WMIH CORP.
Form 10-Q
November 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-14667

WMIH Corp.

(Exact name of registrant as specified in its charter)

Delaware	91-1653725
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
800 FIFTH AVENUE, SUITE 4100 SEATTLE, WASHINGTON	98104
(Address of principal executive offices)	(Zip Code)

(206) 922-2957

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. x Yes ¨ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock $0.00001 par value	206,168,035
(Class)	(Outstanding at November 2, 2015)

Forward-Looking Statements

Certain information included in this Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q that address activities, events, conditions or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business and these statements are not guarantees of future performance. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements may include the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “
“future,” “opportunity,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result” and similar expressio
forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. Some of these risks are identified and discussed under Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014. These risk factors will be important to consider in determining future results and should be reviewed in their entirety. These forward-looking statements are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that the events, results or trends identified in these forward-looking statements will occur or be achieved. Forward-looking statements speak only as of the date they are made, and we do not undertake to update any forward-looking statement, except as required by law.

* * * * *

As used in this Quarterly Report on Form 10-Q, unless the context requires otherwise, (i) the terms “Company,” “we,” “us,” or “our” refer to WMIH Corp. (formerly WMI Holdings Corp.) and its subsidiaries on a consolidated basis; (ii) “WMIH” refers only to WMIH Corp., without regard to its subsidiaries; (iii) “WMIHC” refers only to WMI Holdings Corp., without regard to its subsidiaries; (iv) “WMMRC” means WM Mortgage Reinsurance Company, Inc. (a wholly-owned subsidiary of WMIH); and (v) “WMIIC” means WMI Investment Corp. (a wholly-owned subsidiary of WMIH).

WMIH CORP.

FORM 10-Q

INDEX

PART 1

FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.
WMIH CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Investments held in trust, at fair value:		
Fixed-maturity securities	$ 32,140	$ 52,578
Cash equivalents held in trust	5,353	11,122
Total investments held in trust	37,493	63,700
Cash and cash equivalents	15,350	78,009
Fixed-maturity securities, at fair value	73,865	8,063
Restricted cash	582,374	2,447
Accrued investment income	283	476
Deferred offering costs	—	2,568
Other assets	859	876
Total assets	$ 710,224	$ 156,139
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK and SHAREHOLDERS' EQUITY		
Liabilities:		
Notes payable - principal	$ 28,808	$ 31,220
Notes payable - interest	312	338
Losses and loss adjustment reserves	6,582	18,947
Losses payable	146	696
Unearned premiums	836	1,094
Accrued ceding commissions	36	44
Loss contract fair market value reserve	9,766	12,549
Derivative liability - embedded conversion feature	132,144	—
Other liabilities	25,339	3,021
Total liabilities	203,969	67,909
Commitments and contingencies		
Redeemable convertible series B preferred stock, $0.00001 par value; 600,000 and zero shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively; aggregate liquidation preference of $600,000,000 and zero as of September 30, 2015 and December 31, 2014, respectively	502,213	—
Shareholders' equity:		
Convertible series A preferred stock, $0.00001 par value; 1,000,000 shares issued and outstanding as of September 30, 2015 and December 31, 2014; aggregate liquidation preference of $10 as of September 30, 2015 and December 31, 2014	—	—

Common stock, $0.00001 par value; 3,500,000,000 authorized; 206,168,035 and 202,343,245 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively.	2	2
Additional paid-in capital	107,589	106,628
Accumulated (deficit)	(103,549)	(18,400)
Total shareholders' equity	4,042	88,230
Total liabilities, redeemable convertible preferred stock and shareholders' equity	$ 710,224	$ 156,139

The accompanying notes are an integral part of the condensed consolidated financial statements.

