Flagstone Reinsurance Holdings, S.A.
Form 10-Q
August 03, 2010

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

Form 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2010

OR

o Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the transition period from ________________to ________________

Commission file number 001-33364

Flagstone Reinsurance Holdings, S.A.
(Exact name of registrant as specified in its charter)

Luxembourg	98-0481623
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

37 Val St André
L-1128
Luxembourg, Grand Duchy of Luxembourg
R.C.S. Luxembourg B153214
(Address of principal executive offices)

+352 273 515 30
(Registrant's telephone number, including area code)

Flagstone Reinsurance Holdings Limited
Crawford House
23 Church Street
Hamilton HM 11
Bermuda
(Former name, and former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:
Common Shares, par value 1 cent per share
Name of exchange on which registered:
New York Stock Exchange
Bermuda Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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.
Yes þ No o

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 definitions of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

As of August 3, 2010, the Registrant had 78,009,113 common voting shares outstanding, net of treasury shares with a par value of $0.01 per share.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FLAGSTONE REINSURANCE HOLDINGS, S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of U.S. dollars, except share data)

	As at June 30, 2010 (Unaudited)	As at December 31, 2009
ASSETS		
Investments:		
Fixed maturities, at fair value (Amortized cost: 2010 - $1,437,518 ; 2009 - $1,198,187)	$ 1,423,573	$ 1,228,561
Short term investments, at fair value (Amortized cost: 2010 - $33,570; 2009 - $231,609)	30,320	232,434
Equity investments, at fair value (Cost: 2010 - $7,259; 2009 - $8,516)	182	290
Other investments	98,018	45,934
Total investments	1,552,093	1,507,219
Cash and cash equivalents	370,588	352,185
Restricted cash	24,742	85,916
Premium balances receivable	502,476	278,956
Unearned premiums ceded	120,555	52,690
Reinsurance recoverable	22,589	19,270
Accrued interest receivable	13,723	11,223
Receivable for investments sold	19,443	5,160
Deferred acquisition costs	78,582	54,637
Funds withheld	27,709	22,168
Goodwill	16,246	16,533
Intangible assets	31,756	35,790
Other assets	122,296	125,021
Total assets	$ 2,902,798	$ 2,566,768
LIABILITIES		
Loss and loss adjustment expense reserves	$ 602,451	$ 480,660
Unearned premiums	557,207	330,416
Insurance and reinsurance balances payable	101,523	62,864
Payable for investments purchased	17,915	11,457
Long term debt	249,647	252,402
Other liabilities	69,959	63,155
Total liabilities	1,598,702	1,200,954
EQUITY		
	850	850

Common voting shares, 300,000,000 authorized, $0.01 par value, issued and outstanding (2010 - 78,009,113; 2009 - 82,985,219)						
Common shares held in treasury, at cost (2010 - 4,984,146; 2009 - 2,000,000)		(70	)		(20	)
Additional paid-in capital		845,039			892,817	
Accumulated other comprehensive loss		(11,754	)		(6,976	)
Retained earnings		362,238			324,347	
Total Flagstone shareholders' equity		1,196,303			1,211,018	
Noncontrolling interest in subsidiaries		107,793			154,796	
Total equity		1,304,096			1,365,814	
Total liabilities and equity	$	2,902,798		$	2,566,768	

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

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FLAGSTONE REINSURANCE HOLDINGS, S.A.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(Expressed in thousands of U.S. dollars, except share and per share data)

	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
REVENUES				
Gross premiums written	$369,611	$328,709	$769,813	$690,194
Premiums ceded	(75,769)	(59,742)	(152,190)	(135,411)
Net premiums written	293,842	268,967	617,623	554,783
Change in net unearned premiums	(61,763)	(81,991)	(168,729)	(194,972)
Net premiums earned	232,079	186,976	448,894	359,811
Net investment income	8,219	10,646	15,504	8,893
Net realized and unrealized (losses) gains - investments	(12,671)	7,082	(2,860)	5,183
Net realized and unrealized (losses) gains - other	(1,966)	2,470	3,692	9,900
Other income	6,531	2,333	17,572	7,502
Total revenues	232,192	209,507	482,802	391,289
EXPENSES				
Loss and loss adjustment expenses	151,863	57,641	279,242	134,235
Acquisition costs	45,584	36,203	88,421	64,240
General and administrative expenses	42,722	34,578	83,897	68,878
Interest expense	2,545	3,119	5,059	6,676
Net foreign exchange (gains) losses	(7,856)	(362)	(11,812)	735
Total expenses	234,858	131,179	444,807	274,764
(Loss) income before income taxes and interest in earnings of equity investments	(2,666)	78,328	37,995	116,525
Provision for income tax	(438)	(250)	(3,290)	456
Interest in earnings of equity investments	(283)	(300)	(542)	(678)
Net (loss) income	(3,387)	77,778	34,163	116,303
Less: Loss (income) attributable to noncontrolling interest	16,656	(9,964)	10,610	(12,746)
NET INCOME ATTRIBUTABLE TO FLAGSTONE	$13,269	$67,814	$44,773	$103,557
Net (loss) income	$(3,387)	$77,778	$34,163	$116,303
Change in currency translation adjustment	(1,184)	5,399	(4,881)	7,266
Change in defined benefit pension plan obligation	(397)	(145)	103	(321)
Comprehensive (loss) income	(4,968)	83,032	29,385	123,248
Less: Comprehensive loss (income) attributable to noncontrolling interest	16,656	(11,743)	10,610	(14,322)
COMPREHENSIVE INCOME ATTRIBUTABLE TO FLAGSTONE	$11,688	$71,289	$39,995	$108,926

Weighted average common shares outstanding—Basic	79,479,918	85,070,001	81,010,939	85,070,001
Weighted average common shares outstanding—Diluted	79,613,131	85,162,981	81,205,844	85,253,230
Net income attributable to Flagstone per common share—Basic	$0.17	$0.80	$0.55	$1.22
Net income attributable to Flagstone per common share—Diluted	$0.17	$0.80	$0.55	$1.21
Dividends declared per common share	$0.04	$0.04	$0.08	$0.08

