WMIH CORP.
Form 10-Q
August 05, 2016

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 June 30, 2016

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	206,380,800
(Class)	(Outstanding at August 1, 2016)

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,” “s “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, 2015. 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 I

FINANCIAL INFORMATION

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(Unaudited)

	June 30, 2016	December 31, 2015 [1]
ASSETS		
Investments held in trust, at fair value:		
Fixed-maturity securities	$29,764	$ 32,571
Cash equivalents held in trust	2,819	3,687
Total investments held in trust	32,583	36,258
Cash and cash equivalents	3,516	9,924
Fixed-maturity securities, at fair value	58,275	66,484
Restricted cash	573,004	571,440
Accrued investment income	235	235
Other assets	734	719
Total assets	$668,347	$ 685,060
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK and STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable - principal	$20,450	$ 21,743
Notes payable - interest	222	236
Losses and loss adjustment reserves	2,193	5,063
Losses payable	133	405
Unearned premiums, net	345	761
Accrued ceding commissions	26	33
Loss contract reserve	7,826	9,623
Derivative liability - embedded conversion feature	42,018	120,848
Other liabilities	13,875	14,357
Total liabilities	87,088	173,069
Commitments and contingencies		
Redeemable convertible series B preferred stock, $0.00001 par value; 600,000 shares issued and outstanding as of June 30, 2016 and December 31, 2015; aggregate liquidation preference of $600,000,000 as of June 30, 2016 and December 31, 2015	502,213	502,213
Stockholders' equity:		
Convertible series A preferred stock, $0.00001 par value; 1,000,000 shares issued and outstanding as of June 30, 2016 and December 31, 2015; aggregate liquidation preference of $10 as of June 30, 2016 and December 31, 2015	—	—
Common stock, $0.00001 par value; 3,500,000,000 authorized; 206,380,800 and 206,168,035 shares issued and outstanding as of June 30, 2016 and December 31, 2015,	2	2

respectively		
Additional paid-in capital	108,066	107,757
Accumulated (deficit)	(29,022)	(97,981)
Total stockholders’ equity	79,046	9,778
Total liabilities, redeemable convertible preferred stock and stockholders’ equity	$ 668,347	$ 685,060

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

(1) Balances derived from audited financial statements as of December 31, 2015.

3

WMIH CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues:				
Premiums earned	$791	$1,342	$1,640	$2,691
Net investment income	598	128	1,249	529
Total revenues	1,389	1,470	2,889	3,220
Operating expenses:				
Losses and loss adjustment expense (benefit)	132	223	519	(318)
Ceding commission expense	81	120	159	243
General and administrative expense	1,492	2,306	3,521	5,279
Loss contract reserve change	(435)	(2,783)	(1,797)	(2,783)
Interest expense	665	951	1,358	1,905
Total operating expense	1,935	817	3,760	4,326
Net operating (loss) income	(546)	653	(871)	(1,106)
Other (income) expense:				
Other (income)	—	(8,322)	—	(8,322)
Unrealized (gain) loss on change in fair value of derivative liability - embedded conversion feature	(22,955)	82,458	(78,830)	75,198
Total other (income) expense:	(22,955)	74,136	(78,830)	66,876
Income (loss) before income taxes	22,409	(73,483)	77,959	(67,982)
Income tax expense (benefit)	—	—	—	—
Net income (loss)	22,409	(73,483)	77,959	(67,982)
Redeemable convertible series B preferred stock dividends	(4,500)	(4,500)	(9,000)	(8,748)
Net income (loss) attributable to common and participating stockholders	$17,909	$(77,983)	$68,959	$(76,730)
Basic net income (loss) per share attributable to common stockholders	$0.04	$(0.39)	$0.14	$(0.38)
Shares used in computing basic net income (loss) per share	202,341,209	201,887,091	202,199,793	201,518,874
Diluted net income (loss) per share attributable to common stockholders	$0.03	$(0.39)	$0.13	$(0.38)
Shares used in computing diluted net income (loss) per share	236,882,079	201,887,091	237,372,181	201,518,874

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

4

WMIH CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE

PREFERRED STOCK AND STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

(Unaudited)