3

WMIH CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts and share data)

(Unaudited)

	Three Months ended September 30, 2015	Three Months ended September 30, 2014	Nine Months ended September 30, 2015	Nine Months ended September 30, 2014
Revenues:				
Premiums earned	$ 1,247	$ 1,635	$ 3,938	$ 5,514
Net investment income	241	86	770	1,191
Total revenues	1,488	1,721	4,708	6,705
Operating expenses:				
Losses and loss adjustment (benefit) expense	(40)	542	(358)	4,531
Ceding commission expense	110	144	353	507
General and administrative expense	13,204	1,287	18,483	4,750
Loss contract reserve fair market value change	—	—	(2,783)	(30,287)
Loss from contract termination	—	—	—	6,563
Interest expense	937	1,047	2,842	7,998
Total operating expense (benefit)	14,211	3,020	18,537	(5,938)
Net operating (loss) income	(12,723)	(1,299)	(13,829)	12,643
Other (income) and expense:				
Other expense (income)	477	—	(7,845)	—
Unrealized (gain) loss on change in fair value of derivative liability - embedded conversion feature	(9,281)	—	65,917	—
Total other (income) and expense:	(8,804)	—	58,072	—
(Loss) income before income taxes	(3,919)	(1,299)	(71,901)	12,643
Income tax expense (benefit)	—	—	—	—
Net (loss) income	(3,919)	(1,299)	(71,901)	12,643
Redeemable convertible series B preferred stock dividends	(4,500)	—	(13,248)	—
Preferred deemed dividend	—	—	—	(9,455)
Net (loss) income attributable to common shareholders	$ (8,419)	$ (1,299)	$ (85,149)	$ 3,188
Basic net (loss) income per share attributable to common shareholders	$ (0.04)	$ (0.01)	$ (0.42)	$ 0.02
Shares used in computing basic net (loss) income per share	201,970,639	200,999,481	201,671,117	200,826,268
Diluted net (loss) income per share attributable to common shareholders	$ (0.04)	$ (0.01)	$ (0.42)	$ 0.01
Shares used in computing diluted net (loss) income per share	201,970,639	200,999,481	201,671,117	237,872,256

The accompanying notes are an integral part of the condensed consolidated financial statements.

4

WMIH CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE

PREFERRED STOCK AND CHANGES IN SHAREHOLDERS’ EQUITY

(in thousands, except share amounts)

(Unaudited)

	Series B Preferred Stock		Series A Preferred Stock		Common Stock		Additional paid-in capital	Accumulated earnings (deficit)	Total shareholders’ equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at January 1, 2014	—	$—	—	$ —	201,842,351	$ 2	$ 77,142	$ (12,015)	$ 65,129
Net income from January 1, 2014 to December 31, 2014	—	—	—	—	—	—	—	3,070	3,070
Issuance of convertible series A preferred stock and warrants to purchase common stock, net of offering costs	—	—	1,000,000	—	—	—	19,224	—	19,224
Preferred deemed dividend	—	—	—	—	—	—	9,455	(9,455)	—
Issuance of common stock under restricted share compensation arrangement	—	—	—	—	500,894	—	—	—	—
Equity-based compensation	—	—	—	—	—	—	807	—	807
Balance at December 31, 2014	—	—	1,000,000	—	202,343,245	2	106,628	(18,400)	88,230
Net (loss) from January 1, 2015 to September 30, 2015	—	—	—	—	—	—	—	(71,901)	(71,901)
Issuance of redeemable	600,000	502,213	—	—	—	—	—	—	—

convertible series B preferred stock, net of offering costs									
Redeemable convertible series B preferred stock dividends	—	—	—	—	—	—	—	(13,248)	(13,248)
Issuance of common stock under restricted share compensation arrangement	—	—	—	—	3,824,790	—	—	—	—
Equity-based compensation	—	—	—	—	—	—	961	—	961
Balance at September 30, 2015	600,000	$ 502,213	1,000,000	$ —	206,168,035	$ 2	$ 107,589	$ (103,549)	$ 4,042

The accompanying notes are an integral part of the condensed consolidated financial statements.