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

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FLAGSTONE REINSURANCE HOLDINGS, S.A.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of U.S. dollars)

			Flagstone Shareholders' Equity				
For the six months ended June 30, 2010	Total equity	Comprehensive income	Retained earnings	Accumulated other comprehensive loss	Common voting shares	Additional paid-in capital	Noncontrolling interest in subsidiaries
Beginning balance	$1,365,814	$ -	$324,347	$ (6,976)	$830	$892,817	$ 154,796
Redemption of preferred shares	(32,000)						(32,000)
Comprehensive income:							
Net income	34,163	34,163	44,773				(10,610)
Other comprehensive income:							
Change in currency translation adjustment	(4,881)	(4,881)		(4,881)			
Defined benefit pension plan obligation	103	103		103			
	(4,778)	(4,778)					
Comprehensive income	29,385	$ 29,385					
Stock based compensation	9,774					9,774	
Subsidiary stock based compensation	(271)						(271)
Shares repurchased and held in treasury	(57,602)				(50)	(57,552)	
Dividends declared	(11,004)		(6,882)				(4,122)
Ending balance	$1,304,096		$362,238	$ (11,754)	$780	$845,039	$ 107,793

			Flagstone Shareholders' Equity				
For the six months ended	Total equity	Comprehensive income	Retained earnings	Accumulated other	Common voting	Additional paid-in	Noncontrolling interest in

June 30, 2009				comprehensive loss	shares	capital	subsidiaries
Beginning balance	$1,183,463	$ -	$96,092	$ (8,271)	$848	$897,344	$ 197,450
Comprehensive income:							
Net income	116,303	116,303	103,557				12,746
Other comprehensive income:							
Change in currency translation adjustment	7,266	7,266		5,690			1,576
Defined benefit pension plan obligation	(321)	(321)		(321)			
	6,945	6,945					
Comprehensive income	123,248	$ 123,248					
Stock based compensation	7,068					7,068	
Subsidiary stock based compensation	(94)						(94)
Subsidiary stock issuance	-					(184)	184
Purchase of noncontrolling interest	(84)						(84)
Issue of shares, net	1				1		
Dividends declared	(7,045)		(7,045)				
Ending balance	$1,306,557		$192,604	$ (2,902)	$849	$904,228	$ 211,778

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

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FLAGSTONE REINSURANCE HOLDINGS, S.A.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of U.S. dollars)

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Cash flows provided by (used in) operating activities:		
Net income	$34,163	$116,303
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized gains	(832)	(15,083)
Net unrealized foreign exchange losses (gains)	1,394	(2,430)
Depreciation and amortization expense	4,047	3,347
Share based compensation expense	9,357	6,832
Interest in earnings of equity investments	542	678
Accretion/amortization on fixed maturities	516	5,683
Changes in assets and liabilities, excluding net assets acquired:		
Premium balances receivable	(227,762)	(236,036)
Unearned premiums ceded	(68,321)	(54,158)
Deferred acquisition costs	(24,302)	(25,729)
Funds withheld	(5,388)	(4,195)
Loss and loss adjustment expense reserves	131,860	38,663
Unearned premiums	228,984	249,819
Insurance and reinsurance balances payable	38,704	19,218
Reinsurance recoverable	(4,938)	623
Other changes in assets and liabilities, net	(6,554)	25,570
Net cash provided by operating activities	111,470	129,105
Cash flows (used in) provided by investing activities:		
Net cash paid in disposal of subsidiaries	-	(1,731)
Purchases of fixed income securities	(2,501,150)	(1,423,515)
Sales and maturities of fixed income securities	2,467,359	963,914
Purchases of equity securities	-	(2,006)
Sales of equity securities	-	4,359
Purchases of other investments	(58,798)	(4,114)
Sales of other investments	44,849	(3,628)
Purchases of fixed assets	(2,518)	(7,456)
Sales of fixed assets	-	145
Change in restricted cash	61,174	(37,158)
Net cash provided by (used in) investing activities	10,916	(511,190)
Cash flows (used in) provided by financing activities:		
Shares repurchased and held in treasury	(57,602)	-
Repurchase of noncontrolling interest	(32,000)	-
Dividends paid on common shares	(6,439)	(6,786)

Repayment of long term debt	-	(15,038)
Other	413	414
Net cash used in financing activities	(95,628)	(21,410)
Effect of foreign exchange rate on cash	(8,355)	(1,978)
Increase (decrease) in cash and cash equivalents	18,403	(405,473)
Cash and cash equivalents - beginning of year	352,185	783,705
Cash and cash equivalents - end of period	$370,588	$378,232
Supplemental cash flow information:		
Receivable for investments sold	$19,443	$11,114
Payable for investments purchased	$17,915	$16,249
Interest paid	$4,552	$6,681

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

FLAGSTONE REINSURANCE HOLDINGS, S.A.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables expressed in thousands of U.S dollars, except for share amounts, per share amounts and percentages)

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1. ORGANIZATION

On March 22, 2010, Flagstone Reinsurance Holdings Limited, the predecessor to Flagstone Reinsurance Holdings, S.A. ("Flagstone" or the "Company"), announced that its Board of Directors recommended a proposal for a redomestication to change Flagstone's jurisdiction of incorporation from Bermuda to Luxembourg. On May 14, 2010, the Company's shareholders approved the redomestication and Flagstone thereby discontinued its existence as a Bermuda company as provided in Section 132G of The Companies Act 1981 of Bermuda and continued its existence as a société anonyme under the laws of Luxembourg effective May 17, 2010. Flagstone does not expect the redomestication to have a material impact on the way the Company operates or on its financial condition or results of operations.

On May 21, 2010, Mark J. Byrne stepped down as Executive Chairman of the Board of Directors of the Company. In connection with his resignation, Flagstone Holdings (Bermuda) Limited ("Bermuda Holdings"), a subsidiary of the Company, and Mr. Byrne entered into a General Release and Settlement Agreement (the "Release Agreement") which is filed as Exhibit 10.1 to this Quarterly Report on Form 10Q (this "Quarterly Report"). Mr. Byrne continues to serve as a non-executive member of the Board of Directors. David Brown, who has served as Flagstone's Chief Executive Officer since the Company's inception in 2005, and all other members of the senior management team, continue in their current roles. Daniel James, a member of the Board of Directors since the Company's inception, has succeeded Mr. Byrne as Chairman.

