustments (C)	Merger Adjustments	Pro Forma Total
			(In thousands)		
ASSETS					
Investments:					
Loans receivable, net	$ 89,614	$ 94,976	$	$	$ 184,590
Retained interests in transferred assets	22,686	37,644			60,330
Real estate investments, net	44,283				44,283
Real estate investment held for sale, net	1,877				1,877
Cash equivalents	473	2,461			2,934
Mortgage-backed security of affiliate		1,345			1,345
Restricted investments	3,455	36			3,491
Assets acquired in liquidation	333	6,237			6,570
Total investments	162,721	142,699			305,420
Other assets:					
Due from affiliates	800	712	(1,427)		85
Deferred charges, deposits and other assets	231	667		(162)(E)	389
				(347)(D)	
Deferred tax asset, net				193 (I)	193
Accrued interest receivable	285	271			556
Cash	72	329			401
Other assets	976	108		(108)(E)	286
				(690)(F)	
Total other assets	2,364	2,087	(1,427)	(1,114)	1,910
Total assets	$ 165,085	$ 144,786	$ (1,427)	$ (1,114)	$ 307,330
LIABILITIES AND BENEFICIARIES EQUITY					
Liabilities:					
Notes and debentures payable	$ 37,188	$ 10,000	$ 44,310	$ 529 (D)	$ 92,027
Revolving credit facility	27,400	6,250			33,650
Dividends payable	2,450	1,484			3,934
Borrower advances	2,566	1,255			3,821
Accrued interest payable	253	709			962
Unearned fees	330		137		467
Accounts payable		1,037	464	1,191 (F)	2,692
Due to affiliates	656	823	(1,427)		52
Other liabilities	1,950	1,139	(601)		2,488
Total current liabilities	72,793	22,697	42,883	1,720	140,093
Notes and debentures payable		44,310	(44,310)		
Total liabilities	72,793	67,007	(1,427)	1,720	140,093

Commitments and contingencies					
Cumulative preferred stock of subsidiary		7,000		(2,750)(J)	4,250
Beneficiaries equity:					
Common stock	66	119		(75)(G)	110
Additional paid-in capital	94,735	71,508		(14,773)(G)	151,470
Retained earnings (dividends in excess of retained earnings)	(4,720)	(3,229)	2,381	13,916 (E)	9,196
				848 (H)	
Net unrealized appreciation on investments	3,496	2,381	(2,381)		3,496
	93,577	70,779		(84)	164,272
Less: Treasury stock	(1,285)				(1,285)
	92,292	70,779		(84)	162,987
Total liabilities and beneficiaries equity	$165,085	$144,786	$ (1,427)	$ (1,114)	$307,330

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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

(A) Represents PMC Commercial s historical balance sheet.

(B) Represents PMC Capital s historical balance sheet as adjusted to reflect the Unconsolidated Subsidiaries on a consolidated basis. The historical financial statements of PMC Capital reflect the Unconsolidated Subsidiaries accounted for using the equity method of accounting. The Unconsolidated Subsidiaries will be consolidated in the financial statements of PMC Commercial subsequent to the merger. The following presents the adjustments made to PMC Capital s historical balance sheet to consolidate the Unconsolidated Subsidiaries as of June 30, 2003.

June 30, 2003 (Unaudited)	PMC Capital (1)	Unconsolidated Subsidiaries (2)	Elimination Adjustments (3)	PMC Capital, as Adjusted
	(In thousands)			
ASSETS				
Investments:				
Loans receivable	$ 94,976	$	$	$ 94,976
Retained interests in transferred assets	37,644			37,644
Cash equivalents	2,461			2,461
Mortgage-backed security of affiliate	1,345			1,345
Restricted investments	36			36
Investment in Unconsolidated Subsidiaries	246		(246)	
Assets acquired in liquidation	3,212	3,025		6,237
Total investments	139,920	3,025	(246)	142,699
Other assets:				
Due from affiliates	3,632	949	(3,869)	712
Deferred charges, deposits and other assets	651	16		667
Accrued interest receivable	271			271
Cash	251	78		329
Other assets	78	30		108
Total other assets	4,883	1,073	(3,869)	2,087
Total assets	$144,803	$4,098	$(4,115)	$144,786
LIABILITIES AND SHAREHOLDERS EQUITY				
Liabilities:				
Notes and debentures payable	$ 10,000	$	$	$ 10,000
Revolving credit facility	6,250			6,250
Dividends payable	1,484			1,484
Borrower advances	1,255			1,255
Accrued interest payable	709			709
Unearned fees				
Accounts payable	993	44		1,037
Due to affiliates	1,137	3,555	(3,869)	823
Other liabilities	886	253		1,139
Total current liabilities	22,714	3,852	(3,869)	22,697

Notes and debentures payable	44,310			44,310
Total liabilities	67,024	3,852	(3,869)	67,007
Commitments and contingencies				
Cumulative preferred stock of subsidiary	7,000			7,000

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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET (Continued)

June 30, 2003 (Unaudited)	PMC Capital (1)	Unconsolidated Subsidiaries (2)	Elimination Adjustments (3)	PMC Capital, as Adjusted
		(In thousands)		
Shareholders equity:				
Common stock	119	1	(1)	119
Additional paid-in capital	71,508	626	(626)	71,508
Dividends in excess of retained earnings	(3,229)	(381)	381	(3,229)
Net unrealized appreciation on investments	2,381			2,381
	70,779	246	(246)	70,779
Less: Treasury stock				
	70,779	246	(246)	70,779
Total liabilities and shareholders equity	$144,803	$4,098	$(4,115)	$144,786

(1) *Represents PMC Capital s historical balance sheet as of June 30, 2003.*

(2) *Represents the combined balance sheet of the Unconsolidated Subsidiaries at June 30, 2003.*

(3) *Represents the elimination of PMC Capital s investment in Unconsolidated Subsidiaries and intercompany payables and receivables between the Unconsolidated Subsidiaries and PMC Capital.*

(C) Represents the elimination of intercompany amounts between PMC Capital and PMC Commercial and reclassifications made to conform PMC Capital s balance sheet presentation to that used by PMC Commercial. The reclassifications are as follows:

Reclassification of PMC Capital s non-current portion of notes and debentures payable since PMC Commercial does not segregate debt obligations between current and non-current;

Reclassification of PMC Capital s historical net unrealized appreciation on investments to dividends in excess of retained earnings; and

Reclassification of certain amounts included in other liabilities to unearned fees and accounts payable.

(D) Represents the purchase accounting adjustment to write-off PMC Capital s capitalized borrowing costs and adjust the historical carrying value of PMC Capital s notes and debentures payable to fair value.

(E) Because the fair value of assets acquired and liabilities assumed exceeds the cost of PMC Capital, the excess will first be allocated as a reduction in the amounts assigned to certain acquired assets and the remaining excess, after reducing to zero the amounts that otherwise would have been assigned to certain acquired assets, will be recognized as an extraordinary gain in the period the merger is completed. The computation of the excess of the fair value of assets acquired, and allocation of the excess to reduce the value of acquired assets and the resulting amount of extraordinary gain is as follows (dollars in thousands, except share and per share data):

Issuance of 4,385,801 common shares of PMC Commercial valued at $13.10 per share in exchange for all 11,853,516 shares of PMC Capital	$ 57,454
Assumption of PMC Capital s liabilities and preferred stock(1)	70,955
Transaction costs (see note F)	610

Total merger acquisition costs	129,019
Less:	
Fair value of assets acquired(2)	(143,205)
Excess of fair value of assets acquired over acquisition costs	$ (14,186)

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET (Continued)

Recorded as follows:	
Write-down of certain deferred charges, deposits and other assets to zero	$ 162
Write-down of PMC Capital s property and equipment to zero	$ 108
Amount recorded as extraordinary gain	$ (13,916)

(1) The assumption of PMC Capital s liabilities and preferred stock was computed as follows:

PMC Capital historical amounts	$ 74,007
Elimination of intercompany amounts	(1,427)
Fair value adjustment of notes and debentures payable (see note D)	529
Fair value adjustment of preferred stock (see note J)	(2,750)
Adjustment to accrue PMC Capital s remaining estimated merger costs (see note F)	596
Total	$ 70,955

(2) The fair value of assets acquired was computed as follows:

PMC Capital historical amounts	$ 144,786
Elimination of intercompany amounts	(1,427)
Purchase accounting adjustment to write-off capitalized borrowing costs (see note D)	(347)
Purchase accounting adjustment to record deferred taxes at the acquisition date (see note I)	193
Total	$ 143,205

(F) These adjustments are to accrue all remaining estimated costs associated with the merger of PMC Capital into PMC Commercial as of June 30, 2003 as follows (in thousands):

Estimated transaction costs(1)	$ 1,725
Estimated costs of equity offering(1)	675
Less amounts reflected in the historical financial statements at June 30, 2003	(1,209)
	$ 1,191
Reclassification, as part of purchase accounting, of transaction costs and costs of equity offering capitalized by PMC Commercial as of June 30, 2003	$ (690)

(1) Amounts represent total estimated merger costs to be incurred by PMC Commercial and PMC Capital allocated between the costs of the transaction and the costs of PMC Commercial s equity offering (in thousands) detailed as follows:

	Transaction Costs	Costs of Equity Offering
Financial advisory fees	$ 800	$
Legal fees	575	300
Printing and filing fees	150	150
Accounting fees	100	100
Other	100	125
Total merger costs(a)	$1,725	$675
Incurred by:		
PMC Commercial	$ 610	$675
PMC Capital	$1,115	$

(a) At June 30, 2003, PMC Capital has accrued and expensed a total of $519 and PMC Commercial has accrued and capitalized a total of $690.

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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET (Continued)

(G) Represents the net adjustments resulting from the merger as follows (dollars in thousands, except share and per share data):

	Common Stock	Additional Paid-In Capital
Issuance of 4,385,801 shares of PMC Commercial common stock, $0.01 par value per share	$ 44	$ 57,410
Elimination of PMC Capital s historical balances	(119)	(71,508)
Estimated costs of the equity offering recorded as a reduction of additional paid in capital (see note F)		(675)
	$ (75)	$ (14,773)

(H) Represents the elimination of PMC Capital s historical balances.

(I) Subsequent to the merger, First Western will become a wholly-owned taxable REIT subsidiary of PMC Commercial. Additionally, as described under PMC Commercial Business PMC Commercial s Business Following the Merger in this joint proxy statement/ prospectus, management is currently exploring an alternative structure relating to PMCIC. Based on the current structure, PMCIC will also be organized as a taxable REIT subsidiary of PMC Commercial. Accordingly, the pro forma financial statements have assumed that both First Western and PMCIC will be organized as taxable REIT subsidiaries. This adjustment represents the purchase accounting adjustment to record deferred taxes to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at June 30, 2003.

If management successfully restructures PMCIC such that it will not be organized as a taxable REIT subsidiary, the net deferred tax assets of PMCIC in the amount of $226 may be eliminated.

(J) As discussed in Note 7 to PMC Capital s consolidated financial statements as of and for the year ended December 31, 2002, included in this joint proxy statement/ prospectus, PMCIC has two outstanding issues of preferred stock. The following represents the purchase accounting adjustment to adjust the historical carrying value of PMCIC s preferred stock to estimated fair value (dollars in thousands):

30,000 shares of $100 par value, 3% cumulative (the 3% Preferred Stock)	$ (2,100)
40,000 shares of $100 par value, 4% cumulative (the 4% Preferred Stock)	(650)
	$ (2,750)

Effective July 1, 2003, PMCIC adopted the provisions of SFAS No. 150, *Accounting For Certain Financial Investments with Characteristics of both Liabilities and Equity* (SFAS 150). In accordance with the provisions of SFAS No. 150, the 4% Preferred Stock was reclassified to a liability. Subsequent to July 1, 2003, the preferred dividend requirement of $160 per year will be reflected as interest expense.

As discussed under PMC Commercial Business PMC Commercial s Business Following the Merger in this joint proxy statement/ prospectus, management is currently exploring an alternative structure relating to the preferred stock of PMCIC.

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UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2003

	PMC Commercial (A)	PMC Capital, as Adjusted (B)	Elimination and Reclassification Adjustments	Merger Adjustments	Pro Forma Total
			(In thousands, except per share data)		
Revenues:					
Interest income	$3,047	$3,242	$	$ (197)(H)	$ 6,092
Lease income	2,893				2,893
Income from retained interests in transferred assets	1,376	2,267		64 (I)	3,707
Advisory fee income		1,149	(1,149)(C)		
Premium income		344			344
Other income	99	513	158 (C)		770
Total revenues	7,415	7,515	(991)	(133)	13,806
Expenses:					
Interest	1,712	1,563		(22)(J)	3,253
Salaries and related benefits		2,117	(81)(D)	(108)(K)	1,928
Depreciation	939	8	31 (E)	(39)(L)	939
Advisory and servicing fees to affiliate, net	902		(902)(D)		
Loss from operations of assets acquired in liquidation		151	(151)(F)		
General and administrative	188	590	(31)(E)	(43)(M)	704
Merger related costs		519		(519)(N)	
Provision for loan losses			75 (G)		75
Professional fees	66	181			247
Impairment loss on assets acquired in liquidation held for sale	67				67
Realized losses on retained interests in transferred assets			129 (G)		129
Total expenses	3,874	5,129	(930)	(731)	7,342
Income from continuing operations before income taxes	3,541	2,386	(61)	598	6,464
Income tax expense				(201)(O)	(201)
Income from continuing operations	$3,541	$2,386	$ (61)	$ 397	$ 6,263
Weighted average shares outstanding:					
Basic	6,447			4,386 (P)	10,833
Diluted	6,455			4,386 (P)	10,841
Basic and diluted earnings per share:					
Income from continuing operations	$ 0.55				$ 0.56 (S)

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UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2002

	PMC Commercial (A)	PMC Capital, as Adjusted (B)	Elimination and Reclassification Adjustments	Merger Adjustments	Pro Forma Total
			(In thousands, except per share data)		
Revenues:					
Interest income	$ 6,236	$ 7,507	$	$ (375)(H)	$13,368
Lease income	5,743				5,743
Income from retained interests in transferred assets	2,893	5,202		78 (I)	8,173
Advisory fee income		2,328	(2,328)(Q)		
Premium income		650			650
Other income	1,164	1,104	298 (Q)		2,566
Total revenues	16,036	16,791	(2,030)	(297)	30,500
Expenses:					
Interest	3,445	4,599		(186)(J)	7,858
Salaries and related benefits		4,160	(135)(R)	(202)(K)	3,823
Depreciation	1,845	32	93 (E)	(125)(L)	1,845
Advisory and servicing fees to affiliate, net	1,793		(1,793)(R)		
Loss from operations of assets acquired in liquidation		391	(391)(F)		
General and administrative	255	1,328	(93)(E)	(70)(M)	1,420
Provision for loan losses	65		483 (G)		548
Professional fees	130	325			455
Impairment loss on assets acquired in liquidation held for sale	54				54
Realized losses on retained interests in transferred assets	53		1,981 (G)		2,034
Total expenses	7,640	10,835	145	(583)	18,037
Income from continuing operations before income taxes	8,396	5,956	(2,175)	286	12,463
Income tax expense				(150)(O)	(150)
Income from continuing operations	$ 8,396	$ 5,956	$(2,175)	$ 136	$12,313
Weighted average shares outstanding:					
Basic	6,444			4,386 (P)	10,830
Diluted	6,456			4,386 (P)	10,842
Basic and diluted earnings per share:					
Income from continuing operations	$ 1.30				$ 1.11 (S)

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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(A) Represents PMC Commercial s historical income from continuing operations.

(B) Represents PMC Capital s historical income from continuing operations, which is comprised of net investment income including the loss from operations of assets acquired in liquidation and is adjusted to reflect the Unconsolidated Subsidiaries on a consolidated basis. The historical financial statements of PMC Capital reflect the operations of the Unconsolidated Subsidiaries accounted for using the equity method of accounting. The Unconsolidated Subsidiaries will be consolidated in the financial statements of PMC Commercial subsequent to the merger. The following presents the adjustments made to PMC Capital s historical income from continuing operations to consolidate the Unconsolidated Subsidiaries.

FOR THE SIX MONTHS ENDED JUNE 30, 2003
(Unaudited)

	PMC Capital (1)	Unconsolidated Subsidiaries (2)	Eliminations (3)	PMC Capital, as Adjusted
Revenues:				
Interest income	$ 3,242	$	$	$ 3,242
Lease income				
Income from retained interests in transferred assets	2,267			2,267
Advisory fee income	928	1,149	(928)	1,149
Premium income	344			344
Equity in income of Unconsolidated Subsidiaries, net	167		(167)	
Other income	508	5		513
Total revenues	7,456	1,154	(1,095)	7,515
Expenses:				
Interest	1,563			1,563
Salaries and related benefits	2,117			2,117
Depreciation		8		8
Advisory and servicing fees to affiliate, net				
Loss from operations of assets acquired in liquidation	151			151
General and administrative	580	938	(928)	590
Merger related costs	519			519
Provision for loan losses				
Professional fees	181			181
Impairment loss on assets acquired in liquidation held for sale				
Realized losses on retained interests in transferred assets				
Total expenses	5,111	946	(928)	5,129
Income from continuing operations	$ 2,345	$ 208	$ (167)	$ 2,386
Weighted average shares outstanding:				
Basic	11,854			11,854

Diluted	11,854	11,854
Basic and diluted earnings per share:		
Income from continuing operations	$ 0.19	$ 0.19

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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (Continued)
(In thousands, except per share data)

FOR THE YEAR ENDED DECEMBER 31, 2002 (Unaudited)	PMC Capital (1)	Unconsolidated Subsidiaries (2)	Eliminations (3)	PMC Capital, as Adjusted
Revenues:				
Interest income	$ 7,507	$	$	$ 7,507
Lease income				
Income from retained interests in transferred assets	5,202			5,202
Advisory fee income	1,927	2,328	(1,927)	2,328
Premium income	650			650
Equity in income of Unconsolidated Subsidiaries, net	307		(307)	
Other income	1,069	35		1,104
Total revenues	16,662	2,363	(2,234)	16,791
Expenses:				
Interest	4,588	11		4,599
Salaries and related benefits	4,160			4,160
Depreciation		32		32
Advisory and servicing fees to affiliate, net				
Loss from operations of assets acquired in liquidation	391			391
General and administrative	1,242	2,013	(1,927)	1,328
Provision for loan losses				
Professional fees	325			325
Impairment loss on assets acquired in liquidation held for sale				
Realized losses on retained interests in transferred assets				
Total expenses	10,706	2,056	(1,927)	10,835
Income from continuing operations	$ 5,956	$ 307	$ (307)	$ 5,956
Weighted average shares outstanding:				
Basic	11,854			11,854
Diluted	11,854			11,854
Basic and diluted earnings per share:				
Income from continuing operations	$ 0.48			$ 0.48

(1) Represents PMC Capital s historical net investment income.

(2) Represents the combined historical income from continuing operations of the Unconsolidated Subsidiaries.

(3) Represents the elimination of equity in income of Unconsolidated Subsidiaries and the elimination of intercompany income and expense between the Unconsolidated Subsidiaries and PMC Capital. For the six months ended June 30, 2003, PMC Capital s equity in income of Unconsolidated Subsidiaries is $41 less than the Unconsolidated Subsidiaries income from continuing operations due to $41 of net losses on assets reported as discontinued operations by the Unconsolidated Subsidiaries. For the year ended December 31, 2002, the

Unconsolidated Subsidiaries did not report discontinued operations.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (Continued)
(In thousands, except per share data)

(C) Represents the elimination of $991 in fees billed to PMC Commercial by PMC Capital and the reclassification of $158 in fees billed to the special purpose entities (SPEs) formed in connection with PMC Commercial s securitization transactions from advisory fee income to other income.

(D) Represents the elimination of advisory and servicing fees expensed by PMC Commercial in the amount of $902 that were billed by PMC Capital. Additionally, the $81 reduction in salaries and related benefits represents fees capitalized as loan origination costs by PMC Commercial that were billed by PMC Capital. The difference between advisory fee income eliminated in the amount of $991 as discussed in (C) above, and the aggregate $983 in fees eliminated in this note is $8 and relates to fees expensed by PMC Commercial and reported below income from continuing operations.

(E) Represents the reclassification of depreciation expense reported by PMC Capital as part of general and administrative expenses to depreciation expense to conform to PMC Commercial s presentation.

(F) Represents the reclassification of losses from the operations of PMC Capital s assets acquired in liquidation to discontinued operations, to conform to PMC Commercial s presentation.

(G) As an investment company, PMC Capital records realized and unrealized gains and losses on investments in its income statement below income from continuing operations. Subsequent to the merger with PMC Commercial, certain of these items will be reported as a component of income from continuing operations. The adjustments related to these items are as follows:

	For the Six Months Ended June 30, 2003	For the Year Ended December 31, 2002
Provision for loan losses	$ 75	$ 483
Realized losses on retained interests in transferred assets	$ 129	$ 1,981

(H) As an investment company, PMC Capital records fees collected on loan originations as interest income upon the completion of funding of the loan. Subsequent to the merger, these amounts will be capitalized and amortized into interest income in accordance with SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.* Accordingly, this adjustment represents a reduction in interest income for the loan origination fees collected and recorded as interest income by PMC Capital during the period presented net of any accretion of the deferred fees subsequent to January 1, 2002.

(I) At the date of completion of a securitization transaction, PMC Commercial records the relative fair value of the present value of estimated future cash flows as retained interests in transferred assets; whereas, PMC Capital records the present value of estimated future cash flows as retained interests in transferred assets. This adjustment is a reclassification between PMC Capital s gain on sale of loans, which is presented below income from continuing operations, and income from retained interests in transferred assets relating to the securitization transaction completed by PMC Capital in April 2002.

(J) Represents the elimination of the historical amortization of PMC Capital s capitalized borrowing costs as these assets were assigned no value in purchase accounting.

(K) As an investment company, PMC Capital records direct costs of loan originations as incurred. Post merger, direct loan origination costs will be capitalized and amortized in accordance with SFAS No. 91. This adjustment represents a reduction in PMC Capital s salaries and related benefits expense to reflect direct loan origination costs incurred and capitalized in accordance with SFAS No. 91.

(L) Represents the elimination of the historical depreciation expense of PMC Capital s fixed assets, as these assets were assigned no value in purchase accounting.

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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF INCOME (Continued)
(In thousands, except per share data)

(M) Represents the elimination of certain of PMC Capital s Texas franchise taxes. As a Texas REIT, PMC Commercial is exempt from Texas franchise taxes.

(N) Represents the elimination of costs expensed by PMC Capital in connection with the merger of PMC Capital into PMC Commercial.

(O) Subsequent to the merger, First Western will become a wholly-owned taxable REIT subsidiary of PMC Commercial. Additionally, as discussed under PMC Commercial Business PMC Commercial s Business Following the Merger in this joint proxy statement/ prospectus, management is currently exploring an alternative structure relating to PMCIC. Based on the current structure, PMCIC will also be organized as a taxable REIT subsidiary. Accordingly, the pro forma financial statements have assumed that both First Western and PMCIC will be organized as taxable REIT subsidiaries. Accordingly, taxable income generated by First Western and PMCIC will be subject to U.S. Federal income taxes. This adjustment represents the purchase accounting adjustment to record estimated current and deferred tax expense at 35% of PMCIC s and First Western s taxable income.

If management successfully restructures PMCIC such that it will not be organized as a taxable REIT subsidiary, the tax expense (benefit) associated with PMCIC of approximately $114 and $(65) for the six months ended June 30, 2003 and for the year ended December 21, 2002, respectively, may be eliminated.

(P) Represents the adjustment related to the issuance of 4,386 shares of PMC Commercial s common stock.

(Q) Represents the elimination of $2,030 in fees billed to PMC Commercial by PMC Capital and the reclassification of $298 in fees billed to the SPEs formed in connection with PMC Commercial s securitization transactions from advisory fee income to other income.

(R) Represents the elimination of advisory and servicing fees expensed by PMC Commercial in the amount of $1,793 that were billed by PMC Capital. Additionally, the $135 reduction in salary and related benefits represents fees capitalized as loan origination costs by PMC Commercial that were billed by PMC Capital. The difference between advisory fee income eliminated in the amount of $2,030 as discussed in (Q) above, and the aggregate $1,928 in fees eliminated in this note amounts to $102 and relates to fees expensed by PMC Commercial and reported below income from continuing operations.

(S) Basic and diluted earnings per share are calculated by reducing income from continuing operations by (i) the preferred dividend requirements associated with the preferred stock issued by PMCIC and (ii) the accretion of the fair value adjustment for the 4% preferred stock (see Note J to the Unaudited Pro Forma Consolidated Balance Sheet), divided by pro forma basic and diluted shares outstanding. The historical preferred dividend requirements were $125 and $250 for the six months ended June 30, 2003 and for the year ended December 31, 2002, respectively. The accretion of the fair value adjustment for the 4% preferred stock was $41 and $82 for the six months ended June 30, 2003 and the year ended December 31, 2002, respectively.

PMC COMMERCIAL BUSINESS

Introduction

PMC Commercial primarily originates loans to small businesses collateralized by first liens on the real estate of the related business. In addition, its investments include the ownership of commercial properties in the hospitality industry. PMC Commercial s loans receivable are primarily to borrowers in the hospitality industry. It also originates loans for commercial real estate primarily in the service, retail, multi-family and manufacturing industries.

PMC Commercial generates revenue from the yield earned on its investments, rental income from property ownership and other fee income from its lending activities.

PMC Commercial seeks to maximize shareholder value through long-term growth in dividends paid to shareholders. As a REIT, PMC Commercial must distribute at least 90% of its REIT taxable income to shareholders. See U.S. Federal Income Tax Consequences. PMC Commercial pays dividends from the funds generated from operations, commonly referred to as FFO. Its ability to maintain or increase its FFO is dependent on many factors. Some of the more critical factors are described under PMC Commercial Management s Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations.

In order to fund new loans or real estate investments, PMC Commercial needs to issue new equity, borrow funds or sell loans. Since 1996, its primary source of funds has been structured loan transactions. See Structured Loan Transactions.

PMC Commercial s investments are managed pursuant to investment management agreements with the Investment Manager. See Investment Management. PMC Commercial operates from the headquarters of the Investment Manager in Dallas, Texas, and through its loan production office in Arizona.

As of June 30, 2003 and December 31, 2002 and 2001, PMC Commercial s total assets were approximately $165.1 million, $149.7 million and $156.3 million, respectively. During the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, PMC Commercial s total revenues were approximately $7.4 million, $16.0 million and $16.4 million, respectively and net income was approximately $3.7 million, and $9.9 million and $11.4 million, respectively.

PMC Commercial operates in two reportable segments: (i) the lending division, which originates loans receivable to small businesses primarily in the hospitality industry and (ii) the property division which owns hotel properties. See PMC Commercial Historical Financial Statements appearing elsewhere in this joint proxy statement/ prospectus.

PMC Commercial s Business Following the Merger

Upon completion of the merger, PMC Capital will be merged with and into PMC Commercial, and the operations of PMC Commercial will include the continuation of the businesses of PMC Capital. A substantial part of PMC Capital s activities are undertaken by its wholly-owned subsidiaries, First Western, PMCIC and Western Financial. Each of these subsidiaries will remain in existence following the merger, and will be wholly-owned by PMC Commercial. Following the merger, the parent company of these subsidiaries will be a REIT and not a RIC.

Following the merger, PMC Commercial intends to:

Continue to operate its business in a manner that should enable it to maintain its REIT status;

Continue to predominately originate loans to the limited service hospitality industry;

Be internally managed instead of externally managed through an investment advisory relationship;

Evaluate the prospect of alternative loan products including originating loans with shorter maturities similar to mini-perm loans offered by banks or establishing a fixed-rate loan product;

Utilize the SBA 7(a) license owned by First Western;

Evaluate alternative leverage to its current revolving credit facility, such as warehouse facilities or medium-term debt; and

Identify possible expansion of lines of business that would be complimentary to the REIT structure.

Subsequent to the merger, First Western intends to elect, effective as of the closing date of the merger, to be treated as a taxable REIT subsidiary, and will cease to be a pass-through entity for tax purposes. As a result, First Western earnings will be subject to U.S. Federal income tax.

PMC Capital is currently considering restructuring PMCIC to convert it to a partnership structure in order to allow it to, subject to SBA approval, maintain its existing capital structure, which includes SBA preferred stock. As a limited partnership, PMCIC would be able to retain its pass-through tax treatment following the merger; however, in the absence of a restructuring, PMCIC would elect to be a taxable REIT subsidiary following the merger and its earnings will also be subject to U.S. Federal income tax

Lending Activities

Overview

PMC Commercial s net loans receivable were $89.6 million, $72.0 million and $78.5 million at June 30, 2003 and December 31, 2002 and 2001, respectively. As of June 30, 2003 and December 31, 2002, PMC Commercial had $59.9 million (67%) and $42.1 million (58%), respectively, of variable-rate loans receivable and $30.6 million (33%) and $29.9 million (42%), respectively, of fixed-rate loans receivable and the weighted average interest rate on its loans receivable was 6.9% and 7.5%, respectively.

PMC Commercial s lending program is generally concentrated on potential borrowers who meet its underwriting criteria and who (i) require funds in excess of $1.3 million or (ii) exceed the net worth, asset, income, number of employees or other limitations applicable to borrowers under lending programs administered by the SBA. Pursuant to the terms of its loan origination agreement with the Investment Manager, smaller loan opportunities are first presented to PMC Capital. In addition to first liens on real estate of the related business, PMC Commercial s loans receivable are generally personally guaranteed by the principals of the entities obligated on the loans receivable.

PMC Commercial s loan origination opportunities are provided to it by the Investment Manager who identifies these opportunities through personal contacts, internet referrals, attendance at trade shows and meetings, correspondence with local chambers of commerce, direct mailings, advertisements in trade publications and other marketing methods. In addition, the Investment Manager has generated a significant percentage of loans through referrals from lawyers, accountants, real estate and loan brokers and existing borrowers. In some instances, PMC Commercial may make payments to non-affiliated individuals who assist in generating loan applications, with such payments generally not exceeding 1% of the principal amount of the originated loan.

Limited Service Hospitality Industry

PMC Commercial s loans in the hospitality industry are generally collateralized by first liens on limited service hospitality properties and are generally made to owner-operated facilities operating under national franchises. PMC Commercial believes that franchise operations offer attractive lending opportunities because such businesses generally employ proven business concepts, have national reservation systems, have consistent product quality, are screened and monitored by franchisors and generally have a higher rate of success when compared to other independently operated hospitality businesses.

Reductions in business and discretionary travel have caused a moderation in demand for hotel rooms and a slowdown in construction of hospitality properties (including limited service hospitality properties). However, the limited service segment of the hospitality industry has been less impacted and has continued to outperform the luxury and upscale sectors which experienced the weakest performance. Another factor which affects the limited service sector of the hospitality industry is a significant rise in gasoline prices within a short period of time. Most of the limited service hospitality properties collateralizing PMC Commercial s loans receivable are located on interstate highways. As seen in the past, when gas prices sharply increase, occupancy rates for properties located on interstate highways decrease.

Loan Originations and Underwriting

The underwriting criteria PMC Commercial applies to evaluate prospective borrowers generally requires the borrowers to (i) provide first-lien mortgages on real estate having an appraised value or cost, whichever is lower, in an amount such that the loan-to-value ratio is not greater than 70% unless credit enhancements such as additional collateral or third party guarantees are obtained, (ii) provide proven management capabilities, (iii) meet historical or projected debt coverage tests determined on a case-by-case basis, and (iv) have principals with satisfactory credit histories and provide personal guarantees, as applicable. PMC Commercial evaluates a number of factors to determine the credit worthiness of the prospective borrower and the amount of required debt coverage for the borrower, including:

The components and value of the borrower s collateral (primarily real estate);

The ease with which the collateral can be liquidated;

The industry and competitive environment in which the borrower operates;

The financial strength of the guarantors;

The existence of any secondary repayment sources; and

The existence of a franchise relationship.

PMC Commercial s variable interest rate loans receivable generally require payments of principal and interest, reset on a quarterly basis to amortize the principal over ten to 20 years. Fixed interest rate loans receivable generally require level payments of principal and interest calculated to amortize the principal over ten to 20 years.

Upon receipt of a completed loan application, the Investment Manager s credit department conducts: (i) a detailed analysis of the loan, which typically includes an appraisal and a valuation by the credit department of the property that will collateralize the loan to assure compliance with loan-to-value percentages, (ii) a site inspection for real estate collateralized loans, (iii) a review of the borrower s business experience, (iv) a review of the borrower s credit history, and (v) an analysis of the borrower s debt-service-coverage and debt-to-equity ratios. All appraisals must be performed by an approved licensed third party appraiser and based on the market value, replacement cost and cash flow value approaches. The Investment Manager generally utilizes nationwide independent appraisal firms and seeks local market economic information to the extent available.

PMC Commercial s typical loan is distinguished from those of some of its competitors by the following characteristics:

Substantial down payments are required. PMC Commercial usually requires an initial down payment of not less than 20% of the value of the property which is collateral for the loan at the time of such loan. PMC Commercial s experience has shown that the likelihood of full repayment of a loan increases if the owner/operator is required to make an initial and substantial financial commitment to the property which is collateral for the loan.

Cash outs are typically not permitted. Generally, PMC Commercial will not make a loan in an amount greater than either the cost of the property which is collateral for the loan or the current appraised value of the property which is collateral for the loan. For example, a hotel property may have been originally constructed for a cost of $2,000,000, with the owner/operator borrowing $1,600,000 of that amount. At the time of the borrower s loan refinancing request, the property securing the loan is appraised at $4,000,000. Some of PMC Commercial s competitors might loan from 70% to 90% or more of the new appraised value of the property and permit the owner/operator to receive a cash

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distribution from the proceeds. Generally, PMC Commercial would not permit this type of cash-out distribution.

The obligor is personally liable for the loan. PMC Commercial generally requires the principals of the borrower to guarantee the loan.

Loan Activity

The following table details PMC Commercial s loan activity for the periods indicated:

	Six Months Ended June 30, 2003	Years Ended December 31, 2002	2001	2000	1999	1998
			(In thousands)			
Loans receivable, net beginning of year	$71,992	$ 78,486	$ 65,645	$115,265	$119,712	$109,132
Loans originated	21,112	32,776	51,683	22,508	17,478	42,968
Principal collections(1)	(2,416)	(11,637)	(4,965)	(15,135)	(19,650)	(28,519)
Repayments of SBA 504 program loans	(970)	(631)	(970)	(973)	(2,542)	(3,607)
Loan transferred to assets acquired in liquidation(2)				(1,181)		
Loans sold(3)		(27,286)	(32,662)	(55,675)		
Other adjustments(4)	(104)	284	(245)	836	267	(262)
Loans receivable, net end of period	$89,614	$ 71,992	$ 78,486	$ 65,645	$115,265	$119,712

(1) *Includes scheduled payments and prepayments.*

(2) *A loan receivable was transferred to asset acquired in liquidation.*

(3) *PMC Commercial sold loans receivable as part of structured loan sale transactions.*

(4) *Includes the change in the loan loss reserve and the change in deferred commitment fees.*

Quarterly Loan Originations

The following table is a breakdown of loans originated on a quarterly basis during the years indicated:

	Years Ended December 31, 2002	2001	2000	1999	1998
			(In thousands)		
First Quarter	$ 6,346	$ 9,761	$ 301	$ 7,061	$ 9,437
Second Quarter	6,506	22,567	3,924	3,576	16,271
Third Quarter	10,044	10,097	7,340	3,808	8,417
Fourth Quarter	9,880	9,258	10,943	3,033	8,843
Total	$32,776	$51,683	$22,508	$17,478	$42,968

During the three and six months ended June 30, 2003 PMC Commercial originated $12.1 million and $21.1 million of loans, respectively.

Loan Portfolio Statistics

Information on PMC Commercial s loans receivable, loans which have been sold, and on which PMC Commercial has retained interests (the Sold Loans), and loans receivable combined with Sold Loans (the Aggregate Portfolio) was as follows:

	June 30, 2003		
	Aggregate Portfolio	**Sold Loans**	**Loans Receivable (1)**
	(Dollars in thousands)		
Portfolio outstanding	$ 193,243	$ 102,701	$ 90,542
Weighted average interest rate	8.3%	9.6%	6.9%
Annualized average yield (2)(3)	8.8%	9.9%	7.5%
Weighted average contractual maturity (in years)	15.4	15.8	14.9
Reduction of provision for loan losses (3)	$ (43)	$ (43)	$
Loan loss reserve	$ 453	$ 88	$ 365
Delinquent and impaired loans (4)	$ 1,739	$	$ 1,739
Lodging industry concentration %	96.5%	93.3%	100.0%
Texas concentration %(5)	21.0%	21.0%	20.9%

(1) *Portfolio outstanding before reserves and deferred commitment fees. Includes the principal balance remaining on underlying loans receivable in the 1998 structured loan financing transaction of $27.4 million at June 30, 2003.*

(2) *The calculation of annualized average yield divides interest, loan fees and prepayment fees earned, less the loan loss reserve, by the average outstanding portfolio.*

(3) *For the applicable period ended.*

(4) *Includes loans receivable which are either past due greater than 60 days or the collection of the balance of principal and interest is considered impaired and a loan loss reserve has been established (PMC Commercial Impaired Loans). The balance does not include the principal balance of loans which have been identified as potential problem loans for which it is expected that a full recovery of the principal balance will be received through either collection efforts or liquidation of collateral (PMC Commercial Special Mention Loans). Problem loans are classified into two categories: PMC Commercial Impaired Loans and PMC Commercial Special Mention Loans (collectively, PMC Commercial Problem Loans).*

(5) *No other concentrations greater than 10% existed as of June 30, 2003 except for a concentration of 10.3% of Sold Loans in Arizona.*

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	December 31, 2002			December 31, 2001		
	Aggregate Portfolio	Sold Loans	Loans Receivable(1)	Aggregate Portfolio	Sold Loans	Loans Receivable(1)
	(Dollars in thousands)					
Portfolio outstanding	$178,567	$105,751	$72,816	$162,137	$82,612	$79,525
Weighted average interest rate	8.7%	9.6%	7.5%	9.6%	9.6%	9.6%
Annualized average yield(2)(3)	10.0%	9.8%	10.3%	10.6%	10.7%	10.5%
Weighted average contractual maturity (in years)	15.4	16.2	14.2	14.7	16.5	12.7
Provision for loan losses(3)	$ 196	$ 131	$ 65	$ 200	$	$ 200
Loan loss reserves	$ 496	$ 131	$ 365	$ 300	$	$ 300
Delinquent and impaired loans(4)	$ 1,756	$	$ 1,756	$ 1,370	$	$ 1,370
Lodging industry concentration %	94.8%	93.4%	99.7%	94.3%	97.9%	90.6%
Texas concentration %(5)	23.0%	20.7%	26.5%	22.7%	21.7%	23.7%

(1) *Portfolio outstanding before reserves and deferred commitment fees. Includes the principal balance remaining on underlying loans receivable in the 1998 structured loan financing transaction of $30.7 million and $39.4 million at December 31, 2002 and 2001, respectively.*

(2) *The calculation of annualized average yield divides interest, loan fees and prepayment fees earned, less the loan loss reserve, by the average outstanding portfolio.*

(3) *For the applicable year ended.*

(4) *Includes loans receivable which are either past due greater than 60 days or PMC Commercial Impaired Loans. The balance does not include PMC Commercial Special Mention Loans.*

(5) *No other concentrations greater than 10% existed as of December 31, 2002 except for a concentration of 10.2% of sold loans in Arizona.*

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Franchise Schedule

The following table is a breakdown of franchise affiliation by the principal balance outstanding on the Aggregate Portfolio and loans receivable:

	At December 31, 2002					
	Aggregate Portfolio			Loans Receivable		
Franchise	Number of Properties	Principal Outstanding	Percentage of Aggregate Portfolio	Number of Properties	Principal Outstanding	Percentage of Loans Receivable
			(Dollars in thousands)			
Comfort Inn/ Suites	17	$ 28,845	16.2%	7	$10,010	13.8%
Holiday Inn/ Express	18	24,768	13.9%	8	10,823	14.9%
Days Inn	14	20,143	11.3%	3	1,723	2.4%
Ramada Inn	12	17,953	10.1%	8	12,241	16.8%
Best Western	11	16,525	9.3%	7	10,084	13.8%
Quality Inn	7	10,969	6.2%	2	2,578	3.5%
Sheraton Four Points	2	6,113	3.4%	2	6,113	8.4%
Econolodge	5	4,436	2.5%	2	1,924	2.6%
Super 8	4	4,319	2.4%	3	3,050	4.2%
Travelodge	3	4,090	2.3%	1	1,353	1.9%
Amerihost Inn	2	4,061	2.3%	2	4,061	5.6%
Country Hearth Inn	3	3,943	2.2%			
Howard Johnson	3	3,481	1.9%	1	640	0.9%
Sleep Inn	2	3,281	1.8%	1	1,233	1.7%
Country Inn & Suites	1	2,898	1.6%			
Springhill Suites (Marriott)	1	2,748	1.5%			
Hampton Inn	3	2,649	1.5%	2	1,444	2.0%
Microtel Inn	2	2,514	1.4%	1	1,164	1.6%
Park Inn & Suites	1	1,696	0.9%	1	1,696	2.3%
Budgetel	1	1,336	0.7%			
Fairfield Inn (Marriott)	1	1,264	0.7%	1	1,264	1.7%
Shoney s Inn	1	1,196	0.7%	1	1,196	1.6%
	114	169,228	94.8%	53	72,597	99.7%
Independent hospitality properties	4	2,403	1.3%	1	219	0.3%
Commercial real estate	5	6,936	3.9%			
Total	123	$178,567	100.0%	54	$72,816	100.0%

SBA Section 504 Program

PMC Commercial participates as a private lender in the SBA 504 Program. Participation in the SBA 504 Program offers PMC Commercial an opportunity to enhance the collateral status of loans receivable by allowing it to originate loans with lower loan-to-value ratios. The SBA 504 Program assists small businesses in obtaining subordinated, long-term financing by guaranteeing debentures available through certified development companies for the purpose of acquiring land, building, machinery and equipment and for modernizing, renovating or restoring existing facilities and sites. A typical finance structure for an SBA 504 Program project would include a first mortgage covering 50% of the project cost from a private lender, a second mortgage obtained through the SBA 504 Program covering up to 40% of the project cost and a contribution of at least 10% of the project cost by the principals of the small businesses being assisted. PMC Commercial typically requires at least 20% of the equity in a project to be contributed by the principals of the borrower. The SBA does not guarantee the first mortgage. Although the total sizes of projects utilizing the SBA 504 Program guarantees are unlimited, the maximum amount of subordinated debt in any individual project generally is $750,000 (or $1 million for certain projects). Typical project costs range in size from $500,000 to $3 million.