WMIH CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months ended September 30, 2015	Nine Months ended September 30, 2014
Cash flows from operating activities:		
Net (loss) income	$ (71,901)	$ 12,643
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Amortization of premium or discount on fixed maturity securities	454	1,350
Net realized (gain) on sale of investments	(319)	(434)
Unrealized loss on trading securities	311	651
Unrealized loss on derivative liability - embedded conversion feature	65,917	—
Equity-based compensation expense	961	600
Changes in assets and liabilities:		
Accrued investment income	193	379
Other assets	17	472
Change in cash equivalents held in trust	5,769	22,649
Change in restricted cash	(579,927)	71
Losses and loss adjustment reserves	(12,365)	(22,148)
Losses payable	(550)	(1,875)
Unearned premiums	(258)	(238)
Accrued ceding commission expense	(8)	(54)
Accrued interest on notes payable	(26)	(814)
Loss contract fair market value reserve	(2,783)	(30,287)
Other liabilities	11,886	(710)
Total adjustments	(510,728)	(30,388)
Net cash (used in) operating activities:	(582,629)	(17,745)
Cash flows from investing activities:		
Purchase of investments	(202,398)	(431,113)
Proceeds from sales and maturities of investments	156,588	511,331
Net cash (used in) provided by investing activities:	(45,810)	80,218
Cash flows from financing activities:		
Proceeds from issuance of preferred stock and warrants to purchase common stock	600,000	22,572
Fees incurred and paid relating to preferred stock and warrant issuance	(19,310)	(3,348)
Redeemable convertible series B preferred stock dividends paid in cash	(12,498)	—
Deferred offering costs	—	(12,166)
Notes payable – principal repayments	(3,330)	(78,890)
Notes payable – principal issued	918	3,718
Net cash provided by (used in) financing activities:	565,780	(68,114)
(Decrease) in cash and cash equivalents	(62,659)	(5,641)
Cash and cash equivalents, beginning of period	78,009	11,986
Cash and cash equivalents, end of period	$ 15,350	$ 6,345

Supplementary disclosure of cash flow information:		
Cash paid during the period:		
Interest	$ 1,951	$ 5,094
Supplementary disclosure of non-cash investing and financing activities:		
Embedded derivatives on preferred stock issuances	$ 66,227	$ —
Notes payable issued in lieu of cash interest payments	$ 918	$ 3,718
Non-cash redeemable convertible series B preferred stock dividends accrued	$ 750	$ —
Accrued fees relating to series B preferred stock issuance	$ 12,250	$ —
Preferred deemed dividend recorded due to beneficial conversion feature	$ —	$ 9,455

The accompanying notes are an integral part of the condensed consolidated financial statements.

WMIH CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Unless otherwise indicated, financial information, including dollar values stated in the text of the notes to financial statements, is expressed in thousands.

References as used herein, unless the context requires otherwise, to (i) the “Company,” “we,” “us” or “our” refer to WMIH Corp. (formerly WMI Holdings Corp.) and its subsidiaries on a consolidated basis; (ii) “WMIH” refers only to WMIH Corp., without regard to its subsidiaries; (iii) “WMIHC” refers only to WMI Holdings Corp., without regard to its subsidiaries; (iv) “WMMRC” means WM Mortgage Reinsurance Company, Inc. (a wholly-owned subsidiary of WMIH); and (v) “WMIIC” means WMI Investment Corp. (a wholly-owned subsidiary of WMIH).

Note 1: The Company and its Subsidiaries

WMIH Corp.

WMIH Corp. (“WMIH”) is a corporation duly organized and existing under the laws of the State of Delaware. On May 11, 2015, WMIH merged with its parent corporation, WMI Holdings Corp. (“WMIHC”), a Washington corporation, with WMIH as the surviving corporation in the merger (the “Merger”). The Merger occurred as part of the reincorporation of WMIHC from the State of Washington to the State of Delaware effective May 11, 2015 (the “Reincorporation Date”).

WMIH, formerly known as WMIHC and Washington Mutual, Inc. (“WMI”), is the direct parent of WM Mortgage Reinsurance Company, Inc. (“WMMRC”), a Hawaii corporation, and WMI Investment Corp. (“WMIIC”), a Delaware corporation. Our business activities consist of operating WMMRC’s legacy reinsurance business in runoff mode. We are actively seeking acquisition opportunities across a broad array of industries with a specific focus in 2015 in the financial services industry, including targets with consumer finance, specialty finance, leasing and insurance operations.

