

Flagstone Reinsurance Holdings, S.A.
Form 10-Q
October 29, 2012

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

Form 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2012

OR

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
(State or Other Jurisdiction of
Incorporation or Organization)

98-0481623
(I.R.S. Employer
Identification No.)

65 Avenue de la Gare
L-1611 Luxembourg, Grand Duchy of Luxembourg
(Address of principal executive offices)

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

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 No

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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).

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a 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 No

As of October 29, 2012, the Registrant had 71,058,922 common voting shares outstanding, net of treasury shares with a par value of \$0.01 per share.

FLAGSTONE REINSURANCE HOLDINGS, S.A.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As at September 30, 2012	As at December 31, 2011
ASSETS		
Investments:		
Fixed maturity investments, at fair value (Amortized cost: 2012 - \$349,440; 2011 - \$1,135,755)	\$ 350,262	\$ 1,138,435
Short term investments, at fair value (Amortized cost: 2012 - \$719,289; 2011 - \$10,620)	719,294	10,616
Equity investments, at fair value (Amortized cost: 2012 - \$240; 2011 - \$245)	45	82
Other investments	101,751	125,452
Total investments	1,171,352	1,274,585
Cash and cash equivalents	307,499	249,424
Restricted cash	22,629	17,538
Premium balances receivable	209,344	236,375
Unearned premiums ceded	29,934	30,550
Reinsurance recoverable	126,003	271,183
Accrued interest receivable	2,452	12,950
Receivable for investments sold	-	18
Deferred acquisition costs	29,372	38,155
Funds withheld	24,371	25,116
Other assets	96,355	160,950
Assets held for sale including discontinued operations	16,524	461,652
Total assets	\$ 2,035,835	\$ 2,778,496
LIABILITIES		
Loss and loss adjustment expense reserves	\$ 668,973	\$ 897,368
Unearned premiums	188,010	215,316
Insurance and reinsurance balances payable	34,982	75,433
Payable for investments purchased	3,248	6,255
Long term debt	250,456	250,575
Other liabilities	59,321	54,059
Liabilities of discontinued operations held for sale	-	472,957
Total liabilities	1,204,990	1,971,963
EQUITY		
Common voting shares, 300,000,000 authorized, \$0.01 par value, issued (2012 - 84,464,259; 2011 - 84,464,259) and outstanding (2012 - 71,058,922; 2011 - 70,167,142)	845	845
Common shares held in treasury, at cost (2012 - 13,405,337; 2011 - 14,297,117)	(150,202)	(160,448)

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Additional paid-in capital	855,722	872,819
Accumulated other comprehensive loss	(15,265)	(12,584)
Retained earnings	139,745	88,416
Total Flagstone shareholders' equity	830,845	789,048
Noncontrolling interest in subsidiaries	-	17,485
Total equity	830,845	806,533
Total liabilities and equity	\$ 2,035,835	\$ 2,778,496

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 (LOSS)
 (Expressed in thousands of U.S. dollars, except share and per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
REVENUES				
Gross premiums written	\$ 4,042	\$ 92,162	\$ 345,420	\$ 708,965
Premiums ceded	1,338	(30,577)	(89,846)	(193,736)
Net premiums written	5,380	61,585	255,574	515,229
Change in net unearned premiums	77,173	68,456	43,223	(65,515)
Net premiums earned	82,553	130,041	298,797	449,714
Net investment income	6,130	6,167	15,063	27,665
Net realized and unrealized gains (losses) - investments	5,970	(19,592)	29,438	(16,726)
Net realized and unrealized gains (losses) - other	5,589	(18,305)	6,982	(5,009)
Other income	2,187	1,376	6,544	4,062
Total revenues	102,429	99,687	356,824	459,706
EXPENSES				
Loss and loss adjustment expenses	60,051	131,879	181,983	531,368
Acquisition costs	21,104	31,619	65,870	95,303
General and administrative expenses	19,188	19,785	59,870	55,604
Interest expense	2,750	3,137	8,673	8,879
Net foreign exchange losses (gains)	5,859	(33,981)	6,736	3,067
Total expenses	108,952	152,439	323,132	694,221
(Loss) income from continuing operations before income taxes and interest in earnings of equity investments	(6,523)	(52,752)	33,692	(234,515)
(Provision) recovery for income tax	(569)	(668)	(882)	405
Interest in earnings of equity investments	-	(250)	288	(706)
(Loss) income from continuing operations	(7,092)	(53,670)	33,098	(234,816)
Income (loss) from discontinued operations, net of taxes	5,746	(5,769)	19,366	(4,032)
Net (loss) income	(1,346)	(59,439)	52,464	(238,848)
Less: Income attributable to noncontrolling interest	-	(106)	(1,135)	(2,127)
NET (LOSS) INCOME ATTRIBUTABLE TO FLAGSTONE	\$ (1,346)	\$ (59,545)	\$ 51,329	\$ (240,975)
Net (loss) income	\$ (1,346)	\$ (59,439)	\$ 52,464	\$ (238,848)

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Change in currency translation adjustment	(2,803)	(8,677)	(2,935)	(4,927)
Change in defined benefit pension plan obligation	326	62	254	(96)
Comprehensive (loss) income	(3,823)	(68,054)	49,783	(243,871)
Less: Comprehensive income attributable to noncontrolling interest	-	(106)	(1,135)	(2,127)
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO FLAGSTONE	\$ (3,823)	\$ (68,160)	\$ 48,648	\$ (245,998)
Weighted average common shares outstanding—Basic	71,352,487	70,380,852	71,128,790	70,041,621
Weighted average common shares outstanding—Diluted	71,352,487	70,380,852	71,766,808	70,041,621
(Loss) income from continuing operations per common share—Basic	\$ (0.10)	\$ (0.76)	\$ 0.45	\$ (3.38)
Income (loss) from discontinued operations per common share—Basic	\$ 0.08	\$ (0.09)	\$ 0.27	\$ (0.06)
Net (loss) income attributable to Flagstone per common share—Basic	\$ (0.02)	\$ (0.85)	\$ 0.72	\$ (3.44)
(Loss) income from continuing operations per common share—Diluted	\$ (0.10)	\$ (0.76)	\$ 0.45	\$ (3.38)
Income (loss) from discontinued operations per common share—Diluted	\$ 0.08	\$ (0.09)	\$ 0.27	\$ (0.06)
Net (loss) income attributable to Flagstone per common share—Diluted	\$ (0.02)	\$ (0.85)	\$ 0.72	\$ (3.44)
Distributions declared per common share	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.12

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)

For the nine months ended September 30, 2012	Flagstone Shareholders' Equity						
	Total equity	Retained earnings	Accumulated other comprehensive loss	Common voting shares	Treasury shares	Additional paid-in capital	Noncontrolling interest in subsidiaries
Beginning balance	\$ 806,533	\$ 88,416	\$ (12,584)	\$ 845	\$ (160,448)	\$ 872,819	\$ 17,485
Disposal of discontinued operations	(18,620)						(18,620)
Net income	52,464	51,329					1,135
Change in currency translation adjustment	(2,935)		(2,935)				
Defined benefit pension plan obligation	254		254				
Stock based compensation	3,140					3,140	
Stock compensation exercised from treasury	-				10,246	(10,246)	
Distributions declared per common share	(8,526)					(8,526)	
Other	(1,465)					(1,465)	
Ending balance	\$ 830,845	\$ 139,745	\$				