Property Ownership

At June 30, 2003, PMC Commercial owned 22 limited service hospitality properties (hotel properties) that were purchased in 1998 and 1999 through a sale/leaseback agreement with Arlington. Arlington is the operator of the properties through a master lease agreement that provides for base rent ($5.5 million per year as of June 30, 2003) and percentage rent of 4% of the gross room revenues generated by the hotel properties. The lease agreement runs through June 2008 with two renewal options of five years each and a third option for 27 months. The first renewal is either at PMC Commercial s or Arlington s option. The second five year renewal and the third 27 month renewal are solely at Arlington s option. Each renewal requires extension of all of the then owned hotel properties. The base rent is adjusted to increase each year based on the consumer price index up to a maximum increase of 2% per year. Arlington operates the hotel properties as Amerihost Inns which is a brand name franchised by Cendant Corporation, the largest franchisor of hospitality properties.

During the three years ended December 31, 2002, PMC Commercial sold eight properties for $21.3 million resulting in net gains totaling $2.3 million. Five of these property sales were completed as a result of an agreement entered into with Arlington to sell up to eight properties to Arlington or a third party prior to June 2004. There were no sales during the six months ended June 30, 2003. To the extent the remaining purchases by Arlington are not completed in the agreed upon time frame, the lease agreement provides for rent increases on the remaining hotel properties.

Structured Loan Transactions

General

Structured loan sale transactions are PMC Commercial s primary method of obtaining funds for new loan originations. In a structured loan sale transaction, PMC Commercial contributes loans receivable to an SPE in exchange for an ownership interest in that entity and obtains an opinion of counsel that the contribution of loans receivable to the SPE constitutes a true sale of the loans receivable. The SPE issues notes payable (usually through a private placement) to third parties and then distributes a portion of the notes payable proceeds to PMC Commercial. The notes payable are collateralized solely by the assets of the SPE. The terms of the notes payable issued by the SPEs provide that the owners of these SPEs are not liable for any payment on the notes. Accordingly, if the SPEs fail to pay the principal or interest due on the notes, the sole recourse of the holders of the notes is against the assets of the SPEs. PMC Commercial has no obligation to pay the notes, nor do the holders of the notes have any recourse against PMC Commercial s assets.

PMC Commercial accounts for structured loan sale transactions as sales of loans receivable and the SPE meets the definition of a qualifying SPE; as a result, neither the loans receivable contributed to the SPE nor the notes payable issued by the SPE are included in PMC Commercial s consolidated financial statements. When a structured loan sale transaction is completed: (1) the ownership interests in the SPEs are accounted for as retained interests and are recorded at the present value of the estimated future cash flows to be received from the SPE and (2) the difference between (i) the carrying value of the loans receivable sold and (ii) the relative fair value of the sum of (a) the cash received and (b) the present value of estimated future cash flows from the retained interests, constitutes the gain or loss on sale. Gains or losses on these sales may represent a material portion of PMC Commercial s net income in the period in which the transactions occur. The terms of the notes payable issued by the SPE provide that PMC Commercial is not liable for payment on the Notes. Accordingly, even though the loans receivable and the notes payable by the SPE are included in PMC Commercial s consolidated financial statements, if the SPE fails to pay the principal or interest on the notes, the sole recourse of the holders of the notes is against the loans receivable and any other assets of the SPE.

A structured loan financing is similar to a structured loan sale, with the exception that the transaction is not treated as a sale for financial reporting purposes. Therefore, the loans receivable contributed to the SPE

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and the notes payable issued by the SPE are included in PMC Commercial s consolidated financial statements, and as a result the ownership interest in the SPE is not accounted for as a retained interest. Even though the loans receivable and the notes payable are included on its balance sheets from the structured loan financing transaction completed in 1998, PMC Commercial has no obligation to pay the notes, nor do the holders of the notes have any recourse against PMC Commercial s assets.

Both PMC Commercial s structured loan sale transactions and structured loan financing transactions receive opinions from outside counsel that opine to the legal sale of the loans from PMC Commercial to the SPE formed in connection with the securitization. Each of PMC Commercial s completed securitization transactions (both structured loan sale transactions and structured loan financing transactions) provides a clean-up call. A clean-up call is an option which allows the repurchase of the transferred assets when the amount of the outstanding assets falls to a level at which the cost of servicing those assets becomes burdensome. The clean-up call option regarding a loan in an SPE is exercised by the party that contributed the loan to the SPE. As a result of the characteristics underlying the loans receivable not satisfying the requirements of off balance sheet accounting treatment, the 1998 securitization was considered a structured loan financing transaction. The servicers of the loans pursuant to the transaction documents are PMC Capital and PMC Commercial. The servicers are paid a fee equal to 30 basis points of the principal outstanding per year. See PMC Commercial Management s Discussion and Analysis of Financial Condition and Results of Operations.

Since PMC Commercial relies on structured loan transactions as its primary source of operating capital to fund new loan originations, any adverse changes in its ability to complete this type of transaction, including any negative impact on the asset-backed securities market for the type of product PMC Commercial generates, could have a detrimental effect on its ability to generate funds to originate loans.

PMC Commercial s retained interests consist of (i) the required over-collateralization, which is the retention of a portion of each of the sold loans, (ii) the reserve fund, which is required cash balances owned by the SPE and (iii) the interest-only strip receivable, which is the future excess funds to be generated by the SPE after payment of all obligations of the SPE. The retained interest is PMC Commercial s residual interest in the loans sold by PMC Commercial to the SPE. When PMC Commercial securitizes loans receivable, it is required to recognize its retained interests, which represents PMC Commercial s rights to expected net future cash flows, at their estimated fair value. Retained interests are subject to credit, prepayment and interest rate risks. Retained interests are materially more susceptible to these risks than the notes issued by the SPE. The value of PMC Commercial s retained interests is determined based on the present value of estimated future cash flows that it will receive from the SPEs. The estimated future cash flows are calculated based on assumptions concerning, among other things, loan losses and prepayment speeds. On a quarterly basis, PMC Commercial measures the fair value of, and records income relating to, the retained interests based upon the future anticipated cash flows discounted based on an estimate of market interest rates for investments of this type. Any appreciation of the retained interests is included in PMC Commercial s balance sheet in beneficiaries equity while any depreciation of retained interests is either included in PMC Commercial s statement of income as either a realized loss (if there is a reduction in expected future cash flows) or on the balance sheet in beneficiaries equity as an unrealized loss.

PMC Commercial retains a portion of the default and prepayment risk associated with the underlying transferred loans receivable of PMC Commercial s retained interests. Actual defaults and prepayments with respect to estimating future cash flows for purposes of valuing retained interests will vary from assumptions, possibly to a material degree, and slower (faster) than anticipated prepayments of principal or lower (higher) than anticipated loan losses will increase (decrease) the fair value of retained interests and related cash flows. See Risk Factors Risks Related to the Business of Both PMC Commercial and PMC Capital. PMC Commercial regularly measures loan loss, prepayment and other assumptions against the actual performance of the loans receivable sold. Although PMC Commercial believes that assumptions made as to the future cash flows are reasonable, actual rates of loss or prepayments will vary from those assumed and the assumptions may be revised based upon changes in facts or circumstances.

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In connection with structured loan sale transactions, joint ventures have been formed as SPEs to hold the loans receivable sold and issue notes payable collateralized by the loans receivable. As of June 30, 2003, PMC Commercial s SPEs consisted of:

PMC Joint Venture, L.P. 2000 (the 2000 Joint Venture) and its related general partner;

PMC Joint Venture, L.P. 2001 (the 2001 Joint Venture) and its related general partner; and

PMC Joint Venture, L.P. 2002-1 (the 2002 Joint Venture, and together with the 2000 Joint Venture and the 2001 Joint Venture, the Joint Ventures) and its related general partner.

At June 30, 2003, PMC Commercial owned approximately 68%, 40% and 39%, respectively, of the 2000 Joint Venture, the 2001 Joint Venture and the 2002 Joint Venture with the remainder owned by PMC Capital. PMC Commercial s share of the cash flows from the Joint Ventures is allocated based on the cash flows from the underlying loans receivable contributed by PMC Commercial to the respective Joint Venture less allocated costs based on the remaining principal on the underlying loans receivable contributed by PMC Commercial divided by all loans receivable held by the respective Joint Venture.

Information relating to PMC Commercial s structured loan sale transactions are as follows:

	2000 Joint Venture	2001 Joint Venture	2002 Joint Venture
		(Dollars in thousands)	
Principal amount of loans sold:			
At time of sale	$55,675	$32,662	$27,286
At December 31, 2002	49,975	28,951	26,825
At June 30, 2003	47,864	28,331	26,505
Structured notes:			
At time of sale	49,550	30,063	24,557
At December 31, 2002	44,572	26,384	24,135
At June 30, 2003	42,473	26,086	23,815
Weighted average interest rate on loans:			
At time of sale	9.63%	9.62%	9.23%
At December 31, 2002	9.64%	9.60%	9.23%
At June 30, 2003	9.62%	9.59%	9.19%
Interest rate on the SPE notes payable (fixed)	7.28%	6.36%	6.67%
Required initial over-collateralization(1)	11.0%	8.0%	10.0%
PMC Commercial required over-collateralization(2):			
At December 31, 2002	11.1%	9.0%	10.2%
Rating of structured notes initial and current(3)	Aaa	Aaa	Aaa
Cash reserve requirement	6.0%	6.0%	6.0%

(1) The required initial over-collateralization percentage represents the portion of PMC Commercial s sold loans receivable retained by the SPEs whose value is included in retained interests.

(2) The PMC Commercial required over-collateralization percentage is larger than the initial required over-collateralization percentage since all principal payments received on the underlying loans receivable are paid to the noteholders.

(3) Structured notes issued by the SPEs were and continue to be rated by Moody s Investors Service, Inc. The retained interests were not rated.

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Structured Loan Sale Transaction Completed During 2002

On April 12, 2002, PMC Commercial completed a structured loan sale transaction of a pool of primarily fixed-rate loans receivable. PMC Commercial and PMC Capital contributed loans receivable of $27.3 million and $43.2 million, respectively, to the 2002 Joint Venture. The 2002 Joint Venture issued, through a private placement, approximately $63.5 million of its 2002 Loan-Backed Fixed Rate Notes (the 2002 L.P. Notes) of which approximately $24.6 million (the 2002 PMCT L.P. Notes) was allocated to PMC Commercial based on its ownership percentage in the 2002 Joint Venture. The 2002 L.P. Notes, issued at par, have a stated maturity in 2023, bear interest at 6.67% and are collateralized by the loans receivable contributed by PMC Commercial and PMC Capital to the 2002 Joint Venture. PMC Commercial accounted for this transaction as a sale, recorded a gain of $562,000 and recorded the retained interests at an initial amount of $5,293,000 during 2002.

The net proceeds from the issuance of the 2002 PMCT L.P. Notes (approximately $24.0 million) were distributed to PMC Commercial. These proceeds are net of issuance costs and prior to funding the required reserve balance. At inception of the 2002 Joint Venture and at June 30, 2003, PMC Commercial owned a 39% limited partnership interest based on its share of the capital.

Structured Loan Sale Transaction Completed During 2001

On June 27, 2001, PMC Commercial completed a structured loan sale transaction of a pool of fixed-rate loans receivable. PMC Commercial and PMC Capital contributed loans receivable of $32.7 million and $49.2 million, respectively, to the 2001 Joint Venture. The 2001 Joint Venture issued, through a private placement, approximately $75.4 million of its 2001 Loan-Backed Fixed Rate Notes (the 2001 L.P. Notes) of which approximately $30.1 million (the 2001 PMCT L.P. Notes) was allocated to PMC Commercial based on its ownership percentage in the 2001 Joint Venture. The 2001 L.P. Notes, issued at par, have a stated maturity in 2021, bear interest at 6.36% and are collateralized by the loans receivable contributed by PMC Commercial and PMC Capital to the 2001 Joint Venture. PMC Commercial accounted for this transaction as a sale, recorded a gain of $1,433,000 and recorded the retained interests at an initial amount of $5,871,000 during 2001.

The net proceeds from the issuance of the 2001 PMCT L.P. Notes (approximately $29.5 million) were distributed to PMC Commercial. These proceeds are net of issuance costs and prior to funding the required reserve balance. At inception of the 2001 Joint Venture and at June 30, 2003, PMC Commercial owned a 40% limited partnership interest based on its share of the capital.

Structured Loan Sale Transaction Completed During 2000

On December 18, 2000, PMC Commercial completed its first structured loan sale transaction with PMC Capital. It completed the structured loan sale of a pool of fixed-rate loans receivable. PMC Commercial and PMC Capital contributed loans receivable of $55.7 million and $28.0 million, respectively, to the 2000 Joint Venture. The 2000 Joint Venture issued, through a private placement, approximately $74.5 million of its 2000 Loan-Backed Fixed Rate Notes (the 2000 L.P. Notes) of which approximately $49.6 million (the 2000 PMCT L.P. Notes) was allocated to PMC Commercial based on its ownership percentage in the 2000 Joint Venture. The 2000 L.P. Notes, issued at par, have a stated maturity in 2024, bear interest at 7.28% and are collateralized by the loans receivable contributed by PMC Commercial and PMC Capital to the 2000 Joint Venture. PMC Commercial accounted for this transaction as a sale, recorded a gain of $1,117,000 and recorded the retained interests at an initial amount of $11,174,000 during 2000.

The net proceeds from the issuance of the 2000 PMCT L.P. Notes (approximately $49.2 million) were distributed to PMC Commercial. These proceeds are net of issuance costs and prior to funding the required reserve balance. At inception of the 2000 Joint Venture and at June 30, 2003, PMC Commercial owned a 68% limited partnership interest based on its share of the capital.

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Joint Structured Loan Sale Transactions General

The terms of the 2002 L.P. Notes, the 2001 L.P. Notes and the 2000 L.P. Notes (the JV Notes) provide that each of the partners of the respective Joint Ventures is not liable for any payments on the JV Notes. Accordingly, if the Joint Ventures fail to pay the JV Notes, the sole recourse of the holders of the JV Notes is against the assets of the respective Joint Venture. Accordingly, PMC Commercial has no obligation to pay the JV Notes, nor do the holders of the JV Notes have any recourse against its assets.

PMC Commercial and PMC Capital have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. To the extent that poor performance by either PMC Commercial s or PMC Capital s sold loans receivable (the Underperforming Company) is pervasive enough to cause the other company (the Performing Company) not to receive cash flow that it otherwise would have received, then the Underperforming Company must make the Performing Company whole. If the cash flow reduction is considered to be temporary, then interest will be paid as compensation to the Performing Company. In general, when a loan is liquidated, it may cause a deferral of cash flow to the Performing Company and, as a result, interest would be charged to the Underperforming Company until the cash flow from the Joint Venture repays the Performing Company. If the reduction of cash flows is deemed permanent *(i.e.,* to the extent that the Underperforming Company will not be able to satisfy the shortfall with the assets it has contributed to the related structured loan sale transaction), the balance of reduction to cash flows must be paid to the Performing Company by the Underperforming Company. At June 30, 2003 and December 31, 2002, the maximum potential amount of future payments to PMC Capital (undiscounted and without consideration of any proceeds from the collateral underlying the loans receivable) PMC Commercial could be required to make under these cross indemnification agreements was approximately $34.0 million and $36.3 million, respectively, and the discounted amount was $23.6 million and $25.2 million, respectively, which represents the estimated fair value of the retained interests reflected on PMC Capital s consolidated balance sheet for the Joint Ventures. Upon completion of a joint securitization and on each subsequent quarterly reporting date, management evaluates the need to recognize a liability associated with these cross indemnification agreements. Based on present cash flow assumptions, including stress test analyses of increasing the anticipated losses on each of the loan pools, it does not appear that the loans receivable sold by PMC Commercial will cause any permanent cash flow reductions to PMC Capital nor does it appear that the loans receivable sold by PMC Capital will cause any permanent cash flow reduction to PMC Commercial. Accordingly, PMC Commercial believes that the fair value of these cross indemnification agreements at inception of the Joint Ventures and as of June 30, 2003 and December 31, 2002 and 2001 was zero; thus, no liability was recorded. If the performance of sold loans receivable significantly deteriorates, it could be necessary for PMC Commercial to perform under these cross indemnification agreements.

When structured loan sale transactions were completed, the transaction documents that the SPE entered into contained provisions (the Credit Enhancement Provisions) that govern the assets and the flow of funds in and out of the SPE formed as part of the structured loan sale transaction. Generally, the Credit Enhancement Provisions include specified limits on the delinquency, default and loss rates on loans receivable included in each SPE. If, at any measurement date, the delinquency, default or loss rate with respect to any SPE were to exceed the specified limits, provisions of the Credit Enhancement Provisions would automatically increase the level of credit enhancement requirements for that SPE. During the period in which the specified delinquency, default or loss rate was exceeded, excess cash flow from the SPE, if any, would be used to fund the increased credit enhancement levels instead of being distributed to PMC Commercial, which would delay or reduce its distribution.

Investment Management

PMC Commercial s loans receivable are managed by PMC Advisers (either directly or through its subsidiary) pursuant to an investment management agreement and its properties, including the hotel properties, are supervised by PMC Advisers pursuant to a separate agreement (the Lease Supervision Agreement, and together with the investment management agreements, the Advisory Agreements). Both agreements are renewable on an annual basis.

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During the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, pursuant to the investment management agreement PMC Commercial was charged fees between 0.40% and 1.55% annually, based upon the average principal outstanding of PMC Commercial loans receivable. In addition, PMC Advisers earns fees for its assistance with the issuance of PMC Commercial s debt and equity securities. Such compensation includes a consulting fee equal to (i) 12.5% of any offering fees (underwriting or placement fees) incurred by PMC Commercial pursuant to the public offering or private placement of common shares, and (ii) 50% of any issuance or placement fees incurred by PMC Commercial pursuant to the issuance of debt securities or preferred shares of beneficial interest. In the event the investment management agreement with PMC Advisers is terminated or not renewed by PMC Commercial (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by PMC Commercial), PMC Capital would enter into a non-compete agreement for a period of seven years from the termination date. A fee would be paid to PMC Advisers each year by PMC Commercial in consideration of the non-compete agreement until the non-compete agreement is terminated. Upon termination, the fee would be calculated as 1% (less loan losses as a percentage of average outstanding invested assets) multiplied by the average invested assets.

The Lease Supervision Agreement provides for an annual fee of 0.70% of the original cost of the hotel properties to be paid to PMC Advisers for providing services relating to leases on PMC Commercial s properties. In addition, the Lease Supervision Agreement provides for a fee relating to any acquisition of properties of 0.75% of the acquisition cost, a fee of $10,000 upon the sale of each hotel property and an annual loan origination fee equal to five basis points of loans funded for the first $20 million in loans and 2.5 basis points thereafter. In the event the Lease Supervision Agreement with PMC Advisers is terminated or not renewed by PMC Commercial (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by PMC Commercial), PMC Advisers would be entitled to receive the lease supervision fee for a period of five years from the termination date. Pursuant to the Advisory Agreements, PMC Commercial incurred an aggregate of approximately $1.1 million, $2.3 million and $2.3 million in management fees during the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, respectively.

PMC Capital is primarily engaged in the business of originating loans to small businesses under loan guarantee and funding programs sponsored by the SBA. PMC Commercial provides loans to persons or entities whose borrowing needs and/or strength and stability exceed the limitations set for SBA approved loan programs. As a result, PMC Commercial generally pursues different prospective borrowers than PMC Capital. In order to further mitigate the potential for conflicts of interest, PMC Commercial has entered into a loan origination agreement with PMC Capital and PMC Advisers. Pursuant to the loan origination agreement, all loans that meet PMC Commercial s underwriting criteria are presented to PMC Commercial first for funding. If PMC Commercial does not have available uncommitted funds, origination opportunities presented to PMC Commercial may be originated by PMC Capital or its subsidiaries. Many of PMC Commercial s existing and potential borrowers have other projects that are currently financed by PMC Capital.

Tax Status

PMC Commercial has elected to be taxed as a REIT under the Internal Revenue Code. As a REIT, PMC Commercial generally is not subject to U.S. Federal income tax (including any applicable alternative minimum tax) on any income (including net capital gain) it distributes to its shareholders, provided that it distributes at least 90% of its REIT taxable income to shareholders. PMC Commercial may, however, be subject to certain Federal excise taxes and state and local taxes on its income and property. REITs are subject to a number of organizational and operational requirements under the Internal Revenue Code. See U.S. Federal Income Tax Consequences.

Employees

PMC Commercial has no salaried employees. The Investment Manager provides all personnel required for PMC Commercial s operations.

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Customers

In relation to its lending division, PMC Commercial is not dependent upon a single borrower, or a few borrowers, whose loss would have a material adverse effect on it. In addition, PMC Commercial has not loaned more than 10% of its assets to any single borrower.

PMC Commercial s property division is dependent upon Arlington to operate the hotel properties. Lease income from Arlington represents 100% of the revenue in this segment. The loss of Arlington would have a material adverse effect on PMC Commercial until another operator could be put into place for the hotel properties.

Properties

PMC Commercial operates from the headquarters of the Investment Manager in Dallas, Texas, and through their loan production office in Arizona.

At June 30, 2003, PMC Commercial owned 22 hotel properties (not including the limited service hospitality property it acquired through foreclosure on the real estate securing a loan receivable). The hotel properties are leased to a wholly-owned subsidiary of Arlington pursuant to individual property leases which are subject to the terms of a master lease agreement. Pursuant to the master lease agreement, aggregate base rent is paid to PMC Commercial based on the number of hotel properties it owns. The master lease and the underlying individual property leases expire in June 2008, but each can be extended by either Arlington or PMC Commercial for one five-year period, and thereafter by Arlington for a five-year period and a subsequent 27 month period. If fully extended, the term of the master lease would continue until September 2020. Arlington has guaranteed the payment of the rent due under the terms of the master lease agreement and the individual property leases. In addition, the master lease requires a deposit of two months base rent (approximately $900,000 at December 31, 2002). If Arlington defaults under the master lease, PMC Commercial has the right to, among other things, terminate the master lease. Lease income represented approximately 36% of PMC Commercial s total revenues during 2002.

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The following table describes the location, number of rooms, year built and annual base rent for 2003 relating to each of these properties:

City	State	Rooms in Hotel	Year Built	Annual Base Rent(1)
Eagles Landing	Georgia	60	1995	$ 237,180
La Grange(2)	Georgia	59	1995	216,560
Smyrna	Georgia	60	1996	226,870
Rochelle	Illinois	61	1997	247,490
Macomb	Illinois	60	1995	268,120
Sycamore	Illinois	60	1996	268,120
Plainfield	Indiana	60	1992	247,490
Mt. Pleasant	Iowa	63	1997	226,870
Storm Lake	Iowa	61	1997	216,560
Coopersville	Michigan	60	1996	247,490
Grand Rapids North	Michigan	60	1995	278,430
Grand Rapids South	Michigan	61	1997	278,430
Monroe	Michigan	63	1997	257,800
Port Huron	Michigan	61	1997	257,800
Tupelo	Mississippi	61	1997	237,180
Ashland	Ohio	62	1996	309,370
Marysville	Ohio	79	1990	329,990
Wooster East	Ohio	58	1994	206,250
Wooster North	Ohio	60	1995	206,250
Jackson	Tennessee	61	1998	257,800
McKinney	Texas	61	1997	257,800
Mosinee	Wisconsin	53	1993	175,310
		1,344		$ 5,455,160

(1) Annual base rent includes a CPI adjustment (2.0% increase) which was effective January 1, 2003.

(2) Represents PMC Commercial s real estate investment held for sale at June 30, 2003.

Legal Proceedings

In the normal course of business, PMC Commercial is subject to various proceedings and claims, the resolution of which will not, in management s opinion, have a material adverse effect on its financial position or results of operations.

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PMC COMMERCIAL MANAGEMENT S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with PMC Commercial s consolidated financial statements and related notes appearing elsewhere in this joint proxy statement/ prospectus.

Recent Developments

For the three months ended September 30, 2003, PMC Commercial s net income was $2,265,000, or $0.35 per share, compared to $2,164,000, or $0.34 per share, for the three months ended September 30, 2002. For the nine months ended September 30, 2003, net income was $5,916,000, or $0.92 per share, compared to $7,976,000, or $1.24 per share, for the nine months ended September 30, 2002. The decrease, during the nine months ended September 30, 2003, was primarily a result of (1) a $618,000 reduction in other income which resulted from reductions in prepayment fee income and (2) a reduction of $942,000 in gains from asset sales due to a structured loan sale completed in 2002 with no transaction completed during the nine months ended September 30, 2003 and two property sales in 2002 with an aggregate gain of $663,000 compared to one property sale in 2003 with a gain of $283,000.

In October 2003, PMC Commercial and PMC Capital completed a joint structured loan transaction. This transaction consisted of variable-rate notes issued by a newly-formed special purpose entity, of which PMC Commercial and PMC Capital are partners, secured by a portfolio of loans sold to the joint venture by PMC Commercial and PMC Capital. PMC Commercial received approximately $40.9 million in gross proceeds from the loan sale. PMC Commercial used the net proceeds to repay the outstanding balance under its credit facility and intends to use the remaining proceeds to originate new loans. The 2003 L.P. Notes, issued at par, which have a stated maturity in 2023 and bear interest, reset on a quarterly basis, at the 90-day LIBOR plus 1.25%, are collateralized by the loans receivable transferred by PMC Commercial and PMC Capital to the 2003 Joint Venture. The 2003 L.P. Notes were rated Aaa by Moody s Investors Service, Inc. At inception of the 2003 Joint Venture, PMC Commercial owned a 44% limited partnership interest in the 2003 Joint Venture based on its share of the capital.

If the merger is approved and all other conditions to the merger have been satisfied or waived, PMC Capital will cease to exist and PMC Commercial will survive the merger and own and operate the businesses of PMC Capital and its subsidiaries under the name PMC Commercial Trust. Following the merger, PMC Commercial intends to continue to qualify as a REIT. PMC Commercial expects that the larger equity market capitalization would help create new business flexibility and earnings stability. In addition, PMC Commercial expects that the merger would provide stability to cash flow available for dividends and ultimately add to PMC Commercial s cash available for distribution. As a result of the larger equity base, PMC Commercial believes that the ability to meet its liquidity needs will be enhanced including larger credit facilities and alternative credit facilities such as a warehouse line of credit.

Business

General

PMC Commercial is primarily a commercial lender that originates loans to small businesses that are principally collateralized by first liens on the real estate of the related business. PMC Commercial sells loans receivable through privately-placed structured loan sale transactions. Historically, PMC Commercial has retained residual interests in all loans receivable sold through its ownership in the related SPEs.

PMC Commercial s revenues and realized gains include the following:

Interest earned on loans receivable including the effect of commitment fees collected at the inception of the loan;

Lease payments on hotel properties;

Earnings on retained interests;

Interest earned on temporary (short-term) investments;

Gains relating to structured loan sale transactions;

Gains relating to sales of hotel properties; and

Other fees, including late fees, prepayment fees, construction monitoring fees and site visit fees.

PMC Commercial s ability to generate interest income, as well as other revenue sources, is dependent on economic, regulatory and competitive factors that influence interest rates and loan originations, and its ability to secure financing for its investment activities. The amount of other income earned will vary based on volume of loans funded, the timing and amount of financings, the volume of loans receivable which prepay, the mix of loans (construction versus non-construction), the rate and type of loans originated (whether fixed or variable) as well as the general level of interest rates. For a more detailed description of the risks affecting PMC Commercial s financial condition and results of operations, see Risk Factors.

Commencing in the latter half of 2001, PMC Commercial s ability to compete for fixed-rate lending opportunities declined. Interest rates have remained at historically low levels for a prolonged period of time providing the banking industry with the ability to offer fixed-rate mini-perm loans (*i.e.,* five-year maturity, 20-year amortization) based on these low short-term rates. In contrast, the interest rates on PMC Commercial s fixed-rate loan products are based on a longer term (10-year U.S. Treasuries) which remained at disproportionately higher levels than shorter term financial indices. As a result, the fixed interest rates PMC Commercial offered were higher than the banks and its lending opportunities decreased. However, PMC Commercial is able to compete more effectively when offering a LIBOR-based variable-rate loan product.

At June 30, 2003 and December 31, 2002, PMC Commercial s variable-rate loans receivable were $59.9 million (67%) and $42.1 million (58%), respectively, of its loans receivable. At June 30, 2003, all of its commitments were for variable-rate loans, and given the current interest rate market, PMC Commercial expects to continue to originate primarily variable-rate loans. At June 30, 2003, PMC Commercial had approximately $21.4 million of total loan commitments and approvals outstanding with interest rates based on spreads over LIBOR ranging from 4.0% to 4.5%. The weighted average interest rate on loan commitments at June 30, 2003 was 5.3% which is lower than PMC Commercial s historical weighted average interest rate on loan commitments because PMC Commercial is currently originating primarily variable-rate interest loans. Commitments have fixed expiration dates and require payment of a fee to PMC Commercial.

The weighted average interest rate on loans receivable declined to 6.9% at June 30, 2003 from 7.5% at December 31, 2002 and 9.6% at December 31, 2001 primarily as a result of a decrease in the average quarterly LIBOR (244 basis points) during 2002 which is utilized in the determination of quarterly variable rates and an increase in variable-rate lending.

Current Operating Overview

Due to geopolitical uncertainty and general economic conditions, PMC Commercial has seen a slowdown in potential lending opportunities and some funding commitments have been terminated. In addition, PMC Commercial did not complete a structured loan sale transaction on favorable terms that it had expected to be completed prior to June 30, 2003. While PMC Commercial believes it could have completed a transaction during the second quarter of 2003, it delayed the securitization since the terms of the transactions available in the market were not considered favorable to it (i.e. the transaction size and cost did not reflect the value of the transaction). As a result, PMC Commercial s anticipated fundings during the remainder of 2003 most likely will not meet its prior expectation. When fundings are reduced, PMC Commercial s net interest income does not increase as it would have if these fundings were completed, and may be reduced to the extent principal repayments exceed amounts funded or interest rates decline. The market for the type of asset-backed securities PMC Commercial originates was relatively inefficient during the first half of 2003 as a result of uncertainties in the market place due to the sluggishness of the economy, geopolitical uncertainties and the impact of the ongoing conflict in the Middle East. PMC Commercial is in the process of finalizing a loan pool for its current structured loan sale transaction and now anticipates that the structured loan sale transaction will be completed late in September 2003, unless additional delays are encountered.

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Since the majority of PMC Commercial s loans receivable have variable rates of interest, the continuation of the low interest rate environment has had a negative impact on net income. During late 2002, PMC Commercial expected that interest rates would gradually increase during 2003 and 2004; however interest rates decreased during the first half of 2003. PMC Commercial expects that short-term interest rates will remain at current levels or possibly decrease during the remainder of 2003. Interest rate increases will generally cause valuation decreases in its retained interests in transferred assets while interest rate decreases cause valuation increases in its retained interests in transferred assets; however, these changes have no impact on its cash flow from operations, the cash available for distribution to PMC Commercial shareholders or the determination by the PMC Commercial board of trust managers of the level of quarterly dividend distributions.

In addition, the following provides a summary of other significant economic factors that may have an impact on PMC Commercial s financial condition and results of operations. The factors described below could impact the volume of loan originations, the income PMC Commercial earns on assets, its ability to complete a securitization, the performance of loans and/or the performance of SPEs.

Asset-Backed Structured Loan Sale Transaction Market

Problems in the asset-backed securities market that could impact PMC Commercial s ability or alter its decision to complete a structured loan transaction on a timely basis or cause it to sell loans receivable on less favorable terms include, but are not limited to, the following:

As a result of certain economic conditions, investors in the type of asset-backed securities that PMC Commercial places may increase its cost of capital by widening the spreads they require in order to purchase asset-backed securities or cease acquiring the type of asset backed security issued by PMC Commercial;

The deterioration in the performance of either PMC Commercial s loan portfolio or the portfolio of PMC Capital may deter potential investors from purchasing its asset-backed securities;

The deterioration in the operations of the limited service sector of the hospitality industry which may deter potential investors from purchasing PMC Commercial s asset-backed securities or lower the available rating from the rating agencies;

A reduction in the performance of the loans receivable of prior transactions or of similar transactions (for example, higher than expected loan losses or delinquencies) may deter potential investors from purchasing PMC Commercial s asset-backed securities; and

A change in the underlying criteria utilized by the rating agencies may cause transactions to receive lower ratings than previously issued thereby increasing the cost of capital on PMC Commercial s transactions.

Significant changes in any of these criteria may result in PMC Commercial temporarily suspending its structured loan sale program and seeking other sources of financing. See Risk Factors Risks Related to the Business of Both PMC Commercial and PMC Capital.

Interest Income and Rates

As a result of PMC Commercial s increasing dependence on variable-rate loans, the continued prolonged low interest rate environment has caused interest income to be reduced. To the extent that rates remain at these historically low levels, or LIBOR decreases from current levels, PMC Commercial will earn less interest income. Alternatively, when rates rise in the future, the interest PMC Commercial earns on performing variable-rate loans will increase. In addition, the decreased loan origination volume during 2002 (compared to 2001) affected interest income. Interest income can continue to be reduced if (i) principal payments on outstanding loans receivable exceed loan originations, (ii) interest rates continue to decrease, or (iii) PMC Commercial Problem Loans increase.

Interest Rate Spreads

PMC Commercial s net interest margin is dependent upon the difference between the cost of borrowed funds and the rate at which PMC Commercial invests these funds (the spread differential). A significant reduction in spread differential may have a material adverse effect on PMC Commercial s results of operations. Over the past few years the spread differential has been reduced causing decreased income from continuing operations. There can be no assurance that the spread differential will not continue to decrease. PMC Commercial believes that its LIBOR-based loan program will provide it with a spread differential (resulting from structured loan sale transactions) that approximates the spread differential it has historically received on fixed-rate transactions due to management s belief that there is a more favorable market for LIBOR-based structured loan sale transactions compared to fixed-rate structured loan sale transactions.

Loan Origination Trend

During the latter part of 2001, PMC Commercial commenced marketing and selling a variable-rate loan product based on LIBOR which presently provides a lower cost variable interest rate alternative to its borrowers as a result of market conditions. During the first half of 2002, PMC Commercial experienced decreases in lending opportunities, loans funded and loan commitments compared to the prior year due to competition resulting from the interest rate environment and the economic uncertainty which specifically had an impact on the hospitality sector. As a result of the continuation of low short-term interest rates, banks continue to offer their mini-perm short-term loans at rates considerably lower than PMC Commercial s long-term fixed-rate loans and often with less down payment requirements. In addition, as a result of the economic uncertainty following the tragic events of September 11th, fewer hospitality properties were marketed to be sold; therefore, fewer property sales required financing. During 2002, there was a positive trend in loan origination activities and PMC Commercial s commitments were increasing.

During the six months ended June 30, 2003, PMC Commercial primarily originated variable-rate loans based on LIBOR which presently provides a lower cost variable interest rate alternative to its borrowers than fixed-rate loan products. As a result of the uncertainties in the marketplace due to the sluggishness of the economy and the impact of the ongoing conflict in the Middle East, fewer hospitality properties are being marketed to be sold or refinanced; therefore, fewer property sales are requiring financing. In periods where fewer properties are being sold or refinanced, the collateral value underlying our loans could be reduced, and as a result, cause a reduction in the equity our borrowers have in their property. In such a circumstance, to the extent the loan goes into default, the magnitude of the impairment may be greater. In addition, during these periods of time, the length of time to sell a repossessed property may increase. In addition, PMC Commercial did not complete a structured loan sale transaction that was expected to be completed prior to June 30, 2003. PMC Commercial s commitments at June 30, 2003 were less than commitments at December 31, 2002. In addition, several commitments outstanding were cancelled. PMC Commercial expects that its commitments will continue to decrease until the market for limited service hospitality properties improves and a structured loan sale transaction is completed.

Hospitality Industry Factors

Reductions in business and discretionary travel cause a moderation in demand for hotel rooms and a slowdown in construction of hospitality properties (including limited service hospitality properties). These reductions were primarily caused by (i) traveler concerns about the safety and convenience of air travel, (ii) a general reluctance to be away from home and (iii) a downturn in corporate profits, investments and transactions which led to aggressive business travel reductions. Although the Federal Reserve lowered interest rates the last three years to aid in stimulating the economy and to provide liquidity, consumer and business confidence declined. This lack of confidence, which continued into early 2003, caused a significant strain on the travel and hotel industries as well as numerous other industries in the United States. Political uncertainties have impeded a rebound in consumer and investor confidence and spending. However, the limited service segment of the hospitality industry has been less impacted and has continued to outperform the luxury and upscale sectors which experienced the weakest performance.

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Another factor which affects the limited service sector of the hospitality industry is a significant rise in gasoline prices within a short period of time. Most of the limited service hospitality properties collateralizing PMC Commercial s loans receivable are located on interstate highways. Historically, when gas prices sharply increase, occupancy rates decrease for properties located on interstate highways.

Dependency on Third Party Management of PMC Commercial s Hotel Properties

As a REIT, PMC Commercial cannot operate its hotel properties. As a result, PMC Commercial is dependent upon Arlington to operate and manage its hotel properties. The operating results of PMC Commercial s hotel properties are subject to a variety of risks which could affect Arlington s ability to generate sufficient cash flow to support the payment obligations under the master lease agreement. In the event Arlington defaults on the master lease agreement, there is no assurance that PMC Commercial would be able to find a new operator for its hotel properties, negotiate to receive the same amount of lease income or that it would be able to collect on Arlington s guarantee. In addition, in the event Arlington defaults, PMC Commercial may incur costs, including holding costs, legal fees and costs to re-franchise the properties.

Portfolio Information

Lending Activities

General

PMC Commercial s lending activities consist primarily of originating loans to borrowers who operate in the hospitality industry. PMC Commercial s net loans receivable were $89.6 million, $72.0 million and $78.5 million at June 30, 2003 and December 31, 2002 and 2001, respectively. During 2002 and 2001, PMC Commercial originated loans totaling $32.8 million and $51.7 million and received repayments of $12.3 million (of which approximately $9.6 million represented prepayments) and $5.9 million (of which approximately $2.7 million represented prepayments), respectively. During the six months ended June 30, 2003 and 2002, PMC Commercial originated $21.1 million and $12.8 million of loans, respectively, and principal collections on PMC Commercial s loans receivable were $3.4 million (including $1.4 million of scheduled maturities) and $8.3 million (including $6.6 million of prepayments and $0.6 million of scheduled maturities) during the six months ended June 30, 2003 and 2002, respectively. When originating a loan, PMC Commercial charges a commitment fee. During 2002 and 2001, PMC Commercial collected commitment fees of $575,000 and $521,000, respectively. These fees are deferred and recognized as an adjustment of yield over the life of the related loan receivable.

At June 30, 2003 and December 31, 2002, approximately $59.9 million and $42.1 million of PMC Commercial s loans receivable, respectively, had a variable interest rate (reset on a quarterly basis) based primarily on LIBOR with a weighted average interest rate of approximately 5.2% and 5.4%, respectively. The LIBOR rate used in determining interest rates charged PMC Commercial s borrowers during the third quarter of 2003 (set on July 1, 2003) was 1.11%. In comparison, the LIBOR used in determining interest rates charged to PMC Commercial s borrowers during the second quarter of 2003 (set on April 1, 2003) was 1.29%. The spread that PMC Commercial charges over LIBOR generally ranges from 3.5% to 4.5%. To the extent LIBOR changes, PMC Commercial will see changes in interest income from its variable-rate loans receivable. In addition, at June 30, 2003 and December 31, 2002, approximately $30.6 million and $29.9 million, respectively, of PMC Commercial s loans receivable had a fixed interest rate with a weighted average interest rate of 10.2% and 10.4%, respectively. See PMC Commercial Quantitative and Qualitative Disclosures About Market Risk.

At June 30, 2003, PMC Commercial had approximately $21.4 million of loan commitments outstanding. All of PMC Commercial s current commitments are based on LIBOR. At June 30, 2003, all of PMC Commercial s commitments were for variable-rate loans, and given the current interest rate market, PMC Commercial expects to continue to originate primarily variable-rate loans. It is anticipated that new commitments will have an interest rate floor of 6%. The weighted average interest rate on loan commitments at June 30, 2003 was 5.3%. See Liquidity and Capital Resources.

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PMC Commercial sold loans in structured loan sale transactions completed in April 2002, June 2001 and December 2000. Since the cash flows from these sold loans will impact PMC Commercial s profitability and PMC Commercial s cash available for dividend distributions, PMC Commercial provides information on both the Retained Portfolio and the Aggregate Portfolio. Accordingly, at June 30, 2003, PMC Commercial s Retained Portfolio does not include $102.7 million of aggregate principal balance remaining on the loans sold in these structured loan sale transactions. PMC Commercial s Aggregate Portfolio outstanding was $193.2 million at June 30, 2003. The weighted average contractual interest rate on PMC Commercial s Aggregate Portfolio was 8.3%, 8.7% and 9.3% at June 30, 2003, December 31, 2002 and June 30, 2002, respectively.

Information on PMC Commercial s Retained Portfolio was as follows:

	As of and for the Period Ended		
	June 30, 2003	December 31, 2002	June 30, 2002
Weighted Average Interest Rate	6.9%	7.5%	8.8%
Annualized Average Yield(1)	7.5%	10.3%	10.9%

(1) In addition to interest income, the yield includes all fees earned and is reduced by the provision for loan losses.

Prepayment Activity

Prepayment activity on fixed-rate loans receivable has increased as a result of the current low interest rate environment (the prime rate, LIBOR and the interest rates on treasury notes decreased substantially during 2001 and 2002). PMC Commercial believes that it may continue to see increased prepayment activity at high levels (particularly in relation to fixed-rate loans receivable) during the remainder of 2003. Many of the prepayment fees for fixed-rate loans receivable are based upon a yield maintenance premium which provides for greater fees as interest rates decrease. In addition, certain loans receivable have prepayment prohibitions of up to five years.

The timing and volume of prepayment activity for both variable and fixed-rate loans receivable fluctuate and are impacted by numerous factors including the following:

The competitive lending environment (*i.e.*, availability of alternative financing);

The current and anticipated interest rate environment (*i.e.*, if interest rates are expected to rise or fall);

The market for limited service hospitality property sales; and

The amount of the prepayment fee and the length of prepayment prohibition.

When loans receivable are repaid prior to their maturity, PMC Commercial generally receives prepayment fees. Prepayment fees result in one-time increases in income. The proceeds from the prepayments PMC Commercial receives are invested initially in temporary investments and have generally been re-loaned or committed to be re-loaned at lower interest rates than the prepaid loans receivable. These lower interest rates have had an adverse effect on interest income and depending upon the rate of future prepayments may further impact PMC Commercial s interest income. It is difficult to accurately predict the volume or timing of prepayments since the factors listed above are not all-inclusive and changes in one factor are not isolated from changes in another which might magnify or counteract the rate or volume of prepayment activity.

Problem Loans

As of December 31, 2002 and June 30, 2003, there were no loans receivable greater than 31 days delinquent. Our policy with respect to loans receivable which are in arrears as to interest payments for a period in excess of 60 days is generally to discontinue the accrual of interest income and reverse previously recorded interest income which is deemed uncollectible. To the extent a loan becomes an impaired loan, we will deliver a default notice and begin foreclosure and liquidation proceedings when we determine that pursuit of these remedies is the most appropriate course of action.

