PMC CAPITAL INC
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November 12, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant o
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

PMC CAPITAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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x Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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2) Form, Schedule or Registration Statement No.:
Form S-4 Registration No. 333-108180

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3) Filing Party:
PMC Commercial Trust

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4) Date Filed:
August 22, 2003

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PMC CAPITAL, INC.	PMC COMMERCIAL TRUST
18111 Preston Road, Suite 600	18111 Preston Road, Suite 600
Dallas, Texas 75252	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, if you are a PMC Commercial shareholder, by voting over the telephone or via the Internet.

Sincerely,

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 12, 2003

and is first being mailed to shareholders on or about November 12, 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 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

Lance B. Rosemore
Secretary

Dallas, Texas
November 12, 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.

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 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.

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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 260.

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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 260.

PMC Capital, Inc. (page 166)

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 107)

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 41)

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.

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 46)

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 226)

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 80)

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 46)

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 55 and 59)

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 52)

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 55)

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 59 and 67)

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.

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 74)

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

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 244)

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 75)

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 78)

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 93)

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 43 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;

if you are a PMC Commercial shareholder, by 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 77)

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 85)

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.

Termination of the Merger Agreement (page 88)

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 86)

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 80)

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.

Fluctuations in Market Price (pages 20 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 75)

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 228)

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

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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 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, 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.

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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.

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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

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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.

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

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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.

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.

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

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SELECTED STATEMENT OF UNAUDITED PRO FORMA CONSOLIDATED

FINANCIAL DATA AND COMPARATIVE PER SHARE DATA

Selected Unaudited Pro Forma 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

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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 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.

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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 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 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;

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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

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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.

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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;

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.

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 for 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;

- 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, 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 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.

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.

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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 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 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 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.

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.

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

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

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.

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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.

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

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.

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;

- 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 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.

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

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; or

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 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.

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)

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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)

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

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.

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

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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,	Years Ended December 31,				
	2003	**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)						