Under the terms of the Release Agreement, Bermuda Holdings agreed to pay Mr. Byrne a lump-sum cash severance payment of $1.1 million on May 24, 2010, and a second lump-sum cash severance payment of $1.1 million on May 20, 2012, in respect of amounts payable to Mr. Byrne pursuant to the terms of his employment agreement and other compensation rights. All equity, equity-based, bonus or incentive compensation awards (including performance share units under the Company's Amended and Restated PSU Plan) held by Mr. Byrne have been forfeited without payment. The Release Agreement also provides Mr. Byrne with continuation of certain benefits, including medical insurance. Pursuant to the Release Agreement, Mr. Byrne and Bermuda Holdings mutually released one another from, amongst other things, any and all existing liabilities and agreements relating to Mr. Byrne's employment with the Company.

2. BASIS OF PRESENTATION AND CONSOLIDATION

These unaudited condensed consolidated financial statements include the accounts of Flagstone and its wholly owned subsidiaries, including Flagstone Réassurance Suisse S.A. ("Flagstone Suisse"), and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. References in this Quarterly Report to "dollars" or "$" are to the lawful currency of the United States of America, unless the context otherwise requires. All amounts in the following tables are expressed in thousands of U.S. dollars, except share amounts, per share amounts and percentages. References in this Quarterly Report to (i) "foreign currency" are to currencies other than U.S. dollars and (ii) "foreign exchange" transactions or "foreign investments" are to transactions or investments, respectively, involving currencies other than U.S. dollars, in each case unless the context otherwise requires. References in this Quarterly Report to "foreign subsidiaries" are to subsidiaries of Flagstone that are not domiciled in the United States of America or whose primary transactions are in foreign currency. These unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries, including those that meet the consolidation requirements of variable interest entities ("VIEs"). The Company assesses the consolidation of VIEs based on whether the Company is the primary beneficiary of the entity in accordance with the Consolidation Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Entities in which the Company has an ownership of more than 20% and less than 50% of the voting shares are accounted for using the equity method. All inter-company accounts and transactions have been eliminated on consolidation.

FLAGSTONE REINSURANCE HOLDINGS, S.A.
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The preparation of these unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the disclosed amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's principal estimates are for loss and loss adjustment expenses ("LAE"), estimates of premiums written, premiums earned, acquisition costs, fair value of investments and share based compensation. The Company reviews and revises these estimates as appropriate based on current information. Any adjustments made to these estimates are reflected in the period the estimates are revised.

In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position and results of operations as at the end of and for the periods presented. The results of operations and cash flows for any interim period will not necessarily be indicative of the results of operations and cash flows for the full fiscal year or subsequent quarters. This Quarterly Report should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the "Annual Report'), filed with the Securities and Exchange Commission (the "SEC") on March 1, 2010.

3. NEW ACCOUNTING PRONOUNCEMENTS

Adoption of new accounting pronouncements

During the first quarter of 2010, the Company adopted the FASB amendments to ASC Topic 860, "Transfers and Servicing," ("ASC 860") which codified FASB Statement No. 166, "Accounting for Transfers of Financial Assets" and was amended in December 2009. ASC 860 requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of financial assets accounted for as a sale. It is a revision to FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", and requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. The effect of adopting ASC 860 did not have a material impact on the consolidated results of operations and financial condition.

During the first quarter of 2010, the Company adopted the amendments to the FASB ASC Topic 810, "Consolidation" ("ASC 810") which codified FASB Statement No. 167, "Amendments to FASB Interpretation No. 46(R)". ASC 810 amends FASB Statement No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. It prescribes determination of whether a reporting entity is required to consolidate another entity based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The effect of adopting the amendments to ASC 810 did not have a material impact on the consolidated results of operations and financial condition.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"). This update requires new disclosures about fair value measurement as set forth in the Fair Value Measurements and Disclosures – Overall Subtopic of the FASB ASC. Specifically, this update requires disclosing (1) the amounts of significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers, and (2) information about purchases, sales, issuances, and settlements separately in the reconciliation for fair value measurements using significant unobservable inputs. The ASU 2010-06 was effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company adopted the relevant portions of ASU 2010-06 in the first quarter of 2010, and the effect of adopting the amendments did not have a material impact on the consolidated results of operations and financial condition.

FLAGSTONE REINSURANCE HOLDINGS, S.A.
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4. INVESTMENTS

Fair value disclosure

The valuation technique used to determine the fair value of the financial instruments is the market approach which uses prices and other relevant information generated by market transactions involving identical or comparable assets.

In accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC, the Company determined that its investments in U.S. government treasury securities, listed equity securities and exchange traded funds are stated at Level 1 fair value as determined by the quoted market price of these securities, as provided either by independent pricing services or exchange market prices.

Investments in U.S. government agency securities, corporate bonds, mortgage-backed securities, foreign government bonds and asset-backed securities are stated at Level 2 fair value. The fair value of these securities is derived from broker quotes based on inputs that are observable for the asset, either directly or indirectly, such as yield curves and transactional history. Catastrophe bonds are stated at Level 2 fair value as determined by reference to broker indications. Those indications are based on current market conditions, including liquidity and transactional history, recent issue price of similar catastrophe bonds and seasonality of the underlying risks.

The Level 3 investments are reviewed by the Company along with the valuation methods. The fair value of the private equity investment funds is determined by the investment fund managers using the net asset value provided by the general partners of the funds on a quarterly basis. The fair value of the mortgage-backed investment fund is determined by the net asset valuation provided by the independent administrator of the fund. These valuations are then adjusted for cash flows since the most recent valuation, which is a methodology generally employed in the investment industry.