Senior management closely monitors the PMC Commercial Problem Loans, which are classified into two categories: Impaired Loans and Special Mention Loans. PMC Commercial Impaired Loans are loans which the collection of the balance of principal and interest is considered impaired and a loan loss reserve has been established. PMC Commercial Special Mention Loans are those loans receivable that are not complying with their contractual terms but PMC Commercial expects a full recovery of the principal balance through either collection efforts or liquidation of collateral. There can be no assurance that PMC Commercial Special Mention Loans will not become Impaired Loans in the future if there is a deterioration in the value of the collateral.

PMC Commercial s Problem Loans were as follows:

	June 30, 2003	December 31, 2002	December 31, 2001
	(In thousands)		
PMC Commercial Impaired Loans:			
Loans receivable	$1,739	$1,756	$1,370
Sold loans of SPEs			
	$1,739	$1,756	$1,370
PMC Commercial Special Mention Loans:			
Loans receivable	$	$	$1,174
Sold loans of SPEs	1,365	1,362	1,868
	$1,365	$1,362	$3,042
Percentage of PMC Commercial Impaired Loans:			
Loans receivable	1.9%	2.4%	1.7%
Sold loans of SPEs			
Percentage of PMC Commercial Special Mention Loans:			
Loans receivable			1.4%
Sold loans of SPEs	1.3%	1.3%	1.2%

There were no provisions for loss during the six months ended June 30, 2003. PMC Commercial s provision for loan losses as a percentage of weighted average outstanding loans receivable was 0.09% (9 basis points) and 0.27% (27 basis points) during 2002 and 2001, respectively. At June 30, 2003, December 31, 2002 and 2001, PMC Commercial had reserves in the amount of $365,000, $365,000 and $300,000, respectively, against loans receivable that it has determined to be PMC Commercial Problem Loans.

Retained Interests

At June 30, 2003, December 31, 2002 and 2001, the estimated fair value of PMC Commercial s retained interests was $22.7 million, $23.5 million and $17.8 million, respectively. PMC Commercial s retained interests consist of (i) the retention of a portion of each of the sold loans, (ii) the contractually required cash balances owned by the SPE and (iii) future excess funds to be generated by the SPE after payment of all obligations of the SPE.

The value of PMC Commercial s retained interests is based on estimates of the present value of future cash flows PMC Commercial expects to receive from the SPEs. Estimated future cash flows are based in part upon estimates of prepayment speeds and loan losses on the loans receivable transferred to the SPEs. Prepayment speeds and loan losses are estimated based on the current and anticipated interest rate and competitive environments and PMC Commercial s historical experience with these and similar loans receivable. The discount rates utilized are determined for each of the components of retained interests as

estimates of market rates based on interest rate levels considering the risks inherent in the transaction. Changes in any of PMC Commercial s assumptions, or actual results which deviate from PMC Commercial s assumptions, may materially affect the value of PMC Commercial s retained interests.

The net unrealized appreciation on PMC Commercial s retained interests at June 30, 2003, December 31, 2002 and 2001 was $3.5 million, $3.8 million and $2.2 million, respectively. Any appreciation of PMC Commercial s retained interests is included in the accompanying balance sheet in beneficiaries equity while any depreciation of PMC Commercial s retained interests is either included in the accompanying statement of income as a realized loss (if there is a reduction in expected future cash flows) or on PMC Commercial s balance sheet in beneficiaries equity as an unrealized loss. Reductions in expected future cash flows generally occur as a result of decreases in expected yields, increases in anticipated loan losses or increases in prepayment speed assumptions.

Property Ownership

PMC Commercial s hotel properties are operated by Arlington pursuant to the sale/leaseback agreement. The following table summarizes statistical data regarding the 22 hotel properties(1):

	Six Months Ended June 30,		Years Ended December 31,		
	2003	2002	2002	2001	2000
Occupancy	54.95%	58.70%	58.74%	57.32%	59.58%
ADR(2)	$ 53.27	$ 54.33	$ 54.60	$ 53.24	$ 55.48
RevPar(3)	$ 29.27	$ 31.89	$ 32.02	$ 32.23	$ 32.74
Revenue	$7,088,807	$7,733,831	$15,655,627	$15,772,935	$16,222,702
Rooms Rented	133,088	142,359	287,190	280,482	292,507
Rooms Available	242,203	242,510	488,921	489,356	491,093

(1) Arlington has provided all data (only includes properties owned as of June 30, 2003).

(2) ADR is defined as the average daily room rate.

(3) RevPar is defined as revenue per available room.

Income related to the hotel properties is from lease payments. The lease is a triple net lease; therefore, all expenses of operation including insurance and real estate taxes are the obligation of Arlington. The data provided above is for informational purposes only. All revenues and expenses from operation of the properties belong to Arlington.

A summary of financial information for the lessee of PMC Commercial s properties, Arlington, which has been derived from its public filings as of June 30, 2003 and December 31, 2002 is as follows:

ARLINGTON HOSPITALITY, INC.

	June 30, 2003	December 31, 2002	December 31, 2001
		(In thousands)	
BALANCE SHEET DATA:			
Investment in hotel assets	$ 91,756	$103,903	$ 98,300
Cash and short-term investments	4,204	3,970	4,748
Total assets	108,866	119,934	115,174
Total liabilities	96,210	102,564	96,107

Shareholders equity	12,656	17,370	19,067

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	Six Months Ended June 30,		Years Ended December 31,		
	2003	2002	2002	2001	2000
	(In thousands)				
INCOME STATEMENT DATA:					
Total revenue	$33,586	$34,353	$76,531	$77,153	$76,151
Operating income (loss)	(3,666)	2,125	1,992	5,547	4,653
Net income (loss)	(4,840)	(524)	(1,710)	755	4,010

Arlington is a public entity that files periodic reports with the SEC. Additional information about Arlington can be obtained from the SEC s website at *www.sec.gov*.

Critical Accounting Policies and Estimates

The discussion and analysis of PMC Commercial s financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires PMC Commercial to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. PMC Commercial s management has discussed the development and selection of these critical accounting policies and estimates with the audit committee of PMC Commercial s board of trust managers and the audit committee has reviewed the disclosures relating to these policies and estimates included in this joint proxy statement/ prospectus.

PMC Commercial believes the following critical accounting considerations and significant accounting policies represent the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Valuation of Loans Receivable

Loan loss reserves are established based on a determination, through an evaluation of the recoverability of individual loans receivable, that significant doubt exists as to the ultimate realization of the loan receivable. PMC Commercial monitors the loan portfolio on an ongoing basis and evaluates the adequacy of its loan loss reserves. In its analysis, PMC Commercial reviews various factors, including the value of the collateral securing the loan receivable and the borrower s payment history. The determination of whether significant doubt exists and whether a loan loss reserve is necessary for each loan requires judgment and consideration of the facts and circumstances existing at the evaluation date. Changes to the facts and circumstances of the borrower, the hospitality industry and the economy may require the establishment of significant additional loan loss reserves. If a determination is made that significant doubt exists as to the ultimate collection of loans receivable, the effect on results of operations may be material.

The provision for loan losses was 0.09% (nine basis points) and 0.27% (27 basis points) of PMC Commercial s weighted average outstanding loans receivable during 2002 and 2001, respectively. It may be difficult to maintain such a low loss rate on loans receivable. To the extent one or several of the loans experiences significant operating difficulties and PMC Commercial is forced to liquidate the loans, future losses may be substantial.

Valuation of Retained Interests

Due to the limited number of entities that conduct transactions with similar assets, the relatively small size of the retained interests and the limited number of buyers for such assets, no readily ascertainable market exists for the retained interests. Therefore, PMC Commercial s determination of value may vary significantly from what a willing buyer would pay for these assets.

The valuation of the retained interests is the most volatile critical accounting estimate because the valuation is dependent upon estimates of future cash flows that are dependent upon the performance of the underlying loans receivable. Prepayments or losses in excess of estimates will cause unrealized depreciation

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and ultimately realized losses. The value of the retained interests is determined based on the present value of estimated future cash flows from the SPEs. The estimated future cash flows are calculated based on assumptions including, among other things, prepayment speeds and loan losses. PMC Commercial regularly measures loan loss and prepayment assumptions against the actual performance of the loans receivable sold and to the extent adjustments to PMC Commercial s assumptions are deemed necessary, they are made on a quarterly basis. If prepayment speeds occur at a faster rate than anticipated, or future loan losses occur quicker than expected, or in amounts greater than expected, the value of the retained interests will decline and total income in future periods would be reduced. If prepayments occur slower than anticipated, or future loan losses are less than expected, cash flows would exceed estimated amounts, the value of the retained interests would increase and total income in future periods would be enhanced. Although PMC Commercial believes that assumptions as to the future cash flows of the structured loan sale transactions are reasonable, actual rates of loss or prepayments may vary significantly from those assumed and other assumptions may be revised based upon anticipated future events. These assumptions are updated on a quarterly basis. Over the past three years, there has been no significant change in the methodology employed in valuing these assets. The discount rates utilized in computing the net present value of future cash flows are based on an estimate of the inherent risks associated with each cash flow stream.

Significant estimates related to retained interests were as follows at December 31, 2002:

	Constant Prepayment Rate(1)	Aggregate Losses Assumed(2)	Range of Discount Rates
2000 Joint Venture	9.5%	2.65%	6.7% to 11.4%
2001 Joint Venture	9.5%	3.38%	6.7% to 11.4%
2002 Joint Venture	9.5%	3.38%	7.1% to 11.8%

(1) Based on anticipated principal prepayments considering the loans sold and other similar loans.

(2) As a percentage of the outstanding principal balance of the underlying loans receivable as of December 31, 2002 based upon per annum losses that ranged from 0.4% to 0.8%.

There were no significant changes in the above assumptions as of June 30, 2003.

Future annualized loan losses of 40 basis points or greater were estimated on all of structured loan sale transactions. At December 31, 2002, PMC Commercial identified one sold loan ($1.4 million) that it considers a PMC Commercial Special Mention Loan. If PMC Commercial has to liquidate this loan, losses may exceed estimates and the value of the retained interests will decline.

In addition, prepayments in excess of assumptions will cause a decline in the value of the retained interests relating to the excess funds (PMC Commercial interest-only strip receivable) expected from structured loan sale transactions. For example, if a $1.0 million loan with an interest rate of 10% prepays and the all-in cost of that Joint Venture s structured notes was 7%, PMC Commercial would lose the 3% spread it had expected to receive on that loan in future periods. The spread that is lost may be offset in part or in whole by the prepayment fee that PMC Commercial collects.

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The following is a sensitivity analysis of the retained interests as of June 30, 2003 and December 31, 2002 to highlight the volatility that results when prepayments, loan losses and discount rates are different than the assumptions:

	June 30, 2003		December 31, 2002	
Changed Assumption	**Pro Forma Value**	**Asset and Net Income Change**	**Pro Forma Value**	**Asset and Net Income Change**
	(In thousands)			
Losses increase by 50 basis points per annum(1)	$21,004	$(1,682)	$21,751	$(1,781)
Losses increase by 100 basis points per annum(1)	$19,386	$(3,300)	$20,040	$(3,492)
Rate of prepayment increases by 5% per annum(2)	$21,960	$ (726)	$22,714	$ (818)
Rate of prepayment increases by 10% per annum(2)	$21,445	$(1,231)	$22,178	$(1,354)
Discount rates increase by 100 basis points	$21,685	$(1,001)	$22,481	$(1,051)
Discount rates increase by 200 basis points	$20,747	$(1,939)	$21,500	$(2,032)

(1) If PMC Commercial experiences significant losses (i.e., in excess of anticipated losses), the effect on the retained interests would first reduce the value of the interest-only strip receivables. To the extent the interest-only strip receivables could not fully absorb the losses, the effect would then be to reduce the value of the reserve funds and then the value of the required over-collateralization.

(2) For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.

These sensitivities are hypothetical and should be used with caution. Pro forma values based on changes in these assumptions generally cannot be extrapolated since the relationship of the change in assumptions to the change in fair value is not linear. The effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption. In reality, changes in one factor are not isolated from changes in another which might magnify or counteract the sensitivities.

Results of Operations

Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002

Overview

Income from continuing operations decreased by $839,000 (19%), to $3,541,000 during the six months ended June 30, 2003 from $4,380,000 during the six months ended June 30, 2002. Net income decreased by $2,161,000 (37%), to $3,651,000 during the six months ended June 30, 2003 from $5,812,000 during the six months ended June 30, 2002. Earnings per share decreased $0.33 (37%), to $0.57 per share during the six months ended June 30, 2003 from $0.90 per share during the six months ended June 30, 2002. The decrease in net income is primarily due to:

a decrease in the gain on sale of PMC Commercial s real estate investments of $663,000 as there were no hotel properties sold during the six months ended June 30, 2003, while two hotel properties were sold during the six months ended June 30, 2002;

a decrease in the gain on sale of loans receivable of $562,000 as there were no loans sold during the six months ended June 20, 2003 while PMC Commercial sold loans in a structured loan sale transaction completed during April 2002;

a decrease in other income of $568,000 due to decreased prepayment fees received; and

a decrease in interest income of $399,000 due to an increase in variable-rate lending with lower variable interest rates than PMC Commercial s fixed-rate loans;

Significant changes in PMC Commercial s revenues and expenses are further described below.

Revenues

Interest income decreased by $399,000 (12%), to $3,047,000 during the six months ended June 30, 2003 from $3,446,000 during the six months ended June 30, 2002. The decrease was primarily attributable to a decrease in PMC Commercial s weighted average interest rate from 8.8% at June 30, 2002 to 6.9% at June 30, 2003, primarily resulting from lower variable interest rates, increased variable rate lending and the sale of the majority of PMC Commercial s fixed-rate loans receivable in its April 2002 structured loan sale transaction. PMC Commercial s effective LIBOR decreased by 61 basis points from the six months ended June 30, 2002 to the six months ended June 30, 2003.

Income from retained interests decreased $8,000 (1%), to $1,376,000 during the six months ended June 30, 2003 compared to $1,384,000 during the six months ended June 30, 2002. The income from PMC Commercial s retained interests is comprised of the yield on its retained interests. The yield on PMC Commercial s retained interests declined to 11.7% during the six months ended June 30, 2003 from 13.8% during the six months ended June 30, 2002 while the weighted average balance of its retained interests increased due to the completion of its April 2002 structured loan sale transaction. Approximately 67% and 34% of PMC Commercial s loans receivable had variable rates of interest as of June 30, 2003 and 2002, respectively. The weighted average of PMC Commercial s Effective LIBOR (the LIBOR base rate used in the determination of quarterly interest rates) decreased by 61 basis points from the six months ended June 30, 2002 to the six months ended June 30, 2003.

Other income decreased $568,000 (85%), to $99,000 during the six months ended June 30, 2003 compared to $667,000 during the six months ended June 30, 2002 due to decreased prepayment fees. During the first half of 2002, several loans receivable were prepaid which had significant prepayment penalties.

Interest Expense

Interest expense decreased by $138,000 (7%), to $1,712,000 during the six months ended June 30, 2003 from $1,850,000 during the six months ended June 30, 2002. The decrease was primarily attributable to a decrease in the principal balance of the structured notes payable from PMC Commercial s 1998 structured loan financing ($22.2 million outstanding at June 30, 2003 compared to $29.7 million outstanding at June 30, 2002. This decrease was partially offset by an increase in PMC Commercial s weighted average borrowings outstanding under the revolving credit facility which increased to $18.0 million during the six months ended June 30, 2003 from $6.5 million during the six months ended June 30, 2002. The weighted average interest rate on PMC Commercial s revolving credit facility decreased to 3.1% during the six months ended June 30, 2003 from 3.8% during the six months ended June 30, 2002.

Interest expense consisted of the following:

	Six Months Ended June 30,	
	2003	**2002**
	(In thousands)	
Structured Notes	$ 803	$ 1,077
Mortgages on hotel properties	576	568
Revolving credit facility	311	200
Other	22	5
	$ 1,712	$ 1,850

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Other Expenses

Fees associated with the Advisory Agreements consisted of the following:

	Six Months Ended June 30,	
	2003	2002
	(In thousands)	
Lease supervision fee	$ 185	$ 199
Investment management fee	964	955
Total fees incurred	1,149	1,154
Less:		
Management fees included in discontinued operations	(8)	(17)
Cost of structured loan sale transactions		(57)
Fees incurred by the SPEs	(158)	(137)
Fees capitalized as cost of originating loans	(81)	(45)
Advisory and servicing fees to affiliate, net	$ 902	$ 898

General and administrative expenses increased $51,000 (37%) to $188,000 during the six months ended June 30, 2003 from $137,000 during the six months ended June 30, 2002. The increase in general and administrative expenses is primarily due to carrying costs related to PMC Commercial s asset acquired in liquidation held for sale.

Realized losses on retained interests in transferred assets were $53,000 for the six months ended June 30, 2002 which was the result of a reduction in expected future cash flows resulting from prepayments. There were no realized losses on PMC Commercial s retained interests during the six months ended June 30, 2003.

Impairment loss from asset acquired in liquidation held for sale was $67,000 for the six months ended June 30, 2003. During July 2003, PMC Commercial sold its asset acquired in liquidation held for sale for net cash proceeds of approximately $333,000. Accordingly, PMC Commercial reduced its basis in this asset from $400,000 at December 31, 2002. There was no impairment loss from asset acquired in liquidation held for sale during the six months ended June 30, 2002.

PMC Commercial s provision for loan losses was $65,000 during the six months ended June 30, 2002. PMC Commercial had no provision for loan losses during the six months ended June 30, 2003. During the twelve-month period ended June 30, 2002, PMC Commercial s provision for loan losses was 0.09% (nine basis points) of its weighted average outstanding loans receivable. PMC Commercial had no provision for loan losses during the twelve-month period ended June 30, 2003.

Discontinued operations

Gain on sale of real estate investments was $663,000 during the six months ended June 30, 2002 due to the sale of two hotel properties for $5.2 million. No properties were sold during the six months ended June 30, 2003.

PMC Commercial s profit from discontinued operations decreased by $97,000 (47%), to a net profit of $110,000 during the six months ended June 30, 2003 from a net profit of $207,000 during the six months ended June 30, 2002. Results of operations for the two properties sold during 2002 and the property held for sale at June 30, 2003 are included in discontinued operations for the six months ended June 30, 2002.

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Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

Overview

Net income decreased by $1,499,000 (13%), to $9,936,000 during 2002 from $11,435,000 during 2001. Basic earnings per share decreased $0.24 (13%), to $1.54 per share during 2002 from $1.78 per share during 2001. The decrease in net income is primarily due to:

- decreased interest income of $1,545,000 due to the sale of loans receivable and an increase in variable-rate lending with lower variable interest rates than fixed interest rate loans;
- a reduction in the gain on sale of loans receivable of $871,000 due to a smaller volume of loans sold and decreased anticipated cash flows due to reduced net interest spread;
- a reduction in the gain on sale of real estate investments of $687,000 as a result of the sale of five properties during 2001 compared to two properties sold during 2002; and
- decreased lease income of $528,000 as a result of the sale of hotel properties.

Partially offsetting these decreases in net income were:

- increased income from retained interests of $1,078,000 due primarily to the completion of structured loan sale transactions;
- increased other income of $624,000 due primarily to increased prepayment fees received; and
- decreased interest expense of $575,000 due to reduced balances outstanding on structured notes payable from the 1998 structured loan financing and a decrease in the weighted average balance and interest rate on the revolving credit facility.

Significant changes in revenues and expenses are further described below.

Revenues

Interest income decreased by $1,545,000 (20%), to $6,236,000 during 2002 from $7,781,000 during 2001. The decrease was primarily attributable to (i) a decrease in weighted average loans receivable outstanding of $3.9 million (5%), to $69.1 million during 2002 from $73.0 million during 2001 (due primarily to the sale of $27.3 million in loans receivable in a structured loan sale transaction completed in April 2002) and (ii) a decrease in weighted average interest rate to 7.5% at December 31, 2002 from 9.6% at December 31, 2001, primarily resulting from lower variable interest rates and increased variable rate lending. Average quarterly LIBOR decreased by 244 basis points from 2001 to 2002.

Lease income decreased by $528,000 (8%), to $5,743,000 during 2002 from $6,271,000 during 2001. Lease income decreased primarily due to the sale of five hotel properties during 2001 and two hotel properties during 2002. Lease income will continue to decrease as additional properties are sold.

Income from retained interests increased $1,078,000 (59%), to $2,893,000 during 2002 compared to $1,815,000 during 2001. The income from retained interests is comprised of the yield on retained interests. The increase was the result of (i) an increase in the balance of retained interests due to the completion of the structured loan sale transactions and (ii) an increase in the yield on retained interests to 13.2% during 2002 from 12.7% during 2001 resulting from better than anticipated performance and cash flows related to the loans receivable included in the structured loan sale transactions.

Other income increased $624,000 (116%), to $1,164,000 during 2002 compared to $540,000 during 2001. The increase is primarily attributable to increased prepayment fees received during 2002.

Interest Expense

Interest expense decreased by $575,000 (14%), to $3,445,000 during 2002 from $4,020,000 during 2001. The decrease was primarily attributable to (i) a decrease in interest expense on the structured notes payable from the 1998 structured loan financing due to a declining principal balance ($26.0 million outstanding at

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December 31, 2002 compared to $33.8 million outstanding at December 31, 2001), (ii) a decrease in the weighted average borrowings outstanding under the revolving credit facility to $4.2 million during 2002 compared to $6.5 million during 2001 and (iii) a decrease in the weighted average interest rate on revolving credit facility to 3.6% during 2002 from 5.6% during 2001.

Interest expense consisted of the following:

	Years Ended December 31,	
	2002	**2001**
	(In thousands)	
Structured Notes	$1,982	$2,314
Mortgages on hotel properties	1,156	1,175
Revolving credit facility	296	516
Other	11	15
	$3,445	$4,020

Other Expenses

Advisory and servicing fees to affiliate, net, increased by $64,000 (4%), to $1,793,000 during 2002 from $1,729,000 during 2001.

Fees associated with the Advisory Agreements consisted of the following:

	Years Ended December 31,	
	2002	**2001**
	(In thousands)	
Lease supervision fee	$ 381	$ 441
Investment management fee	1,927	1,803
Total fees incurred	2,308	2,244
Less:		
Management fees included in discontinued operations	(25)	(49)
Fees incurred by the SPEs	(298)	(198)
Cost of structured loan sale transactions	(57)	(60)
Fees capitalized as cost of originating loans	(135)	(208)
Advisory and servicing fees to affiliate, net	$1,793	$1,729

Impairment loss on assets held for sale was $54,000 during 2002. The impairment loss resulted from a write-down of the carrying value of an asset acquired in liquidation held for sale as a result of management s estimate of the fair value of the property.

Realized losses on retained interests decreased $28,000 (35%), to $53,000 during 2002 from $81,000 during 2001 resulting from reductions in expected future cash flows primarily related to lower than anticipated income on the PMC Commercial reserve funds.

Provision for loan losses decreased $135,000 (68%), to $65,000 during 2002 from $200,000 during 2001. The reserves established during 2001 were related to two loans that were identified as potential PMC Commercial Problem Loans. At December 31, 2002, no loans were delinquent greater than 31 days; however, PMC Commercial s management identified a reserve on one loan on which significant doubt existed as to the ultimate realization of the loan. While this loan is current in its payments of both principal and interest, PMC Commercial is aware of information regarding the borrower that indicates that upon maturity, the borrower will be unable to meet its obligations, and it is expected that a sale of the collateral will result in a net recovery below the principal amount due.

Discontinued operations

Profit from discontinued operations increased by $503,000 (106%), to a net profit of $978,000 during 2002 from a net profit of $475,000 during 2001. During 2002, PMC Commercial sold two hotel properties for $5.2 million resulting in a net gain on sale of $663,000. In addition, in accordance with SFAS No. 144, results of operations from the hotel properties sold during 2002 are included in discontinued operations for the years ended December 31, 2002 and 2001; however, the corresponding gain on sale and operations of real estate investments sold during 2001 were not reclassified to discontinued operations.

Gain on sale of assets

Gain on sale of real estate investments was $1,350,000 during 2001 due to the sale of five hotel properties for $13.0 million.

Gain on sale of loans receivable was $562,000 and $1,433,000 during 2002 and 2001, respectively. The decrease in gain is primarily the result of (i) a decrease in the amount of loans sold from $32.7 million in June 2001 to $27.3 million during April 2002 and (ii) a decrease in the spread earned at the time the transactions were completed to 2.56% for the structured loan sale transaction completed in April 2002 compared to 3.26% for the structured loan sale transaction completed in June 2001.

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

Overview

Net income increased by $2,070,000 (22%), to $11,435,000 during 2001 from $9,365,000 during 2000. Basic earnings per share increased $0.34 (24%), to $1.78 per share during 2001 from $1.44 per share during 2000. The increase in net income is primarily due to:

- a decrease in interest expense of $2,762,000 as a result of the repayment of borrowings outstanding under the revolving credit facility and a reduction in the weighted average interest rate on the revolving credit facility;
- an increase in income from retained interests of $1,742,000 due primarily to the structured loan sale transactions completed in June 2001 and December 2000;
- an increase in the gain on sale of real estate investments of $1,046,000 as a result of the sale of five properties during 2001 compared to one property sold during 2000; and
- an increase in the gain on sale of loans receivable of $316,000 due to increased anticipated cash flows due to increased net interest spread.

Partially offsetting these increases in net income were decreased interest income of $3,763,000 due to the sale of loans receivable and an increase in variable-rate lending with lower variable interest rates than fixed interest rate loans.

Significant changes in revenues and expenses are further described below.

Revenues

Interest income on loans receivable decreased by $3,763,000 (33%), to $7,781,000 during 2001 from $11,544,000 during 2000. This decrease in interest income was primarily attributable to the sale of $32.7 million of loans receivable in the June 2001 structured loan sale transaction and the sale of $55.7 million of loans receivable in the December 2000 structured loan sale transaction. As a result, the weighted average loans receivable outstanding decreased by $35.6 million (33%), to $73.0 million during 2001 from $108.6 million during 2000. In addition, primarily as a result of a decrease in variable interest rates, the weighted average interest rate on loans receivable outstanding declined to 9.6% at December 31, 2001 compared to 10.0% at December 31, 2000. During 2001, PMC Commercial commenced originating loans with a variable interest rate and at December 31, 2001, it had variable-rate loans receivable of $11.5 million outstanding with a weighted average interest rate of 6.8%.

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Lease income decreased by $573,000 (8%), to $6,271,000 during 2001 from $6,844,000 during 2000. Lease income decreased primarily due to the sale of five hotel properties in 2001 and one property during 2000. This decrease was partially offset by increased percentage rent from 2% to 4% of room revenue effective January 2001 on the hotel property portfolio.

Income from retained interests increased $1,742,000 to $1,815,000 during 2001 compared to $73,000 during 2000. The income from retained interests is comprised of the yield accreted on retained interests. The increase in income from retained interests was the result of an increase in retained interests from the structured loan sale transactions completed in December 2000 and June 2001.

Interest Expense

Interest expense decreased by $2,762,000 (41%), to $4,020,000 during 2001 from $6,782,000 during 2000. The decrease was attributable to (i) a reduction in the weighted average borrowings outstanding under the revolving credit facility to $6.5 million during 2001 compared to $12.2 million during 2000 resulting from the use of proceeds from the December 2000 and June 2001 structured loan sale transactions used to repay these borrowings and (ii) a reduction in the weighted average interest rate on the revolving credit facility to 5.6% at December 31, 2001 from 7.9% at December 31, 2000.

Interest expense consisted of the following:

	Years Ended December 31,	
	2001	**2000**
	(In thousands)	
Structured Notes	$2,314	$2,699
Mortgages on hotel properties	1,175	1,250
Revolving credit facility	516	2,805
Other	15	28
	$4,020	$6,782

Other Expenses

Advisory and servicing fees to affiliate, net decreased by $176,000 (9%), to $1,729,000 during 2001 from $1,905,000 during 2000.

Fees associated with the Advisory Agreements consisted of the following:

	Years Ended December 31,	
	2001	**2000**
	(In thousands)	
Lease supervision fee	$ 441	$ 500
Investment management fee	1,803	1,699
Total fees incurred	2,244	2,199
Less:		
Management fees included in discontinued operations	(49)	(49)

Fees incurred by the SPEs	(198)	
Fees capitalized as cost of originating loans	(208)	(145)
Cost of structured loan sale transactions	(60)	(100)
Advisory and servicing fees to affiliate, net	$1,729	$1,905

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General and administrative expenses increased by $80,000 (55%), to $226,000 during 2001 from $146,000 during 2000. The increase was primarily due to increases in insurance expense, printing costs and bank fees.

Realized losses on retained interests were $81,000 during 2001 resulting from a reduction in expected future cash flows resulting from lower than anticipated income on the PMC Commercial reserve funds. PMC Commercial had no realized losses on retained interests during 2000.

Provision for loan losses was $200,000 and $600,000 during 2001 and 2000, respectively. These loan loss provisions were established based on the determination, through an evaluation of the recoverability of individual loans receivable, by the PMC Commercial board of trust managers that significant doubt exists as to the ultimate realization of the specific loan receivable. The determination of whether significant doubt exists and whether a loan loss reserve is necessary for each loan receivable requires judgment and consideration of the facts and circumstances existing at the evaluation date. The $200,000 provision for loan losses recorded during 2001 was related to two loans receivable that were identified as Impaired Loans during 2001.

The provision for loan losses recorded in 2000 was primarily attributable to one loan receivable. During 2000, PMC Commercial foreclosed on the collateral underlying the loan receivable and determined that the collateral was impaired as a result of the general condition of the building and fixtures. Based on an updated appraisal and the available information on the condition of collateral at that time, a $600,000 loss was recorded relating to the property. PMC Commercial was not in the process of liquidating any loans receivable as of December 31, 2001 nor were there any delinquent loans.

Discontinued operations

Profit from discontinued operations increased by $10,000 (2%), to a net profit of $475,000 during 2001 from a net profit of $465,000 during 2000.

Gain on sale of assets

Gain on sale of assets increased by $1,362,000 (96%), to $2,783,000 during 2001 from $1,421,000 during 2000. The primary reason for the increase was the sale of five of hotel properties for $13.0 million resulting in a net gain of $1.4 million during 2001. During 2000, PMC Commercial sold one hotel property for $3.2 million resulting in a net gain of $304,000. In addition, gains from structured loan sale transactions increased to $1.4 million from $1.1 million related to the June 2001 and December 2000 transactions, respectively.

Cash Flow Analysis

Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002

PMC Commercial generated $4,961,000 and $4,387,000 from operating activities during the six months ended June 30, 2003 and 2002, respectively. The primary source of funds from operating activities is its net income which was $3,651,000 and $5,812,000 (a decrease of $2,161,000) during the six months ended June 30, 2003 and 2002, respectively. PMC Commercial s cash flows from operating activities are also affected by the change in its current assets and current liabilities which increased by $1,485,000.

PMC Commercial s investing activities reflect a net use of funds of $15,303,000 and a net source of funds of $22,354,000 during the six months ended June 30, 2003 and 2002, respectively. The $37,657,000 decrease in net cash flows provided during the six months ended June 30, 2003 primarily resulted from the reduction of proceeds from structured loan sale transactions and an increase in loans funded less principal collected. PMC Commercial completed its 2002 structured loan sale transaction and received proceeds of $24,040,000 during the six months ended June 30, 2002 while no structured loan sale transaction was completed during the six months ended June 30, 2003. During the first half of 2003, PMC Commercial s net loans funded were $17,726,000 which is $15,223,000 greater than the first half of 2002. The increase was primarily due to increased loans funded of $10,304,000 and reduced principal payments of $4,919,000 for the six months ended June 30, 2003 compared to the six months ended June 30, 2002. In addition, (i) PMC Commercial did not sell any hotel properties during the first half of 2003 while PMC Commercial received net proceeds from the sale of two hotel properties of $3,017,000 during the first half of 2002 and (ii) PMC Commercial s investment in retained interests in transferred assets decreased by $1,474,000 due to the completion of its 2002 structured loan sale transaction and the funding of its reserve during the six months ended June 30, 2002. Partially offsetting the above decreases in the funds provided from investing activities was a increase in funds provided by PMC Commercial s restricted investments of $3,034,000 related primarily to its 1998 structured loan financing transaction.

PMC Commercial s financing activities reflect a net source of funds of $10,837,000 and a net use of funds of $18,090,000 during the six months ended June 30, 2003 and 2002, respectively. The increase in funds from financing activities of $28,927,000 was primarily due to an increase in proceeds from PMC Commercial s revolving credit facility of $28,800,000. PMC Commercial has increased borrowing on its revolving credit facility due in part to the delay in completing a structured loan sale transaction.

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

PMC Commercial generated $11,213,000 and $9,198,000 in cash from operating activities during 2002 and 2001, respectively. The primary source of funds from operating activities is net income. The increase in cash flows from operating activities of $2,015,000 primarily relates to the change in other operating assets and liabilities of $995,000 and a decrease in payments made to affiliates of $1,088,000. PMC Commercial pays dividends from the cash flow generated by operating activities.

PMC Commercial s investing activities reflect a net source of funds of $7,104,000 and net use of funds of $3,434,000 during 2002 and 2001, respectively. This increase in source of funds of $10,538,000 provided by investing activities is primarily due to a decrease in loans funded net of principal collected of $27,284,000 offset in part by (i) a decrease in proceeds from sale of properties of $9,678,000, (ii) a decrease of $5,489,000 in net proceeds received from the April 2002 structured loan sale transaction compared to the June 2001 structured loan sale transaction and (iii) an increase in the investment in restricted investments of $1,911,000 due to funds received on the 1998 structured loan financing transaction which have not yet been paid to the structured noteholders.

PMC Commercial s financing activities reflect a net use of funds of $18,825,000 and $5,694,000 during 2002 and 2001, respectively. The decrease of $13,131,000 was due primarily to (i) a decrease in net proceeds from the revolving credit facility from a net source of funds of $8,700,000 to a net use of funds of $1,400,000, (ii) an increase in use of funds of $2,314,000 from principal payments on notes payable due primarily to prepayments on the 1998 structured loan financing transaction and (iii) an increase in dividends paid of $749,000.

Liquidity and Capital Resources

Sources and Uses of Funds

Overview

At June 30, 2003, PMC Commercial had $0.5 million of cash and cash equivalents and availability of $12.6 million under its revolving credit facility with a current borrowing base (the maximum amount that PMC Commercial can have outstanding at any time based on its eligible loans receivable) of $40.0 million, until the earlier of October 28, 2003 or when PMC Commercial s next structured loan sale transaction is completed, when the revolving credit facility will be reduced to $30.0 million. PMC Commercial s outstanding commitments to fund loans were $21.4 million and $40.9 million at June 30, 2003 and December 31, 2002, respectively. At December 31, 2002, PMC Commercial had (i) $49,000 of cash and cash equivalents and (ii) availability of $21.2 million under its revolving credit facility with a current borrowing base of $28.5 million. Commitments have fixed expiration dates and require payment of a fee to PMC Commercial. Since some commitments expire without the proposed loan closing, the total committed amounts do not necessarily represent future cash requirements.

Historically, cash flows provided by operating activities have approximated the dividends paid to PMC Commercial shareholders. In 2003, PMC Commercial anticipates that this relationship will continue and substantially all of the cash flows from operating activities will be sufficient to pay the anticipated 2003 dividend distributions. As a result, cash flows from operating activities are generally not available to fund portfolio growth or debt service. During 2002, loans funded ($30.7 million) and debt repayments ($8.6 million) were primarily funded by:

Principal collections on loans receivable of $12.3 million;

Net proceeds from the sale of hotel properties of $3.0 million; and

Proceeds from a structured loan sale transaction of $24.0 million.

During the remaining half of 2003, PMC Commercial anticipates loan originations will range from $8 million to $12 million. PMC Commercial expects that its loan originations anticipated to be funded during the next twelve months, including those on which it has commitments at June 30, 2003, to be funded through (i) advances under its revolving credit facility, (ii) a structured loan sale transaction and (iii) sales of its hotel properties. PMC Commercial is currently in the process of co-securitizing a pool of loans with PMC Capital and expects the transaction to be completed in September of 2003, unless additional delays are encountered.

Sources of Funds

General

PMC Commercial expects that the sources of funds described below should be adequate to meet its working capital needs. However, there can be no assurance that it will be able to raise funds through these financing sources. If these sources are not available, PMC Commercial may have to originate loans at reduced levels and may have to refer commitments back to PMC Advisers, or sell additional assets. Pursuant to PMC Commercial s loan origination agreement with PMC Advisers and PMC Capital, if it does not have available capital to fund outstanding commitments, PMC Advisers will refer such commitments to PMC Commercial s affiliates and PMC Commercial will receive no income from those outstanding commitments.

To meet liquidity requirements, including origination of new loans, PMC Commercial primarily generates funds from the following sources:

Structured loan sales;

Borrowings under its short-term revolving credit facility;

Borrowings collateralized by hotel properties; and/or

The sale of hotel properties.

A reduction in the availability of these sources of funds could have a material adverse effect on PMC Commercial s financial condition and results of operations.

Additional sources of funds include principal and interest collected on loans receivable, rent collected on hotel properties and the cash flows from retained interests. To the extent these sources represent REIT taxable income, such amounts have historically been distributed to shareholders. As a result, those earnings are generally not available to fund future investments.

Structured Loan Sale Transactions

PMC Commercial s primary source of funds has been structured loan sale transactions. PMC Commercial generated net proceeds of $24.0 million, $29.5 million and $49.2 million from the completion of its 2002, 2001 and 2000 structured loan sale transactions, respectively. It is anticipated that the primary source of working capital during 2003 will again be a structured loan sale transaction. PMC Commercial expected to complete a structured loan sale transaction during the first half of 2003. While PMC Commercial believes it could have completed a transaction during the second quarter of 2003, PMC Commercial delayed its transaction since the terms of the transactions available in the market were not considered favorable to PMC Commercial (*i.e.,* the transaction size and cost did not reflect the value of the transaction). The market for the type of asset-backed securities that PMC Commercial originates was relatively inefficient during the first half

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of 2003 as a result of the uncertainties in the marketplace due to sluggishness of the economy, geopolitical concerns and the impact of the ongoing conflict in the Middle East. PMC Commercial anticipates co-securitizing with PMC Capital approximately $45.3 million of its variable-rate loans receivable, which PMC Commercial expects to complete in September 2003. Changes in market conditions may have an impact on the timing of completion of this transaction. While PMC Commercial has been successful in completing its past structured loan transactions in a timely manner, due to the risky nature of these transactions and the many factors which could cause it to further delay or postpone a transaction, there can be no assurance of a successful outcome.

Since PMC Commercial relies on structured loan sale transactions as its primary source of operating capital to fund new loan receivable originations, any adverse changes in its ability to complete this type of transaction, including any negative impact on the asset-backed securities market for the type of product PMC Commercial generates, could have a detrimental effect on its ability to sell loans receivable thereby reducing its ability to originate loans. The delay in completing PMC Commercial s current structured loan sale transaction has had a negative impact on its ability to originate loans and its financial condition and results of operations.

Debt

For its short-term working capital needs, at June 30, 2003, PMC Commercial had a $40 million revolving credit facility which provides funds to originate loans. The revolving credit facility will be reduced to $30 million upon the earlier of the completion of a securitization or October 28, 2003. The maximum amount (the Borrowing Base) that PMC Commercial can have outstanding at any time is based on eligible loans receivable used as collateral. The Borrowing Base available on each loan receivable is the lesser of (a) 60% of the value of the project underlying the loan receivable collateralizing the borrowing or (b) 85% of the amount of the loan receivable outstanding. At June 30, 2003, based on eligible loans receivable, the Borrowing Base was $40 million. PMC Commercial is charged interest on the balance outstanding under the Revolver at its election of either the prime rate of the lender or 162.5 basis points over the 30, 60 or 90-day LIBOR. As of June 30, 2003, PMC Commercial had $27.4 million outstanding under this facility with a weighted average interest rate of 2.9%. The facility matures in May 2004.

With regard to the hotel properties, PMC Commercial continues to pursue mortgages on individual properties owned by it. As of June 30, 2003, PMC Commercial had eleven mortgages on the hotel properties for an aggregate remaining outstanding principal balance of $15.0 million at a weighted average interest rate of 7.2%. The related notes have interest rates ranging from 5.4% to 8.5% and maturities ranging from June 2004 to August 2019.

Uses of Funds

General

The primary use of funds is to originate loans to small businesses in the limited service hospitality industry. PMC Commercial also uses funds for payment of dividends to shareholders, management and advisory fees (in lieu of salaries and other administrative overhead), general corporate overhead and interest and principal payments on borrowed funds. As a REIT, PMC Commercial must distribute to its shareholders at least 90% of its REIT taxable income to maintain its tax status under the Internal Revenue Code. As a result, those earnings will not be available to fund future investments.

To the extent funds are available, PMC Commercial management believes that there may be alternative investment opportunities including investment in real estate. While PMC Commercial has historically been a lender to the limited service hospitality industry, it is not necessarily focusing solely on hospitality properties. PMC Commercial believes that there may be attractive acquisition opportunities in either retail shopping centers or commercial office buildings. It is attempting to identify properties that it intends to leverage up to 75% of their value. Without leverage, it is unlikely that the return on net equity investment will provide PMC Commercial with adequate investment returns. There can be no assurance that any properties will be identified or, to the extent identified, will be acquired. To date, no opportunities have been identified.

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Loan Originations

At June 30, 2003, PMC Commercial s commitments to originate loans were approximately $21.4 million. PMC Commercial anticipates that its loan origination volume (which averaged approximately $8.2 million per quarter in 2002) will range from $8 million to $12 million during the remainder of 2003.

At December 31, 2002, commitments to originate loans of $40.9 million were greater than commitments outstanding at December 31, 2001 of $23.6 million. The increase in commitments is primarily the result of borrower acceptance of PMC Commercial s LIBOR-based lending program. See Business. As discussed above, these commitments will be funded primarily through (i) advances under the revolving credit facility, (ii) structured loan sale transactions, (iii) sales of hotel properties and (iv) borrowings utilizing hotel properties as collateral.

Impact of Inflation

To the extent PMC Commercial originates fixed-rate loans while it borrows funds at variable rates, PMC Commercial would have an interest rate mismatch. In an inflationary environment, if variable-rates were to rise significantly and PMC Commercial was originating fixed-rate loans, its net interest margin would be reduced. PMC Commercial is originating variable-rate loans and $27.4 million of its debt has variable rates of interest; therefore, PMC Commercial does not believe inflation will have a significant impact on it in the near future. To the extent costs of operations rise while the economy prevents a matching rise in revenue rates (*i.e.,* room rates, menu prices, gasoline prices, etc.), borrowers would be negatively impacted and loan losses could result. Accordingly, PMC Commercial s borrowers can be impacted by inflation. In addition, in an inflationary environment PMC Commercial could experience pressure to increase income and dividend yield to maintain its stock price.

Operators of hotels, including Arlington, can be impacted by inflation. To the extent costs of operations rise while the economy prevents a matching a rise in room and other amenity rates, Arlington s results of operations can be negatively impacted and PMC Commercial s lease income could be affected.