	Series B Redeemable Convertible Preferred Stock		Series A Convertible Preferred Stock		Common Stock		Additional paid-in capital	Accumulated earnings (deficit)	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at January 1, 2015	—	$—	1,000,000	$ —	202,343,245	$ 2	$ 106,628	$ (18,400)	$ 88,230
Net (loss) from January 1, 2015 to December 31, 2015	—	—	—	—	—	—	—	(61,833)	(61,833)
Issuance of redeemable convertible series B preferred stock, net of offering costs	600,000	502,213	—	—	—	—	—	—	—
Redeemable convertible series B preferred stock dividends	—	—	—	—	—	—	—	(17,748)	(17,748)
Issuance of common stock under restricted stock compensation arrangement	—	—	—	—	3,824,790	—	—	—	—
Equity-based compensation	—	—	—	—	—	—	1,129	—	1,129
Balance at December 31, 2015	600,000	502,213	1,000,000	—	206,168,035	2	107,757	(97,981)	9,778
Net income from January 1, 2016 to	—	—	—	—	—	—	—	77,959	77,959

June 30, 2016									
Redeemable convertible series B preferred stock dividends	—	—	—	—	—	—	—	(9,000)	(9,000)
Issuance of common stock under restricted stock compensation arrangement	—	—	—	—	212,765	—	—	—	—
Equity-based compensation	—	—	—	—	—	—	309	—	309
Balance at June 30, 2016	600,000	$ 502,213	1,000,000	$ —	206,380,800	$ 2	$ 108,066	$ (29,022)	$ 79,046

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)

	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash flows from operating activities:		
Net income (loss)	$ 77,959	$ (67,982)
Adjustments to reconcile net income (loss) to net cash (used in) operating activities:		
Amortization of premium or discount on fixed maturity securities	173	323
Net realized (gain) on sale of investments	(1)	(267)
Unrealized (gain) loss on trading securities	(167)	273
Unrealized (gain) loss on derivative liability - embedded conversion feature	(78,830)	75,198
Equity-based compensation	309	779
Changes in assets and liabilities:		
Accrued investment income	—	181
Other assets	(15)	(123)
Cash equivalents held in trust	868	4,161
Restricted cash	(1,564)	(580,240)
Losses and loss adjustment reserves	(2,870)	(11,639)
Losses payable	(272)	(265)
Unearned premiums	(416)	(177)
Accrued ceding commission expense	(7)	(2)
Accrued interest on notes payable	(14)	(22)
Loss contract reserve	(1,797)	(2,783)
Other liabilities	(482)	314
Total adjustments	(85,085)	(514,289)
Net cash (used in) operating activities	(7,126)	(582,271)
Cash flows from investing activities:		
Purchase of investments	(69,766)	(130,252)
Proceeds from sales and maturities of investments	80,777	83,220
Net cash provided by (used in) investing activities	11,011	(47,032)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	—	600,000
Fees incurred and paid relating to preferred stock issuance	—	(19,310)
Redeemable convertible series B preferred stock dividends paid in cash	(9,000)	(7,998)
Notes payable – principal repayments	(1,293)	(2,965)
Notes payable – principal issued	—	918
Net cash (used in) provided by financing activities	(10,293)	570,645
(Decrease) in cash and cash equivalents	(6,408)	(58,658)
Cash and cash equivalents, beginning of period	9,924	78,009
Cash and cash equivalents, end of period	$ 3,516	$ 19,351
Supplementary disclosure of cash flow information:		
Cash paid during the period:		

Interest	$ 1,372	$ 1,009
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
Redeemable convertible series B preferred stock dividends accrued	$ —	$ 750
Accrued fees relating to series B preferred stock issuance	$ —	$ 12,250

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 herein, unless the context requires otherwise, to (i) the terms “Company,” “we,” “us” or “our” generally are intended to 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., a Washington corporation (“WMIHC”), 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., a Hawaii corporation (“WMMRC”), and WMI Investment Corp., a Delaware corporation (“WMIIC”). Our business activities consist of operating WMMRC’s legacy reinsurance business in runoff mode. In addition, we are actively seeking acquisition opportunities across a broad array of industries with a specific focus in the financial services industry, including targets with consumer finance, specialty finance, leasing and insurance operations.

As of June 30, 2016, 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 June 30, 2016 and December 31, 2015, 206,380,800 and 206,168,035 shares, respectively, of WMIH’s common stock were issued and outstanding. As of June 30, 2016 and December 31, 2015, 1,000,000 shares of WMIH’s Series A Convertible Preferred Stock (the “Series A Preferred Stock”) were issued and outstanding. As of June 30, 2016 and December 31, 2015, 600,000 shares 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's continuing operations consist 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, and the related trust assets were distributed in accordance with the commutation agreements. As a result, WMMRC's current continuing operations consist solely of the runoff of coverage associated with mortgages placed with four 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 timely filing of 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”).