As at June 30, 2010 and December 31, 2009, the Company's investments are allocated among fair value levels as follows:

	Fair Value Measurement at June 30, 2010, using:			
	Fair value measurements	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Fixed maturity investments				
U.S. government and agency securities	$ 265,010	$ 170,450	$ 94,560	$ -
U.S. states and political subdivisions	1,617	-	1,617	-
Other foreign government	255,975	-	255,975	-
Corporates	580,712	-	580,712	-
Mortgage-backed securities	161,830	-	161,830	-
Asset-backed securities	158,429	-	158,429	-

		1,423,573		170,450		1,253,123		-
Equity investments								
Financial services		182		182		-		-
		182		182		-		-
Short term investments								
U.S. government and agency securities		999		-		999		-
Other foreign government		3,670		-		3,670		-
Corporates		24,695		-		24,695		-
Asset-backed securities		956		-		956		-
		30,320		-		30,320		-
Other investments								
Investment funds		22,818		-		-		22,818
Catastrophe bonds		71,422		-		71,422		-
		94,240		-		71,422		22,818
Totals	$	1,548,315	$	170,632	$	1,354,865	$	22,818

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FLAGSTONE REINSURANCE HOLDINGS, S.A.
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For reconciliation purposes, the table above does not include an equity investment of $3.8 million in which the Company is deemed to have a significant influence and is accounted for under the equity method and as such, is not accounted for at fair value under the FASB ASC guidance for financial instruments.

For the Level 3 items still held as of June 30, 2010, the total change in fair value for the three and six months ended June 30, 2010 is $nil and $0.1 million, respectively. Transfers between levels, if necessary, are done as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers between levels during the periods.

	Fair Value Measurement at December 31, 2009, using:			
	Fair value measurements	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Fixed maturity investments				
U.S. government and agency securities	$ 431,715	$ 380,843	$ 50,872	$ -
U.S. states and political subdivisions	1,903	-	1,903	-
Other foreign government	114,427	-	114,427	-
Corporates	519,242	-	519,242	-
Mortgage-backed securities	112,067	-	111,290	777
Asset-backed securities	49,207	-	47,686	1,521
	1,228,561	380,843	845,420	2,298
Equity investments				
Financial services	290	290	-	-
	290	290	-	-
Short term investments				
U.S. government and agency securities	145,604	125,755	19,849	-
Other foreign government	4,013	-	4,013	-
Corporates	80,904	-	80,904	-
Asset-backed securities	1,913	-	1,913	-
	232,434	125,755	106,679	-
Other investments				
Investment funds	5,486	-	-	5,486
Catastrophe bonds	36,128	-	36,128	-
	41,614	-	36,128	5,486
Totals	$ 1,502,899	$ 506,888	$ 988,227	$ 7,784

For reconciliation purposes, the table above does not include an equity investment of $4.3 million in which the Company is deemed to have a significant influence and is accounted for under the equity method and as such, is not accounted for at fair value under the FASB ASC guidance for financial instruments.

FLAGSTONE REINSURANCE HOLDINGS, S.A.
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The reconciliation of the fair value for the Level 3 investments for the periods ended June 30, 2010 and December 31, 2009, including net purchases and sales and change in realized and unrealized gains (losses) in earnings, is set out below:

	For the six months ended June 30, 2010		
	Fixed Maturities	Investment funds	Total
Fair value, December 31, 2009	$2,298	$5,486	$7,784
Total realized losses included in earnings	(226)	-	(226)
Total unrealized gains included in earnings	512	58	570
Purchases	-	190	190
Sales	(2,584)	-	(2,584)
Fair value, March 31, 2010	$-	$5,734	$5,734
Total realized losses included in earnings	-	-	-
Total unrealized gains included in earnings	-	4	4
Purchases	-	17,080	17,080
Sales	-	-	-
Fair value, June 30, 2010	$-	$22,818	$22,818

Pledged assets

As at June 30, 2010 and December 31, 2009, approximately $24.7 million and $85.9 million, respectively, of cash and cash equivalents and approximately $447.2 million and $425.1 million, respectively, of fixed maturity securities were deposited or pledged in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws.

Commitments

As at June 30, 2010, and December 31, 2009, the Company had total outstanding investment commitments of $16.1 million and $3.4 million, respectively.

5. DERIVATIVES

The Company accounts for its derivative instruments using the Derivatives and Hedging Topic of the FASB ASC, which requires an entity to recognize all derivative instruments as either assets or liabilities on the balance sheet and measure those instruments at fair value, with the fair value recorded in other assets or liabilities. The accounting for realized and unrealized gains and losses associated with changes in the fair value of derivatives depends on the hedge designation and, if designated as a hedging instrument, whether the hedge is effective in achieving offsetting changes in the fair value of the asset or liability being hedged. The realized and unrealized gains and losses on derivatives not designated as hedging instruments are included in net realized and unrealized gains and losses in the consolidated financial statements. Gains and losses associated with changes in fair value of the designated hedge instruments are recorded with the gains and losses on the hedged items, to the extent that the hedge is effective.

The Company enters into derivative instruments such as interest rate futures contracts, foreign currency forward contracts and currency swaps in order to manage portfolio duration and interest rate risk, borrowing costs and foreign currency exposure. The Company enters into index futures contracts and total return swaps to increase or reduce its exposure to the underlying asset or index. The Company also purchases “to be announced” mortgage-backed securities (“TBAs”) as part of its investing activities. The Company manages the exposure to these instruments based on guidelines established by management and approved by the Company’s Board of Directors.

The Company has entered into certain foreign currency forward contracts that it has designated as hedges in order to hedge its net investments in foreign subsidiaries. These foreign currency forward contracts are carried at fair value and the gains and losses associated with changes in fair value of the designated hedge instruments are recorded in other comprehensive income as part of the cumulative translation adjustment, to the extent that these are effective as hedges. All other derivatives are not designated as hedges, and accordingly, these instruments are carried at fair value, with the fair value recorded in other assets or liabilities with the corresponding realized and unrealized gains and losses included in net realized and unrealized gains and losses.