Summarized Contractual Obligations, Commitments and Contingencies

PMC Commercial s contractual obligations at June 30, 2003 are summarized as follows:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 years**	**4 to 5 Years**	**After 5 Years**
			(In thousands)		
Notes payable(1)	$37,188	$ 4,837	$13,938	$7,673	$10,740
Revolving credit facility(2)	27,400	27,400			
Advisory agreements(3)	577	577			
Total contractual cash obligations	$65,165	$32,814	$13,938	$7,673	$10,740

(1) Maturities of PMC Commercial s 1998 structured notes payable ($22.2 million at June 30, 2003) are dependent upon cash flows received from the underlying loans receivable. PMC Commercial s estimate of their repayment is based on scheduled principal payments on the underlying loans receivable. PMC Commercial s estimate will differ from actual amounts to the extent PMC Commercial experiences prepayments and/or loan losses.

(2) PMC Commercial s Borrowing Base on its revolving credit facility at June 30, 2003 was $40 million.

(3) *Represents amounts due to PMC Advisers under PMC Commercial s Investment Management Agreement and Lease Supervision Agreement for the second quarter of 2003.*

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PMC Commercial s commitments at June 30, 2003 are summarized as follows:

Other Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 Year	1 to 3 years	4 to 5 Years	After 5 Years
		(In thousands)			
Indemnification(1)	$	$	$	$	$
Other commitments(2)	21,392	21,392			
Total commitments	$21,392	$21,392	$	$	$

(1) Represents PMC Commercial s cross indemnification agreements with PMC Capital related to the SPEs created in conjunction with its structured loan sale transactions completed in 2002, 2001 and 2000 with a maximum exposure at June 30, 2003 of $34.0 million. PMC Commercial has valued its obligations pursuant to these cross indemnification agreements at zero.

(2) Represents PMC Commercial s loan commitments outstanding.

PMC Commercial s contractual obligations at December 31, 2002 are summarized as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 to 3 years	4 to 5 Years	After 5 Years
			(In thousands)		
Notes payable(1)	$41,191	$1,691	$9,871	$4,221	$25,408
Revolving credit facility(2)	7,300	7,300			
Total contractual cash obligations	$48,491	$8,991	$9,871	$4,221	$25,408

(1) Maturities of PMC Commercial s 1998 structured notes payable ($26.0 million at December 31, 2002) are dependent upon cash flows received from the underlying loans receivable. PMC Commercial s estimate of their repayment is based on scheduled principal payments on the underlying loans receivable. PMC Commercial s estimate will differ from actual amounts to the extent PMC Commercial experiences prepayments and loans losses.

(2) PMC Commercial s Borrowing Base on its revolving credit facility at December 31, 2002 was $28.5 million.

PMC Commercial s commitments at December 31, 2002 are summarized as follows:

Other Commitments	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 Year	1 to 3 years	4 to 5 Years	After 5 Years
		(In thousands)			
Indemnification(1)	$	$	$	$	$
Other commitments(2)	40,867	40,867			

Total commitments	$40,867	$40,867	$	$	$

(1) Represents PMC Commercial s cross indemnification agreements with PMC Capital related to the SPEs created in conjunction with its structured loan sale transaction completed in 2002, 2001 and 2000 with a maximum exposure at December 31, 2002 of $36.3 million. PMC Commercial has valued these indemnification agreements at zero.

(2) Represents PMC Commercial s the loan commitments outstanding.

PMC Commercial and PMC Capital have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. See Related Party Transactions Cross Indemnification Agreements.

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When a structured loan sale transaction is completed, the transaction documents that the SPE enters into contain Credit Enhancement Provisions that govern the assets and the flow of funds in and out of the SPE formed as part of the structured loan sale transaction. See Related Party Transactions Credit Enhancement Provisions.

In addition, PMC Commercial has credit enhancement agreements relating to the structured loan financing transaction completed in 1998. Distributions related to this transaction are limited and restricted. The required reserve amount ($1.9 million at December 31, 2002), included in restricted investments in the consolidated balance sheets, is calculated as the outstanding principal balance of the underlying loans receivable which are delinquent 180 days or more plus the greater of 6% of the current outstanding principal balance of the underlying loans receivable or 2% of the underlying loans receivable at inception ($1.4 million). As of June 30, 2003, December 31, 2002 and 2001, none of the loans receivable in the 1998 Partnership were delinquent 180 days or more. In April 2003, approximately $1.7 million was repaid to the Noteholders from cash in the reserve fund (*i.e.,* restricted cash and structured notes payable were reduced) as a result of a loan, with a principal amount of $1.7 million which was not repaid at its original maturity. As a consequence, future excess cash flows relating to the 1998 Partnership will be deposited into the reserve fund until the reserve fund is equal to the reserve requirement. Based on current cash flow assumptions, management anticipates that the excess cash flows will be received in future periods. At June 30, 2003, the cash balance in the reserve fund, included in restricted investments on PMC Commercial s consolidated balance sheet, was approximately $330,000.

In the normal course of business, PMC Commercial is subject to various proceedings and claims, the resolution of which will not, in PMC Commercial management s opinion, have a material adverse effect on financial position or results of operations.

Impact of Recently Issued Accounting Pronouncements

FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB 51 (FIN 46) in January 2003. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights, Variable Interest Entities (VIEs), and how to determine when and which business enterprise should consolidate the VIE (the primary beneficiary). This new model for consolidation applies to an entity which either (i) the equity investors, if any, do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. FIN 46 will not impact PMC Commercial s consolidated financial statements since it is not applicable to qualifying SPEs accounted for in accordance with SFAS No. 140.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The statement, which is effective for contracts entered into or modified after June 30, 2003 and hedging relationships designated after June 30, 2003, amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. The statement requires that contracts with comparable characteristics be accounted for similarly. Specifically, the statement (i) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, (ii) clarifies when a derivative contains a financing component, (iii) amends the definition of an underlying to conform it to FASB Interpretation No. 45 and (iv) amends certain other related existing pronouncements. SFAS No. 149 will not impact PMC Commercial s consolidated financial statements since it does not have derivatives.

In May 2003, SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity was issued. SFAS No. 150, which is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, will be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of the statement and still existing at the beginning of the interim period of adoption. The statement requires that a financial instrument which falls within the scope of the statement to be classified and measured as a liability. The following financial instruments are required to be classified as liabilities: (i) shares that are mandatorily redeemable, (ii) an obligation to repurchase the issuer s equity shares or one indexed to such an obligation and that requires or may require settlement by transferring assets and (iii) the embodiment of an unconditional obligation that the issuer may or may not settle by issuing a variable number of equity shares if, at inception, the monetary value of the obligation is based on certain measurements defined in the statement. SFAS No. 150 will not impact PMC Commercial s consolidated financial statements since it does not have any financial instruments with characteristics of both liabilities and equity.

Related Party Transactions

PMC Capital

PMC Commercial is managed by the same executive officers as PMC Capital and PMC Advisers. Three of its trust managers are directors or officers of PMC Capital. PMC Capital is primarily engaged in the business of originating loans to small businesses under loan guarantee and funding programs sponsored by the SBA. PMC Commercial was organized to provide loans to entities whose borrowing needs and/or strength and stability exceed the limitations set for SBA approved loan programs. As a result, PMC Commercial generally pursues different prospective borrowers than PMC Capital. In order to further mitigate the potential for conflicts of interest, PMC Commercial has entered into the loan origination agreement with PMC Capital and PMC Advisers. Pursuant to the loan origination agreement, all loans that meet PMC Commercial s underwriting criteria are presented to PMC Commercial first for funding. If PMC Commercial does not have available uncommitted funds, origination opportunities presented to it may be originated by PMC Capital or it subsidiaries. Many of PMC Commercial s existing and potential borrowers have other projects that are currently financed by PMC Capital.

Advisory Agreements

During the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, pursuant to the investment management agreement, PMC Commercial was charged fees between 0.40% and 1.67% annually, based upon the average principal outstanding of its loans receivable. In addition, PMC Advisers earns fees for its assistance with the issuance of PMC Commercial s debt and equity securities. Such compensation includes a consulting fee equal to (i) 12.5% of any offering fees (underwriting or placement fees) incurred by PMC Commercial pursuant to the public offering or private placement of PMC Commercial s common shares, and (ii) 50% of any issuance or placement fees incurred by it pursuant to the issuance of debt securities or preferred shares of beneficial interest. In the event the investment management agreement with PMC Advisers is terminated or not renewed by PMC Commercial (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by PMC Commercial), PMC Capital would enter into a non-compete agreement for a period of seven years from the termination date. A fee would be paid to PMC Advisers each year by PMC Commercial in consideration of the non-compete agreement until the non-compete agreement is terminated. Upon termination, the fee would be calculated as 1% (less loan losses as a percentage of average invested assets) multiplied by the average outstanding invested assets. The investment management agreement is renewable on an annual basis.

In addition, the Lease Supervision Agreement provides for an annual fee of 0.70% of the original cost of the properties to be paid to PMC Advisers for providing services relating to leases on PMC Commercial s properties, a fee of $10,000 upon the sale of each hotel property and an annual loan origination fee equal to five basis points of the first $20 million in loans receivable funded and 2.5 basis points thereafter. In the event the Lease Supervision Agreement with PMC Advisers is terminated or not renewed by PMC Commercial (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by PMC Commercial), PMC Advisers would be entitled to receive the lease supervision fee for a period of five years from the termination date. The Lease Supervision Agreement is renewable on an annual basis.

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Pursuant to the Advisory Agreements, PMC Commercial incurred an aggregate of approximately $1.1 million, $2.3 million and $2.3 million in management fees during the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, respectively.

Cross Indemnification Agreements

PMC Commercial and PMC Capital have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. To the extent that poor performance of the Underperforming Company is pervasive enough to cause the Performing Company not to receive cash flow that it otherwise would have received, then the Underperforming Company must make the Performing Company whole. If the cash flow reduction is considered to be temporary, then interest will be paid as compensation to the Performing Company. In general, when a loan is liquidated, it may cause a deferral of cash flow to the Performing Company and, as a result, interest would be charged to the Underperforming Company until the cash flow from the Joint Venture repays the Performing Company. As a result of the Credit Enhancement Provisions described below, PMC Commercial had a cash flow deferral, and was paid compensation by PMC Capital of less than $1,000. If the reduction of cash flows is deemed permanent *(i.e.,* to the extent that the Underperforming Company will not be able to satisfy the shortfall with the assets it has contributed to the related structured loan sale transaction), the balance of reduction to cash flows must be paid to the Performing Company by the Underperforming Company. At June 30, 2003 and December 31, 2002, the maximum potential amount of future payments to PMC Capital (undiscounted and without consideration of any recoveries from the underlying loans receivable) PMC Commercial could be required to make under these cross indemnification agreements was approximately $34.0 million and $36.3 million, respectively, and the discounted amount was $23.6 million and $25.2 million, respectively, which represents the estimated fair value of the retained interests reflected on PMC Capital s consolidated balance sheet for the Joint Ventures. All of PMC Commercial s loans are collateralized; however, the maximum potential amount of future payments PMC Commercial could be required to make under these cross indemnification agreements has not considered any proceeds from the liquidation of collateral underlying these loans. Upon completion of a joint securitization and on each subsequent quarterly reporting date, management evaluates the need to recognize a liability associated with these cross indemnification agreements. Based on present cash flow assumptions, including stress test analyses of increasing the anticipated losses on each of the loan pools, it does not appear that the loans receivable sold by PMC Commercial will cause any permanent cash flow reductions to PMC Capital nor does it appear that the loans receivable sold by PMC Capital will cause any permanent cash flow reduction to PMC Commercial. Accordingly, PMC Commercial believes that the fair value of these cross indemnification agreements at inception of the Joint Ventures and as of June 30, 2003, December 31, 2002 and 2001 was zero; thus, no liability was recorded. If the performance of PMC Commercial s sold loans receivable significantly deteriorates, it could be necessary for PMC Commercial to perform under these cross indemnification agreements.

Credit Enhancement Provisions

When PMC Commercial s structured loan sale transactions were completed, the transaction documents that the SPE entered into contained Credit Enhancement Provisions that govern the assets and the flow of funds in and out of the SPE formed as part of the structured loan sale transactions. The Credit Enhancement Provisions include specified limits on the delinquency, default and loss rates on loans receivable included in each SPE. If, at any measurement date, the delinquency, default or loss rate with respect to any SPE were to exceed the specified limits, the Credit Enhancement Provisions would automatically increase the level of credit enhancement requirements for that SPE. During the period in which the specified delinquency, default or loss rate was exceeded, excess cash flow from the SPE, if any, would be used to fund the increased credit enhancement levels instead of being distributed to PMC Commercial, which would delay or reduce PMC Commercial s distribution. As a result of the problem loans in the 2000 Joint Venture (contributed by PMC Capital), a Credit Enhancement Provision was triggered in November 2002. As a consequence, cash flows relating to this transaction were deferred and utilized to fund the increased reserve requirements. In general, there can be no assurance that amounts deferred under Credit Enhancement Provisions will be received in

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future periods or that future deferrals and losses will not occur. PMC Commercial s cash flow deferral at December 31, 2002 was approximately $270,000.

Equity and Dividends

During April, July and October 2002 and January 2003 PMC Commercial paid $0.40 per share in dividends to common shareholders of record on March 28, 2002, June 28, 2002, September 30, 2002 and December 31, 2002, respectively. In addition, during December 2002, PMC Commercial declared a $0.02 per share special dividend to common shareholders of record on December 31, 2002. During March 2003, PMC Commercial declared a $0.40 per share dividend to common shareholders of record on March 31, 2003. PMC Commercial declared a $0.38 per share dividend to common shareholders of record on June 30, 2003, which was paid on July 14, 2003. The dividend reduction was the result of reduced earnings and continued low interest rates. The PMC Commercial board of trust managers may amend the level of quarterly dividends as warranted by actual and/or anticipated earnings.

PMC Commercial board of trust managers considers many factors including, but not limited to, expectations for future earnings and FFO, taxable income, the interest rate environment, competition, PMC Commercial s ability to obtain leverage and its loan portfolio activity in determining dividend policy. In addition, as a REIT, PMC Commercial is required to pay out 90% of taxable income. Consequently, the dividend rate on a quarterly basis will not necessarily correlate directly to any singular factor such as quarterly FFO or earnings expectations.

To the extent excess FFO is retained and not paid out as quarterly dividends, these funds will be used to originate loans, to reduce debt or to possibly pay year-end special dividends.

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduced the tax rate on both dividends and long-term capital gains for most non-corporate taxpayers to 15% until 2008. This reduced maximum tax rate generally does not apply to ordinary REIT dividends, which continue to be subject to tax at the higher rates applicable to ordinary income (a maximum rate of 35% under the new legislation). The new 15% maximum tax rate, however, does apply to certain REIT distributions. This legislation may cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs and may adversely affect the market price of PMC Commercial s common shares.

Funds From Operations

FFO (i) does not represent cash flows from operations as defined by generally accepted accounting principles, (ii) is not indicative of cash available to fund all cash flow needs and liquidity, including PMC Commercial s ability to make distributions, and (iii) should not be considered as an alternative to net income (as determined in accordance with generally accepted accounting principles) for purposes of evaluating PMC Commercial s operating performance. For a complete discussion of cash flows from operations, see Cash Flow Analysis. PMC Commercial considers FFO to be an appropriate measure of performance for an equity or hybrid REIT that provides a relevant basis for comparison among REITs. FFO, as defined by the National Association of Real Estate Investment Trusts (NAREIT), means income (loss) before minority interest determined in accordance with generally accepted accounting principles, excluding gains (losses) from debt restructuring and sales of property, plus real estate depreciation and after adjustments for unconsolidated partnerships and joint ventures. FFO is presented to assist investors in analyzing performance and is a measure that is presented quarterly to the PMC Commercial board of trust managers and is utilized in the determination of dividends to be paid to shareholders. PMC Commercial s method of calculating FFO may be different from the methods used by other REITs and, accordingly, may be not be directly comparable to such other REITs. PMC Commercial s formulation of FFO set forth below is consistent with the NAREIT White Paper definition of FFO.

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PMC Commercial s FFO for the years ended December 31, 2002, 2001 and 2000 and six months ended June 30, 2003 and 2002 was computed as follows:

	Six Months Ended June 30,		Years Ended December 31,		
	2003	2002	2002	2001	2000
			(In thousands)		
Net income	$3,651	$ 5,812	$ 9,936	$11,435	$ 9,365
Less gains on sale of assets		(1,225)	(1,225)	(2,783)	(1,421)
Add depreciation	939	974	1,903	2,101	2,250
FFO	$4,590	$ 5,561	$10,614	$10,753	$10,194

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PMC COMMERCIAL QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

Since PMC Commercial s consolidated balance sheet consists of items subject to interest rate risk, it is subject to market risk associated with changes in interest rates as described below. Although management believes that the analysis below is indicative of PMC Commercial s sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of PMC Commercial s balance sheet and other business developments that could affect its financial position and net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by these estimates.

Loans Receivable

PMC Commercial s variable-rate loans receivable are generally at spreads over LIBOR consistent with the market. Increases or decreases in interest rates will not generally have a material impact on the fair value of its variable-rate loans receivable. At June 30, 2003, December 31, 2002 and 2001, PMC Commercial had $59.9 million, $42.1 million and $11.5 million of variable-rate loans receivable, respectively, and $27.4 million, $7.3 million and $8.7 million of variable-rate debt, respectively. On the differential between PMC Commercial s variable-rate loans receivable outstanding and its variable-rate debt ($32.5 million, $34.8 million and $2.8 million at June 30, 2003, December 31, 2002 and 2001, respectively) PMC Commercial has interest rate risk. To the extent variable rates continue to decrease, PMC Commercial s interest income net of interest expense would decrease.

The sensitivity of variable-rate loans receivable and debt to changes in interest rates is regularly monitored and analyzed by measuring the characteristics of PMC Commercial s assets and liabilities. PMC Commercial assesses interest rate risk in terms of the potential effect on interest income net of interest expense in an effort to ensure that it is insulated from any significant adverse effects from changes in interest rates. Based on PMC Commercial s analysis of the sensitivity of interest income and interest expense at June 30, 2003, if the consolidated balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, each hypothetical 100 basis point reduction in interest rates would reduce net income by approximately $325,000. In comparison, based on PMC Commercial s analysis of the sensitivity of interest income and interest expense at December 31, 2002, if the consolidated balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, each hypothetical 100 basis point reduction in interest rates would reduce net income by approximately $348,000.

Changes in interest rates do not have an immediate impact on interest income with respect to PMC Commercial s fixed-rate loans receivable. PMC Commercial s interest rate risk on fixed-rate loans receivable is primarily related to loan prepayments and maturities. The average maturity of PMC Commercial s loan portfolio is less than their average contractual terms because of prepayments. The average maturity of PMC Commercial s loans portfolio tends to increase when the current mortgage rates are substantially higher than rates on existing mortgage loans receivable and, conversely, decrease when the current mortgage rates are substantially lower than rates on existing mortgage loans receivable (due to refinancings of fixed-rate loans receivable at lower rates). See Risk Factors.

PMC Commercial s loans receivable are recorded at cost and adjusted by deferred commitment fees (recognized as an adjustment of yield over the life of the loan) and loan loss reserves. The fair value of PMC Commercial s fixed interest rate loans receivable is dependent upon several factors including changes in interest rates and the market for the types of loans that PMC Commercial has originated. If PMC Commercial was required to sell loans at a time it would not otherwise do so, its losses may be substantial. At June 30, 2003, December 31, 2002 and 2001, the fair value of fixed-rate loans receivable generally approximates the remaining unamortized principal balance of the loans receivable, less any valuation reserves.

Notes Payable and Revolving Credit Facility

Since PMC Commercial s fixed-rate debt has coupon rates that are currently higher (in general) than market rates, the fair value of these financial instruments is higher than their cost thus decreasing PMC

Commercial s net worth. The majority of this debt is the structured notes payable from PMC Commercial s 1998 structured loan financing which cannot be repaid other than through collections of principal on the underlying loans receivable. As of June 30, 2003, of its fixed-rate hotel property mortgages, $6.2 million have significant penalties for prepayment, $4.7 million have no prepayment penalties and the remaining $4.1 million have prepayment penalties of 2% of the prepaid amount.

The following tables present the principal amounts and weighted average interest rates and fair values required by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes of PMC Commercial s outstanding debt at June 30, 2003 and December 31, 2002 and 2001.

Market risk disclosures related to PMC Commercial s outstanding debt as of June 30, 2003 were as follows:

	Twelve Month Period Ending June 30,							
	2004	2005	2006	2007	2008	Thereafter	Carrying Value	Fair Value(1)
					(In thousands)			
Fixed-rate debt(2)	$ 4,837	$6,862	$7,076	$6,614	$1,059	$10,740	$37,188	$39,190
Variable-rate debt (primarily LIBOR-based)(3)	27,400						27,400	27,400
Totals	$32,237	$6,862	$7,076	$6,614	$1,059	$10,740	$64,588	$66,590

(1) The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.

(2) The weighted average interest rate of PMC Commercial s fixed-rate debt at June 30, 2003 was 6.7%.

(3) The weighted average interest rate of PMC Commercial s variable-rate debt at June 30, 2003 was 2.9%.

Market risk disclosures related to PMC Commercial s outstanding debt as of December 31, 2002 were as follows:

	Year Ending December 31,							
	2003	2004	2005	2006	2007	Thereafter	Carrying Value	Fair Value(1)
					(In thousands)			
Fixed-rate debt(2)	$1,691	$7,103	$2,768	$2,006	$2,215	$25,408	$41,191	$43,520
Variable-rate debt (primarily LIBOR-based)(3)	7,300						7,300	7,300
Totals	$8,991	$7,103	$2,768	$2,006	$2,215	$25,408	$48,491	$50,820

(1) The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.

(2) The weighted average interest rate of PMC Commercial s fixed-rate debt at December 31, 2001 was 6.9%.

(3) The weighted average interest rate of PMC Commercial s variable-rate debt at December 31, 2001 was 3.1%.

Market risk disclosures related to PMC Commercial s outstanding debt as of December 31, 2001 were as follows:

	Year Ending December 31,							
	2002	2003	2004	2005	2006	Thereafter	Carrying Value	Fair Value(1)
					(In thousands)			
Fixed-rate debt(2)	$ 1,755	$1,935	$8,233	$2,121	$2,345	$31,981	$48,370	$48,481
Variable-rate debt (primarily LIBOR-based)(3)	8,700						8,700	8,700
Totals	$10,455	$1,935	$8,233	$2,121	$2,345	$31,981	$57,070	$57,181

(1) The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.

(2) The weighted average interest rate of PMC Commercial s fixed-rate debt at December 31, 2001 was 6.8%.

(3) The weighted average interest rate of PMC Commercial s variable-rate debt at December 31, 2001 was 3.6%.

As of June 30, 2003 and December 31, 2002 and 2001, approximately $37.2 million (58%), $41.2 million (85%) and $48.4 million (85%) of PMC Commercial s consolidated debt had fixed rates of interest and therefore were not affected by changes in interest rates. Currently, market rates of interest are below the rates PMC Commercial is obligated to pay on the majority of its fixed-rate debt. The amount outstanding on the revolving credit facility is based on the prime rate and/or LIBOR and thus subject to adverse changes in market interest rates. Assuming there were no increases or decreases in the balance outstanding under the revolving credit facility at June 30, 2003 and December 31, 2002 and 2001, each hypothetical 100 basis points increase in interest rates would increase interest expense and decrease net income by approximately $274,000, $73,000 and $87,000, respectively.

Retained Interests

PMC Commercial has an investment in retained interests that is valued based on various factors including estimates of appropriate discount rates. Changes in the discount rates used in determining the fair value of the retained interests will impact their carrying value. Any appreciation of retained interests is included in the accompanying balance sheet in beneficiaries equity while any depreciation of retained interests is either included in the accompanying statement of income as a realized loss (if there is a reduction in expected future cash flows) or on the balance sheet in beneficiaries equity as an unrealized loss. Assuming all other factors (*i.e.,*prepayments, losses, etc.) remained unchanged, if discount rates were 100 basis points and 200 basis points higher than rates estimated at June 30, 2003, the value of PMC Commercial s retained interests would have decreased by approximately $1.0 million and $1.9 million, respectively. Assuming all other factors (*i.e.,* prepayments, losses, etc.) remained unchanged, if discount rates were 100 basis points and 200 basis points higher than rates estimated at December 31, 2002, the value of PMC Commercial s retained interests would have decreased by approximately $1.1 million and $2.0 million, respectively.

PMC COMMERCIAL MANAGEMENT

Trust Managers of PMC Commercial

The PMC Commercial board of trust managers currently consists of seven members. At the effective time of the merger, PMC Commercial s board of trust managers will be expanded to consist of eleven members upon the appointment of Thomas Hamill, Barry A. Imber, Fredric M. Rosemore and Theodore J. Samuel, (or such persons mutually designated by PMC Commercial and PMC Capital in the event any of the foregoing are unable or unwilling to serve), each of whom is currently a director of PMC Capital, as members of PMC Commercial s board of trust managers. At the PMC Commercial annual meeting, holders of PMC Commercial s common shares will consider and vote upon the election of the current members of PMC

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Commercial s board of trust managers, to hold office until the next annual meeting of shareholders and until their successors have been elected and qualified. Each trust manager must be elected by the affirmative vote of the holders of two-thirds of the outstanding PMC Commercial common shares present in person or represented by proxy at the annual meeting. Each of the nominees has consented to serve as a trust manager if elected. If any of the nominees become unable to stand for election as a trust manager at the annual meeting (an event not now anticipated by the board of trust managers), proxies will be voted for such substitute as will be designated by the board of trust managers. The following table sets forth for each nominee for election to the board of trust managers his or her age, principal occupation, position with PMC Commercial, if any, and certain other information.

THE BOARD OF TRUST MANAGERS OF PMC COMMERCIAL UNANIMOUSLY RECOMMENDS THAT THE PMC COMMERCIAL SHAREHOLDERS VOTE FOR EACH OF THE NOMINEES.

Name	Age	Principal Occupation	Trust Manager Since
Nathan G. Cohen	57	Mr. Cohen has been President of Consultants Unlimited, a management and financial consulting firm, since August 2001. From November 1984 to 2001, he was the Controller of Atco Rubber Products, Inc.	May 1994
Martha R. Greenberg	52	Dr. Greenberg has practiced optometry for 29 years in Russellville, Alabama and currently serves on the Board of Trustees of Southern College of Optometry. Dr. Greenberg has been a director of PMC Capital since 1984. Dr. Greenberg is not related to Roy H. Greenberg, but is the sister of Lance B. Rosemore and Andrew S. Rosemore and the daughter of Fredric M. Rosemore.	May 1996
Roy H. Greenberg	45	Mr. Greenberg has been the President of Whitehall Real Estate, Inc., a real estate management firm, since December 1989. From June 1985 to December 1989, he was Vice President of GHR Realty Holding Group, Inc., a real estate management company.	September 1993
Irving Munn	55	Mr. Munn is a financial advisor and has been the President of Munn & Morris Financial Advisors, Inc. since July 1999. Previously, he was a registered representative with Raymond James Financial Services since 1997. As a certified public accountant, he was a principal of Kaufman, Munn and Associates, P.C., a public accounting firm, from 1990 to 1997 and served as President from 1993 to November 2000. He has also practiced as a sole proprietor since November 2000.	September 1993
Andrew S. Rosemore	56	Dr. Rosemore has been Chairman of the Board of Trust Managers since January 1994 and has been Executive Vice President, Chief Operating Officer and Treasurer of PMC Commercial since June 1993. He has also been the Chief Operating Officer of PMC Capital since May 1992 and Executive Vice President of PMC Capital since 1990. From 1988 to May 1990, Dr. Rosemore was Vice President of PMC Capital and from 1989 to August 1999 was a director of PMC Capital. Dr. Rosemore is the brother of Martha R. Greenberg and Lance B. Rosemore and the son of Fredric M. Rosemore.	June 1993

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Name	Age	Principal Occupation	Trust Manager Since
Lance B. Rosemore	55	Mr. Rosemore has been President, Chief Executive Officer and Secretary of PMC Commercial since June 1993. He has also been Chief Executive Officer of PMC Capital since May 1992 and President of PMC Capital since 1990. From 1990 to May 1992, Mr. Rosemore was Chief Operating Officer of PMC Capital. Mr. Rosemore has been Secretary of PMC Capital since 1983 and an employee of PMC Capital since 1979. Mr. Rosemore has been a director of PMC Capital since 1983. Mr. Rosemore is the brother of Martha R. Greenberg and Andrew S. Rosemore and the son of Fredric M. Rosemore.	June 1993
Ira Silver	59	Dr. Silver is Associate Professor of Professional Practice in Managerial Economics at TCU s Neeley School of Business and owner of IASBusEcon, an economic and business consulting firm. Formerly, he was Assistant Director of Planning and Analysis and Chief Economist at JCPenney where he spent 22 years. Dr. Silver was a director of PMC Capital from 1992 through 1994. Dr. Silver holds a Ph.D. in Economics from the City University of New York.	May 1996

Meetings and Committees of the PMC Commercial Board of Trust Managers

During the year ended December 31, 2002, the board of trust managers held four regular meetings and one special meeting. Each of the trust managers attended at least 75% of all meetings held by the board of trust managers. The board of trust managers has an audit committee but does not have an executive committee, compensation committee or nominating committee.

The audit committee is comprised of Nathan G. Cohen, Irving Munn and Ira Silver. The function of the audit committee is to review with management and the independent public accountants the quarterly and annual results of operations, the accounting and reporting policies and the adequacy of internal controls. The audit committee also recommends to the board of trust managers the independent public accountants to serve for the following year, approves the type and scope of services to be performed by the public accountants and reviews the related costs. The audit committee holds meetings at such times as may be required for the performance of its functions and, during the year ended December 31, 2002, held four meetings.

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Executive Officers of PMC Commercial

The following table sets forth the names and ages of the executive officers of PMC Commercial, all positions held with PMC Commercial by each individual and a description of the business experience of each individual for at least the past five years.

Name	Age	Title
Andrew S. Rosemore	56	Chairman of the Board, Executive Vice President, Chief Operating Officer and Treasurer
Lance B. Rosemore	55	President, Chief Executive Officer and Secretary
Jan F. Salit	53	Executive Vice President, Chief Investment Officer and Assistant Secretary
Barry N. Berlin	43	Chief Financial Officer
Mary J. Brownmiller	49	Senior Vice President
Cheryl T. Murray	37	General Counsel

For a description of the business experience of Andrew S. Rosemore and Lance B. Rosemore, see Trust Managers of PMC Commercial above.

Jan F. Salit has been Executive Vice President of PMC Commercial since June 1993, and Chief Investment Officer and Assistant Secretary since January 1994. He has also been Executive Vice President of PMC Capital since May 1993 and Chief Investment Officer and Assistant Secretary of PMC Capital since March 1994. From 1979 to 1992, Mr. Salit was employed by Glenfed Financial Corporation and its predecessor company Armco Financial Corporation, a commercial finance company, holding various positions including Executive Vice President and Chief Financial Officer.

Barry N. Berlin has been Chief Financial Officer of PMC Commercial since June 1993. Mr. Berlin has also been Chief Financial Officer of PMC Capital since November 1992. From August 1986 to November 1992, he was an audit manager with Imber and Company, Certified Public Accountants. Mr. Berlin is a certified public accountant.

Mary J. Brownmiller has been Senior Vice President of PMC Commercial since June 1993. Ms. Brownmiller has also been Senior Vice President of PMC Capital since 1992 and Vice President of PMC Capital since November 1989. From 1987 to 1989, she was Vice President for Independence Mortgage, Inc., an SBA lender. From 1976 to 1987, Ms. Brownmiller was employed by the SBA, holding various positions including senior loan officer. Ms. Brownmiller is a certified public accountant.

Cheryl T. Murray has been General Counsel of PMC Commercial since March 1994. Ms. Murray has also been General Counsel of PMC Capital since March 1994. From 1992 to 1994 she was associated with the law firm of Johnson & Gibbs, P.C. and practiced in the financial services department. Ms. Murray earned her law degree from Northwestern University School of Law.

Compensation of Trust Managers

During 2002, the non-employee members of the board of trust managers received a retainer of $3,750 and a fee for attending meetings of the board of trust managers and audit committee. The board members are provided an annual retainer on an on-going basis of $5,000, payable quarterly. The non employee trust managers will be reimbursed by PMC Commercial for their expenses related to attending board or committee meetings. For the year ended December 31, 2002, Ira Silver received $14,500, Nathan G. Cohen received $14,000 and Irving Munn received $12,250, Roy H. Greenberg received $9,750 and Martha R. Greenberg received $7,250 for services rendered as trust managers.

PMC Commercial s 1993 Trust Managers Share Option Plan, as amended (the Trust Managers Plan), automatically grants options to purchase 2,000 common shares of PMC Commercial to each non employee

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trust manager on the first business day of June after such trust manager takes office and additional options to purchase 1,000 common shares are granted on the first business day of June thereafter so long as such trust manager is re-elected to serve as a trust manager. Such options are priced at the fair market value of the common shares (the closing price) on the date of grant. The options granted under the Trust Managers Plan become exercisable one year after date of grant and expire if not exercised on the earlier of (i) thirty (30) days after the option holder no longer holds office as a trust manager for any reason and (ii) five (5) years after the date of grant. Each of Nathan G. Cohen, Roy H. Greenberg, Irving Munn, Martha R. Greenberg and Ira Silver was granted an option to acquire 1,000 common shares on June 3, 2002 and June 11, 2003, at an exercise price of $14.90 and $13.78 per share, respectively.

Compensation Committee Interlocks and Insider Participation

PMC Commercial has no compensation committee and no salaried employees.

Annual and Long-Term Compensation

PMC Commercial s direction and policies are established by its board of trust managers and implemented by the President and Chief Executive Officer. To assist in such implementation, PMC Commercial has retained the Investment Manager. The Investment Manager, under the supervision of the trust managers, identifies, evaluates, structures and closes the investments to be made by PMC Commercial, arranges debt financing for PMC Commercial, subject to the approval of the non-employee trust managers, and is responsible for monitoring the investments made by PMC Commercial. See Certain Relationships and Related Transactions. All of the officers of PMC Commercial are officers of the Investment Manager. Accordingly, executive officers of PMC Commercial are not paid directly by PMC Commercial for their services as officers of PMC Commercial. However, in accordance with the terms of PMC Commercial s 1993 Employee Share Option Plan (the Employee Plan), each of PMC Commercial s executive officers may be awarded options to purchase common shares of PMC Commercial. The option grants set forth below were the only form of compensation paid to the executive officers of PMC Commercial by PMC Commercial for services to PMC Commercial during the fiscal year ended December 31, 2002.

Option Grants

The following table sets forth information regarding stock options granted to each of the executive officers under the Employee Plan in the fiscal year ended December 31, 2002.

Name	Number of Securities Underlying Options Granted(#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Final Exercise Date	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for Option Term (5%)	(10%)
Andrew S. Rosemore	7,500	15.1%	$13.13	12/10/07	$27,207	$60,120
Lance B. Rosemore	7,500	15.1%	13.13	12/10/07	27,207	60,120
Jan F. Salit	7,500	15.1%	13.13	12/10/07	27,207	60,120
Barry N. Berlin	7,500	15.1%	13.13	12/10/07	27,207	60,120
Mary J. Brownmiller	2,000	4.0%	13.13	12/10/07	7,255	16,032
Cheryl T. Murray	4,000	8.0%	13.13	12/10/07	14,510	32,064

Option Exercises and Year End Option Values

The following table sets forth, for each of the executive officers, information regarding exercise of stock options during the fiscal year ended December 31, 2002 and the value of unexercised stock options as of

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December 31, 2002. The closing price for the common shares, as reported by the American Stock Exchange, on December 31, 2002 (the last trading day of the fiscal year) was $12.45.

Name	Shares Acquired on Exercise(#)	Value Realized($)	Number of Securities Underlying Unexercised Options at December 31, 2002 (Exercisable/Unexercisable)(#)	Value of Unexercised In-the-Money Options at December 31, 2002 (Exercisable/Unexercisable)($)
Andrew S. Rosemore			28,750(e)/-(u)	$ 10,731(e)/-(u)
Lance B. Rosemore			28,750(e)/-(u)	10,731(e)/-(u)
Jan F. Salit			28,250(e)/-(u)	10,731(e)/-(u)
Barry N. Berlin			28,250(e)/-(u)	10,731(e)/-(u)
Mary J. Brownmiller			9,276(e)/-(u)	4,208(e)/-(u)
Cheryl T. Murray			16,750(e)/-(u)	11,450(e)/-(u)

(u) Options are not exercisable within 60 days of the date hereof.

(e) Options are currently exercisable.

Section 16(a) Beneficial Ownership Reporting Compliance

To PMC Commercial s knowledge, based solely on the review of the copies of such reports filed with the SEC furnished to PMC Commercial and written representations of its incumbent trust managers and officers that no other reports were required, during the fiscal year ended December 31, 2002, all Section 16(a) filing requirements were complied with.

Certain Relationships and Related Transactions

PMC Commercial s investments are managed by the Investment Manager. Each of PMC Commercial s executive officers is an executive officer of both PMC Capital and the Investment Manager. Additionally, two of PMC Commercial s trust managers are also directors of PMC Capital. The Investment Manager manages PMC Commercial s assets through two separate investment management agreements, the first relates to PMC Commercial s loans, and the second relates to its real properties.

During 2002 and for the first six months of 2003, pursuant to one of the investment management agreements, PMC Commercial paid fees between 0.40% and 1.55% annually, based upon the average principal outstanding of its loans. In addition, PMC Advisers earns fees for its assistance with the issuance of PMC Commercial s debt and equity securities. Such compensation includes a consulting fee equal to (i) 12.5% of any offering fees (underwriting or placement fees) incurred by PMC Commercial pursuant to the public offering or private placement of its common shares, and (ii) 50% of any issuance or placement fees incurred by PMC Commercial pursuant to the issuance of its debt securities or preferred shares of beneficial interest.

The other investment management agreement relates to hotel properties and provides for an annual fee of 0.70% of the original cost of the properties to be paid to PMC Advisers for providing services relating to leases on PMC Commercial s properties. In addition, this agreement provides for a fee relating to any acquisition of properties of 0.75% of the acquisition cost, a fee of $10,000 upon the sale of each hotel property and an annual loan origination fee equal to five basis points of loans funded for the first $20 million in loans and 2.5 basis points thereafter. PMC Commercial paid an aggregate of approximately $2.3 million in management fees under these agreements for the year ended December 31, 2002.

PMC Capital is primarily engaged in the business of originating loans to small businesses under loan guarantee and funding programs sponsored by the SBA. PMC Commercial provides loans to persons or entities whose borrowing needs and/or strength and stability exceed the limitations set for SBA approved loan programs. As a result, PMC Commercial generally pursues different prospective borrowers than PMC Capital. In order to further mitigate the potential for conflicts of interest, PMC Commercial has entered into a loan origination agreement with PMC Capital and PMC Advisers. Pursuant to the loan origination agreement, all loans that meet PMC Commercial s underwriting criteria are presented to PMC Commercial first for funding.

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If PMC Commercial does not have available uncommitted funds, origination opportunities presented to PMC Commercial may be originated by PMC Capital or its subsidiaries. Many of PMC Commercial s existing and potential borrowers have other projects that are currently financed by PMC Capital.

PMC COMMERCIAL SECURITY OWNERSHIP OF

CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

As of November 7, 2003, the only shareholder known to the management of PMC Commercial to own beneficially more than 5% of the outstanding common shares was as follows:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Peter B. Cannell & Co., Inc. 645 Madison Avenue New York, New York 10022	523,000 shares(1)	8.1%

(1) The information is based on a statement on Schedule 13G filed with the SEC on February 4, 2003. Peter B. Cannell & Co., Inc. is a registered investment adviser and the shares reported on the Schedule 13G are held in client discretionary investment advisory accounts. While Peter B. Cannell & Co., Inc. may be deemed to be the beneficial owner of these shares under the rules of the SEC, Peter B. Cannell & Co., Inc. disclaims any beneficial interest of all such common shares.

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Security Ownership of Management

On November 7, 2003, PMC Commercial had 6,448,291 outstanding common shares. The following table sets forth the number of outstanding common shares beneficially owned, directly or indirectly, by each trust manager, each executive officer and all trust managers and executive officers of PMC Commercial as a group, and the components of such beneficial ownership, at November , 2003. Each trust manager or executive officer has sole voting and investment power over the common shares indicated below as being beneficially owned by such person. The address of each trust manager and executive officer is 18111 Preston Road, Suite 600, Dallas, Texas 75252.

Name	Common Shares Owned	Unexercised Options Exercisable	Common Shares Owned Beneficially	Percent of Common Shares Owned Beneficially
Andrew S. Rosemore(1)	218,175	28,750	246,925	3.8%
Lance B. Rosemore(2)	79,880	28,750	108,630	1.7%
Jan F. Salit	10,653	28,250	38,903	*
Barry N. Berlin(3)	9,382	28,250	37,632	*
Mary J. Brownmiller	1,474	9,276	10,750	*
Cheryl T. Murray	2,200	16,750	18,950	*
Nathan G. Cohen(4)	5,600	5,000	10,600	*
Martha Greenberg(5)	80,602	3,000	83,602	1.3%
Roy H. Greenberg	6,000	5,000	11,000	*
Irving Munn(6)	3,000	5,000	8,000	*
Ira Silver	3,000	3,000	6,000	*
Trust Managers and Executive Officers as a group (11 persons)	419,966	161,026	580,992	9.0%

* *Less than 1%.*

(1) *Includes 155,140 shares held in his individual retirement accounts, 4,770 shares held in a trust of which Dr. Rosemore is the beneficiary, 25,275 shares held by a partnership of which Dr. Rosemore and his wife are general partners and 1,290 shares held in the name of his children.*

(2) *Includes 3,781 shares held in the name of his minor children, 5,100 shares held in a trust of which Mr. Rosemore is the beneficiary, 537 shares held in an individual retirement account and 82 shares held in the name of his wife.*

(3) *Includes 147 shares held in the name of his minor child.*

(4) *Includes 1,500 shares held in the name of his wife.*

(5) *Includes 3,000 shares held in an individual retirement account and 3,363 shares held in the name of her children. Does not include 300 shares held by her husband.*

(6) *Includes 200 shares held in the name of his children.*

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PMC COMMERCIAL PERFORMANCE GRAPH

Set forth below is a line graph comparing the percentage change in the cumulative total shareholder return on the PMC Commercial common shares with the cumulative total return of the S&P 500 Index, the SNL All Hybrid REITs index and the PMC Commercial s peer group which consists of the publicly traded mortgage REITs listed on the New York Stock Exchange, the American Stock Exchange and the Nasdaq Stock Market s National Market for the period from January 1, 1997 through December 31, 2002 assuming an investment of $100 on January 1, 1997 and the reinvestment of dividends. The SNL All Hybrid REITs index consists of those REITs identified by SNL Financial LC1 which own both mortgage loans and equity interests in real estate and are traded on the New York Stock Exchange, the American Stock Exchange and the Nasdaq Stock Market s National Market. The entities included in the SNL All Hybrid REITs index include substantially all of the members of PMC Commercial s peer group as identified in its 1998 Proxy Statement. The share price performance shown on the graph is not necessarily indicative of future price performance.