As of September 30, 2015, WMIH was authorized to issue up to 3,500,000,000 shares of common stock, and up to 10,000,000 shares of preferred stock (in one or more series), in each case with a par value of $0.00001 per share. As of September 30, 2015 and December 31, 2014, 206,168,035 and 202,343,245 shares, respectively, of WMIH’s common stock were issued and outstanding. As of September 30, 2015 and December 31, 2014, 1,000,000 shares of WMIH’s Series A Convertible Preferred Stock (the “Series A Preferred Stock”) were issued and outstanding. As of September 30, 2015 and December 31, 2014, 600,000 and zero shares, respectively, of WMIH’s Series B Redeemable Convertible Preferred Stock (the “Series B Preferred Stock”) were issued and outstanding.

WMMRC

WMMRC is a wholly-owned subsidiary of WMIH. Prior to August 2008 (at which time WMMRC became a direct subsidiary of WMI), WMMRC was a wholly-owned subsidiary of FA Out-of-State Holdings, Inc., a second-tier subsidiary of Washington Mutual Bank (“WMB”) and third-tier subsidiary of WMI. WMMRC is a pure captive insurance company domiciled in the State of Hawaii. WMMRC was incorporated on February 25, 2000, and received a Certificate of Authority, dated March 2, 2000, from the Insurance Commissioner of the State of Hawaii.

WMMRC was originally organized to reinsure private mortgage insurance risk for seven primary mortgage insurers then offering private mortgage insurance on loans originated or purchased by former subsidiaries of WMI. The seven primary mortgage insurers are United Guaranty Residential Insurance Company (“UGRIC”), Genworth Mortgage Insurance Corporation (“GMIC”), Mortgage Guaranty Insurance Corporation (“MGIC”), PMI Mortgage Insurance Company (“PMI”), Radian Guaranty Incorporated (“Radian”), Republic Mortgage Insurance Company (“RMIC”) and Triad Guaranty Insurance Company (“Triad”).

Due to the then deteriorating performance in the mortgage guarantee markets and the closure and receivership of WMB, the reinsurance agreements with each of the primary mortgage insurers were terminated or placed into runoff during 2008. The agreements with UGRIC and Triad were placed into runoff effective May 31, 2008. The agreements with all other primary mortgage insurers were placed into runoff effective September 26, 2008. As a result, effective September 26, 2008, WMMRC ceased assuming new mortgage risks from the primary carriers. Consequently, as of September 26, 2008 WMMRC's continuing operations consisted solely of the runoff of coverage associated with mortgages placed with the primary mortgage carriers prior to September 26, 2008. In runoff, an insurer generally writes no new business but continues to service its obligations under in force policies and otherwise continues as a licensed insurer. Management does not believe any additional adjustments to the carrying values of assets and liabilities which were recorded at fair market value as a result of fresh start accounting as of March 19, 2012 are required as a result of WMMRC's runoff status. The reinsurance agreements with Triad, PMI and UGRIC were commuted on August 31, 2009, October 2, 2012 and April 3, 2014, respectively. As a result, WMMRC's continuing operations consist solely of the runoff of coverage associated with mortgages placed with 4 remaining carriers, GMIC, MGIC, Radian and RMIC.

WMIIC

WMIIC does not currently have any operations and is fully eliminated upon consolidation.

Note 2: Significant Accounting Policies

Basis of Presentation

WMIH resumed filing all periodic reports for a reporting company under the Exchange Act for all periods after emergence from bankruptcy on March 19, 2012 (the "Effective Date"). Subsequent to the Effective Date, we have timely filed our Exchange Act periodic reports.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reporting. Certain information and footnote disclosures normally included in the financial statements and prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations; however, the Company believes that the disclosures included are appropriate. The condensed consolidated balance sheet as of December 31, 2014, included herein, was derived from the audited consolidated financial statements as of that date.

These interim unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's consolidated financial statements and notes thereto filed in the Company's Annual Report on Form 10-K, filed with the SEC on February 27, 2015. Interim information presented in the unaudited condensed consolidated financial statements has been prepared by management. In the opinion of management, the financial statements include all adjustments necessary for a fair presentation and that all such adjustments are of a normal, recurring nature and necessary for the fair statement of the financial position, results of operations and cash flows for the periods presented in accordance with GAAP. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

All significant intercompany transactions and balances have been eliminated in preparing the condensed consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Management has made significant estimates in certain areas, including valuing certain financial instruments and other assets, the determination of the contingent risk liabilities, and in determining appropriate insurance reserves. Actual results could differ substantially from those estimates.