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, 2015, 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 audited consolidated financial statements and notes thereto filed in the Company’s Annual Report on Form 10-K, filed with the SEC on March 11, 2016. 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 six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

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, other assets and liabilities, 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 condensed consolidated 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 approximate their respective fair values because of their short term nature.

The carrying value of the loss contract reserve approximates its fair value and is based on valuation methodologies using discounted cash flows at interest rates which approximate the Company's weighted average cost of capital.

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 Measurement

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in the Financial Accounting Standards Board 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 prices in active markets when available (Level 1). The Company receives the quoted prices from a third party, nationally recognized pricing service. When quoted 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 sponsored 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 condensed consolidated statement of operations.

Investments Held in Trust

Investments held in trust consist of cash equivalents, which include highly liquid overnight money market instruments, and fixed-maturity securities which are held in trust for the benefit of the primary insurers, as more fully described in Note 3: Insurance Activity and Note 4: Investment Securities, 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 authority over 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 $0.3 million and $0.8 million as of June 30, 2016 and December 31, 2015, 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 $1.3 million and $0.8 million as of June 30, 2016 and December 31, 2015, 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 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 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 based its estimates primarily on the ceded loss and loss adjustment reserves as provided by the primary mortgage guaranty carriers.

WMMRC has recorded reserves at the ceded case reserves and IBNR levels established and reported by the primary mortgage guaranty carriers as of June 30, 2016 and December 31, 2015, 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, of 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.

A loss contract 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 obligation under the contract exceed the economic benefits expected to be received under it. The value of this reserve is analyzed quarterly and is adjusted accordingly. The adjustment to the reserve produces an expense or contra-expense in the condensed consolidated statements 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% 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 income (loss) other than the net income (loss) disclosed in the condensed consolidated statement of operations.

Net Income (Loss) Per Common Share

In calculating earnings per share, the Company follows the two-class method, which distinguishes between the classes of securities based on the proportionate participation rights of each security type in the Company's undistributed income. The Series A Preferred Stock and Series B Preferred Stock are treated as one class for purposes of applying the two-class method, because they have substantially equal rights and share equally on an as converted basis with respect to income available to WMIH common stockholders.

Basic net income (loss) per WMIH common share is computed by dividing net income (loss) attributable to WMIH's common stockholders 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. Basic net income (loss) attributable to common stockholders is computed by deducting preferred dividends and the basic calculation of undistributed earnings attributable to participating securities from net income.

Diluted net income per WMIH common share is computed by dividing net income attributable to WMIH's common stockholders 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 adding any potentially dilutive WMIH common stock equivalents outstanding during the period. Diluted net income attributable to common stockholders is computed by deducting preferred dividends and the diluted calculation of undistributed earnings attributable to participating securities from net income.

If common stock equivalents exist, in periods where there is a net loss, diluted net loss per common share would be equal to or less than basic net loss per common share, since the effect of including any common stock equivalents would be antidilutive.

Equity-Based Compensation

On May 22, 2012, WMIH's Board of Directors (the "Board" or "Board of Directors") 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 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 WMIH's 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 stockholder 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 stockholders of WMIH. This approval was received at the Company's Annual Meeting of Stockholders on April 28, 2015. The 2012 Plan provides for the granting of restricted shares 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.

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 $9.0 million and $17.0 million of dividends on its Series B Preferred Stock for the six months ended June 30, 2016 and the year ended December 31, 2015, respectively. Additionally, WMIH has accrued unpaid and undeclared dividends of $0.7 million, based on the Series B Preferred Stock 3% interest rate, as of both June 30, 2016 and December 31, 2015.

New Accounting Pronouncements

The Company has reviewed new accounting pronouncements issued between May 6, 2016, the filing date of our most recent prior Form 10-Q, and the filing date of this Form 10-Q and has determined that no pronouncements issued are relevant to the Company, and/or have a 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% quota share basis. Pursuant to the excess of loss reinsurance treaties, WMMRC reinsures a second loss layer which ranges from 5% to 10% of the risk in force in excess of the primary mortgage insurer’s first loss percentage which range from 4% to 5%. 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%.

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 five years and are subject to claims for up to ten 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 insurance companies.