The graph shall not be deemed to be soliciting material or to be filed with the SEC under the Securities Act of 1933, or the Securities Exchange Act of 1934, or incorporated by reference in any document so filed.

TOTAL RETURN PERFORMANCE

	Period Ending					
Index	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02
PMC Commercial Trust	100.00	92.29	64.64	66.16	114.41	118.49
S&P 500	100.00	128.55	155.60	141.42	124.63	96.95
SNL All Hybrid REITs	100.00	69.62	43.94	33.12	65.52	68.12
PMC Commercial Trust Peer Group	100.00	92.21	45.75	55.66	97.66	126.36

APPROVAL OF PROPOSED AMENDMENTS TO PMC COMMERCIAL S

DECLARATION OF TRUST

At PMC Commercial s annual meeting, PMC Commercial shareholders will be asked to approve two amendments to PMC Commercial s declaration of trust. The specific language of each amendment is attached as Annex B to this joint proxy statement/ prospectus and is incorporated by reference in this joint proxy statement/ prospectus. Set forth below is a general description of each of the amendments and the PMC Commercial board of trust managers reasons for proposing the amendments. On August 4, 2003, the PMC Commercial board of trust managers directed that these proposed amendments be submitted to a vote of

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PMC Commercial shareholders at the PMC Commercial annual meeting. PMC Capital shareholders will not be asked or permitted to vote on this proposal.

Expansion of Shareholder Voting Rights

PMC Commercial s board of trust managers has approved and proposes deleting Article Eight, clause (f) of its declaration of trust in its entirety and replacing it with the following text:

> (f) Except as otherwise specifically required by law or this Declaration of Trust or as specifically provided in any resolution or resolutions of the Trust Managers providing for the issuance of any particular series of Preferred Shares, the Common Shares shall have the exclusive right to vote on all matters (as to which common shareholders shall be entitled to vote pursuant to applicable law) at all meetings of the shareholders of the Trust. Subject to the provisions of the Texas REIT Act and this Declaration of Trust that may require a greater voting requirement, at any meeting of the holders of the Common Shares at which a quorum is present: (1) a trust manager shall be elected only if the trust manager receives the affirmative vote of a majority of the votes cast by the holders of Common Shares, and (2) with respect to any other matter to be voted upon, such matter shall be approved if the matter receives the affirmative vote of the holders of at least a majority of the Common Shares entitled to vote on, and that voted for or against or expressly abstained with respect to, such matter.

This amendment would give the holders of PMC Commercial s common shares the right to vote on any matter presented for shareholder approval or required to be approved by shareholders under the Texas Real Estate Investment Trust Act (the Texas REIT Act), at an annual or special meeting of shareholders, subject to the rights (if any) of holders of PMC Commercial s preferred shares and applicable law. If PMC Commercial s declaration of trust is amended as proposed, a trust manager shall be elected upon receiving the affirmative vote of a majority of the votes cast by the holders of common shares at a meeting of the shareholders at which a quorum is present. With respect to any other matter to be voted upon, such matter shall be approved if it receives the affirmative vote of the holders of at least a majority of the common shares entitled to vote on, and that voted for or against or expressly abstained with respect to, such matter, at a meeting of shareholders at which a quorum is present.

Currently, PMC Commercial s declaration of trust provides that the PMC Commercial shareholders are entitled to vote only on the following matters: (i) election or removal of trust managers, (ii) amendment of the declaration of trust; (iii) termination of PMC Commercial; (iv) reorganization of PMC Commercial; (v) merger or consolidation of PMC Commercial or the sale or disposition of all or substantially all of PMC Commercial s assets; and (vi) termination of PMC Commercial s investment management agreement with the Investment Manager. Each of these matters requires the approval of at least two-thirds of the outstanding common shares of PMC Commercial entitled to vote at a meeting of shareholders at which a quorum is present. Except with respect to the foregoing matters, no action taken by the PMC Commercial shareholders is binding on the trust managers.

PMC Commercial s trust managers have approved this amendment to expand the voting rights of PMC Commercial s shareholders as permitted by the Texas REIT Act and to harmonize such rights with the common stock voting rights established by the vast majority of publicly-traded companies. Moreover, this amendment would make PMC Commercial s declaration of trust consistent with PMC Commercial s past practice of allowing shareholders to vote on certain matters, such as the ratification of PMC Commercial s independent public accountants.

Amending, Repealing or Adopting Bylaws

PMC Commercial s board of trust managers has also approved an amendment to PMC Commercial s declaration of trust to provide that the PMC Commercial board of trust managers, as well as PMC Commercial shareholders, may amend, repeal or adopt bylaws. The Texas REIT Act provides, among other things, that the trust managers of a Texas REIT may amend or repeal the Texas REIT s bylaws or adopt new bylaws unless the Texas REIT s declaration of trust or the Texas REIT Act reserves the power exclusively to the shareholders in whole or in part. Further, the Texas REIT Act provides that unless the declaration of trust

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or a bylaw adopted by the shareholders provides otherwise as to all or some portion of a Texas REIT s bylaws, a Texas REIT s shareholders may amend, repeal or adopt the Texas REIT s bylaws even though the bylaws may also be amended, repealed or adopted by its trust managers.

PMC Commercial s declaration of trust currently has no provision addressing the procedures for amending, repealing or adopting bylaws. PMC Commercial s bylaws currently provide that except as provided by applicable law or PMC Commercial s declaration of trust, the power to alter, amend, repeal or adopt bylaws is vested in the shareholders, and any such action requires the affirmative vote of a majority of PMC Commercial s outstanding shares. However, it is unclear whether the language of such provision would be sufficient under the Texas REIT Act to act as an exclusive reservation to the shareholders of the power to amend, repeal or adopt bylaws. Furthermore, even if the language of the bylaw provision is sufficient to act as an exclusive reservation of power to the shareholders, it is not clear whether the bylaw provision would be valid under the Texas REIT Act, which requires such exclusive reservation of power to be included in the declaration of trust, and not the bylaws.

For these reasons, the PMC Commercial board of trust managers has proposed this amendment to clarify the rights of PMC Commercial s board of trust managers and shareholders with respect to the amendment, repeal and adoption of bylaws, and to bring PMC Commercial s governing documents up to date with current Texas REIT law. Moreover, the amendment will harmonize the bylaw amendment provisions of PMC Commercial s governing documents with those of other Texas REITs and of public corporations generally, the vast majority of which permit the board of directors to amend, repeal and adopt bylaws. In fact, while the amendment would continue to permit PMC Commercial shareholders to amend, repeal and adopt bylaws (subject to the requirements, if any, contained in PMC Commercial s governing documents and applicable law with respect to shareholder proposals), some public companies do not allow shareholders to do so, and thus this provision, as amended, would give PMC Commercial shareholders greater rights than those afforded by such public companies.

If the bylaw provision described above is sufficient to act as an exclusive reservation of power to PMC Commercial s shareholders to amend, repeal or adopt PMC Commercial s bylaws and the bylaw provision would not be deemed invalid under the Texas REIT Act, this amendment could be construed to have a negative effect upon PMC Commercial shareholders by eliminating the exclusive power of the shareholders to effect changes in PMC Commercial s bylaws. However, PMC Commercial believes that the language of the bylaw provision is not sufficient to act as an exclusive reservation of power as required under the Texas REIT Act. Thus, PMC Commercial believes that this amendment will not have any practical negative effect on PMC Commercial s shareholders. Further, the amendment would clarify the provisions of PMC Commercial s governing documents with respect to bylaw changes and to bring such provisions in line with modern corporate governance trends.

Vote Required

The approval of the amendments to PMC Commercial s declaration of trust requires the affirmative vote of the holders of at least two-thirds of the outstanding PMC Commercial common shares entitled to vote on the amendments. If you abstain, do not return your proxy or do not cast your vote either in person, by proxy, by telephone or the Internet, it will have the effect of a vote against the amendments to PMC Commercial s declaration of trust. Brokers who hold shares of stock in street name cannot vote those shares if the brokers are not provided with voting instructions in accordance with applicable procedures, and such a broker non-vote would also be counted as a vote against the amendments to PMC Commercial s declaration of trust.

Recommendation of PMC Commercial Board of Trust Managers

For all of the foregoing reasons, the PMC Commercial board of trust managers has unanimously adopted and approved the proposed amendments to PMC Commercial s declaration of trust, has determined that the proposed amendments are advisable and in the best interests of PMC Commercial and its shareholders and has directed that the amendments be submitted to a vote of PMC Commercial shareholders at the PMC Commercial annual meeting. The PMC Commercial board of trust managers unanimously recommends that

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PMC Commercial shareholders vote FOR approval of the proposed amendments to PMC Commercial s declaration of trust.

RATIFICATION OF PMC COMMERCIAL S INDEPENDENT PUBLIC ACCOUNTANTS

PMC Commercial s board of trust managers recommends that shareholders ratify the board of trust managers selection of PricewaterhouseCoopers LLP as the independent public accountants of PMC Commercial for the year ending December 31, 2003. PricewaterhouseCoopers LLP has examined the accounts of PMC Commercial since its organization in 1993. Representatives of PricewaterhouseCoopers LLP will be in attendance at the annual meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to shareholder questions.

Principal Accounting Firm Fees

Aggregate fees billed to PMC Commercial and its subsidiaries for the fiscal year ended December 31, 2002 by PMC Commercial s principal accounting firm, PricewaterhouseCoopers LLP, are set forth below:

Audit Fees and Quarterly Reviews	$104,737
Tax Returns and Compliance	$ 33,847(a)

(a) *The audit committee has considered whether the provision of theses services by PricewaterhouseCoopers LLP is compatible with maintaining the principal accountant s independence.*

The board of trust managers of PMC Commercial recommends shareholders vote <u>for</u> the ratification of PricewaterhouseCoopers LLP as PMC Commercial s independent public accountants.

Audit Committee Report

In accordance with its written charter adopted by the board of directors, the audit committee of the board of trust managers assists the board of trust managers in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of PMC Commercial.

In discharging its oversight responsibility as to the audit process, the audit committee obtained from the independent accountants a formal written statement describing all relationships between the accountants and PMC Commercial that might bear on the accountants independence consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, discussed with the accountants any relationships that may impact their objectivity and independence and satisfied itself as to the accountants independence. The audit committee also discussed with management and the independent accountants the quality and adequacy of PMC Commercial s internal controls and budget and staffing. The audit committee reviewed with the independent accountants their audit plans, audit scope and identification of audit risks.

The audit committee discussed and reviewed with the independent accountants all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees and, with management present, discussed and reviewed the results of the independent accountants examination of the financial statements.

The audit committee reviewed the audited financial statements of PMC Commercial as of and for the fiscal year ended December 31, 2002, with management and the independent accountants. Management has the responsibility for the preparation of PMC Commercial s financial statements and the independent accountants have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent accountants, the audit committee recommended to the board of trust managers that PMC Commercial s audited financial statements be included in its annual report on Form 10-K for the fiscal year ended December 31, 2002, for filing with the SEC. The audit committee also recommended the reappointment, subject to

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shareholder approval, of the independent accountants and the board of trust managers concurred in such recommendation.

AUDIT COMMITTEE OF THE
PMC COMMERCIAL BOARD OF
TRUST MANAGERS

Nathan G. Cohen
Irving Munn
Ira Silver

Shareholder Proposals

Any shareholder who intends to present a proposal at the annual meeting in 2004, and who wishes to have the proposal included in the proxy statement for that meeting must deliver the proposal to PMC Commercial s corporate secretary at 18111 Preston Road, Suite 600, Dallas, Texas 75252 by December 19, 2003. All proposals must meet the requirements set forth in the rules and regulations of the SEC in order to be eligible for inclusion in the proxy statement for that meeting.

Any shareholder who intends to bring business to the annual meeting in the year 2004 but does not intend to include the proposal in the proxy statement, or to nominate a person to the PMC Commercial board of trust managers, must give written notice to PMC Commercial s corporate secretary, 18111 Preston Road, Suite 600, Dallas, Texas 75252 by December 19, 2003.

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PMC CAPITAL BUSINESS

Introduction

PMC Capital, Inc., a Florida corporation, is a diversified, closed-end management investment company that has elected to operate as a BDC under the 1940 Act. PMC Capital is a national lender to small businesses either directly or through its three 1940 Act subsidiaries. These subsidiaries are First Western, PMCIC and Western Financial. First Western, PMCIC and Western Financial are registered under the 1940 Act as diversified, closed-end management investment companies. PMC Capital s common stock is traded on the American Stock Exchange under the symbol PMC. PMC Capital s investment objective is to achieve current income that is available to pay out to shareholders in the form of quarterly dividends. PMC Capital has elected to be taxed as a RIC under the Internal Revenue Code and thus distributes substantially all of its taxable income as dividends to its shareholders, thereby incurring no U.S. Federal income tax liability on such income.

PMC Capital s operations are centralized in Dallas, Texas and include originating, servicing and selling commercial loans. PMC Capital also has a business development office in Arizona. PMC Capital operates under several licenses from the SBA. First Western is licensed as a small business lending company (SBLC) that originates loans through the SBA s 7(a) Guaranteed Loan Program. PMCIC is a licensed specialized small business investment company under the Small Business Investment Act of 1958, as amended (SBIA). PMCIC uses long-term funds provided by the SBA, together with its own capital, to provide long-term collateralized loans to eligible small businesses owned by disadvantaged persons, as defined under SBA regulations. Western Financial is a licensed small business investment company (SBIC) under the SBIA that provides loans to borrowers whether or not they qualify as disadvantaged.

PMC Capital is either directly or indirectly the sole shareholder or a partner of several non-investment company subsidiaries: PMC Advisers; PMC Funding Corp. (PMC Funding) and its subsidiary; PMC Asset Holding, LLC (Asset Holding) and several SPEs established to facilitate structured loan transactions. PMC Capital s consolidated financial statements include the accounts of PMC Capital and its wholly-owned RIC subsidiaries. PMC Advisers and PMC Funding are accounted for using the equity method of accounting in conformity with the requirements of Federal securities laws. PMC Capital s interests in the SPEs are accounted for as retained interests in transferred assets.

In addition to its lending operations, PMC Capital earns income through PMC Advisers which evaluates and services loans receivable and other investments pursuant to fee arrangements through the investment management agreements with PMC Commercial.

PMC Commercial provides loans to entities whose borrowing needs and/or strength and stability exceed the limitations set by the SBA for PMC Capital s SBA approved loan programs. As a result, PMC Capital generally pursues different prospective borrowers than PMC Commercial. In order to further mitigate the potential for conflicts of interest, PMC Capital, PMC Commercial and PMC Advisers have entered into a loan origination agreement. Pursuant to the loan origination agreement, loans that are greater than $1.3 million that meet PMC Commercial s underwriting criteria are first presented to PMC Commercial for funding. If PMC Commercial does not have available funds, PMC Capital may originate those lending opportunities as long as they meet its lending criteria.

As of June 30, 2003 and December 31, 2002 and 2001, PMC Capital s total assets were approximately $144.8 million, $140.3 million and $162.7 million, respectively. During the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001, PMC Capital s total investment income was approximately $7.5 million, $16.7 million and $20.8 million, respectively and its net increase in net assets resulting from operations, or net income, was approximately $1.7 million, $6.0 million and $10.6 million, respectively.

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Lending Activities

Overview

The fair value of PMC Capital s loans receivable was $95.0 million, $87.2 million and $107.4 million at June 30, 2003 and December 31, 2002 and 2001, respectively. As of June 30, 2003 and December 31, 2002 and 2001, PMC Capital had $83.4 million (8.8%), $71.3 million (82%) and $38.5 million (36%), respectively, of variable-rate loans receivable and $11.6 million (12%), $15.9 million (18%) and $68.9 million (64%), respectively, of fixed-rate loans receivable and the weighted average interest rate on its loans receivable was 6.1%, 7.1% and 9.0%, respectively.

PMC Capital primarily originates loans to small business concerns in the limited service sector of the hospitality industry. PMC Capital has a fundamental policy with respect to loan concentration that requires it to have at least 25% of its total assets invested in the hospitality industry, and at December 31, 2002 its concentration was approximately 81%. PMC Capital also emphasizes lending to the convenience store and gas station, restaurant, service, retail and commercial real estate industries. PMC Capital is a national lender that primarily lends to businesses in the southeast and southwest regions of the United States.

Limited Service Hospitality Industry

PMC Capital s loans in the hospitality industry are generally collateralized by first liens on limited service hospitality properties and are generally made to owner-operated facilities operating under national franchises. PMC Capital believes that franchise operations offer attractive lending opportunities because such businesses generally employ proven business concepts, have national reservation systems, have consistent product quality, are screened and monitored by franchisors and generally have a higher rate of success when compared to other independently operated hospitality businesses. See PMC Capital Management s Discussion and Analysis of Financial Condition and Results of Operations Economic Factors Hospitality Industry Factors.

Loan Originations and Underwriting

PMC Capital originates mortgage loans to small businesses primarily collateralized by commercial real estate. PMC Capital believes that it successfully competes in the commercial real estate finance market due to its understanding of borrowers businesses, the flexible loan terms that it offers and its responsive customer service. PMC Capital s approach to assessing new commercial mortgage loans requires an analysis of the replacement cost of the collateral, its liquidation value and an analysis of local market conditions. PMC Capital also considers the underlying cash flow of the tenant or owner-occupant as well as more traditional real estate loan underwriting criteria.

PMC Capital s variable-rate loans receivable require payments of principal and interest, reset on a quarterly basis, to amortize the principal over ten to 20 years. Fixed interest rate loans receivable primarily require level payments of principal and interest calculated to amortize the principal over ten to 25 years.

PMC Capital has business development offices in Texas and Arizona and solicits loan applications from potential borrowers through personal contacts and public appearances, direct mailings, advertisements in trade publications and other marketing vehicles. In addition, a significant percentage of new loans is generated through referrals from existing borrowers, lawyers, accountants, real estate brokers and loan brokers. In certain cases, PMC Capital makes referral payments to persons who assist in generating loan applications. Such referral payments generally are in amounts not exceeding 1% of the principal amount of the related loan. PMC Capital s loan committee, comprised primarily of senior management, makes the final determination on whether or not to approve each loan application.

Upon receipt of a completed loan application, PMC Capital s credit department conducts: (i) a detailed analysis of the loan, which typically includes an appraisal and a valuation by the credit department of the property that will collateralize the loan to assure compliance with loan-to-value percentages, (ii) a site inspection for real estate collateralized loans, (iii) a review of the borrower s business experience, (iv) a review of the borrower s credit history, and (v) an analysis of the borrower s debt-service-coverage and debt-to-equity ratios. All appraisals must be performed by an approved licensed third party appraiser and

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based on the market value, replacement cost and cash flow value approaches. PMC Capital generally utilizes nationwide independent appraisal firms and seeks local market economic information to the extent available.

PMC Capital s typical loan is distinguished from those of some of its competitors by the following characteristics:

Substantial down payments are required. PMC Capital usually requires an initial down payment of not less than 20% of the value of the property which is collateral for the loan at the time of such loan. PMC Capital s experience has shown that the likelihood of full repayment of a loan increases if the owner/operator is required to make an initial and substantial financial commitment to the property which is collateral for the loan.

Cash outs are typically not permitted. Generally, PMC Capital will not make a loan in an amount greater than either the cost or the current appraised value of the property which is collateral for the loan. For example, a hotel property may have been originally constructed for a cost of $2,000,000, with the owner/operator borrowing $1,600,000 of that amount. At the time of the borrower s loan refinancing request, the property which is collateral for the loan is appraised at $4,000,000. Some of PMC Capital s competitors might loan from 70% to 90% or more of the new appraised value of the property and permit the owner/operator to receive a cash distribution from the proceeds. Generally, PMC Capital will not permit this type of cash-out distribution.

The obligor is personally liable for the loan. PMC Capital generally requires the principals of the borrower to guarantee the loan.

Loan Activity

The following table details PMC Capital s loan activity for the years indicated:

	Years Ended December 31,				
	2002	2001	2000	1999	1998
			(In thousands)		
Loans receivable beginning of year	$107,392	$100,353	$106,325	$116,711	$127,240
Loans originated	46,138	65,977	44,158	84,264	66,450
Principal collections(1)	(13,891)	(10,063)	(11,233)	(15,431)	(23,538)
Structured loan sales(2)	(43,218)	(49,194)	(28,046)	(60,481)	(43,144)
Loans sold(3)	(6,146)	(7,778)	(9,584)	(19,152)	(9,978)
Loans transferred to assets acquired in liquidation(4)	(2,629)	(314)			
Loans assumed by affiliate(5)	(885)				
Loans purchased(6)	1,176	8,634			
Other adjustments(7)	(692)	(223)	(1,267)	414	(319)
Loans receivable end of year	$ 87,245	$107,392	$100,353	$106,325	$116,711

(1) *Includes scheduled payments and prepayments.*

(2) *PMC Capital sold loans receivable as part of structured loan sale transactions.*

(3) *First Western sells the guaranteed portion of its loans receivable through private placements to either dealers in government guaranteed loans or institutional investors.*

(4) *During 2001 and 2002, PMC Capital transferred loans to assets acquired in liquidation.*

(5) *During 2002, PMC Funding acquired assets and assumed notes payable to PMC Capital and First Western.*

(6) *Represents the value of loans purchased through the exercise of optional redemption provisions from affiliated SPEs.*

(7) *Includes the change in unrealized appreciation (depreciation) in loans receivable, loans written-off and discounts.*

Quarterly Loan Originations

The following table is a breakdown of PMC Capital s loans originated on a quarterly basis during the years indicated:

	Years Ended December 31,				
	2002	2001	2000	1999	1998
			(In thousands)		
First Quarter	$11,772	$15,628	$13,190	$17,231	$10,937
Second Quarter	7,696	32,850	10,943	16,534	11,739
Third Quarter	8,226	9,903	10,453	27,687	16,887
Fourth Quarter	18,444	7,596	9,572	22,812	26,887

Total	$46,138	$65,977	$44,158	$84,264	$66,450

During the six months ended June 30, 2003, PMC Capital originated loans totaling $19.6 million.

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Loan Portfolio Statistics

Information on PMC Capital s loans receivable, and combined with loans receivable which have been sold and which PMC Capital services and has retained interests (the Serviced Loan Portfolio) was as follows, broken down by division:

	Years Ended December 31,					
	2002			2001		
	Total	SBA 7(a)	Commercial Loans	Total	SBA 7(a)	Commercial Loans
	(Dollars in thousands, except footnote)					
Principal balance:						
Loans receivable(1)	$ 88,476	$15,220	$ 73,256	$108,357	$17,510	$ 90,847
Sold loans of SPEs	176,296	3,590	172,706	158,002	4,907	153,095
Sold SBA 7(a) guaranteed loans	48,181	48,181		55,409	55,409	
Serviced Loan Portfolio	$312,953	$66,991	$245,962	$321,768	$77,826	$243,942
Weighted average interest rate:						
Loans receivable	7.1%	6.6%	7.2%	9.0%	7.9%	9.2%
Sold loans of SPEs	9.0%	7.1%	9.1%	9.1%	8.4%	9.1%
Sold SBA 7(a) guaranteed loans	6.8%	6.8%		8.0%	8.0%	
Serviced Loan Portfolio	8.2%	6.7%	8.6%	8.9%	8.1%	9.2%

(1) Balances represent the principal outstanding on PMC Capital s loans receivable before discounts aggregating $520,000 and $552,000 and unrealized depreciation of $711,000 and $443,000 at December 31, 2002 and 2001, respectively.

Problem Loans

Senior management closely monitors problem loans which are classified into two categories: impaired loans (PMC Capital Impaired Loans) and special mention loans (PMC Capital Special Mention Loans) (together, PMC Capital Problem Loans). PMC Capital Impaired Loans are loans which are not complying with their contractual terms, the collection of the balance of the principal is considered impaired and on which its fair value is less than the remaining unamortized principal balance. PMC Capital Special Mention Loans are those loans receivable that are not complying with their contractual terms but PMC Capital expects a full recovery of the principal balance through either collection efforts or liquidation of collateral. See PMC Capital Management s Discussion and Analysis of Financial Condition and Results of Operations Portfolio Information Lending Activities Problem Loans.

Industry Information on PMC Capital s Loan Portfolio

The distribution of PMC Capital s loans receivable and Serviced Loan Portfolio by industry were as follows at December 31, 2002:

	Loans Receivable				
	Number of Loans	Value	%	Cost	%
	(Dollars in thousands)				
Hotels and motels	104	$74,098	84.9%	$74,063	84.8%
Services	28	2,732	3.1%	2,773	3.2%

Restaurants	21	1,259	1.4%	1,274	1.5%
Retail, other	21	4,147	4.8%	4,176	4.7%
Gasoline/service stations	15	2,407	2.8%	2,440	2.8%
Other	31	2,602	3.0%	2,690	3.0%
Total	220	$ 87,245	100.0%	$ 87,956	100.0%

	Serviced Loan Portfolio		
	Number of Loans	Cost	%
		(Dollars in thousands)	
Hotels and motels	264	$263,624	84.2%
Services	46	10,179	3.2%
Restaurants	29	8,763	2.8%
Retail, other	24	6,904	2.2%
Gasoline/service stations	28	12,452	4.0%
Other	47	11,031	3.6%
Total	438	$312,953	100.0%

Structured Loan Transactions

General

Structured loan sale transactions are PMC Capital s primary method of obtaining funds for new loan originations. In a structured loan sale transaction, PMC Capital contributes loans receivable to an SPE in exchange for an ownership interest in that entity. The SPE issues notes payable (usually through a private placement) to third parties and then distributes a portion of the notes payable proceeds to PMC Capital. The notes payable are collateralized solely by the assets of the SPE which means that, should the SPE fail to make payments on the debt, the noteholders have no recourse to PMC Capital. PMC Capital has no obligation to pay the notes, nor do the holders of the notes have any recourse against its assets.

PMC Capital accounts for structured loan sale transactions as sales of loans receivable and the SPE meets the definition of a qualifying SPE; as a result, neither the loans receivable contributed to the SPE nor the notes payable issued by the SPE are included in PMC Capital s consolidated financial statements. When a structured loan sale transaction is completed: (1) the ownership interests in the SPEs are accounted for as retained interests and are recorded at the present value of the estimated future cash flows to be received from the SPE and (2) the difference between (i) the carrying value of the loans receivable sold and (ii) the sum of (a) cash received and (b) the initial value of the estimated future cash flows from the retained interests constitutes the gain or loss on sale. Gains or losses on these sales may represent a material portion of PMC Capital s net income in the period in which the transactions occur. These gains or losses also cause timing differences between net income determined in accordance with generally accepted accounting principles and investment company taxable income. See Risk Factors and PMC Capital Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

PMC Capital s structured loan sale transactions receive opinions from outside counsel that opine to the legal sale of the loans from PMC Capital to the SPE formed in connection with the securitization. Each of PMC Capital s completed securitization transactions provides a clean-up call. A clean-up call is an option which allows the repurchase of the transferred assets when the amount of the outstanding assets falls to a level at which the cost of servicing those assets becomes burdensome. The clean-up call option regarding a loan in an SPE is exercised by the party that contributed the loan to the SPE. The servicers of the loans pursuant to the joint venture transaction documents are PMC Capital and PMC Commercial. The servicers are paid a fee equal to 30 basis points of the principal outstanding per year. See PMC Capital Management s Discussion and Analysis of Financial Condition and Results of Operations.

Because PMC Capital relies on structured loan sale transactions as its primary source of operating capital to fund new loan originations, any adverse changes in its ability to complete this type of transaction, including any negative impact on the asset-backed securities market for the type of product it generates, could have a detrimental effect on its ability to generate funds to originate loans. See PMC Capital Management s Discussion and Analysis of Financial Condition and Results of Operations Economic Factors.

PMC Capital s retained interests consist of (i) the required over-collateralization, which is the retention of a portion of each of the sold loans, (ii) the reserve fund, which is required cash balances owned by the SPE

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and (iii) the interest-only strip receivable, which is the future excess funds to be generated by the SPE after payment of all obligations of the SPE. The retained interest is PMC Capital s residual interest in the loans sold by PMC Capital to the SPE. When PMC Capital securitizes loans receivable, it is required to recognize its retained interests, which represents PMC Capital s rights to expected net future cash flows, at their estimated fair value. Retained interests are subject to credit, prepayment and interest rate risks. Retained interests are materially more susceptible to these risks than the notes issued by the SPE. The value of PMC Capital s retained interests is determined based on the present value of estimated future cash flows that PMC Capital will receive from the SPEs. The estimated future cash flows are calculated based on assumptions concerning, among other things, loan losses and prepayment speeds. On a quarterly basis, PMC Capital measures the fair value of, and records income relating to, the retained interests based upon the future anticipated cash flows discounted based on an estimate of market interest rates for investments of this type. Any appreciation (depreciation) of PMC Capital s retained interests is included in the accompanying statement of operations as either a realized loss (if there is a reduction in expected future cash flows) or unrealized gain (loss) on investments.

PMC Capital retains a portion of the default and prepayment risk associated with the underlying transferred loans receivable of its retained interests. Actual defaults and prepayments with respect to estimating future cash flows for purposes of valuing the retained interests will vary from assumptions, possibly to a material degree, and slower (faster) than anticipated prepayments of principal or lower (higher) than anticipated loan losses will increase (decrease) the fair value of PMC Capital s retained interests and the related cash flows. See Risk Factors Risks Related to the Business of Both PMC Commercial and PMC Capital. PMC Capital regularly measures loan loss, prepayment and other assumptions against the actual performance of the loans receivable sold. Although PMC Capital believes that reasonable assumptions as to the future cash flows have been made, actual rates of loss or prepayments will vary from those assumed and these assumptions may be revised based upon changes in facts or circumstances.

In connection with structured loan sale transactions, limited partnerships and joint ventures have been formed as SPEs to hold the loans receivable sold and issue certificates or notes payable collateralized by the loans receivable. As of June 30, 2003, PMC Capital s SPEs consisted of:

FW 97 L.L.C. (First Western 1997);

PMC Capital, L.P. 1998-1 (the 1998 Partnership) and its related general partner;

PMC Capital, L.P. 1999-1 (the 1999 Partnership) and its related general partner;

The 2000 Joint Venture and its related general partner;

The 2001 Joint Venture and its related general partner; and

The 2002 Joint Venture and its related general partner.

At June 30, 2003, PMC Capital owned 100% of First Western 1997, the 1998 Partnership and the 1999 Partnership. In addition, PMC Capital owned approximately 32% of the 2000 Joint Venture, 60% of the 2001 Joint Venture and 61% of the 2002 Joint Venture as of June 30, 2003. The balance of the Joint Ventures is owned by PMC Commercial. PMC Capital s share of the cash flows from the Joint Ventures is allocated based on the cash flows from the underlying loans receivable contributed by PMC Capital to the respective Joint Venture less allocated costs based on the remaining principal on the underlying loans receivable contributed by PMC Capital divided by all loans receivable held by the respective Joint Venture.

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Information relating to PMC Capital s structured loan sale transactions is as follows:

	First Western 1997(1)	1998 Partnership	1999 Partnership	2000 Joint Venture	2001 Joint Venture	2002 Joint Venture
			(Dollars in thousands)			
Principal amount of loans sold:						
At time of sale	$ 22,810	$ 43,144	$60,481	$28,046	$49,194	$43,218
At December 31, 2002	$ 3,590	$ 26,099	$39,216	$20,783	$44,409	$42,199
At June 30, 2003	$ 3,400	$ 25,254	$35,527	$18,957	$43,837	$40,984
Structured notes/certificates:						
At time of sale	$ 22,810	$ 39,646	$55,648	$24,955	$45,233	$38,897
At December 31, 2002	$ 3,590	$ 24,806	$35,907	$18,086	$42,762	$38,017
At June 30, 2003	$ 3,400	$ 24,065	$33,333	$17,713	$39,979	$36,787
Weighted average interest rate on loans(2):						
At time of sale	P+2.48%	P+1.26%	9.59%	9.54%	9.78%	9.53%
At December 31, 2002	P+2.38%	P+1.22%	9.44%	9.21%	9.73%	9.54%
At June 30, 2003	P+2.37%	P+1.23%	9.40%	9.28%	9.73%	9.50%
Interest rate on the SPE notes/certificates	P-1.90%	P-1.00%	6.60%	7.28%	6.36%	6.67%
Subordinated interest owned(3)		5.0%				
Required initial overcollateralization(4)		5.5%	8.0%	11.0%	8.0%	10.0%
PMC Capital required overcollateralization(5):						
At December 31, 2002		5.5%	9.1%	13.2%	8.9%	10.2%
Rating of certificates/notes(2)(6)	Aaa / A	Aaa	Aaa	Aaa	Aaa	Aaa
Cash reserve requirement/minimum(7)	$ 912	8.0%	6.0%	6.0%	6.0%	6.0%

(1) *The transaction had both the primary and a subordinated portion of the transaction rated and sold.*

(2) *Variable interest rates are denoted by the spread over (under) the prime rate (P). The interest rate for the A rated subordinated certificates of First Western 1997 is P-1.55%.*

(3) *The subordinated interest owned represents PMC Capital s mortgage-backed security of affiliate owned by PMC Capital.*

(4) *The initial required overcollateralization percentage represents the portion of sold loans receivable retained by the SPEs whose value is included in retained interests.*

(5) *The PMC Capital required overcollateralization percentage is larger than the initial PMC Capital required over-collateralization percentage since all principal payments received on the underlying loans receivable are paid to the noteholders.*

(6) *Structured notes issued by the SPEs were and continue to be rated by Moody s Investors Service, Inc. The retained interests were not rated.*

(7) *Transactions all have minimum reserve requirements of 2% of the principal balance sold at the time of the sale. First Western 1997 is currently at its minimum requirement.*

In addition to the transactions described above, the SBA guaranteed portion of First Western s loans receivable are sold to either dealers in government guaranteed loans receivable or institutional investors (Secondary Market) as the loans are funded. On all Secondary Market transactions, PMC Capital retains an excess spread between the interest rate paid to it from its borrowers and the rate PMC Capital pays to the purchaser of the guaranteed portion of the note.

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Structured Loan Sale Transaction Completed During 2002

On April 12, 2002, PMC Capital completed a structured loan sale transaction of a pool of primarily fixed-rate loans receivable. PMC Capital and PMC Commercial contributed loans receivable of $43.2 million and $27.3 million, respectively, to the 2002 Joint Venture. The 2002 Joint Venture issued, through a private placement, approximately $63.5 million the 2002 L.P. Notes of which approximately $38.9 million (the 2002 PMC L.P. Notes) was allocated to PMC Capital based on its ownership percentage in the 2002 Joint Venture. The 2002 L.P. Notes, issued at par, have a stated maturity in 2023, bear interest at 6.67% and are collateralized by the loans receivable contributed by PMC Capital and PMC Commercial to the 2002 Joint Venture. PMC Capital accounted for this transaction as a sale, recorded a gain of $1,463,000 and recorded the retained interests at an initial amount of $8,772,000 during 2002.

The net proceeds from the issuance of the 2002 PMC L.P. Notes (approximately $37.9 million) were distributed to PMC Capital. These proceeds were net of issuance costs and prior to funding the required reserve balance. At inception of the 2002 Joint Venture and at June 30, 2003, PMC Capital owned a 61% limited partnership interest based on its share of the capital.

Structured Loan Sale Transaction Completed During 2001

On June 27, 2001, PMC Capital completed a structured loan sale transaction of a pool of fixed-rate loans receivable. PMC Capital and PMC Commercial contributed loans receivable of $49.2 million and $32.7 million, respectively, to the 2001 Joint Venture. The 2001 Joint Venture issued, through a private placement, approximately $75.4 million of the 2001 L.P. Notes of which approximately $45.2 million (the 2001 PMC L.P. Notes) was allocated to PMC Capital based on its ownership percentage in the 2001 Joint Venture. The 2001 L.P. Notes, issued at par, have a stated maturity in 2021, bear interest at 6.36% and are collateralized by the loans receivable contributed by PMC Capital and PMC Commercial to the 2001 Joint Venture. PMC Capital accounted for this transaction as a sale, recorded a gain of $2,732,000 and recorded the retained interests at an initial amount of $9,186,000 during 2001.

The net proceeds from the issuance of the 2001 PMC L.P. Notes (approximately $44.5 million) were distributed to PMC Capital. These proceeds are net of issuance costs and prior to funding the required reserve balance. At inception of the 2001 Joint Venture and at June 30, 2003, PMC Capital owned a 60% limited partnership interest based on its share of the capital.

Structured Loan Sale Transaction Completed During 2000

On December 18, 2000, PMC Capital completed a structured loan sale transaction of a pool of fixed-rate loans receivable. PMC Capital and PMC Commercial contributed loans receivable of $28.0 million and $55.7 million, respectively, to the 2000 Joint Venture. The 2000 Joint Venture issued, through a private placement, approximately $74.5 million of the 2000 L.P. Notes of which approximately $25.0 million (the 2000 PMC L.P. Notes) was allocated to PMC Capital based on its ownership percentage in the 2000 Joint Venture. The 2000 L.P. Notes, issued at par, have a stated maturity in 2024, bear interest at 7.28% and are collateralized by the loans receivable contributed by PMC Capital and PMC Commercial to the 2000 Joint Venture. PMC Capital accounted for this transaction as a sale, recorded a gain of $564,000 and recorded the retained interests at an initial amount of $5,573,000 during 2000.

The net proceeds from the issuance of the 2000 PMC L.P. Notes (approximately $24.7 million) were distributed to PMC Capital. These proceeds are net of issuance costs and prior to funding the required reserve balance. At inception of the 2000 Joint Venture and at June 30, 2003, PMC Capital owned a 32% limited partnership interest based on its share of the capital.

Joint Structured Loan Sale Transactions General

The terms of the JV Notes provide that each of the partners of the respective Joint Ventures is not liable for any payments on the JV Notes. Accordingly, if the Joint Ventures fail to pay the JV Notes, the sole recourse of the holders of the JV Notes is against the assets of the respective Joint Venture. Accordingly,

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PMC Capital has no obligation to pay the JV Notes, nor do the holders of the JV Notes have any recourse against its assets.

PMC Capital and PMC Commercial have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. To the extent that poor performance of the Underperforming Company is pervasive enough to cause the Performing Company not to receive cash flow that it otherwise would have received, then the Underperforming Company must make the Performing Company whole. If the cash flow reduction is considered to be temporary, then interest will be paid as compensation to the Performing Company. In general, when a loan is liquidated, it may cause a deferral of cash flow to the Performing Company and, as a result, interest would be charged to the Underperforming Company until the cash flow from the Joint Venture repays the Performing Company. If the reduction of cash flows is deemed permanent (*i.e.,* to the extent that the Underperforming Company will not be able to satisfy the shortfall with the assets it has contributed to the related structured loan sale transaction), the balance of reduction to cash flows must be paid to the Performing Company by the Underperforming Company. At June 30, 2003 and December 31, 2002, the maximum potential amount of future payments to PMC Commercial (undiscounted and without consideration of any proceeds from the collateral underlying the loans receivable) PMC Capital could be required to make under these cross indemnification agreements was approximately $32.8 million and $34.3 million, respectively, and the discounted amount was $22.7 million and $23.5 million, respectively, which represents the estimated fair value of the PMC Capital retained interests reflected on PMC Commercial s consolidated balance sheet for the Joint Ventures. Upon completion of a joint securitization and on each subsequent quarterly reporting date, PMC Capital management evaluates the need to recognize a liability associated with the indemnification agreements. Based on present cash flow assumptions, including stress test analyses of increasing the anticipated losses on each of the loan pools, it does not appear that the loans receivable sold by PMC Capital will cause any permanent cash flow reductions to PMC Commercial nor does it appear that the loans receivable sold by PMC Commercial will cause any permanent cash flow reduction to PMC Capital. Accordingly, PMC Capital believes that the fair value of these cross indemnification agreements at inception of the Joint Ventures, as of June 30, 2003 and as of December 31, 2002 and 2001 was zero; thus, no liability was recorded. If the performance of PMC Capital s sold loans receivable significantly deteriorates, it could be necessary for it to perform under these cross indemnification agreements.

When structured loan sale transactions were completed, the transaction documents that the SPE entered into contained the Credit Enhancement Provisions. The Credit Enhancement Provisions include specified limits on the delinquency, default and loss rates on loans receivable included in each SPE. If, at any measurement date, the delinquency, default or loss rate with respect to any SPE were to exceed the specified limits, the Credit Enhancement Provisions would automatically increase the level of credit enhancement requirements for that SPE. During the period in which the specified delinquency, default or loss rate was exceeded, excess cash flow from the SPE, if any, would be used to fund the increased credit enhancement levels instead of being distributed to PMC Capital, which would delay or reduce its distribution.

Advisory Services

As the investment advisor for PMC Commercial, PMC Advisers has earned $1.1 million, $2.3 million, $2.3 million and $2.2 million in advisory fees during the three months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000, respectively. The fees of PMC Advisers (pursuant to the investment management agreements) are primarily based on the value of PMC Commercial s assets. As a result, any increases in the dollar amount of PMC Commercial s assets will benefit PMC Advisers, and PMC Advisers may have a potential conflict in determining whether to advise PMC Commercial to acquire assets or write-down the value of any assets. In order to mitigate the risk to PMC Commercial from increasing its asset base through leveraged transactions, the investment management agreements provide PMC Advisers with a reduced fee for any loans originated with capital obtained through borrowings. The investment management agreements are renewable on an annual basis.

Pursuant to the investment management agreements entered into between PMC Commercial and PMC Advisers, fees of between 0.40% and 1.55%, annually, are charged by PMC Advisers based upon the average

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principal outstanding of PMC Commercial s loans. In addition, the investment management agreements include compensation to PMC Advisers for its assistance in the issuance of PMC Commercial s debt and equity securities and the acquisition by PMC Commercial of limited service hospitality properties. The investment management agreements also provide for (i) an annual fee of 0.70% of the original cost of the hospitality properties to be paid to PMC Advisers relating to leases entered into by PMC Commercial, (ii) a fee of $10,000 upon the sale of each limited service hospitality property and (iii) an annual loan origination fee equal to five basis points of loans funded for the first $20 million in loans and 2.5 basis points thereafter.

Regulatory Overview

Investment Company Act Regulations

PMC Capital is in compliance with the requirement to maintain a minimum of 200% asset coverage of debt as defined in Sections 18 and 61 of the 1940 Act as modified by exemptive orders obtained from the SEC.

PMC Capital may not sell shares of common stock below net asset value unless it obtains approval from a majority of the outstanding voting securities as defined in the 1940 Act. PMC Capital may sell shares of common stock in a rights offering at a price below its net asset value without shareholder approval under the 1940 Act.

PMC Capital may be prohibited under the 1940 Act from knowingly participating in certain transactions with affiliates without the prior approval of its board of directors who are not interested persons and, in some cases, prior approval by the SEC. PMC Capital has been granted an exemptive order by the SEC permitting it to engage in certain transactions that would be permitted if PMC Capital and its subsidiaries were one company and permitting certain transactions among the subsidiaries, subject to certain conditions and limitations. One of its exemptive orders permits PMC Capital to establish SPEs owned by PMC Capital and PMC Commercial to engage in joint securitizations.