Fair Value of Certain Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally, for assets that are reported at fair value, the Company uses quoted market prices or valuation models to estimate their fair value. These models incorporate inputs such as forward yield curves, market volatilities and pricing spreads, utilizing market-based inputs where readily available. The degree of management judgment involved in estimating the fair value of a financial instrument or other asset is dependent upon the availability of quoted market prices or observable market inputs. For financial instruments that are actively traded in the marketplace or whose values are based on readily available market value data, little judgment is necessary when estimating the instrument’s fair value. When observable market prices and data are not readily available, significant management judgment often is necessary to estimate fair value. In those cases, different assumptions could result in significant changes in valuation.

The Company classifies fixed-maturity investments as trading securities, which are recorded at fair value. As such, changes in unrealized gains and losses on investments held at the balance sheet date are recognized and reported as a component of net investment income on the statement of operations. The Company believes fair value provides better matching of investment earnings to potential cash flow generated from the investment portfolio and reduces subjectivity related to evaluating other-than-temporary impairment on the Company’s investment portfolio.

The carrying value of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities approximates their fair value because of their short term nature.

The carrying value of the derivative liability - embedded conversion feature of the Series B Preferred Stock is adjusted to its fair value as determined using Level 3 inputs described below under fair value measurement.

The carrying value of notes payable approximates fair value based on time to maturity, underlying collateral, and prevailing interest rates.

Fair Value Option

The Company has recorded a liability related to a loss contract fair market value reserve (the “Reserve”) and applies Financial Accounting Standards Board (“FASB”) Fair Value Option accounting guidance to this liability. The Reserve was initially established in compliance with Accounting Standards Codification (“ASC”) 805-10-55-21(b)(1) which defines a loss contract as a “contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.” The Company recorded this Reserve to properly value the net economic value of the WMMRC subsidiary. At each reporting date, the Company reassesses the loss contract reserve which may result in a change to this line item in the balance sheet and a corresponding contra-expense which is reflected in the statement of operations. Accordingly, any changes in the reserve at the balance sheet date are recognized and reported within the loss contract reserve fair market value change in the statement of operations. The Company believes Fair Value Option accounting provides better matching of earnings to potential cash flow generated from the WMMRC operating business.

Fair Value Measurement

The Company’s estimates of fair value for financial assets and financial liabilities are based on the framework established in the FASB Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company’s significant market assumptions.

The three levels of the hierarchy are as follows:

Level 1–Inputs to the valuation methodology are quoted prices for identical assets or liabilities traded in active markets.

Level 2–Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market corroborated inputs.

Level 3–Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company’s own assumptions about the inputs that market participants would use.

Fair values are based on quoted market prices when available (Level 1). The Company receives the quoted market prices from a third party, nationally recognized pricing service. When market prices are not available, the Company utilizes a pricing service to determine an estimate of fair value. The fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). These valuation techniques involve some level of management estimation and judgment. The Company recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

Fixed-Maturity Securities

Fixed-maturity securities consist of U.S. Treasury securities, obligations of U.S. government agencies and domestic and foreign corporate debt securities. Fixed-maturity securities held in trust are for the benefit of the primary insurers as more fully described in Note 3: Insurance Activity. Investments in fixed-maturity securities are reported at their estimated fair values and are classified as trading securities in accordance with applicable accounting guidance. Realized gains and losses on the sale of fixed-maturity securities are determined using the specific identification method and are reported as a component of net investment income within the statement of operations.

Cash Equivalents and Investments Held in Trust

Cash equivalents, which include highly liquid overnight money market instruments, and fixed-maturity securities are held in trust for the benefit of the primary insurers, as more fully described in Note 3: Insurance Activity, and are subject to the restrictions on distribution of net assets of subsidiaries as described below.

Third Party Restrictions on Distribution of Net Assets of Wholly-Owned Subsidiaries

The net assets of WMMRC are subject to restrictions from distribution from multiple sources including the primary insurers who have approval control of distributions from the trust, the Insurance Commissioner of the State of Hawaii who has approval control prior to distributions or intercompany advances, and additional restrictions as described in Note 7: Notes Payable.