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The details of the derivatives held by the Company as of June 30, 2010 and December 31, 2009 are as follows:

As at June 30, 2010

	Asset Derivatives			Liability Derivatives			Total Derivatives	
	Balance sheet location	Derivative exposure	Fair value	Balance sheet location	Derivative exposure	Fair value	Derivative exposure	Net fair value
Derivatives designated as hedging instruments								
Foreign currency forward contracts (1)	Other assets	$ 38,697	$ 488	Other liabilities	$ -	$ -	$ 38,697	$ 488
			488			-		488
Derivatives not designated as hedging instruments								
Purpose - risk management								
Currency swaps	Other assets	$ -	$ -	Other liabilities	$ 15,893	$ 2,502	$ 15,893	$ (2,502)
Foreign currency forward contracts	Other assets	428,953	15,310	Other liabilities	416,236	7,375	845,189	7,935
			15,310			9,877		5,433
Purpose - exposure								
Futures contracts	Other assets	$ 109,861	$ 677	Other liabilities	$ 564,295	$ 3,552	$ 674,156	$ (2,875)
Mortgage-backed securities TBA	Other assets	3,400	38	Other liabilities	44	-	3,444	38
Other reinsurance derivatives	Other assets	-	-	Other liabilities	-	641	-	(641)
			715			4,193		(3,478)
Total derivatives			$ 16,513			$ 14,070		$ 2,443

As at December 31, 2009

	Asset Derivatives			Liability Derivatives			Total Derivatives	
	Balance sheet location	Derivative exposure	Fair value	Balance sheet location	Derivative exposure	Fair value	Derivative exposure	Net fair value
Derivatives designated as hedging instruments								
Foreign currency forward contracts (1)	Other assets	$ 44,444	$ 148	Other liabilities	$ 117,592	$ 512	$ 162,036	$ (364)
			148			512		(364)
Derivatives not designated as hedging instruments								
Purpose - risk management								
Currency swaps	Other assets	$ 18,655	$ 260	Other liabilities	$ -	$ -	$ 18,655	$ 260
Foreign currency forward contracts	Other assets	378,627	12,532	Other liabilities	137,864	6,386	516,491	6,146
			12,792			6,386		6,406
Purpose - exposure								
Futures contracts	Other assets	$ 150,770	$ 3,847	Other liabilities	$ -	$ -	$ 150,770	$ 3,847
Total return swaps	Other assets	6,384	409	Other liabilities	39,564	436	45,948	(27)
Mortgage-backed securities TBA	Other assets	-	-	Other liabilities	41,496	399	41,496	(399)
Other reinsurance derivatives	Other assets	-	-	Other liabilities	-	1,596	-	(1,596)
			4,256			2,431		1,825
Total derivatives			$ 17,196			$ 9,329		$ 7,867

(1) Recognized as a foreign currency hedge under the Derivatives and Hedging Topic of the ASC.

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Designated

Derivatives designated as hedging instruments	Amount of Gain or (Loss) on Derivatives Recognized in Comprehensive income (loss) (Effective portion) For the three months ended June 30, 2010	2009	Location	Net income (loss) (Ineffective portion) For the three months ended June 30, 2010	2009
Foreign currency forward contracts (1)	$3,877	$(9,182)	Net realized and unrealized gains (losses) - other	$(247)	$(178)
	$3,877	$(9,182)		$(247)	$(178)

Derivatives designated as hedging instruments	Amount of Gain or (Loss) on Derivatives Recognized in Comprehensive income (loss) (Effective portion) For the six months ended June 30, 2010	2009	Location	Net income (loss) (Ineffective portion) For the six months ended June 30, 2010	2009
Foreign currency forward contracts (1)	$4,471	$(2,387)	Net realized and unrealized gains (losses) - other	$(272)	$(703)
	$4,471	$(2,387)		$(272)	$(703)

(1) Recognized as a foreign currency hedge under the Derivatives and Hedging Topic of the ASC.

Non-Designated

Derivatives not designated as hedging instruments	Location	Gain or (Loss) on Derivatives Recognized in Net Income For the three months ended June 30, 2010	2009
Futures contracts	Net realized and unrealized (losses) gains - investments	$ (20,749)	$ 8,455
Total return swaps	Net realized and unrealized (losses) gains - investments	(139)	833
Currency swaps	Net realized and unrealized (losses) gains - other	(1,679)	978
		30,954	(16,378)

Foreign currency forward contracts	Net realized and unrealized gains (losses) - investments		
Foreign currency forward contracts	Net realized and unrealized (losses) gains - other	(604)	1,162
Mortgage-backed securities TBA	Net realized and unrealized gains - investments	234	183
Other reinsurance derivatives	Net realized and unrealized gains - other	564	508
		$ 8,581	$ (4,259)

	Gain or (Loss) on Derivatives Recognized in Net Income		
Derivatives not designated		For the six months ended June 30,	
as hedging instruments	Location	2010	2009
Futures contracts	Net realized and unrealized (losses) gains - investments	$ (20,353)	$ 4,302
Total return swaps	Net realized and unrealized gains (losses) - investments	1,105	(7,902)
Currency swaps	Net realized and unrealized (losses) gains - other	(2,766)	193
Foreign currency forward contracts	Net realized and unrealized gains (losses) - investments	48,416	(19,544)
Foreign currency forward contracts	Net realized and unrealized gains - other	5,611	9,362
Mortgage-backed securities TBA	Net realized and unrealized gains - investments	888	1,141
Other reinsurance derivatives	Net realized and unrealized gains - other	1,119	1,048
		$ 34,020	$ (11,400)

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Foreign currency forward contracts

The Company enters into foreign currency forward contracts for the purpose of hedging its net investment in foreign subsidiaries which are reported as designated hedges. All other foreign currency forward contracts are not designated as hedges and are entered into for the purposes of currency risk management.

Futures contracts

The Company uses futures contracts to gain exposure to certain markets or indexes and to hedge interest rate risk. The Company has entered into equity index, commodity index and bond index futures as part of its investment strategy.

Total return swaps

The Company uses total return swaps to gain exposure to a global inflation linked bond index and a global equity index. The total return swaps allow the Company to earn the return of the underlying index while paying floating interest plus a spread to the counterparty.