As with other companies regulated by the 1940 Act, a BDC must adhere to certain substantive regulatory requirements. A majority of PMC Capital s directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, PMC Capital is required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the BDC. Furthermore, as a BDC, PMC Capital is prohibited from protecting any director or officer against any liability to PMC Capital or its shareholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office.

PMC Capital maintains a code of ethics that establishes procedures for personal investment and restricts certain transactions by its personnel. PMC Capital s code of ethics does not permit investment by PMC Capital s employees in securities that may be purchased or held by PMC Capital.

BDC Regulations

PMC Capital has elected to be regulated as a BDC. BDCs must have a class of securities registered under Section 12 of the Exchange Act, and are subject to the Exchange Act s periodic reporting requirements rather than the 1940 Act s reporting requirements. BDCs have greater operating flexibility than other investment companies relating to capital structure, portfolio diversification, transactions with downstream affiliates, executive stock options and the frequency which they may make distributions from capital gains. A BDC s focus is on investing in or lending to small private companies and making managerial assistance available to them. A BDC may use capital provided by public shareholders and from other sources to invest in long-term, private investments in growing small businesses. A BDC provides shareholders the ability to retain the liquidity of a publicly traded stock, while sharing in the benefits, if any, of investing in privately owned companies. As a BDC, PMC Capital may not acquire any asset other than Qualifying Assets unless, at the time it makes the acquisition, its Qualifying Assets represent at least 70% of the value of its total assets (the 70% test). The principal categories of Qualifying Assets relevant to its business are:

(1) Securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company. An eligible portfolio company is defined to include any issuer that:

a. is organized and has its principal place of business in the United States,

b. is not an investment company other than an SBIC wholly-owned by a BDC (PMC Capital s investments in PMCIC and Western Financial are Qualifying Assets), and

c. does not have any class of publicly traded securities with respect to which a broker may extend margin credit;

(2) Securities received in exchange for or distributed with respect to securities described in (1) above or pursuant to the exercise of options, warrants, or rights relating to such securities; and

(3) Cash, cash items, government securities, or high quality debt securities (within the meaning of the 1940 Act), maturing in one year or less from the time of investment.

To include certain securities described above as Qualifying Assets for the purpose of the 70% test, a BDC must make available to the issuer of those securities significant managerial assistance such as providing guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company, or making loans to a portfolio company. PMC Capital will provide managerial assistance on a continuing basis to any portfolio company upon request.

As a BDC, PMC Capital is entitled to issue senior securities in the form of stock or senior securities representing indebtedness, as long as each class of senior security has an asset coverage of at least 200% immediately after each such issuance (the Asset Coverage Test). This limitation is not applicable to borrowings by PMC Capital s SBIC or SBLC subsidiaries, and therefore any borrowings by these subsidiaries are not included in the Asset Coverage Test. PMC Capital may not change the nature of its business so as to cease to be, or withdraw its election as, a BDC unless authorized by vote of a majority of the outstanding voting securities, as defined in the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of (i) 67% or more of such company s shares present at a meeting if more than 50% of the outstanding shares of such company are present and represented by proxy, or (ii) more than 50% of the outstanding shares of such company.

RIC Regulations

PMC Capital s status as a RIC enables it to avoid the cost of U.S. Federal and state income taxation and, as a result, achieve pre-tax investment returns. PMC Capital believes that this tax advantage enables it to achieve strong equity returns without having to aggressively leverage its balance sheet. In order to qualify as a RIC, PMC Capital must, among other things:

(1) Derive at least 90% of its gross income from dividends, interest, payments with respect to securities loans, gains from the sale of stock or other securities or other income derived with respect to its business of investing in such stock or securities; and

(2) Diversify its holdings so that, as of the end of each quarter of its tax year:

a. at least 50% of the value of its assets consists of cash, cash items, government securities, securities of other RICs and other securities if such other securities of any one issuer do not represent more than 5% of its assets and 10% of the outstanding voting securities of the issuer; and

b. no more than 25% of the value of its assets are invested in securities of one issuer (other than U.S. government securities or securities of other RICs), or of two or more issuers that are controlled by PMC Capital and that are engaged in the same or similar businesses.

If a corporation qualifies as a RIC and distributes to its shareholders with respect to a tax year at least 90% of its investment company taxable income for such year, then the RIC will not be subject to U.S. Federal

income tax on the income (including net capital gain) it distributes (or treats as deemed distributed) for such year. In addition, if a RIC distributes in a timely manner with respect to a calendar year (or treats as deemed distributed) at least the sum of 98% of its capital gain net income for the one-year period ending on October 31 of such year and 98% of its ordinary income for such calendar year, it will not be subject to the 4% nondeductible Federal excise tax on certain undistributed income of RICs.

Fundamental and Other Policies of PMC Capital and Its Subsidiaries

PMC Capital has established a core set of fundamental policies. PMC Capital and each of its investment company subsidiaries have designated certain investment policies as fundamental policies.

The following investment policies of PMC Capital and its investment company subsidiaries are fundamental policies and may not be changed without the approval of the lesser of (i) more than 50% of PMC Capital s outstanding voting securities, or (ii) 67% or more of PMC Capital s voting securities present at a meeting of security holders at which a quorum is present. PMC Capital s board of directors may change any other investment policies of PMC Capital at any time.

(1) PMC Capital will not purchase or sell commodities or commodity contracts.

(2) PMC Capital will not engage in short sales, purchase securities on margin or trade in contracts commonly called puts or calls or in combinations thereof, except that it may acquire warrants, options or other rights to subscribe to or sell securities in furtherance of its investment objectives.

(3) PMC Capital will not underwrite securities of other issuers, except that it may acquire portfolio securities under circumstances where, if sold, it might be deemed an underwriter for purposes of the Securities Act. PMC Capital may purchase restricted securities as to which there are substantial restrictions on resale under the Securities Act.

(4) PMC Capital will not purchase any securities of a company if any of the directors or officers of PMC Capital owns more than 0.5% of such company and such persons owning more than 0.5% together own 5% or more of the shares of such company.

(5) PMC Capital may issue senior securities in the form of debentures, reverse repurchase agreements and preferred stock and may borrow monies from banks and other lenders, all on an unsecured basis. The 1940 Act limits PMC Capital to the issuance of one class of senior debt securities and one class of senior equity securities (as such terms are defined in the 1940 Act).

(6) PMC Capital will not invest more than 25% of its total assets in any one industry except in the lodging industry which may constitute 100% of PMC Capital s portfolio. PMC Capital will invest at least 25% of its total assets in the lodging industry.

(7) PMC Capital may invest in real estate development companies, may make real estate acquisition loans and real estate improvement loans and may further make other loans secured by real estate.

(8) PMC Capital may make loans and purchase debt securities in furtherance of its investment objectives. It will not make loans to its officers, directors or other affiliated persons.

(9) PMCIC will perform the functions and conduct the activities contemplated under the SBIA, and will provide assistance solely to small business concerns which will contribute to a well-balanced national economy by facilitating ownership of such concerns by persons whose participation in the free enterprise system is hampered because of social or economic disadvantages. These fundamental policies of PMCIC may not be changed without the prior written consent of the SBA.

SBA Regulations

The lending operations of First Western, PMCIC and Western Financial are regulated by the SBA, which establishes, among other things, maximum interest rates that borrowers may be charged and minimum and maximum maturities for loans receivable (which generally range from seven to 25 years). The maximum interest rates which PMCIC and Western Financial can charge may not exceed the greater of 19% per annum

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or 11% above PMC Capital s cost of funds from the SBA and was 19% at December 31, 2002. Borrowers must satisfy certain criteria established by the SBA to qualify for loans originated by PMC Capital under SBA sponsored programs, including limitations on the net worth and net income of potential borrowers or alternative criteria that focus upon the number of employees of the borrower and its gross revenues. In addition, the SBA generally limits the aggregate amount of guaranties that can be provided to any single borrower and restricts the use to which the loan proceeds can be employed by the borrower. Effective October 1, 2002, the SBA temporarily changed its policy on origination of loans under the SBA 7(a) Guaranteed Loan Program to limit the maximum amount of a loan to $500,000 (the Loan Cap). As a result of legislation that Congress passed in February 2003, the SBA discontinued the Loan Cap.

SBICs are intended to stimulate the flow of private equity capital to eligible small businesses. Under present SBA regulations, eligible small businesses include businesses that have a net worth not exceeding $18 million and have average annual fully taxed net income not exceeding $6 million for the most recent two fiscal years. In addition, an SBIC must devote 20% of its investment activity to smaller concerns as defined by the SBA. A smaller concern is one that has a net worth not exceeding $6 million and has average annual fully taxed net income not exceeding $2 million for the most recent two fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses, and provide them with consulting and advisory services.

Both Western Financial and PMCIC provide long-term loans to qualifying small businesses. As of June 30, 2003, Western Financial and PMCIC had the opportunity to borrow up to an additional aggregate principal amount of $37.2 million of SBA debentures, based on their regulatory capital. Under SBA regulations, an SBIC may borrow up to $111.7 million from the SBA as governed by SBA regulations. This limit generally applies to all financial assistance provided by the SBA to an SBIC licensee and its associates, as the term is defined by SBA regulations. As of June 30, 2003, Western Financial and PMCIC had outstanding $14.3 million of SBA debentures and PMCIC had $7.0 million of preferred stock investments from the SBA. At June 30, 2003, PMC Capital had an outstanding commitment from the SBA to purchase up to $12.2 million ($4.2 million expiring September 2003, $1.0 million expiring September 2004 and $7.0 million expiring in 2007) in additional SBA debentures. As leveraged SBIC s, PMCIC and Western Financial are subject to certain regulatory restrictions such as change in control provisions.

First Western is licensed to operate as an SBLC. The SBA guarantees 75% of qualified loans over $150,000 with such individual guarantees not exceeding $1.0 million. While the eligibility requirements of the SBA 7(a) Program vary by the industry of the borrower and other factors, the general eligibility requirements are that: (i) gross sales of the borrower cannot presently exceed $6 million, (ii) liquid assets or real estate equity of the borrower and affiliates cannot exceed specified limits, and (iii) the maximum aggregate SBA loan guarantees to a borrower cannot exceed $1.0 million. Maximum maturities for SBA 7(a) loans are 25 years for real estate and 15 years for the purchase of machinery and equipment. In order to operate as an SBLC, a licensee is required to maintain a minimum net worth (as defined by SBA regulations) of the greater of (i) 10% of the outstanding loans receivable of First Western or (ii) $1.0 million, as well as certain other regulatory restrictions such as change in control provisions.

First Western, PMCIC and Western Financial are periodically examined and audited by the SBA to determine compliance with SBA regulations.

Employees

At December 31, 2002, PMC Capital employed 47 individuals including marketing professionals, investment professionals, operations professionals and administrative staff. Its loan processing is centralized in its Dallas, Texas office. In addition, PMC Capital has a loan production office in Arizona. PMC Capital management believes the relationship with its employees is good.

All of PMC Capital s operating assets acquired in liquidation are managed for it by third party management companies. All persons employed in the day-to-day operations of PMC Capital s assets acquired in liquidation are employees of the management companies engaged by PMC Capital and are not its employees.

At December 31, 2002, PMC Capital s non-consolidated subsidiary, PMC Funding, employed 14 individuals in relation to the operation of its assisted care living facility. During January 2003, PMC Funding sold the assisted care living facility.

Customers

PMC Capital is not dependent upon a single borrower, or a few borrowers, whose loss would have a material adverse effect on it. In addition, PMC Capital has not loaned more than 10% of its assets to any single borrower.

Properties

PMC Capital s headquarters are located at 18111 Preston Road, Suite 600, Dallas, Texas 75252. PMC Capital leases approximately 13,000 square feet in an office building pursuant to a five-year lease which commenced in December 1998. In addition, at December 31, 2002, it leased office space in Missouri, which it closed in April 2003. The aggregate annual lease payments for the year ended December 31, 2002 were approximately $328,000.

Legal Proceedings

PMC Capital is a party to certain lawsuits in the normal course of its business, including the operation of its assets acquired in liquidation. While the outcome of these legal proceedings cannot at this time be predicted with complete certainty, it does not expect that any of these actions either individually or in the aggregate will have a material effect upon its financial condition or results of operations.

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PMC CAPITAL MANAGEMENT S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with PMC Capital s consolidated financial statements and related notes appearing elsewhere in this joint proxy statement/ prospectus.

Recent Developments

For the three months ended September 30, 2003, PMC Capital s net increase in net assets resulting from operations (net income) was $694,000, or $0.05 per share, compared to $549,000, or $0.04 per share, for the three months ended September 30, 2002. For the nine months ended September 30, 2003, net income was $2,440,000, or $0.19 per share, compared to $4,693,000, or $0.38 per share. The reduction in net income during the nine months ended September 30, 2003 was a result of (1) a reduction in gain on sale of assets of $1,463,000, since a structured loan sale transaction was completed during April 2002 while there was no structured loan sale transaction completed during the nine months ended September 30, 2003 and (2) merger costs of $755,000 during the nine months ended September 30, 2003 which are required to be expensed as incurred.

In October 2003, PMC Capital and PMC Commercial completed a joint structured loan transaction. This transaction consisted of variable-rate notes issued by a newly-formed special purpose entity, of which PMC Capital and PMC Commercial are partners, secured by a portfolio of loans sold to the joint venture by PMC Capital and PMC Commercial. PMC Capital received approximately $52.0 million in gross proceeds from the loan sale. PMC Capital used the net proceeds to repay the outstanding balance under its credit facility and intends to use the remaining proceeds to originate new loans. The 2003 L.P. Notes, issued at par, which have a stated maturity in 2023 and bear interest, reset on a quarterly basis, at the 90-day LIBOR plus 1.25%, are collateralized by the loans receivable transferred by PMC Capital and PMC Commercial to the 2003 Joint Venture. The 2003 L.P. Notes were rated Aaa by Moody s Investors Service, Inc. At inception of the 2003 Joint Venture, PMC Capital owned a 56% limited partnership interest in the 2003 Joint Venture based on its share of the capital.

If the merger is approved and all other conditions to the merger have been satisfied or waived, PMC Capital will cease to exist and PMC Commercial will survive the merger and own and operate the businesses of PMC Capital and its subsidiaries under the name PMC Commercial Trust. Following the merger, PMC Commercial intends to continue to qualify as a REIT. PMC Commercial expects that the larger equity market capitalization would help create new business flexibility and earnings stability. In addition, PMC Commercial expects that the merger would provide stability to cash flow available for dividends and ultimately add to PMC Commercial s cash available for distribution. As a result of the larger equity base, PMC Commercial believes that the ability to meet its liquidity needs will be enhanced including larger credit facilities and alternative credit facilities such as a warehouse line of credit.

General

PMC Capital is a national small business lender. Its operations include originating, servicing and selling commercial loans. PMC Capital primarily originates loans to small business concerns in the limited service sector of the hospitality industry. PMC Capital sells certain of its loans receivable through privately-placed structured loan transactions and sells the government guaranteed portion of its loans originated under the SBA 7(a) Program. Historically, PMC Capital has retained servicing rights and residual interests in all loans sold. Servicing rights include the right to collect payments on behalf of the loan purchaser, monitor the loan receivable for any defaults and address any problems in collecting the required principal and interest payments. PMC Capital retains a residual interest in the sold loans receivable either directly or through its ownership in the related SPEs. In addition, PMC Capital operates as an investment manager to evaluate properties and loans receivable and to service loans receivable and lease contracts pursuant to fee arrangements with PMC Commercial.

PMC Capital s investment income and realized gains include the following:

Interest earned on loans receivable which includes commitment fees collected at the inception of the loan;

Gains relating to structured loan transactions;

Earnings on retained interests;

Fee income from the management of PMC Commercial s property and loans receivable;

Equity interests in the income of its non-investment company unconsolidated subsidiaries;

Premiums recognized from the sale of the government guaranteed portion of SBA 7(a) Program loans into the Secondary Market;

Interest earned on temporary (short-term) investments; and

Other fees, including late fees, prepayment fees, construction monitoring fees and site visit fees.

PMC Capital s ability to generate investment income is dependent on (i) economic, regulatory and competitive factors that influence interest rates and loan originations and (ii) its ability to secure financing for its investment activities. The amount of investment income earned will vary based on volume of loans funded, the timing and amount of financings, the volume of loans receivable which prepay, the mix of loans receivable (construction versus non-construction), the rate and type of loans originated (whether fixed or variable) as well as the general level of interest rates. For a more detailed description of the risks affecting PMC Capital s financial condition and results of operations, see Risk Factors Risks Related to the Business of Both PMC Commercial and PMC Capital.

Expenses primarily consist of interest expense, salaries and related benefits and overhead. PMC Capital s overhead expenditures consist primarily of insurance, advertising and promotional expense, telephone services, corporate printing costs, directors and shareholders costs and general office expenses. In addition, PMC Capital has other administrative costs which consist of profit sharing plan, rent and professional fees. PMC Capital s operations are centralized in Dallas, Texas where its headquarters are located. PMC Capital also has an additional business development offices located in Arizona.

At June 30, 2003 and December 31, 2002, PMC Capital s variable-rate loans receivable were $83.4 million (88%) and $71.3 million (82%) of its loans receivable, respectively. At June 30, 2003, all of its outstanding commitments were for variable-rate loans, and given the current interest rate market, PMC Capital expects to continue to originate primarily variable-rate loans. At June 30, 2003, PMC Capital had approximately $20.9 million of total loan commitments outstanding with interest rates based on spreads over prime ranging from 2.0% to 2.75% and over LIBOR ranging from 3.5% to 4.5%. Commitments have fixed expiration dates and require payment of a fee to PMC Capital.

The weighted average interest rate on PMC Capital s loans receivable declined to 7.1% at December 31, 2002 from 9.0% at December 31, 2001 primarily as a result of a decrease in the average quarterly LIBOR (244 basis points) and prime rate (281 basis points) during 2002 which are utilized in the determination of quarterly variable rates and an increase in variable-rate lending.

PMC Capital primarily funds its commitments through structured loan sale transactions. The proceeds received from the completion of structured loan sale transactions are invested initially in temporary investments which generate less interest income and, as a result of the declining interest rate environment, have generally been re-loaned or committed to be re-loaned initially at lower interest rates. To the extent LIBOR or the prime rate increases (decreases), PMC Capital would receive the benefit (reduction) from this increase (decrease) in variable interest rates. In addition, due to the decreased loan originations during the first nine months of 2002, the funds from PMC Capital s most recent transaction were invested for a longer period of time than the proceeds from the prior structured loan sale transactions and its interest income, cash flows and financial condition were negatively impacted. However, during the fourth quarter of 2002, PMC Capital s loan originations increased. During the first three quarters of 2002 PMC Capital funded $27.7 million in loans while in the fourth quarter of 2002 it funded $18.4 million in loans. See Liquidity and Capital Resources Uses of Funds Loan Originations.

PMC Capital s investment losses during 2002 consist primarily of realized losses on retained interests due primarily to loans in the 2000 Joint Venture which were in default and unrealized losses on assets acquired in liquidation due to devaluation of collateral, additional capital expenditures and expected holding costs. See Results of Operations for a detailed discussion of PMC Capital s operations.

Operating Overview

PMC Capital s results of operations during 2002 were negatively impacted by a combination of factors including: the low interest rate environment, investment losses, diminished loan origination volume, general economic conditions, lower earnings on variable-rate loans compared to fixed-rate loans, the costs of operating foreclosed properties and reduced income on the cash and cash equivalents invested from the April 2002 structured loan sale transaction.

Prior to 2001, other than loans originated under the SBA 7(a) Program, PMC Capital primarily originated fixed-rate loans. Commencing in the latter half of 2001, its ability to compete for fixed-rate lending opportunities declined. Interest rates have remained at historically low levels for a prolonged period of time providing the banking industry with the ability to offer fixed-rate mini-perm loans (*i.e.,* five-year maturity, 20-year amortization) based on these low short-term rates. In contrast, the interest rates on PMC Capital s fixed-rate loan products are based on a longer term (10-year U.S. Treasuries) which remained at disproportionately higher levels than shorter term financial indices. As a result, the fixed interest rates PMC Capital offered were higher than the banks and its lending opportunities decreased. Accordingly, PMC Capital began marketing variable-rate loan products with interest rates based on LIBOR. PMC Capital has been able to compete more effectively by offering this LIBOR-based variable-rate loan product.

Due to geopolitical uncertainty and general economic conditions, PMC Capital has seen a slowdown in potential lending opportunities and some funding commitments have been terminated. In addition, PMC Capital did not complete a structured loan sale transaction on favorable terms that it had expected to be completed prior to June 30, 2003. While PMC Capital believes that it could have completed the transaction during the second quarter of 2003, the terms of the transactions available in the market were not considered favorable to it as the transaction size and cost did not reflect the value of the transaction. As a result, PMC Capital s expected fundings during the first half of 2003 did not meet its expectations and anticipated fundings during the remaining half of 2003 more than likely will not meet its prior expectations. During the remaining half of 2003, PMC Capital anticipates loan originations will range from $12 million to $20 million. When fundings are reduced, PMC Capital s net interest income does not increase as it would have if these fundings were completed and may be reduced to the extent principal repayments exceed amounts funded or interest rates decline.

The market for the type of asset-backed structured loan sale transactions PMC Capital originates was relatively inefficient during the first half of 2003 as a result of uncertainties in the marketplace due to the sluggishness of the economy, geopolitical uncertainty and the impact of the ongoing conflict in the Middle East. PMC Capital is in the process of finalizing a loan pool for its current structured loan sale transaction and anticipates that the transaction will be completed in September 2003, unless other unforeseen delays are encountered.

PMC Capital anticipates co-securitizing with PMC Commercial approximately $57.6 million of its variable-rate loans receivable. Changes in market conditions may have an impact on the timing of completion of this transaction. While PMC Capital has been successful in completing its past structured loan transactions in a timely manner, due to the risky nature of these transactions and the many factors which could cause PMC Capital to further delay or postpone a transaction, there can be no assurance of a successful outcome.

Since PMC Capital relies on structured loan sale transactions as its primary source of operating capital to fund new loan originations, any adverse changes in its ability to complete this type of transaction, including any negative impact on the asset-backed securities market for the type of loans it originates, could have a detrimental effect on its ability to sell loans receivable thereby reducing its ability to originate loans. The delay in completing PMC Capital s current structured loan sale transaction has had a negative impact on its ability to originate loans and its financial condition and results of operations. See Economic Factors Asset-Backed Structured Loan Sale Transaction Market.

Since the majority of PMC Capital s loans receivable have variable rates of interest, the continuation of the low interest rate environment has had a negative impact on revenue and net income. During late 2002, PMC Capital expected that interest rates would gradually increase during 2003 and 2004; however, interest rates decreased during the first half of 2003. PMC Capital expects that short-term interest rates will remain at current levels or possibly decrease during the remainder of 2003.

Interest rate increases will generally cause valuation decreases in PMC Capital s portfolio while interest rate decreases generally cause valuation increases. However, these valuation changes have no impact on PMC Capital s cash flow from operations, the cash available for distribution to PMC Capital shareholders or the determination by the PMC Capital board of directors of the level of quarterly dividend distributions.

Economic Factors

The following provides a summary of the more significant economic factors that may have an impact on PMC Capital s financial condition and results of operations. The factors described below could impact the volume of loan originations, the income PMC Capital earns on investments, its ability to complete a securitization, the performance of its loan portfolio and/or the performance of SPEs.

Asset-Backed Structured Loan Sale Transaction Market

A number of factors could impair PMC Capital s ability or alter its decision to complete a structured loan transaction. These factors include, but are not limited to:

- As a result of certain economic conditions, investors in the type of asset-backed securities that PMC Capital places may increase PMC Capital s cost of capital by widening the spreads they require in order to purchase asset-backed securities or cease acquiring the type of asset-backed security that PMC Capital originates;

- A deterioration in the performance of either PMC Capital s loans receivable or the loans receivable of PMC Commercial may deter potential investors from purchasing PMC Capital s asset-backed securities;

- A deterioration in the operations of the limited service sector of the hospitality industry which may deter potential investors from purchasing PMC Capital s asset-backed securities or lower the available rating from the rating agencies;

- A reduction in the performance of the loans receivable of PMC Capital s prior transactions or of similar transactions (for example, higher than expected loan losses or delinquencies) may deter potential investors from purchasing PMC Capital s asset-backed securities; and

- A change in the underlying criteria utilized by the rating agencies may cause transactions to receive lower ratings than previously issued thereby increasing the cost of capital on PMC Capital s transactions.

In the event a structured loan sale transaction is delayed or unable to be completed, PMC Capital will either have to increase the capacity under its revolving credit facility, enter into new debt agreements, cease or reduce originating new loans until a structured loan sale transaction is completed or sell assets, potentially on unfavorable terms. In addition, PMC Capital may choose to sell the pool of loans receivable on unfavorable terms (reducing its future cash flows) including:

- Increased interest rate spreads;

- Increased cash reserve requirements;

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Increased subordinated portions of loans receivable; or

Decreased transaction size.

Interest Income and Rates

As a result of PMC Capital s increasing dependence on variable-rate loans, the continued prolonged low interest rate environment has caused interest income to be reduced. To the extent that rates remain at these historically low levels, or LIBOR or the prime rate decreases from current levels, PMC Capital will earn less interest income. Alternatively, when rates rise in the future, the interest PMC Capital earns on performing variable-rate loans will increase. In addition, the decreased loan origination volume during the first nine months of 2002 affected interest income. Interest income can continue to be reduced if (i) principal payments on outstanding loans receivable exceed loan originations, (ii) interest rates continue to decrease, or (iii) PMC Capital Problem Loans increase, which may be caused by an increase in interest rates that in turn increases the monthly payment required from borrowers on variable-rate loans.

Interest Rate Spreads

PMC Capital s net interest margin is dependent upon the spread differential. A significant reduction in spread differential may have a material adverse effect on results of operations. Over the past few years the spread differential has been reduced causing decreased net investment income. There can be no assurance that the spread differential will not continue to decrease. PMC Capital believes that its LIBOR-based loan program will provide it with a spread differential (resulting from structured loan sale transactions) that approximates the spread differential it has historically received on fixed-rate transactions due to management s belief that there is a more favorable market for LIBOR-based structured loan sale transactions compared to fixed-rate structured loan sale transactions.

Loan Origination Trend

During the latter part of 2001, PMC Capital commenced marketing and selling a variable-rate loan product based on LIBOR which presently provides a lower cost variable interest rate alternative to its borrowers as a result of market conditions. During the first half of 2002, PMC Capital experienced decreases in lending opportunities, loans funded and loan commitments compared to the prior year. This decrease was due to competition resulting from the interest rate environment and the economic uncertainty which specifically had an impact on the hospitality sector. As a result of the continuation of low short-term interest rates, banks continue to offer their mini-perm short-term loans at rates considerably lower than PMC Capital s long-term fixed-rate loans and often with less down payment requirements. In addition, as a result of the economic uncertainty following the tragic events of September 11th, as well as the impact of war, fewer hospitality properties were marketed to be sold; therefore, fewer property sales required financing. However, during 2002, there was a positive trend in loan origination activities and PMC Capital s commitments were increasing. While its commitments at June 30, 2003 were less than commitments at December 31, 2002, PMC Capital experienced a reduction in opportunities commencing just prior to the initiation of war. In addition, several commitments outstanding were cancelled. PMC Capital expects that its commitments will continue to decrease until the market for limited service hospitality properties improves. Most of its current commitments are based on LIBOR.

Hospitality Industry Factors

Reductions in business and discretionary travel continue to cause a moderation in demand for hotel rooms and a slowdown in construction of hospitality properties (including limited service hospitality properties). These reductions were primarily caused by (i) traveler concerns about the safety and convenience of air travel, (ii) a general reluctance to be away from home and (iii) a downturn in corporate profits, investments and transactions which led to aggressive business travel reductions. Although the Federal Reserve lowered interest rates during the last three years to aid in stimulating the economy and to provide liquidity, consumer and business confidence declined. This lack of confidence, which continued into the beginning of 2003, caused a significant strain on the travel and hotel industries as well as numerous other industries. Political uncertainties have impeded a rebound in consumer and investor confidence and spending. However, the limited service segment of the hospitality industry has been less impacted and has continued to outperform the luxury and upscale sectors which experienced the weakest performance.

Another factor which affects the limited service sector of the hospitality industry is a significant rise in gasoline prices within a short period of time. Most of the limited service hospitality properties collateralizing PMC Capital s loans receivable are located on interstate highways. Historically, when gas prices sharply increase, occupancy rates for properties located on interstate highways decrease.

Portfolio Information

Lending Activities

General

The fair value of PMC Capital s loans receivable was $87.2 million and $107.4 million at December 31, 2002 and 2001, respectively. During 2002 and 2001, PMC Capital originated loans totaling $46.1 million and $66.0 million and received repayments, including proceeds from the sale of guaranteed SBA 7(a) Program loans, of $20.0 million (of which approximately $9.9 million represented prepayments) and $17.8 million (of which approximately $4.2 million represented prepayments), respectively. During 2002 and 2001, principal collections (including prepayments), as an annualized percentage of loans receivable, were 16% and 9%, respectively. PMC Capital s Serviced Loan Portfolio decreased by $8.8 million (3%) to $313.0 million at December 31, 2002 from $321.8 million at December 31, 2001.

The fair value of PMC Capital s loans receivable was $95.0 million at June 30, 2003. During the six months ended June 30, 2003 and 2002, PMC Capital originated loans totaling $19.6 million and $19.5 million, respectively, and received repayments, including proceeds from the sale of its guaranteed SBA 7(a) program loans, of $9.8 million (of which approximately $2.8 million represented prepayments and $1.6 million represented scheduled maturities) and $13.9 million (of which approximately $8.8 million represented loan prepayments), respectively. PMC Capital s commitments to fund new loans decreased to $20.9 million at June 30, 2003 from $29.4 million at December 31, 2002. At June 30, 2003, all of PMC Capital s outstanding commitments were for variable-rate loans, and given the current interest rate market, PMC Capital expects to continue to originate primarily variable-rate loans. PMC Capital s Serviced Loan Portfolio, decreased by $2.1 million (0.7%) to $310.9 million at June 30, 2003 from $313.0 million at December 31, 2002.

At June 30, 2003 and December 31, 2002, PMC Capital had approximately $83.4 million and $71.3 million, respectively, of loans receivable with a variable interest rate (reset on a quarterly basis) based upon either LIBOR or the prime rate. The spread that PMC Capital charges over LIBOR generally ranges from 3.5% to 4.5%. The spread that it charges over the prime rate generally ranges from 2.0% to 2.75%. It is anticipated that new commitments will have an interest rate floor of 6%. The LIBOR and prime rate used in determining interest rates charged to PMC Capital s borrowers for the third quarter of 2003 (set on July 1, 2003) were 1.11% and 4.00%, respectively. In comparison, the LIBOR and prime rate used in determining interest rates charged to PMC Capital s borrowers during the second quarter of 2003 (set on April 1, 2003) were 1.29% and 4.25%, respectively.

Prepayment Activity

PMC Capital has experienced increased prepayment activity as a result of the current low interest rate environment (the prime rate, LIBOR and yield on treasury notes decreased substantially during 2001 and 2002) and PMC Capital believes that it may continue to experience increased prepayment activity at high levels (particularly in relation to fixed-rate loans receivable) in 2003. Many of the prepayment fees for fixed-rate loans receivable are based upon a yield maintenance premium which provides for greater fees as interest rates decrease. In addition, certain loans receivable have prepayment prohibitions of up to five years. In accordance with SBA policy, SBA 7(a) loans receivable (all variable interest rate) did not have prepayment fees for loans originated prior to January 2001. Effective for loans originated after January 1, 2001, the SBA changed its policy on prepayment fees to allow the SBA to collect a 5% fee for loans prepaid in the first year, 3% in the second year and 1% in the third year. This change in SBA policy may lessen the amount of prepayments received during the first three years after the origination of an SBA guaranteed loan.

The timing and volume of prepayment activity for both variable and fixed-rate loans receivable fluctuate and are impacted by numerous factors including the following:

The competitive lending environment (i.e., availability of alternative financing);

The current and anticipated interest rate environment (i.e., if interest rates are expected to rise or fall);

The market for limited service hospitality property sales; and

The amount of the prepayment fee and length of prepayment prohibition.

When loans receivable are paid-off prior to their maturity, PMC Capital generally receives prepayment fees. Prepayment fees result in one-time increases in income. The proceeds from the prepayments PMC Capital receives are invested initially in temporary investments and are generally re-loaned or committed to be re-loaned at lower interest rates than the prepaid loans receivable. These lower interest rates have had an adverse effect on interest income and depending upon the rate of future prepayments may further impact interest income. It is difficult to accurately predict the volume or timing of prepayments since the factors listed above are not all-inclusive and changes in one factor are not isolated from changes in others which might magnify or counteract the rate or volume of prepayment activity.

Problem Loans

PMC Capital s policy with respect to loans receivable which are in arrears as to interest payments for a period in excess of 60 days is generally to discontinue the accrual of interest income and reverse previously recorded interest income which is deemed uncollectible. PMC Capital will deliver a default notice and begin foreclosure and liquidation proceedings when it determines that pursuit of these remedies is the most appropriate course of action.

Senior management closely monitors PMC Capital Problem Loans which are classified into two categories: PMC Capital Impaired Loans and PMC Capital Special Mention Loans. PMC Capital Impaired Loans are loans which are not complying with their contractual terms, the collection of the balance of the principal is considered impaired and on which its fair value is less than the remaining unamortized principal balance. PMC Capital Special Mention Loans are those loans receivable that are not complying with their contractual terms but PMC Capital expects a full recovery of the principal balance through either collection efforts or liquidation of collateral.

There can be no assurance that PMC Capital Special Mention Loans will not become PMC Capital Impaired Loans in the future if there is deterioration of the value of the collateral. The value of loans receivable at June 30, 2003 and December 31, 2002 has been reduced by unrealized depreciation of $333,000 and $711,000, respectively. Each PMC Capital Problem Loan is valued by PMC Capital s board of directors based upon a determination of fair value of the collateral and other collections since PMC Capital Problem Loans are all collateral dependent.

Historically, PMC Capital has not had a significant amount of PMC Capital Problem Loans nor has it had a significant amount of charged-off loans. However, during 2001 and 2002 PMC Capital experienced a trend of increasing PMC Capital Problem Loans and, as a result, an increase in unrealized and realized losses. This unfavorable trend in PMC Capital Problem Loans was primarily a result of economic conditions. In addition, the increased unrealized and realized losses are partially a result of the reduced value of distressed properties in the limited service hospitality industry. Due to the increased number of properties being marketed, the value of the collateral for PMC Capital Problem Loans has decreased.

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Information on PMC Capital Problem Loans was as follows:

	June 30, 2003	December 31, 2002	December 31, 2001
	(Dollars in thousands, **except footnotes)**		
PMC Capital Impaired Loans(1):			
Loans receivable(2)	$1,736	$5,728	$6,152
Sold loans of SPEs		2,343	1,799
Total	$1,736	$8,071	$7,951
PMC Capital Special Mention Loans(1):			
Loans receivable	$4,267	$3,248	$1,549
Sold loans of SPEs	4,806	5,226	6,456
Total	$9,073	$8,474	$8,005
Percentage of PMC Capital Impaired Loans(3):			
Loans receivable	1.8%	6.5%	5.7%
Sold loans of SPEs		1.3%	1.1%
Loans receivable and sold loans of SPEs	0.7%	3.0%	3.0%
Percentage of PMC Capital Special Mention Loans(3):			
Loans receivable	4.5%	3.7%	1.4%
Sold loans of SPEs	2.9%	3.0%	4.1%
Loans receivable and sold loans of SPEs	3.5%	3.2%	3.0%

(1) Since sold SBA 7(a) guaranteed loans are secured by a government guarantee, PMC Capital does not have exposure to loss. Accordingly, PMC Capital Impaired Loans and PMC Capital Special Mention Loan statistics for SBA 7(a) guaranteed loans have not been presented.

(2) As of December 31, 2002 the balance included two loans that PMC Capital acquired through foreclosure during the first half of 2003. One of the loans was collateralized by a golf facility that PMC Capital repurchased from an SPE during December 2002. The golf facility was acquired through foreclosure during the first quarter of 2003 by a non-investment company subsidiary. The second loan was a limited service hospitality property acquired through foreclosure during the second quarter of 2003. The fair value of these loans receivable was estimated to be $2.3 million. As of December 31, 2001 the balance included two limited service hospitality properties PMC Capital acquired through foreclosure during the first quarter of 2002. The fair value of the loans receivable was estimated to be $2.1 million.

(3) The denominator does not include SBA 7(a) guaranteed loans that have been sold.

Realized losses and the change in unrealized (appreciation) depreciation of PMC Capital s loans was as follows:

	Years Ended December 31, 2002	2001	2000
		(In thousands)	
SBIC commercial loans	$422	$344	$122
Other commercial loans	(2)	2	14
SBA 7(a) loans	63	463	350
	$483	$809	$486

Retained Interests

At June 30, 2003 and December 31, 2002, the recorded value of PMC Capital s retained interests was $37.6 million and $40.0 million, respectively. Retained interests represent PMC Capital s ownership interest in loans receivable that have been contributed to SPEs and have been recorded as sold. PMC Capital s retained interests consist of (i) the retention of a portion of each of the sold loans, (ii) required cash balances owned by the SPE and (iii) future excess funds to be generated by the SPE after payment of all obligations of the SPE.

The fair value of retained interests is determined in good faith by the PMC Capital board of directors based on the present value of future cash flows PMC Capital expects to receive from the SPEs. The future cash flows are based in part upon PMC Capital s estimates of prepayment speeds and loan losses on the loans receivable transferred to the SPEs. Prepayment speeds and loan losses were estimated based on the current and anticipated interest rate environment and competitive environment and PMC Capital s historical experience with these and similar loans receivable. The discount rates utilized are determined for each of the components of retained interests as estimates of market rates based on interest rate levels considering the risks inherent in the transaction. Changes in any of PMC Capital s assumptions, or actual results which deviate from its assumptions, may materially affect the value of retained interests.

The net unrealized appreciation on PMC Capital s retained interests at June 30, 2003 and December 31, 2002 was $3.2 million and $3.5 million, respectively, primarily relating to valuation increases resulting from the current interest rate environment. Any appreciation (depreciation) of retained interests is included in the accompanying statements of operations as either a realized loss (if there is a reduction in expected future cash flows) or an unrealized gain (loss) on investments. Reductions in expected future cash flows generally occur as a result of decreases in expected yields, increases by anticipated loan losses or increases in prepayment speed assumptions. Changes in any of PMC Capital s assumptions, or actual results which deviate from its assumptions may materially affect the value of its retained interests.

With the exception of the 2000 Joint Venture which has had aggregate losses of 4.27% to date, PMC Capital s SPEs have experienced positive results with no loan losses and minimal 60-day delinquencies. There can be no assurance that PMC Capital will continue to achieve these types of results in future periods. The 2000 Joint Venture had two impaired loans emerge during 2002. The first impaired loan resulted in the acquisition of a limited service hospitality property by the 2000 Joint Venture. PMC Capital is currently marketing this asset and expects the sale to occur in 2003. The second impaired loan, with a principal balance of $2.3 million, was deemed a charged-off loan (in accordance with the transaction documents) during December 2002. At that time, PMC Capital exercised its option to repurchase the loan from the 2000 Joint Venture for $2.3 million plus accrued interest. The aggregate value of this property (and PMC Capital s estimate of the underlying loan receivable), as reduced for anticipated holding and selling costs, was estimated to be $1.2 million. Primarily as a result of these two impaired loans, PMC Capital recorded realized losses on its retained interests of $2.0 million during 2002.

Assets Acquired in Liquidation

Detailed below are assets repurchased by PMC Capital and recorded on its balance sheet as assets acquired in liquidation and assets repurchased by PMC Capital s non-investment company subsidiaries.

With regard to properties acquired through foreclosure, deferred maintenance issues must be addressed prior to operation of the property or it may not be economically justifiable to operate the property prior to its sale. To the extent keeping the property operating is deemed to assist in attaining a higher value upon sale, PMC Capital will take steps to do so including hiring third party management companies to operate the property.

On an ongoing basis, PMC Capital monitors revenue generation and growth, expense controls, working capital projections, capital needs, marketing plans and sales opportunities for its assets acquired in liquidation. PMC Capital is marketing these assets while implementing new operating plans to stimulate revenue at the properties. Marketing efforts include the use of PMC Capital s marketing personnel, advertising through use of its website, direct mail, the use of third party brokers and dealers and word of mouth with current borrowers and other contacts.

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Owned by PMC Capital and Subsidiaries

At June 30, 2003, the aggregate recorded value of PMC Capital s assets acquired in liquidation on its consolidated balance sheet was approximately $3.2 million and consisted primarily of three limited service hospitality properties, one of which was sold subsequent to June 30, 2003.

During the six months ended June 30, 2003 and 2002, PMC Capital incurred losses from operating its assets acquired in liquidation of approximately $151,000 and $107,000, respectively. PMC Capital sold one of these properties in July 2003. In addition, effective April 1, 2003, another property was leased under an operating lease to one of PMC Capital s non-consolidated non-investment company subsidiaries. The remaining property is currently being operated by a third party management company on behalf of PMC Capital. There can be no assurance that PMC Capital will be able to sell its remaining properties in the near future.

In May 2003, PMC Capital acquired a limited service hospitality property through foreclosure. The estimated value of the property at June 30, 2003 was approximately $1.1 million. In July 2003, PMC Capital sold the property for net proceeds of approximately $1.1 million; therefore, no gain or loss was recorded on the sale. PMC Capital financed the sale through the origination of a loan of $900,000 at an interest rate of LIBOR plus 4.5%. The loan matures in 2023.

Owned by Non-Consolidated Subsidiaries and SPEs

Assets have been acquired by, transferred to or leased to PMC Capital s non-consolidated subsidiaries or acquired by or transferred to its SPEs: (i) to reduce liability exposure, (ii) to reduce the risk of non-compliance with revenue requirements of the Internal Revenue Code or (iii) if the acquisition was required by an SPE s transaction documents.

In October 2002, PMC Capital s affiliate, PMC Funding, acquired two assisted care living facilities with an estimated fair value of approximately $1.2 million for $101,000 in cash and the assumption of notes payable to PMC Capital and First Western. As of December 31, 2002, the underlying loan receivable held by PMC Capital related to these facilities was valued at approximately $788,000 and PMC Capital classified the receivable from PMC Funding as due from affiliate on its consolidated balance sheet (*i.e.,* they were not included as assets acquired in liquidation). PMC Funding operated one of the two assisted care living facilities while the other facility was vacant. During January, 2003, PMC Funding sold the operating assisted care living facility for $975,000. The proceeds were used to repay in full the mortgage held by PMC Capital, including additional costs incurred prior to liquidation and accrued interest. The remaining funds were used to repay a portion of the receivable due to First Western and no gain or loss was recorded on the sale.