Premium Recognition

Premiums assumed are earned on a daily pro-rata basis over the underlying policy terms. Premiums assumed relating to the unexpired portion of policies in force at the balance sheet date are recorded as unearned premiums. Unearned premiums also include a reserve for post default premium reserves. Post default premium reserves occur when a loan is in a default position and the servicer continues to advance the premiums. If the loan ultimately goes to claim, the premiums advanced during the period of default are subject to recapture. The Company records a default premium reserve based on information provided by the underlying mortgage insurers when they provide information on the default premium reserve separately from other reserves. The change in the default premium reserve is reflected as a reduction or increase, as the case may be, in premiums assumed. The Company has recorded unearned premiums totaling $0.8 million and $1.1 million as of September 30, 2015 and December 31, 2014, respectively.

The Company recognizes premium deficiencies when there is a probable loss on an insurance contract. Premium deficiencies are recognized if the sum of the present value of expected losses and loss adjustment expenses, unamortized deferred acquisition costs, and maintenance costs exceed expected future unearned premiums and anticipated investment income. Premium deficiency reserves have been recorded totaling $2.1 million and $2.3 million as of September 30, 2015 and December 31, 2014, respectively.

The Company’s premium deficiency analysis was performed on a single book basis and includes all book years and reinsurance treaties aggregated together using assumptions based on the actuarial best estimates at the balance sheet date. The calculation for premium deficiency requires significant judgment and includes estimates of future expected premiums, claims, loss adjustment expenses and investment income as of the balance sheet date. To the extent ultimate losses are higher or premiums are lower than estimated, additional premium deficiency reserves may be required in the future.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, U.S. Treasury bills and overnight investments. Except as described above in Cash Equivalents and Investments Held in Trust, the Company considers all amounts that are invested in highly liquid overnight money market instruments to be cash equivalents. The Federal Deposit Insurance Corporation ("FDIC") insures amounts on deposit with each financial institution up to limits as prescribed by law. The Company may hold funds with financial institutions in excess of the FDIC insured amount, however, the Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

Restricted cash includes (i) amounts held for the express purposes of paying principal, interest, issuer secondary amounts and related fees on the Runoff Notes (as defined in Note 7: Notes Payable) pursuant to the terms of the Indentures (as defined in Note 7: Notes Payable) and (ii) proceeds of the Series B Preferred Stock offering held in escrow.

Ceding Commission Expense

The Company is required to pay a ceding commission to certain primary insurers pursuant to certain reinsurance agreements.

Losses and Loss Adjustment Reserves

The losses and loss adjustment reserves include case basis estimates of reported losses and supplemental amounts for incurred but not reported losses ("IBNR"). A default is considered the incident (e.g., the failure to make timely payment of mortgage payments) that may give rise to a claim for mortgage insurance. In establishing the losses and loss adjustment reserve, the Company has recorded reserves at the ceded case reserves and IBNR levels established and reported by the primary mortgage guaranty carriers as of September 30, 2015 and December 31, 2014, respectively. Management believes that the recorded aggregate liability for unpaid losses and loss adjustment expenses at period end represents the Company's best estimate, based upon the available data, of the amount necessary to cover the current cost of losses. However, due to the inherent uncertainty arising from fluctuations in the persistency rate of mortgage insurance claims, the Company's size and lack of prior operating history, external factors such as future changes in regional or national economic conditions, judicial decisions, federal and state legislation related to mortgage restructuring and foreclosure restrictions, claims denials and coverage rescissions by primary carriers and other factors beyond the Company's control, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be significantly higher or lower, as the case may be, than the amount indicated in the financial statements and there can be no assurance that the reserve amounts recorded will be sufficient. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Loss Contract Fair Market Value Reserve

A loss contract fair market value reserve relating to contractual obligations of WMMRC was established at March 19, 2012 as a result of applying fresh start accounting and in compliance with ASC 805-10-55-21(b)(1) which defines a loss contract as a "contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it." The fair market value of this reserve is analyzed quarterly and is adjusted accordingly. This adjustment (if any) to the reserve produces an expense or contra-expense in the statement of operations.