Currency swaps

The Company uses currency swaps to minimize the effect of fluctuating foreign currencies. The currency swaps relate to the Company's Euro denominated debentures.

To be announced mortgage-backed securities

The Company also purchases TBAs as part of its investing activities. By acquiring a TBA, the Company makes a commitment to purchase a future issuance of mortgage-backed securities.

Other reinsurance derivatives

The Company writes certain reinsurance contracts that are classified as derivatives in accordance with the FASB ASC Topic for Derivatives and Hedging. The Company has entered into industry loss warranty ("ILW") transactions that may be structured as reinsurance or derivatives.

Fair value disclosure

In accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC, the fair value of derivative instruments held as of June 30, 2010 and December 31, 2009 is allocated between levels as follows:

	Fair Value Measurement at June 30, 2010, using:			
	Fair value measurements	Quoted prices in active markets	Significant other observable	Significant other unobservable

Description		(Level 1)	inputs (Level 2)	inputs (Level 3)
Futures contracts	$ (2,875	$ (2,875)	$ -	$ -
Swaps	(2,502	-	(2,502)	-
Foreign currency forward contracts	8,423	-	8,423	-
Mortgage-backed securities TBA	38	-	38	-
Other reinsurance derivatives	(641	-	-	(641)
Total derivatives	$ 2,443	$ (2,875)	$ 5,959	$ (641)

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For the Level 3 items still held as of June 30, 2010, the total change in fair value recorded in net realized and unrealized gains (losses) – other for the three and six months ended June 30, 2010 is a gain of $0.6 million and $1.1 million, respectively.

	Fair Value Measurement at December 31, 2009, using:			
Description	Fair value measurements	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Futures contracts	$ 3,847	$ 3,847	$ -	$ -
Swaps	233	-	233	-
Foreign currency forward contracts	5,782	-	5,782	-
Mortgage-backed securities TBA	(399	-	(399)	-
Other reinsurance derivatives	(1,596	-	-	(1,596)
Total derivatives	$ 7,867	$ 3,847	$ 5,616	$ (1,596)

The reconciliation of the fair value for the Level 3 derivative instruments, including net purchases and sales, realized gains and changes in unrealized gains, is as follows:

	For the six months ended June 30, 2010
Other reinsurance derivatives	
Fair value, December 31, 2009	$(1,596)
Total premium earned included in earnings	642
Purchases	(250)
Sales	-
Fair value, March 31, 2010	$(1,204)
Total premium earned included in earnings	$563
Purchases	-
Sales	-
Fair value, June 30, 2010	$(641)

Transfers between levels, if necessary, are done as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers between levels during these periods.

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6. GOODWILL AND INTANGIBLES

Goodwill relates to the following reportable segments:	Reinsurance	Lloyd's	Island Heritage	Total
Balance as at December 31, 2009	$ 3,144	$ 3,339	$ 10,050	$ 16,533
Impact of foreign exchange	(36)	(251)	-	(287)
Balance as at June 30, 2010	$ 3,108	$ 3,088	$ 10,050	$ 16,246

Finite life intangibles	Carrying value at beginning of period	Impairment loss	Accumulated amortization (1)	Impact of foreign exchange	Carrying value at end of period
Tradename	$ 1,308	$ -	$ (56)	$ (109)	$ 1,143
Software	3,924	-	(169)	(326)	3,429
Distribution network	3,356	-	(126)	(278)	2,952
	$ 8,588	$ -	$ (351)	$ (713)	$ 7,524
Indefinite life intangibles					
Lloyd's syndicate capacity	$ 25,353	$ -	$ -	$ (1,896)	$ 23,457
Licenses	1,849	(1,074)	-	-	775
	$ 27,202	$ (1,074)	$ -	$ (1,896)	$ 24,232
Aggregate amortization expenses (1)					
For the six months ended June 30, 2010					$421

Estimated amortization expense	For the years ending December 31,	Amount
	2010	$ 837
	2011	808
	2012	782
	2013	759
	2014	737

(1) Accumulated amortization is converted at the end of period foreign exchange rate and amortization expense is converted at an average foreign exchange rate for the period.

During the second quarter of 2010, the Company recognized an impairment charge of $1.1 million related to a license classified as an indefinite life intangible. The impairment charge is included in general and administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income for the periods ending June 30, 2010.

7. MONT FORT RE LIMITED

On June 3, 2010, Mont Fort Re Limited ("Mont Fort") repurchased 17.3 million preferred shares relating to its second cell, Mont Fort ILW 2, for $32.0 million. The Company has considered the implications of this share repurchase as it relates to FASB ASC Topic on Consolidations, specifically relating to variable interest entities, and has concluded that the Company remains the primary beneficiary and should continue to consolidate Mont Fort.

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8. DEBT AND FINANCING ARRANGEMENTS

Long term debt

Interest expense includes interest payable and amortization of debt offering expenses. The debt offering expenses are amortized over the period from the issuance of the Deferrable Interest Debentures to the earliest date that they may be called by the Company. For the three and six months ended June 30, 2010, the Company incurred interest expense of $2.3 million and $4.5 million, respectively, on the Deferrable Interest Debentures compared to $3.1 million and $6.7 million, respectively, for the same periods in 2009. Also, at June 30, 2010 and December 31, 2009, the Company had $0.8 million and $0.8 million, respectively, of interest payable included in other liabilities.

The Company does not carry its long term debt at fair value on its consolidated balance sheets. At June 30, 2010, the Company estimated the fair value of its long term debt to be approximately $214.5 million compared to $203.9 million at December 31, 2009.

Letter of credit facilities

On June 5, 2009, Flagstone Suisse entered into a secured $50.0 million standby letter of credit facility with BNP Paribas (the “BNP Facility”). The BNP Facility had an initial term of one year and the Company decided to let the facility expire as per the terms of the agreement effective June 4, 2010.

On March 5, 2009, Flagstone Suisse entered into a $200.0 million secured committed letter of credit facility with Barclays Bank Plc (the “Barclays Facility”). The Barclays Facility will be used to support the reinsurance obligations of the Company and its subsidiaries. As at June 30, 2010, $32.3 million had been drawn under the Barclays Facility, and the drawn amount was secured by $36.0 million of fixed maturity securities from the Company’s investment portfolio.