In January 2003, PMC Capital s non-investment company subsidiary, Asset Holding, acquired a golf facility that was collateral for a loan receivable held by PMC Capital. The property was valued at $1.4 million at June 30, 2003, based on PMC Capital s estimate of the net proceeds expected from the sale of the property and reduced for taxes, anticipated holding costs and selling costs. Subsequent to June 30, 2003, PMC Capital received a $100,000 non-refundable deposit in conjunction with the sale of this property.

In May 2003, a limited service hospitality property with an aggregate estimated value of $1.5 million at June 30, 2003, was transferred from the 2000 Joint Venture to Asset Holding. PMC Capital is currently marketing this property for sale.

PMC Capital s non-consolidated non-investment company subsidiaries have incurred costs, primarily operating losses and capital expenditures, on their assets acquired in liquidation, including operating losses. During the six months ended June 30, 2003, PMC Capital s non-consolidated subsidiaries incurred operating losses of approximately $57,000. These losses were recorded as reductions in PMC Capital s equity in income of unconsolidated subsidiaries, net and advisory fee income in its consolidated statements of operations. There can be no assurance that PMC Capital will be able to sell these properties in the near future; therefore, operating losses will likely continue and may be substantial.

Critical Accounting Policies and Estimates

PMC Capital s discussion and analysis of financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires PMC Capital to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses and related disclosure of contingent assets and liabilities. PMC Capital management has discussed the development and selection of these critical accounting policies and estimates with the audit committee of the PMC Capital board of directors and the audit committee has reviewed the disclosure relating to these policies and estimates included in this joint proxy statement/ prospectus.

PMC Capital believes the following critical accounting considerations and significant accounting policies represent its more significant policies, judgments and estimates used in the preparation of its consolidated financial statements.

Principles of Consolidation

PMC Capital s consolidated financial statements include the accounts of PMC Capital and its wholly-owned RIC subsidiaries, First Western, PMCIC and Western Financial. PMC Advisers, PMC Funding and Asset Holding are accounted for using the equity method of accounting in conformity with Federal securities laws. SPEs created in conjunction with structured loan sale transactions are accounted for in accordance with Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140). Under SFAS No. 140, interests in the SPEs are accounted for as retained interests.

Fair Value Accounting

PMC Capital board of directors determines, in good faith, the fair value of PMC Capital s investments, with the resulting unrealized gains and losses being recorded through earnings. Fair value in accordance with generally accepted accounting principles for investment companies includes the current sale concept meaning orderly disposition over a reasonable period of time between willing parties other than in a forced or liquidation sale.

The determination of fair value requires judgment and consideration of the facts and circumstances existing at the evaluation date. Adverse changes to the facts and circumstances will impact the PMC Capital board of directors determination of value and may require valuation losses which may be material to PMC Capital s results of operations.

Below PMC Capital discusses the valuation of its loans receivable, retained interests and assets acquired in liquidation.

Valuation of Loans Receivable

The valuation of loans receivable is adjusted on a quarterly basis to reflect the good faith determination of the PMC Capital board of directors as to the current fair value of its loans. There is typically no public market or established trading market for the loans PMC Capital originates. The illiquid nature of PMC Capital s loans receivable may adversely affect its ability to dispose of such loans at times when it may be advantageous for PMC Capital to liquidate such investments. In the absence of a readily ascertainable market, the value of PMC Capital s loans receivable may differ from the values that would be placed on the loans receivable if a ready market existed. Therefore, if PMC Capital were forced to immediately liquidate some or all of its loans receivable, the proceeds of such liquidation may be significantly less than the current value of such loans receivable.

On an ongoing basis, the PMC Capital board of directors values PMC Capital s loans receivable through an assessment of the recoverability of individual loans. The PMC Capital board of directors values an individual loan based on the borrower s payment history, collateral value, guarantor support and other factors. If significant doubt exists as to the ultimate realization of a loan, the PMC Capital board of directors will

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reduce the fair value accordingly. The determination of whether significant doubt exists regarding the ultimate realization of a loan requires judgment and consideration of the facts and circumstances existing at the valuation date. Changes to the facts and circumstances of the borrower, the hospitality industry and the economy may cause a decline in the fair value of the loan, and ultimately unrealized and realized losses which may be material to PMC Capital s results of operations. The fair value of PMC Capital s loans receivable generally approximates the remaining unamortized principal of the loan, unless there is doubt as to the realization of the loan receivable. When doubt exists, the fair value of the loan receivable is then based upon the value of the collateral which may involve (i) cash flow/revenue multiples, (ii) property tax assessments, (iii) historical information and (iv) updated appraisals in certain circumstances. In addition, as part of the evaluation of the collateral, PMC Capital generally reviews all loan origination underwriting documentation including the appraisal used during the loan origination process.

Losses on PMC Capital s loans (realized and unrealized) were 0.56% (56 basis points) and 0.76% (76 basis points) of its weighted average outstanding loans receivable during 2002 and 2001, respectively. To the extent PMC Capital is forced to liquidate one or several of its loans, future losses may be substantial. The change in assets and net income if the valuation of PMC Capital s loan portfolio were to decline is as follows:

	Change in Assets and Net Income
	(In thousands)
Loan portfolio valuation declines by 1%	$ (885)
Loan portfolio valuation declines by 2%	$(1,770)

Valuation of Retained Interests

The valuation of retained interests is adjusted on a quarterly basis to reflect the good faith determination of the PMC Capital board of directors as to the current fair value of retained interests. Due to the limited number of entities that conduct transactions with similar assets, the relatively small size of the retained interests and the limited number of buyers for such assets, no readily ascertainable market exists for the retained interests. Therefore, the PMC Capital board of directors determination of the fair value may vary significantly from values that would be placed on the retained interests if a ready market existed. If PMC Capital was forced to immediately liquidate some or all of the retained interests, the proceeds of such liquidation may be significantly less than the current value of such retained interests.

The valuation of PMC Capital s retained interests is its most volatile critical accounting estimate because the valuation is dependent upon estimates of future cash flows that are dependent upon the performance of the underlying loans receivable. Prepayments or losses in excess of estimates will cause it to incur losses. The fair value of retained interests is determined based on the present value of estimated future cash flows from the SPEs. The estimated future cash flows are calculated based on assumptions concerning, among other things, loan losses and prepayment speeds. PMC Capital regularly measures loan loss, prepayment and other assumptions against the actual performance of the loans receivable sold and to the extent adjustments to its assumptions are deemed necessary, they are made on a quarterly basis. If the prepayment speeds occur at a faster rate than anticipated or future loan losses occur quicker than expected or in amounts greater than expected, the value of the retained interests will decline and total income in future periods would be reduced. If prepayments occur slower than anticipated or future loan losses are less than expected, cash flows would exceed estimated amounts, the value of PMC Capital s retained interests would increase and total income in future periods would be enhanced. Actual prepayments and loan losses may vary significantly from PMC Capital s assumptions. Although PMC Capital believes that it has made reasonable assumptions as to the future cash flows of the structured loan transactions, actual rates of loss or prepayments may vary significantly from those assumed and other assumptions may be revised based upon anticipated future events. These assumptions are updated on a quarterly basis by the PMC Capital board of directors. Over the past three years, there has been no significant change in the methodology employed in valuing these investments. The discount rates utilized in computing the net present value of future cash flows are based on an estimate of the inherent risks associated with each cash flow stream.

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Significant estimates related to PMC Capital s retained interests were as follows at December 31, 2002:

	Constant Prepayment Rate(1)	Aggregate Losses Assumed(2)	Range of Discount Rates
Secondary Market(3)	20.0%		11.7%
FW 97	30.0%	0.30%	6.0% to 11.6%
1998 Partnership	11.0%	2.87%	4.3% to 11.5%
1999 Partnership	10.0%	2.40%	6.8% to 11.5%
2000 Joint Venture	14.0%	3.02%	7.3% to 12.0%
2001 Joint Venture	9.5%	3.09%	6.7% to 11.4%
2002 Joint Venture	9.5%	3.13%	6.8% to 11.5%

(1) Based on anticipated principal prepayments considering the loans sold and similar loans.

(2) As a percentage of the outstanding principal balance of the underlying loans receivable as of December 31, 2002 based upon per annum losses that ranged from 0.3% to 1.0%.

(3) There are no losses on Secondary Market sales as the SBA has guaranteed payment of principal on these loans.

There were no significant changes in the above assumptions as of June 30, 2003.

Future annualized loan losses of between 35 to 100 basis points were estimated on all structured loan transactions. At December 31, 2002, PMC Capital has identified two sold loans ($2.3 million) that it considers PMC Capital Impaired Loans and five sold loans ($5.2 million) that it considers PMC Capital Special Mention Loans. If PMC Capital has to liquidate these loans, losses may exceed estimates and the value of retained interests will decline.

In addition, prepayments in excess of assumptions will cause a decline in the value of retained interests relating to the excess funds, or the interest-only strip receivable, expected from structured loan sale transactions. For example, if a $1.0 million loan with an interest rate of 10% prepays and the all-in cost of that joint venture s structured notes was 7%, PMC Capital would lose the 3% spread it had expected to receive on that loan in future periods. The spread that is lost may be offset in part or in whole by the prepayment fee that PMC Capital collects.

The value of PMC Capital s retained interests includes an assets acquired in liquidation with an estimated value of $1.4 million that is owned by the 2000 Joint Venture. PMC Capital is currently marketing this asset and expects it to be sold in 2003. In addition, during December 2002, PMC Capital exercised its option to repurchase a charged-off loan from the 2000 Joint Venture with a principal balance of $2.3 million. PMC Capital recorded realized losses of $2.0 million on its retained interests during 2002 primarily related to these assets.

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The following is a sensitivity analysis of PMC Capital s retained interests as of June 30, 2003 and December 31, 2002 to highlight the volatility that results when prepayments, loan losses and discount rates are different than the assumptions:

	June 30, 2003		December 31, 2002	
Changed Assumption	**Pro Forma Value**	**Asset and Net Income Change**	**Pro Forma Value**	**Asset and Net Income Change**
	(In thousands)			
Losses increase by 50 basis points per annum(1)	$35,140	$(2,504)	37,297	$(2,706)
Losses increase by 100 basis points per annum(1)	$32,717	$(4,927)	34,714	$(5,289)
Rate of prepayments increases by 5% per annum(2)	$36,352	$(1,292)	38,642	$(1,361)
Rate of prepayments increases by 10% per annum(2)	$35,411	$(2,233)	37,688	$(2,315)
Discount rates increase by 100 basis points	$36,133	$(1,511)	38,408	$(1,595)
Discount rates increase by 200 basis points	$34,712	$(2,932)	37,002	$(3,001)

(1) *If PMC Capital experiences significant losses (i.e., in excess of anticipated losses), the effect on PMC Capital s retained interests would first reduce the value of the interest-only strip receivables. To the extent the interest-only strip receivables could not fully absorb the losses, the effect would then be to reduce the value of the reserve funds and then the value of the required over-collateralization.*

(2) *For example, an 8% assumed rate of prepayment would be increased to 13% or 18% based on increases of 5% or 10% per annum, respectively.*

These sensitivities are hypothetical and should be used with caution. Pro forma values based on changes in these assumptions generally cannot be extrapolated since the relationship of the change in assumption to the change in fair value is not linear. The effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption. In reality, changes in one factor are not isolated from changes in another which might magnify or counteract the sensitivities.

Valuation of Assets Acquired in Liquidation

The valuation of PMC Capital s assets acquired in liquidation is adjusted on a quarterly basis to reflect the good faith determination of the PMC Capital board of directors as to the current fair value of PMC Capital s assets acquired in liquidation. The PMC Capital board of directors valuation of assets acquired in liquidation is based upon the value of the collateral, necessary capital improvements and expected holding costs. The fair value of the collateral is determined on an individual asset basis and may involve (i) discussions with brokers, (ii) cash flow/revenue multiples, (iii) property tax assessments, (iv) historical information and (v) updated appraisals in certain circumstances. In addition, PMC Capital reviews all loan origination underwriting documentation including the appraisal and generally conducts a site visit. This value is then reduced by expected holding costs, including, but not limited to, legal fees, appraisal costs, delinquent property taxes and capital expenditures related to improvements or replacements of capital assets.

Adverse changes to the facts and circumstances for PMC Capital s assets acquired in liquidation will impact the PMC Capital board of directors determination of value and may require valuation losses which may be material to its results of operations.

Results of Operations

Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002

Overview

Net investment income decreased by $995,000 (30%), to $2,345,000 during the six months ended June 30, 2003 from $3,340,000 during the six months ended June 30, 2002. Net income decreased by $2,398,000 (58%), to $1,746,000 during the six months ended June 30, 2003 from $4,144,000 during the six months ended June 30, 2002. Earnings per share decreased $0.20 (59%), to $0.14 per share during the six months ended June 30, 2003 from $0.34 per share during the six months ended June 30, 2002. The decrease in net income is primarily due to:

a decrease in the gain on sale of assets of $1,463,000 as there were no loans sold during the six months ended June 30, 2003 while PMC Capital sold loans in a structured loan sale transaction completed during April 2002;

decreased interest income of $1,015,000 primarily due to an increase in variable-rate lending with lower variable interest rates than PMC Capital s fixed interest rate loans; and

expensing of merger related costs of $519,000, required to be expensed as incurred.

Partially offsetting these decreases in net income was a decrease in interest expense of $858,000 due primarily to the repayment during 2002 of debentures due the SBA ($17.0 million) and notes payable ($5.0 million).

Significant changes in PMC Capital s income and expenses are further described below.

Investment Income

Interest income decreased by $1,015,000 (24%), to $3,242,000 for the six months ended June 30, 2003 from $4,257,000 for the six months ended June 30, 2002. Interest income consisted of the following:

	Six Months Ended June 30,		Increase (Decrease)	
	2003	2002	Amount	Percentage
	(Dollars in thousands)			
Interest income loans	$3,042	$3,865	$ (823)	(21.3%)
Commitment fees collected	189	134	55	41.0%
Interest income other investments	11	258	(247)	(95.7%)
	$3,242	$4,257	$(1,015)	(23.8%)

The decrease in PMC Capital s interest income was primarily the result of a decrease in variable interest rates, a decrease in its weighted average loans receivable and an increase in variable-rate loans. The weighted average of PMC Capital s effective LIBOR and effective prime rate decreased by 61 basis points and 50 basis points, respectively, from the six months ended June 30, 2002 to the six months ended June 30, 2003. The effective rates are the rates used in determining the variable rates to be charged to borrowers on PMC Capital s variable-rate loans. PMC Capital s weighted average loans receivable outstanding decreased $5.2 million (5%) to $93.7 million during the six months ended June 30, 2003 from $98.9 million during the six months ended June 30, 2002. Approximately 88% and 76% of PMC Capital s loans receivable had variable rates of interest as of June 30, 2003 and 2002, respectively. Accordingly, the weighted average interest rate on PMC Capital s loans receivable at June 30, 2003 was 6.1% compared to 7.1% at June 30, 2002, a reduction of 1.0%. In addition, interest income on PMC Capital s idle funds decreased by $247,000 due to decreasing interest rates and its reduced cash balances.

Income from retained interests decreased by $251,000 (10%), to $2,267,000 during the six months ended June 30, 2003 from $2,518,000 during the six months ended June 30, 2002. The income from retained interests consists of the yield on PMC Capital s retained interests which is determined based on estimates of

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future cash flows and includes any fees collected by the SPEs in excess of anticipated fees. The annualized yield on PMC Capital s retained interests decreased to 11.8% during the six months ended June 30, 2003 from 14.0% during the six months ended June 30, 2002; however, the weighted average balance of PMC Capital s retained interests increased from $35.9 million during the six months ended June 30, 2002 to $38.5 million during the six months ended June 30, 2003 due primarily to the April 2002 structured loan sale transaction.

Interest expense

Interest expense decreased by $858,000 (35%), to $1,563,000 during the six months ended June 30, 2003 from $2,421,000 during the six months ended June 30, 2002. Interest expense results primarily from interest on (i) PMC Capital s notes payable ($40.0 million and $45.0 million outstanding as of June 30, 2003 and 2002, respectively) with a weighted average interest rate of 4.6% and weighted average remaining maturity of 1.7 years as of June 30, 2003, (ii) debentures due the SBA ($14.3 million outstanding as of June 30, 2003 and $31.3 million outstanding as of June 30, 2002), with a weighted average interest rate of 7.7% and weighted average remaining maturity of 4.7 years as of June 30, 2003 and (iii) advances under PMC Capital s revolving credit facility ($6.3 million outstanding as of June 30, 2003 with a weighted average interest rate of 2.9%). The primary reasons for the decrease in interest expense were the repayment during September and December 2002 of $17.0 million in debentures and $5.0 million in notes payable and a reduction in the average interest rates on PMC Capital s LIBOR-based notes payable of 61 basis points ($25.0 million in variable-rate notes payable outstanding as of both June 30, 2003 and 2002) from the six months ended June 30, 2002 to the six months ended June 30, 2003.

Interest expense consisted of the following:

	Six Months Ended June 30,	
	2003	**2002**
	(In thousands)	
Notes payable	$ 938	$ 1,185
SBA debentures	556	1,229
Revolving credit facility and other	69	7
	$ 1,563	$ 2,421

Merger related costs

Merger related costs of $519,000 were expensed during the six months ended June 30, 2003 representing primarily external investment banker and legal fees which were incurred in conjunction with the ongoing activities related to PMC Capital s proposed merger with PMC Commercial. PMC Capital s merger related costs are required to be expensed as they are incurred.

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Realized and unrealized gain (loss) on investments

Realized and unrealized gain (loss) on investments decreased $1,403,000 to a loss of $599,000 during the six months ended June 30, 2003 compared to a gain of $804,000 during the six months ended June 30, 2002. The primary reason for the decrease was a gain of $1,463,000 on PMC Capital s structured loan sale transaction ($43.2 million of loans receivable) completed in the second quarter of 2002. There was no structured loan sale transaction completed during the six months ended June 30, 2003. PMC Capital s realized and unrealized loss on investments consisted of the following:

	Six Months Ended June 30, 2003			
	Retained Interests(1)	Assets Acquired in Liquidation	Loans Receivable	Total
		(In thousands)		
Realized losses	$(129)	$	$(453)	$(582)
Change in unrealized appreciation (depreciation) on investments	(223)	(172)	378	(17)
Total realized and unrealized loss on investments	$(352)	$(172)	$ (75)	$(599)

	Six Months Ended June 30, 2002			
	Retained Interests(1)	Assets Acquired in Liquidation	Loans Receivable	Total
		(In thousands)		
Realized losses	$(302)	$	$ (163)	$ (465)
Sale of assets			1,463	1,463
Change in unrealized appreciation (depreciation) on investments	350	(460)	(84)	(194)
Total realized and unrealized loss on investments	$ 48	$(460)	$1,216	$ 804

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(1) Includes the mortgage-backed security of PMC Capital s affiliate.

Retained Interests: The primary reason for the unrealized depreciation of $223,000 and the realized losses of $129,000 on PMC Capital s retained interests during the three months ended June 30, 2003 was a reduction in PMC Capital s expectation of future cash flows from the interest to be received on its underlying loans receivable and reserve funds.

The primary reason for the unrealized appreciation of $350,000 during the six months ended June 30, 2002 was a decrease in the discount rates used to value PMC Capital s retained interests. The decrease in discount rates caused unrealized depreciation of approximately $594,000 during the six months ended June 30, 2002. The decrease in discount rates was a result of the lower interest rate environment at June 30, 2002 compared to December 31, 2001. The realized losses of $302,000 were primarily a result of (i) higher than anticipated prepayment activity and (ii) lower than anticipated income on PMC Capital s underlying loans receivable and reserve funds.

Loans Receivable: PMC Capital recognized a net loss of $75,000 consisting of unrealized appreciation and realized losses on its loans receivable during the six months ended June 30, 2003 compared to a net loss of $247,000 consisting of realized losses and unrealized losses on its loans receivable during the six months ended June 30, 2002. Net losses on PMC Capital s loans (realized and unrealized) were 0.37% and

0.75% of its weighted average outstanding loans receivable during the twelve-month periods ended June 30, 2003 and 2002, respectively.

Assets Acquired in Liquidation: PMC Capital recorded $172,000 in unrealized losses on its assets acquired in liquidation during the six months ended June 30, 2003 related primarily to devaluation of collateral. PMC Capital recorded $460,000 in unrealized losses on its assets acquired in liquidation during the

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six months ended June 30, 2002 due primarily to devaluation of collateral, additional capital expenditures and increased expected holding costs.

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

Overview

Net income decreased by $4,584,000 (43%), to $5,983,000 during 2002 from $10,567,000 during 2001. Earnings per share decreased $0.39 (45%), to $0.48 per share during 2002 from $0.87 per share during 2001. The decrease in net income is primarily due to:

decreased interest income of $4,061,000 due to the sale of loans receivable and an increase in variable-rate lending with lower variable interest rates than fixed interest rate loans;

a reduction in the gain on sale of assets of $1,286,000 due to a smaller volume of loans sold and decreased anticipated cash flows due to reduced net interest spread;

realized and unrealized losses from retained interests (excluding the benefit from the change in discount rates described below) increased by approximately $1.3 million from approximately $1.4 million during 2001 to approximately $2.7 million during 2002;

an increase of $421,000 in unrealized losses from PMC Capital s assets acquired in liquidation due primarily to collateral devaluation, greater than anticipated capital expenditures and increases in expected holding costs related to these assets; and

a loss from operations of assets held for sale of $391,000 as a result of operating losses associated with two operating hotel properties included in assets acquired in liquidation during 2002.

Partially offsetting these decreases in net income were:

a benefit from the change in discount rates utilized in the valuation on retained interests of approximately $1.5 million from a valuation increase of approximately $700,000 during 2001 to a valuation increase of approximately $2.2 million during 2002;

a decrease in interest expense of $901,000 due to decreasing variable rates of interest on LIBOR based notes payable and the repayment in 2002 of debentures due the SBA and notes payable; and

a decrease in salaries and related benefits of $259,000.

Significant changes in income and expenses are further described below.

Income

Interest income decreased by $4,061,000 (35%), to $7,507,000 during 2002 from $11,568,000 during 2001. Interest income consisted of the following:

	Year Ended December 31,		Increase (Decrease)	
	2002	2001	Amount	Percentage
	(Dollars in thousands)			
Interest income loans	$6,629	$10,515	$(3,886)	(37.0%)
Commitment fees collected	339	523	(184)	(35.2%)
Interest income other investments	539	530	9	1.7%
	$7,507	$11,568	$(4,061)	(35.1%)

The decrease in interest income was primarily a result of the sale of approximately $49.2 million and $43.2 million of loans receivable in structured loan sale transactions completed in June 2001 and April 2002, respectively, which reduced the weighted average loans receivable outstanding by $19.5 million (18%) to $86.8 million during 2002 from $106.3 million during 2001. In addition, the average quarterly prime rate and LIBOR (utilized in the determination of quarterly variable rates) decreased by 281 basis points and 244 basis

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points, respectively, during 2002 causing the weighted average interest rate to decline to 7.1% at December 31, 2002 from 9.0% at December 31, 2001. Approximately 82% and 36% of the loans receivable had variable rates of interest as of December 31, 2002 and 2001, respectively. The sharp rise in the percentage of variable-rate loans receivable at December 31, 2002 is a result of new variable-rate loan originations and the sale of fixed-rate loans receivable in the April 2002 structured loan sale transaction. In addition, commitment fees collected decreased due to a decrease in loan originations.

Income from retained interests decreased by $138,000 (3%), to $5,202,000 during 2002 from $5,340,000 during 2001. Income from retained interests is comprised of the yield on retained interests. The annualized yield on retained interests decreased to 13.7% during 2002 from 14.9% during 2001; however, the weighted average retained interests increased due primarily to the structured loan sale transaction completed in April 2002.

Advisory fee income increased by $124,000 (7%), to $1,927,000 during 2002 from $1,803,000 during 2001. Advisory fees relate to the investment management agreements with PMC Commercial. The increase was primarily a result of the increased loan portfolio of PMC Commercial.

Interest expense

Interest expense decreased by $901,000 (16%), to $4,588,000 during 2002 from $5,489,000 during 2001. Interest expense results primarily from interest on (i) notes payable ($40.0 million outstanding as of December 31, 2002 and $45.0 million outstanding as of December 31, 2001) with a weighted average interest rate of 4.9% and a weighted average remaining maturity of 2.1 years as of December 31, 2002 and (ii) debentures due the SBA ($14.3 million outstanding as of December 31, 2002 and $31.3 million outstanding as of December 31, 2001), with a weighted average interest rate of approximately 7.7% and a weighted average remaining maturity of 5.2 years as of December 31, 2002. The primary reasons for the decrease in interest expense were (i) a reduction in the average quarterly interest rates on LIBOR-based notes payable of 244 basis points ($25.0 million in variable rate debt outstanding as of both December 31, 2002 and 2001) from the year ended December 31, 2001 to the year ended December 31, 2002 and (ii) the repayment during the last half of 2002 of $17.0 million in debentures due the SBA with a weighted average interest rate of approximately 7.6% and the repayment of $5.0 million in notes payable during December 2002 with an interest rate of 7.0%.

Other expenses

Other expenses increased by $199,000 (3%), to $6,118,000 during 2002 from $5,919,000 during 2001. Other operating expenses are comprised of salaries and related benefits, general and administrative, loss from operations of assets acquired in liquidation, profit sharing plan, rent, and professional fees. The primary reason for the increase was the loss from operations of assets acquired in liquidation of $391,000 during 2002. Assets acquired in liquidation held at December 31, 2002 were not operated by PMC Capital during 2001. The increase was partially offset by a reduction in salaries and related benefits which decreased $259,000 (6%), to $3,940,000 during 2002 from $4,199,000 during 2001. The decrease was mainly a result of a decrease in the number of employees and a reduction in bonuses.

Realized and unrealized gain (loss) on investments

Realized and unrealized gain (loss) on investments decreased $1,196,000 to a gain of $27,000 during 2002 compared to a gain of $1,223,000 during 2001. Realized and unrealized gain (loss) on investments consisted of the following:

	Year Ended December 31, 2002			
	Retained Interests(1)	Assets Acquired in Liquidation	Loans Receivable	Total
		(In thousands)		
Realized losses	$(1,981)	$	$ (215)	$(2,196)
Sale of assets		(17)	1,463	1,446
Change in unrealized appreciation (depreciation) on investments	1,466	(421)	(268)	777
Total realized and unrealized gain (loss) on investments	$ (515)	$(438)	$ 980	$ 27

	Year Ended December 31, 2001			
	Retained Interests(1)	Assets Acquired in Liquidation	Loans Receivable	Total
		(In thousands)		
Realized losses	$(1,303)	$	$(1,025)	$(2,328)
Sale of assets			2,732	2,732
Change in unrealized appreciation (depreciation) on investments	603		216	819
Total realized and unrealized gain (loss) on investments	$ (700)	$	$ 1,923	$ 1,223

(1) Includes the mortgage-backed security of PMC Capital s affiliate.

During April 2002, PMC Capital sold $43.2 million of loans receivable and recognized a gain of $1,463,000. During June 2001, PMC Capital sold $49.2 million of loans receivable and recognized a gain of $2,732,000. The decrease in gain recognized of $1,269,000 was primarily due to the smaller pool of sold loans and a reduced net interest spread. The net interest spread is the difference between the weighted average interest rate on the sold loans receivable compared to the coupon rate on the debt issued by the SPE. At the time the transactions were completed, the net interest rate spread was 2.86% related to the 2002 Joint Venture compared to PMC Capital s net interest rate spread of 3.42% related to the 2001 Joint Venture as a result of the interest rate market and the market for the purchase of asset-backed securities.

The unrealized appreciation of $1,466,000 on retained interests during 2002 primarily relates to a decrease in the discount rates used to value retained interests. Unrealized gains of approximately $2,174,000 were recorded during 2002 as a result of a decrease in the discount rates. The decrease in discount rates was a result of the lower interest rate environment at December 31, 2002 compared to December 31, 2001. Offsetting a portion of these unrealized gains from the reduction in discount rates were unrealized losses of $708,000 and realized losses of $1,981,000 resulting primarily from (i) increased losses related primarily to the 2000 Joint Venture, (ii) lower than anticipated income on underlying loans receivable and the PMC Capital reserve funds and (iii) increased anticipated prepayments. Realized losses of approximately $1.9 million relate to reductions in actual and anticipated future cash flows from the 2000 Joint Venture as a result of PMC Capital Impaired Loans.

The unrealized appreciation of $603,000 during 2001 primarily relates to a decrease in the discount rates used to value retained interests. Unrealized appreciation of approximately $668,000 was recorded during 2001 as a result of the decrease in discount rates. The decrease in discount rates was a result of the lower interest rate environment at December 31, 2001 compared to December 31, 2000. Offsetting a portion of these unrealized gains from the reduction in discount rates were realized losses of $1,303,000 resulting primarily from (i) a reduction in expected future cash flows resulting from higher than anticipated prepayment activity and (ii) lower than anticipated income on the PMC Capital reserve funds and underlying loans receivable.

PMC Capital recognized $483,000 of realized losses and unrealized depreciation on its loans during 2002 compared to $809,000 in realized losses and unrealized depreciation on its loans during 2001. Losses on its loans were 0.56% and 0.76% of its weighted average outstanding loans receivable during 2002 and 2001, respectively.

PMC Capital recorded $421,000 in unrealized losses on assets acquired in liquidation during 2002. The loss is primarily related to devaluation of collateral, additional capital expenditures and increased expected holding costs related to assets acquired in liquidation. There were no realized or unrealized losses on assets acquired in liquidation during 2001.

PMC Capital generated a net loss on sale of assets of $17,000 from assets acquired in liquidation during 2002. During December 2002, PMC Capital sold one limited service hospitality property for approximately $500,000 resulting in a net gain of approximately $113,000 and First Western sold four retail establishments during 2002 for proceeds of approximately $350,000 resulting in a loss of approximately $130,000.

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

Overview

Net income decreased by $686,000 (6%), to $10,567,000 during 2001 from $11,253,000 during 2000. Earnings per share decreased $0.06 (6%), to $0.87 per share during 2001 from $0.93 per share during 2000. The decrease in net income is primarily due to:

- decreased interest income of $1,972,000 due to the sale of loans receivable and an increase in variable rate lending with lower variable interest rates than fixed interest rate loans;

- realized and unrealized losses from retained interests (excluding the benefit from the change in discount rates described below) increased by approximately $2.3 million from unrealized gains of approximately $900,000 during 2000 to realized and unrealized losses of approximately $1.4 million during 2001.

Partially offsetting these decreases in net income were:

- a benefit from the change in discount rates utilized in the valuation on retained interests of approximately $700,000; and

- an increase in the gain on sale of assets of $2,168,000 due to a larger volume of loans sold and increased anticipated cash flows due to increased net interest spread.

Significant changes in income and expenses are further described below.

Income

Interest income decreased by $1,972,000 (15%), to $11,568,000 during 2001 from $13,540,000 during 2000. Interest income consisted of the following:

	Years Ended December 31,		Increase (Decrease)	
	2001	**2000**	**Amount**	**Percentage**
		(Dollars in thousands)		
Interest income loans	$10,515	$12,628	$(2,113)	(16.7%)
Commitment fees collected	523	432	91	21.1%
Interest income other investments	530	480	50	10.4%

	$11,568	$13,540	$(1,972)	(14.6%)

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The decrease in interest income was primarily a result of the sale of approximately $49.2 million and $28.0 million of loans receivable in structured loan sale transactions completed in June 2001 and December 2000, respectively, which decreased the weighted average loans receivable outstanding by $11.5 million (10%) to $106.3 million during 2001 from $117.8 million during 2000. In addition, the prime rate decreased by 350 basis points during 2001 causing the weighted average interest rate to decline to 9.0% at December 31, 2001 from 10.4% at December 31, 2000. Approximately 36% and 30% of PMC Capital s loans receivable had variable rates of interest based on the prime rate as of December 31, 2001 and 2000, respectively.

Income from retained interests increased by $1,320,000 (33%), to $5,340,000 during 2001 from $4,020,000 during 2000. Income from retained interests is comprised of the yield accreted on retained interests. The increase in income from retained interests was the result of an increase in the weighted average retained interests outstanding primarily due to the structured loan sale transactions completed in June 2001 and December 2000. In addition, the annualized yield on retained interests increased to 14.9% during 2001 from 14.2% during 2000.

Advisory fee income increased by $104,000 (6%), to $1,803,000 during 2001 from $1,699,000 during 2000. Advisory fees relate to the investment management agreements with PMC Commercial. The increase was primarily a result of the increased loan portfolio of PMC Commercial.

Interest expense

Interest expense increased by $29,000 (1%), to $5,489,000 during 2001 from $5,460,000 during 2000. Interest expense remained relatively flat, since the effect of the weighted average debt outstanding increasing to $75.3 million in 2001 compared to $70.8 million in 2000, was offset by a decline in the weighted average cost of funds to 7.2% for 2001 compared to 7.6% in 2000. Interest expense results primarily from interest on (i) notes payable ($45.0 million and $41.7 million outstanding as of December 31, 2001 and 2000, respectively) with a weighted average interest rate of 5.4% and a weighted average remaining maturity of 2.9 years as of December 31, 2001, (ii) debentures due the SBA (as of both December 31, 2001 and 2000 the outstanding balances were $31.3 million), with a weighted average interest rate of approximately 7.6% and a weighted average remaining maturity of 4.6 years as of December 31, 2001, and (iii) balances outstanding on the revolving credit facility.

Other expenses

Operating expenses increased by $99,000 (2%), to $5,919,000 during 2001 from $5,820,000 during 2000. Operating expenses are comprised of salaries and related benefits, general and administrative, profit sharing plan, rent and professional fees. The primary reason for the increase was general and administrative expenses which increased $68,000 (8%), to $884,000 during 2001 from $816,000 during 2000. The increase was mainly due to increased insurance expense, advertising and bank fees.

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Realized and unrealized gain (loss) on investments

Realized and unrealized gain (loss) on investments increased $274,000 to a gain of $1,223,000 during 2001 compared to a gain of $949,000 during 2000. Realized and unrealized gain (loss) on investments consisted of the following:

	Year Ended December 31, 2001			
	Retained Interests(1)	Assets Acquired in Liquidation	Loans Receivable	Total
	(In thousands)			
Realized losses	$(1,303)	$	$(1,025)	$(2,328)
Sale of assets			2,732	2,732
Change in unrealized appreciation (depreciation) on investments	603		216	819
Total realized and unrealized gain (loss) on investments	$ (700)	$	$ 1,923	$ 1,223

	Year Ended December 31, 2000			
	Retained Interests(1)	Assets Acquired in Liquidation	Loans Receivable	Total
	(In thousands)			
Realized losses	$	$	$ (17)	$ (17)
Sale of assets			564	564
Change in unrealized appreciation (depreciation) on investments	871		(469)	402
Total realized and unrealized gain (loss) on investments	$871	$	$ 78	$949

(1) *Includes the mortgage-backed security of PMC Capital s affiliates.*

During 2001 PMC Capital recognized a gain of approximately $2,732,000 relating to the sale of $49.2 million of loans receivable during June 2001 compared to a gain of $564,000 recognized from the structured loan sale of $28.0 million of loans receivable during December 2000. The increase was due to an increase in the principal sold of approximately $21.2 million and the increased net interest spread. The net interest spread is the difference between the weighted average interest rate on the sold loans receivable compared to the coupon rate on the debt issued by the SPE. PMC Capital generated a net interest spread of 3.42% related to the 2001 Joint Venture compared to a net interest spread of 2.26% related to the 2000 Joint Venture as a result of the interest rate market and the market for purchases of asset-backed securities.

The unrealized appreciation of $603,000 on retained interests during 2001 primarily relates to a decrease in the discount rates used to value retained interests. Unrealized appreciation of approximately $668,000 was recorded during 2001 as a result of the decrease in discount rates. The decrease in discount rates was a result of the lower interest rate environment at December 31, 2001 compared to December 31, 2000. Offsetting these unrealized gains from the reduction in discount rates were realized losses of $1,303,000 resulting primarily from a reduction in expected future cash flows resulting from higher than anticipated prepayment activity and lower than anticipated income on the PMC Capital reserve funds. During 2000 PMC Capital recognized $871,000 in valuation gains relating to retained interests. The primary reason for the unrealized appreciation of $871,000 during 2000 was the lower than anticipated rate of prepayment activity and less than anticipated loan losses.

PMC Capital recognized $809,000 of realized losses and unrealized appreciation on its loans during 2001 compared to $486,000 in realized losses and unrealized depreciation on its loans during 2000. The change was primarily a result of unrealized depreciation on impaired loans recorded during the third and fourth quarter of 2001 including $460,000 related to two limited service hospitality properties PMC Capital acquired through foreclosure in January and February 2002. Losses on loans were 0.76% (76 basis points) and 0.41% (41 basis points) of its weighted average outstanding loans receivable during 2001 and 2000, respectively.

Cash Flow Analysis

Six Months Ended June 30, 2003 Compared to the Six Months Ended June 30, 2002

PMC Capital generated cash flows from operating activities of $1,892,000 and $2,898,000 during the six months ended June 30, 2003 and 2002, respectively. The primary source of funds from operating activities is PMC Capital s net investment income which was $2,345,000 and $3,340,000 (a decrease of $995,000) during the six months ended June 30, 2003 and 2002, respectively. PMC Capital s cash flows from operating activities are also affected by the change in PMC Capital s current assets and current liabilities and its SBA 7(a) lending activity. Funds available from PMC Capital s SBA 7(a) lending activity increased $1,348,000 while PMC Capital s other operating assets and liabilities decreased by $1,347,000.

PMC Capital used cash of $7,869,000 and generated cash of $33,040,000 from investing activities during the six months ended June 30, 2003 and 2002, respectively. This $40,909,000 decrease in cash flows provided from investing activities relates primarily to a decrease in proceeds from structured loan sale transactions of $37,901,000 and a net increase in loans funded less principal collected of $5,572,000. PMC Capital completed its 2002 structured loan sale transaction during the six months ended June 30, 2002 while no structured loan sale transaction was completed during the six months ended June 30, 2003. Partially offsetting the reduced cash flow from investing activities were an increase in PMC Capital s advances from affiliates, net, of $981,000 and a decrease in investment in retained interests of $2,484,000 relating primarily to its investment in the 2002 structured loan sale transaction.

PMC Capital generated cash of $3,211,000 and used cash of $4,391,000 in financing activities during the six months ended June 30, 2003 and 2002, respectively. This $7,602,000 increase in cash flows from financing activities primarily relates to an increase in proceeds from PMC Capital s revolving credit facility, net, of $6,250,000 and a reduction in dividends paid on its common stock of $1,423,000. The increased use of PMC Capital s revolving credit facility was due in part to the delay in completing a structured loan sale transaction.

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

PMC Capital generated cash flows from operating activities of $7,503,000 and $9,959,000 during the years ending December 31, 2002 and 2001, respectively. The decrease in cash flows from operating activities of $2,456,000 primarily relates to (i) a decrease in PMC Capital s net income of $4,584,000 and (ii) decreased funds available from its SBA 7(a) loan activity of $2,030,000. This decrease was partially offset by a $2,812,000 increase in cash flows from other operating assets and liabilities due primarily to increased other liabilities due to the SBA and borrower advances. PMC Capital pays dividends from the cash flows generated by its operating activities.

PMC Capital generated cash of $10,493,000 and used cash of $6,965,000 from investing activities during the years ending December 31, 2002 and 2001, respectively. This $17,458,000 increase in cash from investing activities relates primarily to (i) a net decrease in loans funded less principal collected of $25,486,000 and (ii) a decrease of $6,610,000 in net proceeds from the debt issued by the 2002 Joint Venture of $37,901,000 compared to $44,511,000 in net proceeds from the debt issued by the 2001 Joint Venture.

PMC Capital used cash of $29,836,000 from financing activities during the year ended December 31, 2002 compared to $7,585,000 from financing activities during the year ended December 31, 2001. This $22,251,000 increase in cash flows used in financing activities relates primarily to (i) $22,000,000 in debt repayments in the year ended December 31, 2002 compared to $3,333,000 in net proceeds from borrowings during the year ended December 31, 2001 and (ii) a reduction in dividends paid of $3,082,000.

Liquidity and Capital Resources

Sources and Uses of Funds

Overview

At June 30, 2003, PMC Capital had approximately $2.7 million of cash and cash equivalents, availability of $8.7 million under its revolving credit facility and $12.2 million in outstanding commitments from the SBA to provide additional SBA debentures. PMC Capital s outstanding commitments to fund loans were $20.9 million at June 30, 2003. Commitments have fixed expiration dates and require payment of a fee to PMC Capital. Since some commitments expire without the proposed loan closing, the total committed amounts do not necessarily represent future cash requirements.

At December 31, 2002, PMC Capital had approximately $5.5 million of cash and cash equivalents, availability of $10 million under its revolving credit facility and $5 million under its discretionary guidance line facility compared to approximately $29.4 million of total loan commitments and approvals outstanding.

Historically, PMC Capital s cash flows provided by operating activities have been paid to its shareholders as dividends. In 2003, PMC Capital anticipates that its cash flows from operating activities will be sufficient to pay 2003 dividend distributions. As a result, PMC Capital s cash flows from operating activities are generally not available to fund loan originations or debt service. During the six months ended June 30, 2003 and the year ended December 31, 2002 PMC Capital s investment in loans ($19.6 million and $47.0 million, respectively) and debt repayments ($22.0 million during the year ended December 31, 2002) were primarily funded by:

Principal collections on loans receivable of $6.1 million and $13.9 million, respectively;

Net proceeds from structured loan sale transaction of $37.9 million during April 2002;

Borrowings of approximately $6.3 million on PMC Capital s revolving credit facility during the six months ended June 30, 2003; and

Use of cash on hand.

During the remaining half of 2003, PMC Capital anticipates loan originations will range from $12 million to $20 million, which PMC Capital expects to be funded primarily through (i) a structured loan sale transaction, (ii) issuance of SBA debentures and (iii) advances under its revolving credit facility. PMC Capital is currently in the process of co-securitizing a pool of loans with PMC Commercial and expects the transaction to be completed in September 2003, unless other unforeseen delays are encountered.

PMC Capital repaid $5.0 million in notes payable with an interest rate of 8.6% at maturity in July 2003 through an advance on its revolving credit facility.

Sources of Funds

General

PMC Capital s ability to continue to originate loans will depend on its ability to borrow funds, sell assets, complete structured loan sale transactions and/or issue equity on acceptable terms. A reduction in the availability of these sources of funds could have a material adverse effect on its financial condition and results of operations.

PMC Capital expects that the sources of funds described below should be sufficient to meet its existing working capital needs. However, there can be no assurance that it will be able to raise funds through these financing sources. If these sources are not available, PMC Capital may have to originate loans at reduced levels, refer commitments to PMC Commercial, or sell assets.

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To meet its liquidity requirements, including origination of new loans, PMC Capital primarily generates funds from the following sources:

Structured loan sales;

Issuance of SBA debentures; and

Borrowings under its short-term, unsecured revolving credit facility and/or guidance line.