Fresh Start Accounting

The Company adopted fresh start accounting in accordance with ASC 852 (Reorganizations) ("ASC 852") upon emergence from bankruptcy on March 19, 2012. Under ASC 852, the application of fresh start accounting results in the allocation of reorganization value to the fair value of assets, and is required when (a) the reorganization value of assets immediately prior to confirmation of a plan of reorganization is less than the total of all post-petition liabilities and allowed claims and (b) the holders of voting shares immediately prior to the confirmation of the plan of reorganization receive less than 50 percent of the voting shares of the emerging entity. The Company adopted fresh start accounting as of the Effective Date, which represents the date on which all material conditions precedent to the effectiveness of the Company's Seventh Amended Joint Plan of Affiliated Debtors Pursuant to Chapter 11 of the United States Bankruptcy Code (as modified, the "Plan") were satisfied or waived. As of the Effective Date, the Company believes that it satisfied both of the aforementioned conditions.

The Company's reorganization value ("Equity Value"), upon emergence from bankruptcy, was determined to be $76.6 million, which represented management's best estimate of fair value based on a calculation of the present value of the Company's consolidated assets and liabilities as at March 19, 2012. As part of our fresh start reporting, we applied various valuation methodologies to calculate the reorganization value of the Company. These methods included (a) the comparable company analysis, (b) the precedent transactions analysis and (c) the discounted cash flow analysis. The application of these methodologies requires certain key estimates, judgments and assumptions, including financial projections, the amount of cash available to fund operations and current market conditions. Such projections, judgments and assumptions are inherently subject to significant uncertainties and there can be no assurance that such estimates, assumptions and projections reflected in the valuation will be realized and actual results may vary materially. The Company filed a Form 8-K pertaining to emergence from bankruptcy and subsequently filed a Form 8-K/A, which included WMIH's audited balance sheet as of the Effective Date.

Comprehensive (Loss) Income

The Company has no comprehensive (loss) income other than the net (loss) income disclosed in the condensed consolidated statement of operations.

Net (Loss) Income Per Common Share

Basic (loss) income per common share is computed by dividing net (loss) income applicable to the Company's common shareholders by the weighted average number of common shares outstanding for the period after subtracting the weighted average of any unvested restricted shares outstanding, as these are subject to repurchase. Diluted net (loss) income per common share is computed by dividing net (loss) income applicable to the Company's common shareholders by the weighted average number of common shares outstanding during the period after subtracting the weighted average of any unvested restricted shares outstanding, as these are subject to repurchase and the effect of all dilutive common stock equivalents. If common share equivalents exist, in periods where there is a net loss, diluted loss per common share would be equal to or less than basic loss per common share, since the effect of including any common share equivalents would be antidilutive.

Equity-Based Compensation

On May 22, 2012, WMIH's Board of Directors (the "Board") approved the Company's 2012 Long-Term Incentive Plan (the "2012 Plan") so that awards of restricted stock could be made to its non-employee directors and to have a plan in place to provide for awards of equity based compensation to executives and others in connection with the Company's operations and future strategic plans. A total of 2.0 million shares of common stock were initially reserved for future issuance under the 2012 Plan, which became effective upon the Board approval on May 22, 2012. On February 10, 2014, the Board approved and adopted a First Amendment to the 2012 Plan, pursuant to which the number of shares of WMIH's common stock reserved and available for grants under the 2012 Plan was increased from 2.0 million shares to 3.0 million shares, and the terms of the 2012 Plan were modified to permit such an increase through action of the Board, except when shareholder approval is necessary to comply with any applicable law, regulation or rule of any stock exchange on which WMIH's shares are listed, quoted or traded. On February 25, 2015, the number of shares authorized and available for awards under the 2012 Plan was increased from 3.0 million to 12.0 million shares of WMIH's common stock, subject to approval of shareholders of WMIH. This approval was received at the Company's Annual Meeting of Shareholders on April 28, 2015. The 2012 Plan provides for the granting of restricted shares, stock options and other cash and share based awards. The value of restricted stock is generally determined using the fair market value determined to be the trading price at the close of business on the respective date the awards were granted.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying amounts and tax bases of assets and liabilities and losses carried forward and tax credits. Deferred tax assets and liabilities are measured using enacted tax rates and laws applicable to the years in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to the extent that it is more likely than not that deferred tax assets will not be realized.