On April 28, 2010, Flagstone Suisse and Flagstone Capital Management Luxembourg SICAF – FIS entered into a secured $450.0 million standby letter of credit facility with Citibank Europe Plc (the “Citi Facility”). The Citi Facility comprises a $225.0 million facility for letters of credit with a maximum tenor of 15 months, to be used to support reinsurance obligations of the Company and its subsidiaries, and a $225.0 million facility for letters of credit drawn in respect of Funds at Lloyd’s with a maximum tenor of 60 months. As at June 30, 2010, $365.1 million had been drawn under the Citi Facility, and the drawn amount of the facility was secured by $408.4 million of fixed maturity securities from the Company’s investment portfolio. This facility replaces a $450.0 million credit facility with Citibank Europe Plc, which commenced on January 22, 2009.

These facilities are used to provide security to reinsureds and are collateralized by the Company, at least to the extent of the letters of credit outstanding at any given time.

9. SHARE BASED COMPENSATION

The Company accounts for share based compensation in accordance with the Compensation – Stock Compensation Topic of the FASB ASC which requires entities to measure the cost of services received from employees and directors in exchange for an award of equity instruments based on the grant date fair value of the award. The cost of such services will be recognized as compensation expense over the period during which an employee or director is required to provide service in exchange for the award. The Company's share based compensation plans consist of performance share units ("PSUs") and restricted share units ("RSUs").

Performance Share Units

The Company's Amended and Restated Performance Share Unit Plan (the "PSU Plan") is the Company's shareholder approved primary executive long term incentive scheme. Pursuant to the terms of the PSU Plan, at the discretion of the Compensation Committee of the Board of Directors, PSUs may be granted to executive officers and certain other key employees and vesting is contingent upon the Company meeting certain diluted return-on-equity ("DROE") goals.

At the Company's Annual General Meeting of shareholders held on May 14, 2010, the PSU Plan was amended to modify the treatment of PSUs upon the retirement of an employee and to cancel PSUs if (a) the Company is required to make a financial restatement due to a material misstatement and (b) those PSUs were granted based upon the erroneous financial information.

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A summary of the activity under the PSU Plan as at June 30, 2010, and changes during the three and six months ended June 30, 2010 is as follows:

	For the three months ended June 30, 2010			For the six months ended June 30, 2010		
	Number expected to vest	Weighted average grant date fair value	Weighted average remaining contractual term	Number expected to vest	Weighted average grant date fair value	Weighted average remaining contractual term
Outstanding at beginning of period	4,130,213	$ 10.22	1.6	3,305,713	$ 10.04	1.6
Granted	-	-		824,500	10.94	
Forfeited	(35,038)	10.12		(35,038)	10.12	
Outstanding at end of period	4,095,175	10.22	1.4	4,095,175	10.22	1.4

The Company reviews its assumptions in relation to the PSUs on a quarterly basis. For the three and six months ended June 30, 2010, $3.8 million and $7.9 million, respectively, of compensation expense has been recorded in general and administrative expenses in relation to the PSU Plan compared to $2.6 million and $5.3 million, respectively, for the same periods in 2009. The issuance of shares with respect to the PSUs is contingent upon the attainment of certain levels of average DROE over a two or three year period. As at June 30, 2010 and December 31, 2009, there was a total of $20.2 million and $19.4 million, respectively, of unrecognized compensation cost related to non-vested PSUs; that cost is expected to be recognized over a period of approximately 1.7 years and 1.6 years, respectively.

Since the inception of the PSU Plan, 60,000 PSUs have vested and 2,368,658 PSUs have been cancelled.

Restricted Share Units

The purpose of the Company’s Amended and Restated Employee Restricted Share Unit Plan (the “RSU Plan”) is to encourage certain employees and directors of the Company to further the development of the Company and to attract and retain key employees for the Company’s long term success. The RSUs granted to employees vest over a period of approximately two years whereas RSUs granted to directors vest on the grant date.

A summary of the activity under the RSU Plan as at June 30, 2010 and changes during the three and six months ended June 30, 2010, are as follows:

	For the three months ended June 30, 2010			For the six months ended June 30, 2010		
	Number expected to vest	Weighted average grant date fair value	Weighted average remaining contractual	Number expected to vest	Weighted average grant date fair value	Weighted average remaining contractual

			term			term
Outstanding at beginning of period	590,013	$10.97	0.7	373,157	$10.89	0.5
Granted	1,500	11.46		227,821	11.05	
Forfeited	(17,550)	10.20		(27,015)	10.09	
Exercised in the period	(8,040)	10.51		(8,040)	10.51	
Outstanding at end of period	565,923	11.00	0.5	565,923	11.00	0.5

As at June 30, 2010 and December 31, 2009, there was a total of $1.7 million and $0.9 million, respectively, of unrecognized compensation cost related to non-vested RSUs; that cost is expected to be recognized over a period of approximately 1.3 years and 1.0 year, respectively. A compensation expense of $0.4 million and $1.5 million, respectively, has been recorded in general and administrative expenses for the three and six months ended June 30, 2010, compared to $0.4 million and $1.6 million, respectively, for the same periods in 2009 in relation to the RSU Plan.

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Since the inception of the RSU Plan in July 2006, 400,842 RSUs granted to employees have vested and no RSUs granted to employees have been cancelled. During the three and six months ended June 30, 2010, nil and 64,896 RSUs, respectively, were granted to the directors, compared to nil and 72,666 RSUs, respectively, during the same periods in 2009. During both the three and six months ended June 30, 2010, 8,040 RSUs, granted to directors were converted into common shares of the Company as elected by the directors, compared to nil and 2,985 during the same periods in 2009.

The company uses a nil forfeiture assumption for its PSUs and RSUs. The intrinsic value of the PSUs and RSUs outstanding as of June 30, 2010 was $44.3 million and $6.1 million, respectively.