A reduction in the availability of these sources of funds could have a material adverse effect on PMC Capital s financial condition and results of operations.

Additional sources of capital include principal and interest collected on existing loans receivable, the cash flows from retained interests and proceeds from the sale of SBA 7(a) loans receivable in the Secondary Market. However, to the extent these sources represent taxable income (*i.e.,* interest income, etc.), such amounts have historically been distributed to shareholders as dividends. As a result, those earnings are generally not available to fund future investments.

As a BDC, PMC Capital is generally required to maintain the limitations of the Asset Coverage Test, which may restrict its ability to borrow in certain circumstances. Leverage for PMC Capital s SBICs (PMC Investment and Western Financial) is not considered leverage for purposes of the Asset Coverage Test.

Structured Loan Sale Transactions

PMC Capital s primary source of funds has been structured loan sale transactions. PMC Capital generated net proceeds of $37.9 million, $44.5 million and $24.7 million from the completion of its 2002, 2001 and 2000 structured loan sale transactions, respectively. It is anticipated that its primary source of working capital during 2003 will be a structured loan sale transaction. PMC Capital expected to complete this structured loan sale transaction during the first half of 2003. While PMC Capital believes it could have completed a transaction during the second quarter of 2003, the terms of the transactions available in the market were not considered favorable to it (*i.e.*, the transaction size did not reflect the value of the transaction). The market for the type of asset-backed securities that PMC Capital originates was relatively inefficient during the first half of 2003 as a result of the sluggishness of the economy, geopolitical uncertainty and the impact of the ongoing conflict in the Middle East.

PMC Capital anticipates co-securitizing with PMC Commercial approximately $57.6 million of its variable-rate loans receivable which is expected to be completed in September 2003, unless unforeseen delays are encountered. Changes in market conditions may have an impact on the timing of completion of this transaction. While PMC Capital has been successful in completing its past structured loan transactions in a timely manner, due to the risky nature of these transactions and the many factors which could cause PMC Capital to delay or postpone a transaction, there can be no assurance of a successful outcome. See Economic Factors Asset-Backed Structured Loan Sale Transaction Market.

Debt

For PMC Capital s short-term working capital needs, it has a revolving credit facility. The aggregate amount outstanding pursuant to this facility cannot exceed $15 million through the earlier of the closing of PMC Capital s next structured loan sale transaction or October 28, 2003, and $10 million thereafter. When the revolving credit facility reverts to $10 million, PMC Capital will also have a guidance line facility of $5 million, subject to bank approval. Advances pursuant to the credit facility bear interest at PMC Capital s option at either the lender s prime rate less 50 basis points or LIBOR plus 175 basis points. The credit facility requires that PMC Capital meet certain covenants (terms as defined in the agreement), the most restrictive of which provides that (i) the ratio of net charge-offs to net loans receivable may not exceed 2%, (ii) the ratio of assets to debt may not fall below 110% for PMC Capital and 135% including its consolidated subsidiaries and (iii) the problem loans percentage cannot exceed 10% of PMC Capital s serviced loan portfolio. At June 30, 2003, PMC Capital was in compliance with all covenants of this facility. As of June 30, 2003, PMC Capital

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had approximately $6.3 million outstanding under this facility with interest based primarily on LIBOR. The facility matures in May 2004.

PMC Capital has $40.0 million of notes payable which requires it to meet certain covenants, the most restrictive of which require (i) that net loans receivable exceed 150% of funded debt, (ii) loan losses for any twelve-month period must not exceed 3% of net loans receivable and (iii) PMC Capital s consolidated earnings plus interest expense must exceed 150% of interest expense. At June 30, 2003, PMC Capital was in compliance with all of the covenants of these notes.

Included in notes payable are $5.0 million with an interest rate of 8.60% that matured and was repaid in July 2003 through an advance on its revolving credit facility.

At June 30, 2003, PMC Capital had an outstanding commitment from the SBA to provide up to $12.2 million ($4.2 million expiring September 2003, $1.0 million expiring September 2004 and $7.0 million expiring September 2007) in additional SBA debentures. PMC Capital currently anticipates utilizing $5.2 million of these commitments during the third quarter of 2003, subject to SBA approval.

Uses of Funds

General

PMC Capital s primary use of funds is to originate loans to small businesses in the limited service hospitality industry. PMC Capital also uses funds primarily for payment of dividends to shareholders, principal payments on borrowings, interest and salaries and other general and administrative expenses.

As a RIC, pursuant to the Internal Revenue Code, PMC Capital is required to pay out substantially all of its net investment company taxable income to its common shareholders. See Dividends.

Loan Originations

At June 30, 2003, commitments to originate loans were approximately $20.9 million. PMC Capital anticipates that the loan origination volume (which averaged approximately $11.5 million per quarter during 2002) will range from $12 million to $20 million during the second half of 2003. As discussed above, these commitments will be funded primarily through (i) structured loan transactions, (ii) advances under the revolving credit facility and guidance line facility or (iii) issuance of SBA debentures.

At December 31, 2002, commitments to originate loans of approximately $29.4 million were greater than commitments of $19.5 million at December 31, 2001. The increase in outstanding commitments was primarily the result of borrower acceptance of PMC Capital s LIBOR-based lending program. See Economic Factors Loan Origination Trend.

Impact of Inflation

To the extent PMC Capital originates fixed-rate loans while it borrows funds at variable rates, PMC Capital would have an interest rate mismatch. In an inflationary environment, if variable-rates were to rise significantly and PMC Capital was originating fixed-rate loans, its net interest margin would be reduced. Currently, PMC Capital is primarily originating variable-rate loans and $31.3 million of its debt has variable rates of interest; therefore, PMC Capital does not believe inflation will have a significant impact on it in the near future. To the extent costs of operations rise while the economy prevents a matching rise in revenue rates (*i.e.,* room rates, menu prices, gasoline prices, etc.), PMC Capital s borrowers would be negatively impacted and valuation losses could result. Accordingly, PMC Capital s borrowers can be impacted by inflation. In addition, in an inflationary environment PMC Capital could experience pressure to increase its income and dividend yield to maintain its stock price.

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Summarized Contractual Obligations, Commitments and Contingencies

PMC Capital s contractual obligations at June 30, 2003 are summarized as follows:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
			(In thousands)		
Notes and debentures payable	$54,310	$10,000	$27,000	$10,000	$ 7,310
Revolving credit facility	6,250	6,250			
Cumulative preferred stock of subsidiary(1)	4,000				4,000
Operating leases(2)	166	166			
Employment agreements(3)	2,116	1,182	934		
Total contractual cash obligations	$66,842	$17,598	$27,934	$10,000	$11,310

(1) The 4% preferred stock of PMC Capital s subsidiary was issued in 1994 ($2.0 million) and 1995 ($2.0 million) and must be redeemed at par no later than 15 years from the date of issuance.

(2) Represents future minimum lease payments under PMC Capital s lease for office space.

(3) PMC Capital has employment agreements with certain of its officers.

PMC Capital s commitments at June 30, 2003 are summarized as follows:

		Amount of Commitment Expiration Per Period			
Other Commitments	Total Amounts Committed	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
			(In thousands)		
Indemnification(1)	$	$	$	$	$
Environmental(2)					
Other commitments(3)	20,879	20,879			
Total commitments	$20,879	$20,879	$	$	$

(1) Represents PMC Capital s cross indemnification agreements with PMC Commercial related to the SPEs created in conjunction with its structured loan sale transactions completed in 2002, 2001 and 2000 with a maximum exposure at June 30, 2003 of $32.8 million. PMC Capital has valued its obligations pursuant to these cross indemnification agreements at zero.

(2) PMC Funding, PMC Capital s non-consolidated, non-investment company act subsidiary, has recorded a liability of approximately $250,000 for the estimated remaining costs to remediate an environmental obligation related to an asset acquired through liquidation and subsequently sold during 1999 by PMC Funding. PMC Capital cannot currently estimate when or if the obligation may be required to be paid. There can be no assurance of the accuracy of this estimate.

(3) Represents PMC Capital s loan commitments outstanding.

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The following summarizes PMC Capital s contractual obligations at December 31, 2002:

Contractual Obligations	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
	Payments Due by Period				
			(In thousands)		
Long-term debt(1)	$54,310	$5,000	$32,000	$10,000	$ 7,310
Preferred stock(2)	4,000				4,000
Operating leases(3)	308	284	24		
Employment agreements(4)	2,707	1,182	1,525		
Total contractual cash obligations	$61,325	$6,466	$33,549	$10,000	$11,310

(1) *In addition, PMC Capital has a $10 million revolving credit facility and a $5 million guidance line facility. No amounts are outstanding under either of these facilities as of December 31, 2002.*

(2) *The 4% preferred stock of PMC Capital s subsidiary was issued in 1994 ($2.0 million) and 1995 ($2.0 million) and must be redeemed at par no later than 15 years from the date of issuance.*

(3) *Represents future minimum lease payments under leases for office space.*

(4) *PMC Capital has employment agreements with certain of its officers.*

PMC Capital s commitments at December 31, 2002 are summarized as follows:

Other Commitments	Total Amounts Committed	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
	Amount of Commitment Expiration Per Period				
			(In thousands)		
Indemnification(1)	$	$	$	$	$
Environmental(2)					
Other commitments(3)	29,427	29,427			
Total commitments	$29,427	$29,427	$	$	$

(1) *Represents cross indemnification agreements with PMC Commercial related to the Joint Ventures with a maximum exposure at December 31, 2002 of $34.3 million as discussed in detail below. PMC Capital has valued these indemnification agreements at zero.*

(2) *Represents a liability of $0.3 million reflected on the balance sheet of PMC Funding, PMC Capital s non-consolidated, non-investment company subsidiary. The liability represents the estimated remaining costs to remediate an environmental obligation relating to an asset acquired through liquidation and subsequently sold during 1999 by PMC Funding. PMC Capital cannot currently estimate when or if the obligation may be required to be paid. There can be no assurance of the accuracy of this estimate.*

(3) *Represents loan commitments outstanding.*

PMC Capital and PMC Commercial have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the SPEs created in conjunction with structured loan sale transactions completed in 2002, 2001 and 2000. See Related Party Transactions Cross Indemnification Agreements.

When a structured loan sale transaction is completed, the transaction documents that the SPE enters into contain Credit Enhancement Provisions that govern the assets and the flow of funds in and out of the SPE formed as part of the structured loan sale transaction. See Related Party Transactions Credit Enhancement Provisions.

In the normal course of business, including the operation of assets acquired in liquidation, PMC Capital is subject to various proceedings and claims, the resolution of which will not, in management s opinion, have a material adverse effect on consolidated financial position or results of operations.

Impact of Recently Issued Accounting Pronouncements

FASB issued FIN 46 in January 2003. The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than voting rights, VIEs, and how to determine the primary beneficiary. This new model for consolidation applies to an entity which either (i) the equity investors, if any, do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. FIN 46 will not impact PMC Capital s consolidated financial statements since it is not applicable to registered investment companies or qualifying SPEs accounted for in accordance with SFAS No. 140.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The statement, which is effective for contracts entered into or modified after June 30, 2003 and hedging relationships designated after June 30, 2003, amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. The statement requires that contracts with comparable characteristics be accounted for similarly. Specifically, the statement (i) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, (ii) clarifies when a derivative contains a financing component, (iii) amends the definition of an underlying to conform it to FASB Interpretation No. 45 and (iv) amends certain other related existing pronouncements. SFAS No. 149 will not impact PMC Capital s consolidated financial statements since it does not have derivatives.

In May 2003, SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity was issued. SFAS No. 150, is effective upon issuance for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The statement requires that a financial instrument which falls within the scope of the statement to be classified as a liability and initially measured at fair value. The following financial instruments are required to be classified as liabilities: (i) shares that are mandatorily redeemable, (ii) an obligation to repurchase the issuer s equity shares or one indexed to such an obligation and that requires or may require settlement by transferring assets and (iii) the embodiment of an unconditional obligation that the issuer may or may not settle by issuing a variable number of equity shares if, at inception, the monetary value of the obligation is based on certain measurements defined in the statement. PMC Capital will adopt SFAS No. 150 effective July 1, 2003. Upon adoption, the $4.0 million of 4% cumulative preferred stock of subsidiary with mandatory redemption in 2009 and 2010 will be reclassified to a liability at an estimated value of $3,350,000. Subsequent to adoption, the 4% cumulative preferred stock of subsidiary will be accreted to redemption value using the interest method with the resulting change included as a component of interest expense. In addition, the preferred dividends of $160,000 per year will also be included as a component of interest expense.

Related Party Transactions

Advisory Agreements

PMC Capital s executive officers are also the executive officers of PMC Commercial and three of PMC Capital directors or officers are members of the board of trust managers of PMC Commercial. PMC Advisers provides investment advisory services to PMC Commercial pursuant to the investment management agreements. As the investment advisor for PMC Commercial, PMC Advisers has earned $1.1 million, $2.3 million, $2.3 million and $2.2 million in advisory fees during the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000, respectively. Pursuant to the investment management agreements entered into between PMC Commercial and PMC Advisers, fees of between 0.40% and 1.55%, annually, are charged by PMC Advisers based upon the average principal outstanding of PMC Commercial s loans. In addition, the investment management agreements include compensation to PMC Advisers for its assistance in the issuance of PMC Commercial s debt and equity securities and the acquisition by PMC Commercial of limited service hospitality properties.

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Pursuant to the loan origination agreement, loans that are greater than $1.3 million ($1.1 million prior to July 1, 2002) that meet PMC Commercial s underwriting criteria are first presented to PMC Commercial for funding. If PMC Commercial does not have available funds, PMC Capital may originate those lending opportunities as long as they meet its lending criteria. In the event the loan origination agreement is terminated or not renewed by PMC Commercial (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by PMC Commercial), PMC Capital would enter into a non-compete agreement for a period of seven years from the termination date. A fee would be paid to PMC Advisers each year by PMC Commercial in consideration of the non-compete agreement until the non-compete agreement is terminated. Upon termination, the fee would be calculated as 1% (less loan losses as a percentage of average invested assets) multiplied by the average outstanding invested assets. The loan origination agreement is renewable on an annual basis.

The Lease Supervision Agreement provides for (i) an annual fee of 0.70% of the original cost of the hospitality properties to be paid to PMC Advisers relating to leases entered into by PMC Commercial, (ii) a fee of $10,000 upon the sale of each limited service hospitality property and (iii) an annual loan origination fee equal to five basis points of loans funded for the first $20 million in loans and 2.5 basis points thereafter. In the event the Lease Supervision Agreement is terminated or not renewed by PMC Commercial (other than as a result of a material breach by PMC Advisers) or terminated by PMC Advisers (as a result of a material breach by PMC Commercial), PMC Advisers would be entitled to receive the Lease Supervision Fee for a period of five years from the termination date. The Lease Supervision Agreement is renewable on an annual basis.

Cross Indemnification Agreements

PMC Capital and PMC Commercial have entered into cross indemnification agreements regarding the performance of their respective loans receivable sold to the Joint Ventures. To the extent that poor performance of the Underperforming Company is pervasive enough to cause the Performing Company not to receive cash flow that it otherwise would have received, then the Underperforming Company must make the Performing Company whole. If the cash flow reduction is considered to be temporary, then interest will be paid as compensation to the Performing Company. In general, when a loan is liquidated, it may cause a deferral of cash flow to the Performing Company and, as a result, interest would be charged to the Underperforming Company until the cash flow from the Joint Venture repays the Performing Company. As a result of the Credit Enhancement Provisions described below, PMC Commercial had a cash flow deferral, and PMC Capital paid compensation to PMC Commercial of less than $1,000. If the reduction of cash flows is deemed permanent, (*i.e.,* to the extent that the Underperforming Company will not be able to satisfy the shortfall with the assets it has contributed to the related structured loan sale transaction), the reduction in cash flows must be paid to the Performing Company by the Underperforming Company. At June 30, 2003 and December 31, 2002, the maximum potential amount of future payments to PMC Commercial (undiscounted and without consideration of any proceeds from the collateral underlying the loans receivable) PMC Capital could be required to make under these cross indemnification agreements was approximately $32.8 million and $34.3 million, respectively, and the discounted amount was $22.7 million and $23.5 million, respectively, which represents the estimated fair value of the retained interests reflected on PMC Commercial s consolidated balance sheet for the Joint Ventures. Upon completion of a joint securitization and on each subsequent quarterly reporting date, PMC Capital management evaluates the need to recognize a liability associated with these cross indemnification agreements. Based on PMC Capital s present cash flow assumptions, including stress test analyses of increasing the anticipated losses on each of the loan pools, it does not appear that the loans receivable sold by PMC Capital will cause any permanent cash flow reductions to PMC Commercial nor will the loans receivable sold by PMC Commercial cause any permanent cash flow reductions to PMC Capital. Accordingly, PMC Capital believes that the fair value of these cross indemnification agreements at inception of the Joint Ventures and as of December 31, 2002 and 2001 was zero; thus, no liability was recorded. If the performance of PMC Capital s sold loans receivable deteriorates, it may be necessary for PMC Capital to perform under these cross indemnification agreements.

Credit Enhancement Provisions

When PMC Capital s structured loan sale transactions were completed, the transaction documents that the SPE entered into contained Credit Enhancement Provisions that govern the assets and the flow of funds in and out of the SPE formed as part of the structured loan sale transactions. The Credit Enhancement Provisions include specified limits on the delinquency, default and loss rates on loans receivable included in each SPE. If, at any measurement date, the delinquency, default or loss rate with respect to any SPE were to exceed the specified limits, the Credit Enhancement Provisions would automatically increase the level of credit enhancement requirements for that SPE. During the period in which the specified delinquency, default or loss rate was exceeded, excess cash flow from the SPE, if any, would be used to fund the increased credit enhancement levels instead of being distributed to PMC Capital, which would delay or reduce PMC Capital s distribution. As a result of PMC Capital Impaired Loans in the 2000 Joint Venture, a Credit Enhancement Provision was triggered in November 2002. As a consequence, cash flows relating to this transaction were deferred and utilized to fund the increased reserve requirements. In general, there can be no assurance that amounts deferred under Credit Enhancement Provisions will be received in future periods or that future deferrals and losses will not occur. The reserve requirement was fully funded during the six months ended June 30, 2003.

Other Transactions

Assets have been acquired by, transferred to, or leased to PMC Capital s non-consolidated subsidiaries or secured by or transferred to its SPEs: (i) to reduce liability exposure, (ii) to reduce the risk of non-compliance with revenue requirements of the Internal Revenue Code or (iii) if the acquisition was required by an SPE s transaction documents.

In October 2002, PMC Capital s affiliate, PMC Funding, acquired two assisted care living facilities with an estimated fair value of approximately $1.2 million for $101,000 in cash and the assumption of notes payable to PMC Capital and First Western. As of December 31, 2002, the underlying loan receivable held by PMC Capital related to these facilities was valued at approximately $788,000 and PMC Capital classified the receivable from PMC Funding as due from affiliate on its consolidated balance sheet (*i.e.,* they were not included as assets acquired in liquidation). PMC Funding operated one of the two assisted care living facilities while the other facility was vacant. During January 2003, PMC Funding sold the operating assisted care living facility for $975,000. The proceeds were used to repay in full the mortgage held by PMC Capital, including additional costs incurred prior to liquidation and accrued interest. The remaining funds were used to repay a portion of the receivable due to First Western and no gain or loss was recorded on the sale.

In January 2003, PMC Capital s non-investment company subsidiary, Asset Holding, acquired a golf facility that was collateral for a loan receivable held by PMC Capital. The property was valued at $1.4 million at June 30, 2003, based on PMC Capital s estimate of the net proceeds expected from the sale of the property and reduced for taxes, anticipated holding costs and selling costs. Subsequent to June 30, 2003, PMC Capital received a $100,000 non-refundable deposit in conjunction with the sale of this property.

In May 2003, a limited service hospitality property with an aggregate estimated value of $1.5 million at June 30, 2003, was transferred from the 2000 Joint Venture to Asset Holding, LLC. PMC Capital is currently marketing this property for sale.

PMC Capital s non-consolidated non-investment company subsidiaries have incurred costs, primarily operating losses and capital expenditures, on their assets acquired in liquidation, including operating losses. During the six months ended June 30, 2003, PMC Capital s non-consolidated subsidiaries incurred operating losses of approximately $57,000. These losses were recorded as reductions in PMC Capital s equity in income of unconsolidated subsidiaries, net and advisory fee income in its consolidated statements of operations. There can be no assurance that PMC Capital will be able to sell these properties in the near future; therefore, operating losses will likely continue and may be substantial.

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Quarterly Results

Earnings per share on a quarterly basis for the last ten years were as follows:

		Quarter			
	Total	First	Second	Third	Fourth
1993	$0.87	$0.18	$0.23	$0.25	$0.21
1994	$1.12	$0.19	$0.23	$0.26	$0.44(1)
1995	$1.03	$0.23	$0.25	$0.27	$0.28
1996	$1.18	$0.27	$0.30	$0.30	$0.31
1997	$1.35	$0.29	$0.31	$0.30	$0.45(1)
1998	$1.16	$0.28	$0.28	$0.29	$0.31(1)
1999	$1.11	$0.23	$0.42(1)	$0.24	$0.22
2000	$0.93	$0.22	$0.22	$0.20	$0.29(1)
2001	$0.87	$0.20	$0.38(1)	$0.15	$0.14
2002	$0.48	$0.14	$0.20(1)	$0.04	$0.10
2003(2)					

(1) During these quarters PMC Capital sold portions of its loans receivable which generated gains and increased its earnings per share.

(2) During the three months ended March 31, 2003 and the three months ended June 30, 2003, earnings per share were $0.05 and $0.09, respectively.

Dividends

PMC Capital has historically paid dividends equal to at least 100% of its investment company taxable income. There are certain timing differences between book and tax income, most notably the recognition of income relating to structured loan transactions. As a result of these timing differences and the anticipation of cash flows from the SPEs, the payment and amount of dividends does not necessarily coincide with earnings, and PMC Capital may have a distribution of dividends in excess of net income. In addition, dividends paid since PMC Capital became an investment company exceeded earnings and profits for tax purposes. PMC Capital did not recognize any return of capital for dividend reporting purposes during the year ended December 31, 2002. The computation of return of capital provides for several timing differences, most notably relating to the recognition of gain treatment on structured loan transactions.

During April, July and October 2002, PMC Capital paid quarterly dividends of $0.16, $0.16 and $0.12 per share to common shareholders of record on March 28, 2002, June 28, 2002 and September 30, 2002, respectively. On January 13, 2003, April 14, 2003 and July 14, 2003, PMC Capital paid $0.12 per share in dividends to common shareholders of record on December 31, 2002, March 31, 2003 and June 30, 2003. PMC Capital declared a $0.12 per share dividend to common shareholders of record on September 30, 2003 which was paid on October 14, 2003. PMC Capital s board of directors may amend the level of quarterly dividends as warranted by actual and/or anticipated earnings.

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduced the tax rate on both dividends and long-term capital gains for most non-corporate taxpayers to 15% until 2008. This reduced maximum tax rate generally does not apply to ordinary RIC dividends, which continue to be subject to tax at the higher rates applicable to ordinary income (a maximum rate of 35% under the new legislation). The new 15% maximum tax rate, however, does apply to certain RIC distributions. This legislation may cause shares in non-RIC corporations to be a more attractive investment to individual investors than shares in RICs and may adversely affect the market price of PMC Capital s common shares.

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PMC CAPITAL QUANTITATIVE AND QUALITATIVE

DISCLOSURES ABOUT MARKET RISK

Since PMC Capital s balance sheet consists of items subject to interest rate risk, it is subject to market risk associated with changes in interest rates as described below. Although management believes that the analysis below is indicative of PMC Capital s sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of PMC Capital s consolidated balance sheet and other business developments that could affect its financial position and net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by these estimates.

Loans Receivable

PMC Capital s variable-rate loans receivable are generally at spreads over LIBOR ($63.5 million and $48.7 million at June 30, 2003 and December 31, 2002, respectively) or the prime rate ($19.9 million and $22.6 million at June 30, 2003 and December 31, 2002, respectively) consistent with the market. Accordingly, increases or decreases in interest rates will generally not have a material impact on the valuation of PMC Capital s variable-rate loans receivable.

At June 30, 2003 and December 31, 2002, PMC Capital had $83.4 million and $71.3 million of variable-rate loans receivable, respectively and $31.3 million and $25.0 million of variable-rate debt at June 30, 2003 and December 31, 2002, respectively. PMC Capital has interest rate risk on the differential between its variable-rate loans receivable outstanding and its variable-rate debt ($52.1 million and $46.3 million at June 30, 2003 and December 31, 2002, respectively). To the extent variable rates continue to decrease PMC Capital would have a decrease in interest income and interest expense. Since PMC Capital s variable-rate loans receivable exceeds its variable-rate debt, reductions in variable interest rates will negatively impact its results of operations.

The sensitivity of PMC Capital s variable-rate loans receivable and debt to changes in interest rates is regularly monitored and analyzed by measuring the characteristics of its assets and liabilities. PMC Capital assesses interest rate risk in terms of the potential effect on interest income net of interest expense and the value of net assets in an effort to ensure that PMC Capital is insulated from any significant adverse effects from changes in interest rates. Based on its analysis of the sensitivity of interest income net of interest expense at June 30, 2003, if the consolidated balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, each hypothetical 100 basis point reduction in interest rates would reduce net investment income by approximately $521,000 on an annual basis. In comparison, based on PMC Capital s analysis of the sensitivity of interest income net of interest expense at December 31, 2002, if the consolidated balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, each hypothetical 100 basis point reduction in interest rates would reduce net investment income by approximately $463,000.

Changes in market interest rates do not have an immediate impact on interest income with regard to fixed-rate loans receivable, though they are considered by PMC Capital s board of directors. PMC Capital s interest rate risk on PMC Capital s fixed-rate loans receivable is primarily related to prepayments and maturities. The average maturity of PMC Capital s loans receivable is less than their average contractual terms because of prepayments. The average life of mortgage loans tends to increase when the current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when the current mortgage loan rates are substantially lower than rates on existing mortgage loans (due to refinancings of fixed-rate loans).

At June 30, 2003 and December 31, 2002, PMC Capital had $11.6 million and $15.9 million of fixed-rate loans receivable, respectively. The fair value of PMC Capital s fixed-rate loans receivable is dependent upon several factors including changes in interest rates and the market for the types of loans that PMC Capital has originated.

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Notes and Debentures Payable and Revolving Credit Facility

As of June 30, 2003 and December 31, 2002 and 2001, approximately $29.3 million, $29.3 million and $51.3 million, respectively, of PMC Capital s consolidated debt had fixed rates of interest and is therefore not affected by changes in interest rates. Currently, market rates of interest are below the rates PMC Capital is obligated to pay on the majority of its fixed-rate debt.

The following tables present the principal amounts and weighted average interest rates and fair values required by year of expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes on PMC Capital s outstanding debt at June 30, 2003 and December 31, 2002 and 2001.

Market risk disclosures related to PMC Capital s outstanding debt at June 30, 2003 consisted of the following:

	Twelve Month Period Ending June 30,							
	2004	2005	2006	2007	2008	Thereafter	Carrying Value	Fair Value(1)
				(In thousands)				
Fixed-rate debt(2)	$ 5,000	$	$17,000	$	$	$7,310	$29,310	$29,839
Variable-rate debt (3) (primarily LIBOR-based)	11,250	10,000		10,000			31,250	31,250
Totals	$16,250	$10,000	$17,000	$10,000	$	$7,310	$60,560	$61,089

(1) The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.

(2) The weighted average interest rate of PMC Capital s fixed-rate debt at June 30, 2003 was 7.8%.

(3) The weighted average interest rate of PMC Capital s variable-rate debt at June 30, 2003 was 2.7%.

Market risk disclosures related to PMC Capital s outstanding debt at December 31, 2002 consisted of the following:

	Year Ending December 31,							
	2003	2004	2005	2006	2007	Thereafter	Carrying Value	Fair Value(1)
				(In thousands)				
Fixed-rate debt(2)	$5,000	$	$17,000	$	$	$7,310	$29,310	$29,915
Variable-rate debt (LIBOR-based)(3)		15,000		10,000			25,000	25,000
Totals	$5,000	$15,000	$17,000	$10,000	$	$7,310	$54,310	$54,915

(1) The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.

(2) The weighted average interest rate of PMC Capital s fixed-rate debt at December 31, 2002 was 7.8%.

(3) The weighted average interest rate of PMC Capital s variable-rate debt at December 31, 2002 was 3.1%.

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Market risk disclosures related to PMC Capital s outstanding debt at December 31, 2001 consisted of the following:

	Year Ended December 31,							
	2002	2003	2004	2005	2006	Thereafter	Carrying Value	Fair Value(1)
					(In thousands)			
Fixed rate debt(2)	$5,510	$5,000	$ 6,000	$25,000	$ 2,490	$7,310	$51,310	$50,999
Variable rate debt (LIBOR-based)(3)			15,000		10,000		25,000	25,000
Totals	$5,510	$5,000	$21,000	$25,000	$12,490	$7,310	$76,310	$75,999

(1) *The estimated fair value is based on a present value calculation based on prices of the same or similar instruments after considering risk, current interest rates and remaining maturities.*

(2) *The weighted average interest rate of fixed-rate debt at December 31, 2001 was 7.6%.*

(3) *The weighted average interest rate of variable-rate debt at December 31, 2001 was 3.6%.*

PMC Capital s variable-rate debt ($31.3 million at June 30, 2003 and $25 million at both December 31, 2002 and 2001) is based on LIBOR and thus subject to adverse changes in market interest rates. Assuming there were no increases or decreases in PMC Capital s variable-rate debt outstanding at December 31, 2002 and 2001, each hypothetical 100 basis point increase in interest rates would increase interest expense and reduce net investment income by approximately $250,000.

Retained Interests

PMC Capital has an investment in retained interests which is valued by the PMC Capital board of directors based on various factors including estimates of appropriate market discount rates. Changes in discount rates used in determining the fair value of the retained interests will have an impact on the recorded value and future earnings. Assuming all other factors (*i.e.,* prepayments, losses, etc.) remain unchanged, if discount rates were 100 basis points or 200 basis points higher than rates estimated at June 30, 2003, the value of PMC Capital s retained interests and net income would decrease by approximately $1.5 million and $2.9 million, respectively. Assuming all other factors (*i.e.,* prepayments, losses, etc.) remain unchanged, if discount rates were 100 basis points or 200 basis points higher than rates estimated at December 31, 2002, the value of PMC Capital s retained interests and net income would decrease by approximately $1.6 million and $3.0 million, respectively.

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PMC CAPITAL MANAGEMENT

Board of Directors of PMC Capital

PMC Capital s articles of incorporation currently provide for a board of directors of not less than five and no more than twenty directors, as fixed from time to time, by the board of directors. Pursuant to the articles of incorporation, the directors are divided into three classes, with each class serving a three-year term and one class being elected by the shareholders annually. The board of directors currently consists of seven members divided among the three classes of directors. At the PMC Capital annual meeting, holders of PMC Capital s common stock will consider and elect two directors.

Set forth below is the principal occupation of, and certain other information with respect to, each director of PMC Capital who is continuing in office following the annual meeting.

Martha R. Greenberg* Dr. Greenberg, 52, has practiced optometry for 29 years in Russellville, Alabama and currently serves on the Board of Trustees of Southern College of Optometry. Dr. Greenberg has been a trust manager of PMC Commercial since May 1996 and a director of PMC Capital since 1984. Dr. Greenberg is not related to Roy H. Greenberg, but is the sister of Lance B. Rosemore and Andrew S. Rosemore and the daughter of Fredric M. Rosemore.

Theodore J. Samuel Mr. Samuel, 55, has been self employed in the real estate lending and venture capital investment business since 1995. From 1990 through 1995, Mr. Samuel was Chairman and Chief Executive Officer of Niagara Asset Management Corporation and Niagara Investment Corporation, subsidiaries of KeyBank of Cleveland, Ohio. The Niagara corporations managed the failed Goldome Bank subsidiaries and non-performing assets totaling over two billion dollars. From 1989 to 1990, Mr. Samuel was an executive vice president of the Special Asset Bank for NationsBank, in charge of the commercial real estate loan division totaling over three billion dollars. Previous experience with NationsBank included positions as senior vice president nationwide real estate credit and management of subsidiary and excess asset sales. He has been a director of PMC Capital since 2002.

Irvin M. Borish Dr. Borish, 90, served as Benedict (Distinguished) Professor of Optometry at the University of Houston after retiring from Indiana University, where he holds the status of Professor Emeritus. He operated a private practice of optometry for over thirty years. He is the author of a major text in his field, holds five patents in contact lenses and was named Optometrist of the Century by Review of Optometry magazine. He has been a director of PMC Capital since 1989.

Thomas Hamill Mr. Hamill, 50, is a director and owner of Midlands Management Corporation, an insurance and reinsurance service firm. From November 1996 through 2001, Mr. Hamill was Senior Vice President of JLT Re Solutions, Inc., the U.S. reinsurance subsidiary of Jardine Lloyd Thompson Group plc. From December 1989 through June 1996, Mr. Hamill was President of Caliban Holdings, Ltd (Caliban) and its subsidiaries, including Belvedere Insurance Company Ltd. (Belvedere). From September 1986 through 1989, Mr. Hamill was Vice President of Belvedere. Mr. Hamill has been a director of PMC Capital since 1992, when he was elected pursuant to an agreement between PMC Capital and Belvedere in April 1991 whereby the directors of PMC Capital agreed at that time to support a representative of Caliban in his candidacy for director in exchange for Belvedere s purchases of 185,000 shares of Common Stock.

Barry A. Imber Mr. Imber, 57, has been a principal of Imber and Company, Certified Public Accountants, or its predecessor, since 1982. Imber and Company was the independent certified public accountant for PMC Capital and its subsidiaries for the years ended December 31, 1988 through December 31, 1991. Mr. Imber was a trust manager of PMC Commercial from September 1993 to March 1995 and a director of PMC Capital since March 1995.

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* *Lance B. Rosemore, Andrew S. Rosemore and Martha R. Greenberg are siblings and are also the children of Fredric M. Rosemore. Consequently, such persons may be deemed to be interested persons as defined under the 1940 Act.*

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Election of PMC Capital s Directors

Set forth below is the principal occupation of, and certain other information with respect to, each of the nominees for election as a director of PMC Capital, to hold office until the 2006 annual meeting of shareholders and, in each case until their respective successors have been elected and qualified.

The board of directors of PMC Capital recommends that the PMC Capital shareholders vote for the election of the two nominees to PMC Capital s board of directors.

Fredric M. Rosemore* Dr. Rosemore, 80, has been the Chairman of the Board and Treasurer of PMC Capital since 1983. From 1990 to 1992, Dr. Rosemore was a Vice President of PMC Capital and from 1979 to 1990, Dr. Rosemore was the President of PMC Capital. For many years he was engaged in diverse businesses, including the construction of apartment complexes, factory buildings, and numerous commercial retail establishments. From 1948 to 1980, Dr. Rosemore practiced optometry. He has been a director of PMC Capital since 1983.

Lance B. Rosemore Mr. Rosemore, 55, has been Chief Executive Officer of PMC Capital since May 1992, President of PMC Capital since 1990 and Secretary since 1983. From 1990 to May 1992, Mr. Rosemore was Chief Operating Officer of PMC Capital. Previously, Mr. Rosemore owned a consumer finance company and was employed by C.I.T. Financial and United Carolina Bank Shares. Mr. Rosemore has been an executive officer and trust manager of PMC Commercial since June 1993 and a director of PMC Capital since 1983.

Nominations for Election to the Board of Directors of PMC Capital

PMC Capital does not have a nominating committee. The board of directors considers persons who will be eligible or desirable for membership on the board of directors. Names are solicited from all directors and an effort is made to obtain information with respect to all such potential nominees for the position of director. Shareholders wishing to recommend candidates for consideration by the board of directors can do so by writing to the secretary of PMC Capital at its offices in Dallas, Texas.

Meetings and Committees of PMC Capital s Board of Directors

PMC Capital s board of directors held four regular and one special (including telephonic conferences) meeting during 2002. Each person who was a director for the entire year attended or participated in at least 75% of all regular meetings held by the board of directors and all committees on which such director served during such year.

The audit committee of the board of directors is currently comprised of Thomas Hamill, Barry A. Imber and Theodore J. Samuel. The principal functions of the audit committee are to oversee the financial reporting policies, the accounting issues, the portfolio valuation and the entire audit function of PMC Capital, including recommending independent accountants to the board of directors. The audit committee reports its activities to the board of directors. The audit committee holds meetings at such times as may be required for the performance of its functions and, during the year ended December 31, 2002, held four meetings.

There is no compensation committee; however, the board of directors as a whole performs the functions of such committee. PMC Capital has appointed an independent directors committee currently consisting of Irvin M. Borish, Thomas Hamill, Barry A. Imber and Theodore J. Samuel, each of whom is otherwise disinterested with respect to PMC Capital. The independent directors committee, which held one meeting during 2002, reviews all proposed affiliated transactions to ensure that such transactions do not violate the appropriate provisions of the 1940 Act.

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* *Lance B. Rosemore, Andrew S. Rosemore and Martha R. Greenberg are siblings and are also the children of Fredric M. Rosemore. Consequently, such persons may be deemed to be interested persons as defined under the 1940 Act.*

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Executive Officers of PMC Capital

The following table sets forth the names and ages of the executive officers of PMC Capital (each of whom serves at the pleasure of the board of directors), all positions held with PMC Capital by each individual, and a description of the business experience of each individual for at least the past five years.

Name	Age	Title
Fredric M. Rosemore	80	Chairman of the Board and Treasurer
Lance B. Rosemore	55	President, Chief Executive Officer and Secretary
Andrew S. Rosemore	56	Executive Vice President and Chief Operating Officer
Jan F. Salit	53	Executive Vice President, Chief Investment Officer and Assistant Secretary
Barry N. Berlin	43	Chief Financial Officer
Mary J. Brownmiller	49	Senior Vice President
Cheryl T. Murray	37	General Counsel

For a description of the business experience of Fredric M. Rosemore and Lance B. Rosemore, see Election of PMC Capital s Directors above.

Andrew S. Rosemore has been Chief Operating Officer of PMC Capital since May 1992 and Executive Vice President of PMC Capital since 1990. From 1988 to May 1990, Dr. Rosemore was Vice President of PMC Capital. From 1973 to 1988, Dr. Rosemore owned and managed commercial rental properties, apartment complexes and factory buildings. Since 1972, Dr. Rosemore has been a licensed physician in Alabama. Dr. Rosemore has been a trust manager of PMC Commercial since June 1993 and Chairman of the Board of PMC Commercial since January 1994 and was a director of PMC Capital from 1989 until August 1999.

Jan F. Salit has been Executive Vice President of PMC Capital since May 1993 and Chief Investment Officer since March 1994. Mr. Salit has also been Executive Vice President of PMC Commercial since June 1993 and Chief Investment Officer and Assistant Secretary since January 1994. From 1979 to 1992, Mr. Salit was employed by Glenfed Financial Corporation and its predecessor company, Armco Financial Corporation, a commercial finance company, holding various positions including Executive Vice President and Chief Financial Officer.

Barry N. Berlin has been Chief Financial Officer of PMC Capital and Director of Compliance since November 1992. Mr. Berlin has also been Chief Financial Officer of PMC Commercial since June 1993. From August 1986 to November 1992, he was an audit manager with Imber & Company, Certified Public Accountants. Mr. Berlin is a certified public accountant.

Mary J. Brownmiller has been Senior Vice President of PMC Capital since 1992 and Vice President of PMC Capital since November 1989. Ms. Brownmiller has also been Senior Vice President of PMC Commercial since June 1993. From 1987 to 1989, she was Vice President for Independence Mortgage, Inc., a SBA lender. From 1976 to 1987, Ms. Brownmiller was employed by the SBA, holding various positions including senior loan officer. Ms. Brownmiller is a certified public accountant.

Cheryl T. Murray has been General Counsel of PMC Capital since March 1994. Ms. Murray has also been General Counsel of PMC Commercial since March 1994. From 1992 to 1994 she was associated with the law firm of Johnson & Gibbs, P.C. and practiced in the financial services department.

Compensation of Directors

Non-employee directors are compensated $1,000 for each meeting they attend and are provided an annual retainer of $5,000 paid quarterly, of which $2,500 was paid to each such director in 2002. PMC Capital reimburses the directors for the travel expenses incurred by them in connection with such meetings.

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Compensation Committee Interlocks and Insider Participation

PMC Capital has no Compensation Committee. Lance B. Rosemore participated in deliberations of PMC Capital s Board of Directors concerning executive compensation for the year ended December 31, 2002.

Management Compensation

The following table sets forth the aggregate amount of compensation paid by PMC Capital during 2002 to each of the three highest paid executive officers and to all directors of PMC Capital during fiscal year 2002.

Summary Compensation Table

Name of Person	Capacities in Which Remuneration Received	Aggregate Compensation(1)	Plan Contribution Accrued During Last Fiscal Year(2)	Total Plan Benefits Accrued to Date(2)	Total Compensation Paid by PMC Capital to Directors
Fredric M. Rosemore	Chairman of Board	$ 87,500	$ 5,724	$232,196	
Lance B. Rosemore	President, Chief Executive Officer	383,600	15,441	288,303	
Andrew S. Rosemore	Executive Vice President, Chief Operating Officer	356,100	15,441	288,303	
Jan F. Salit	Executive Vice President, Chief Investment Officer	240,055	15,441	138,527	
Irvin M. Borish	Director				$ 6,250
Thomas Hamill	Director				10,500
Barry A. Imber	Director				9,750
Martha R. Greenberg	Director				6,250
Theodore J. Samuel	Director				8,500

(1) *PMC Capital has determined that the amount of perquisites and other personal benefits paid to each of the executive officers listed in the compensation table does not exceed the lesser of $50,000 or 10% of each such person s annual salary and bonus reported in such table and that the aggregate amount of perquisites and other personal benefits paid to all executive officers and directors as a group does not exceed 10% of all such person s annual salary and bonus. Accordingly, none of such perquisites and other personal benefits is included in the above table.*

(2) *PMC Capital maintains a discretionary deferred compensation plan (the Plan) that allows participants to defer a portion of their compensation pursuant to Section 401(k) of the Internal Revenue Code and for PMC Capital to make discretionary contributions to participants. The participants in the Plan consist of all employees who are at least 20 1/2 years old, have been employed by PMC Capital for six months and are employed at the end of each fiscal year or have died, become totally disabled or retired after age 65 during such fiscal year. The Plan is intended to qualify under Section 401(a) of the Internal Revenue Code. No monies were withdrawn from the Plan during 2002 for the benefit of Fredric M. Rosemore, Lance B. Rosemore or Andrew S. Rosemore. Lance B. Rosemore and Andrew S. Rosemore are co-administrators of the Plan.*

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Option Grants

The following table sets forth information regarding stock options granted to each of the executive officers under PMC Capital s 1997 Employee Share Option Plan in the fiscal year ended December 31, 2002.

Name	Number of Securities Underlying Options Granted(#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Share)	Final Exercise Date	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for Option Term	
					(5%)	(10%)
Lance B. Rosemore	9,000	15.4%				