Premiums assumed and earned are as follows for the periods ended June 30, 2016 and 2015, respectively:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Premiums assumed	$ 626	$ 1,325	$ 1,224	$ 2,514
Change in unearned premiums	165	17	416	177
Premiums earned	$ 791	$ 1,342	$ 1,640	$ 2,691

The components of the liability for losses and loss adjustment reserves are as follows as of June 30, 2016 and December 31, 2015, respectively:

	June 30, 2016	December 31, 2015
Case-basis reserves	$ 926	$ 4,193
IBNR reserves	1	75
Premium deficiency reserves	1,266	795
Total losses and loss adjustment reserves	$ 2,193	$ 5,063

Losses and loss adjustment reserve activity are as follows for the six months ended June 30, 2016 and the year ended December 31, 2015, respectively:

	Six months ended June 30, 2016	Year ended December 31, 2015
Balance at beginning of period	$5,063	$ 18,947
Incurred or (released) - prior periods	519	(1,115)
Paid or terminated - prior periods	(3,389)	(12,769)
Total losses and loss adjustment reserves	$2,193	$ 5,063

The loss contract reserve balance is analyzed and adjusted quarterly. The balance in the reserve was $7.8 million and $9.6 million at June 30, 2016 and December 31, 2015, respectively. The value of this reserve decreased by $1.8 million during the six months ended June 30, 2016 and decreased by $2.7 million during the six months ended June 30, 2015. In periods during which a reduction in the loss contract reserve occurs, a corresponding decrease in expense is reflected in the statement of operations for the respective period.

Note 4: Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of total fixed-maturity securities and total fixed-maturity securities held in trust at June 30, 2016, are as follows:

	June 30, 2016			
Class of securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasury securities	$249	$ 1	$ —	$ 250
Obligations of U.S. government sponsored enterprises	60,463	18	—	60,481
Corporate debt securities	18,833	100	(3)	18,930
Foreign corporate debt securities	8,359	21	(2)	8,378
Total fixed-maturity securities	87,904	140	(5)	88,039
Less total unrestricted fixed-maturity securities	58,260	16	(1)	58,275
Total fixed-maturity securities held in trust	$29,644	$ 124	$ (4)	$ 29,764

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of total fixed-maturity securities and total fixed-maturity securities held in trust at December 31, 2015, are as follows:

	December 31, 2015			
Class of securities:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasury securities	$249	$ —	$ (1)	$ 248
Obligations of U.S. government sponsored enterprises	69,392	13	(23)	69,382
Corporate debt securities	21,048	62	(49)	21,061
Foreign corporate debt securities	8,399	3	(38)	8,364
Total fixed-maturity securities	99,088	78	(111)	99,055
Less total unrestricted fixed-maturity securities	66,481	14	(11)	66,484
Total fixed-maturity securities held in trust	$32,607	$ 64	$ (100)	$ 32,571

Amortized cost and estimated fair value of fixed-maturity securities at June 30, 2016 by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
Maturity in:		
2016	$ 63,020	$ 63,034
2017-2019	24,884	25,005
Total fixed-maturity securities	$ 87,904	$ 88,039

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Net investment income for the periods ended June 30, 2016 and 2015, respectively, is summarized as follows:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Investment income:				
Amortization of premium or discount on fixed-maturity securities	$ (51)	$ (144)	$ (173)	$ (323)
Investment income on fixed-maturity securities	241	326	559	739
Interest income on cash and cash equivalents	367	62	695	119
Realized net gain from sale of investments	5	81	1	267
Unrealized gain (loss) on trading securities held at period end	36	(197)	167	(273)
Net investment income	$ 598	$ 128	$ 1,249	$ 529

The following table shows how the Company's investments are categorized in accordance with fair value measurement, as of

June 30, 2016:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Class of securities:				
U.S. government treasury securities	$250	$—	$ —	$250
Obligations of U.S. government sponsored enterprises	55,979	4,502	—	60,481
Corporate debt securities	7,608	11,322	—	18,930
Foreign corporate debt securities	2,507	5,871	—	8,378
Total fixed-maturity securities	66,344	21,695	—	88,039
Money market funds	6,134	—	—	6,134
Total	$72,478	$21,695	$ —	$94,173

The following table shows how the Company's investments are categorized in accordance with fair value measurement, as of December 31, 2015:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Class of securities:				
U.S. government treasury securities	$248	$—	$ —	$248
Obligations of U.S. government sponsored enterprises	63,909	5,473	—	69,382
Corporate debt securities	8,873	12,188	—	21,061
Foreign corporate debt securities	2,007			