10. EARNINGS PER COMMON SHARE

The computation of basic and diluted earnings per common share for the three and six months ended June 30, 2010 and 2009 is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Basic earnings per common share				
Net income attributable to Flagstone	$13,269	$67,814	$44,773	$103,557
Weighted average common shares outstanding	79,213,487	84,864,844	80,742,707	84,863,706
Weighted average vested restricted share units	266,431	205,157	268,232	206,295
Weighted average common shares outstanding—Basic	79,479,918	85,070,001	81,010,939	85,070,001
Basic earnings per common share	$0.17	$0.80	$0.55	$1.22
Diluted earnings per common share				
Net income attributable to Flagstone	$13,269	$67,814	$44,773	$103,557
Weighted average common shares outstanding	79,213,487	84,864,844	80,742,707	84,863,706
Weighted average vested restricted share units outstanding	266,431	205,157	268,232	206,295
	79,479,918	85,070,001	81,010,939	85,070,001
Share equivalents:				
Weighted average unvested restricted share units	133,213	92,980	194,905	183,229
Weighted average common shares outstanding—Diluted	79,613,131	85,162,981	81,205,844	85,253,230
Diluted earnings per common share	$0.17	$0.80	$0.55	$1.21

At June 30, 2010 and 2009, there was a warrant outstanding which would result in the issuance of 8,585,747 common shares that were excluded from the computation of diluted earnings per common share because the effect would be anti-dilutive. Because the number of shares contingently issuable under the PSU Plan depends on the average DROE over a two or three year period, the PSUs are excluded from the calculation of diluted earnings per common share until the end of the performance period, at which time the number of shares issuable under the PSU Plan will be known. As at June 30, 2010, and 2009, there were 4,095,175 and 2,786,585 PSUs expected to vest, respectively. The maximum number of common shares that could be issued under the PSU Plan at June 30, 2010 and 2009 was 5,404,548 and 4,179,878, respectively.

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11. COMMON SHARES

Common shares

At June 30, 2010, the total authorized common voting shares of the Company were 300,000,000, with a par value of $0.01 per common share (December 31, 2009 – 300,000,000).

	For the periods ended	
	June 30, 2010	December 31, 2009
Common voting shares:		
Balance at beginning of period	82,985,219	84,801,732
Conversion of performance share units (1)	-	42,000
Conversion of restricted share units (1)	8,040	141,487
Shares repurchased and held in treasury	(4,984,146)	(2,000,000)
Balance at end of period	78,009,113	82,985,219

(1) Conversion of performance share units and restricted share units are net of shares withheld for the payment of tax on the employees' behalf.

Share buyback

On September 22, 2008, the Company announced that its Board of Directors had approved the repurchase of company common shares, subject to market conditions, share price and other factors. The buyback program allows the Company to purchase, from time to time, its outstanding stock up to a value of $60.0 million. As of December 31, 2009, approximately $33.6 million of repurchases remained available under the buyback program.

On March 11, 2010, the Company entered into a private purchase agreement to repurchase 2,984,146 common shares pursuant to its buyback program at a total cost of $33.6 million. On May 18, 2010, the Company announced that its Board of Directors had approved an increase in its share buyback program allowing the Company to purchase, from time to time, its outstanding common shares up to a value of $50.0 million. On May 21, 2010, in connection with the resignation of Mark J. Byrne as Executive Chairman of the Company’s Board of Directors, the Company entered into a private purchase agreement, which is attached as Exhibit 10.2 to this Quarterly Report, for the repurchase of 2,000,000 common shares from Limestone Business Limited, a company controlled and capitalized by Mr. Byrne. These shares were repurchased pursuant to the Company’s buyback program on May 25, 2010, at a total cost of $24.0 million. As of June 30, 2010, authority to make up to $26.0 million of repurchases remained available under the buyback program.

12. LEGAL PROCEEDINGS

In the normal course of business, the Company may become involved in various claims litigation and legal proceedings. As at June 30, 2010, the Company was not a party to any material litigation or arbitration proceedings.

13. SEGMENT REPORTING

The Company reports its results to the chief operating decision maker based on three reportable segments: Reinsurance, Lloyd's and Island Heritage (previously referred to as the Insurance segment until January 1, 2010). The Company regularly reviews its financial results and assesses its performance on the basis of these three reportable segments.

The following tables provide a summary of gross and net written and earned premiums, underwriting results, a reconciliation of underwriting income to income before income taxes and interest in earnings of equity investments, total assets, and ratios for each reportable segment for the three and six months ended June 30, 2010 and 2009:

FLAGSTONE REINSURANCE HOLDINGS, S.A.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables expressed in thousands of U.S dollars, except for share amounts, per share amounts and percentages)

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	For the three months ended June 30, 2010				
	Reinsurance	Lloyd's	Island Heritage	Inter-segment Eliminations (1)	Total
Gross premiums written	$ 295,702	$ 60,773	$ 23,316	$ (10,180)	$ 369,611
Premiums ceded	(39,975	(7,484)	(38,490)	10,180	(75,769)
Net premiums written	255,727	53,289	(15,174)	-	293,842
Net premiums earned	$ 191,654	$ 37,610	$ 2,815	$ -	$ 232,079
Other related income	2,495	1,487	5,539	(3,691)	5,830
Loss and loss adjustment expenses	(112,435	(39,179)	(249)	-	(151,863)
Acquisition costs	(36,492	(8,394)	(4,389)	3,691	(45,584)
General and administrative expenses	(34,048	(6,615)	(2,059)	-	(42,722)
Underwriting income (loss)	$ 11,174	$ (15,091)	$ 1,657	$ -	$ (2,260)
Loss ratio (2)	58.7 %	104.2 %	3.0 %		65.4 %
Acquisition cost ratio (2)	19.0 %	22.3 %	52.5 %		19.6 %
General and administrative expense ratio (2)	17.8 %	17.6 %	24.6 %		18.4 %
Combined ratio (2)	95.5 %	144.1 %	80.1 %		103.4 %
Total assets	$ 2,554,314	$ 251,245	$ 97,239		$ 2,902,798
Reconciliation:					
Underwriting loss					