The Company recognizes the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Penalties and interest, of which there are none, would be reflected in income tax expense. Tax years are open to the extent the Company has net operating loss (“NOL”) carry-forwards available to be utilized currently.

Reclassification

Certain prior period balances have been reclassified to conform with the basis of presentation used as of September 30, 2015.

Dividend Policy

WMIH has paid no dividends on its common stock on or after the Effective Date and currently has no plans to pay a dividend on its common stock.

WMIH has declared and paid $12.5 million of dividends on its Series B Preferred Stock and has accrued an additional $0.7 million of dividends based on the Series B Preferred Stock 3% interest rate during the nine months ended September 30, 2015. The Series B Preferred Stock was issued on January 5, 2015, therefore no dividends were due or paid for any prior period.

New Accounting Pronouncements

In April 2015 the FASB issued Accounting Standards Update 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This update contains amendments that are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. This update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company has reviewed this standard and determined it has no material impact on the Company’s consolidated financial position, results of operations or disclosure requirements.

In June 2015 the FASB issued Accounting Standards Update 2015-10, Technical Corrections and Improvements. This update contains amendments that will affect a wide variety of topics in the codification. This update contains amendments that are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this update will apply to all reporting entities within the scope of the affected accounting guidance. The Company has reviewed this standard and determined it has no material impact on the Company’s consolidated financial position, results of operations or disclosure requirements.

In September 2015 the FASB issued Accounting Standards Update 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This update contains amendments that are effective for fiscal years beginning after December 15, 2015 including interim periods within those fiscal years. The amendments in this update should be applied prospectively, with earlier application permitted for financial statements that have not been issued. The Company has reviewed this standard and determined it has no material impact on the Company’s consolidated financial position, results of operations or disclosure requirements.

Note 3: Insurance Activity

The Company, through WMMRC, reinsures mortgage guaranty risks of mortgage loans originated by affiliates of the Company during the period from 1997 through 2008. WMMRC is (or was) a party to reinsurance agreements with UGRIC, GMIC, MGIC, PMI, Radian, RMIC and Triad. The agreements with UGRIC and Triad were placed into runoff effective May 31, 2008. The agreements with all other primary mortgage insurers were placed into runoff effective September 26, 2008. The reinsurance agreements with Triad, PMI and UGRIC were commuted on August 31, 2009, October 2, 2012 and April 3, 2014, respectively.

All agreements between WMMRC and the primary mortgage insurers are on an excess of loss basis, except for certain reinsurance treaties with GMIC and Radian during 2007 and 2008, which are reinsured on a 50 percent quota share basis. Pursuant to the excess of loss reinsurance treaties, WMMRC reinsures a second loss layer which ranges from 5 percent to 10 percent of the risk in force in excess of the primary mortgage insurer's first loss percentage which range from 4 percent to 5 percent. Each calendar year, or book year, is treated separately from other years when calculating losses. In return for accepting a portion of the risk, WMMRC receives, net of ceding commission, a percentage of the premium that ranges from 25 to 40 percent.

As security for the ceding insurers, WMMRC has entered into separate trust agreements with each of the primary mortgage insurance companies whereby a portion of the funds from premiums assumed are held in trust accounts for the benefit of each separate insurer. Pursuant to the terms of the reinsurance agreements, WMMRC is required to keep such assets in trust for a minimum of 5 years and are subject to claims for up to 10 years from termination of obligations arising from the last year in which insurance business was written prior to runoff. Release of funds from the trust by WMMRC requires approval from the primary mortgage guaranty companies.

Premiums assumed and earned are as follows for the periods ended September 30, 2015 and 2014, respectively:

	Three Months ended September 30, 2015	Three Months ended September 30, 2014	Nine Months ended September 30, 2015	Nine Months ended September 30, 2014
Premiums assumed	$ 1,166	$ 1,564	$ 3,680	$ 5,276
Change in unearned premiums	81	71	258	238
Premiums earned	$ 1,247	$ 1,635	$ 3,938	$ 5,514

The components of the liability for losses and loss adjustment reserves are as follows as of September 30, 2015 and December 31, 2014, respectively:

	September 30, 2015	December 31, 2014
Case-basis reserves	$ 4,428	$ 16,538
IBNR reserves	78	