SPIRIT REALTY CAPITAL, INC.
Form SC 13G/A
June 11, 2018

SCHEDULE 13G

Amendment No. 1
SPIRIT RLTY CAP INC
COMMON STOCK
Cusip #84860W102
Check the appropriate box to designate the rule pursuant to which this Schedule is filed:
[x] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)
Cusip #84860W102
Item 1: Reporting Person - FMR LLC
Item 2: (a) [ ]
(b) [ ]
Item 4: Delaware
Item 5: 19,183,702
Item 6: 0
Item 7: 52,270,699
Item 8: 0
Item 9: 52,270,699
Item 11: 12.197%
Item 12: HC
Cusip #84860W102
Item 1: Reporting Person - Abigail P. Johnson
Item 2: (a) [ ]
(b) [ ]
Item 4: United States of America
Item 5: 0
Item 6: 0
Item 7: 52,270,699
Item 8: 0
Item 9: 52,270,699
Item 11: 12.197%
Item 12: IN

Item 1(a). Name of Issuer:

SPIRIT RLTY CAP INC

Item 1(b). Address of Issuer's Principal Executive Offices:

2727 NORTH HARWOOD STREET SUITE 300
DALLAS, TX 75201
US

Item 2(a). Name of Person Filing:

FMR LLC

Item 2(b). Address or Principal Business Office or, if None, Residence:

245 Summer Street, Boston, Massachusetts 02210

Item 2(c). Citizenship:

Not applicable

Item 2(d). Title of Class of Securities:

COMMON STOCK

Item 2(e). CUSIP Number:

84860W102

Item 3. This statement is filed pursuant to Rule 13d-1(b) or 13d-2(b) or (c) and the person filing, FMR LLC, is a parent holding company in accordance with Section 240.13d-1(b)(1)(ii)(G). (Note: See Exhibit A).

Item 4. Ownership

(a) Amount Beneficially Owned: 52,270,699

(b) Percent of Class: 12.197%

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote: 19,183,702

(ii) shared power to vote or to direct the vote: 0

(iii) sole power to dispose or to direct the disposition of: 52,270,699

(iv) shared power to dispose or to direct the disposition of: 0

Item 5. Ownership of Five Percent or Less of a Class.

Not applicable.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

One or more other persons are known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the COMMON STOCK of SPIRIT RLTY CAP INC. No one other person's interest in the COMMON STOCK of SPIRIT RLTY CAP INC is more than five percent of the total outstanding COMMON STOCK.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.

See attached Exhibit A.

Item 8. Identification and Classification of Members of the Group.

Not applicable.

Item 9. Notice of Dissolution of Group.

Not applicable.

Item 10. Certifications.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

June 8, 2018
Date

/s/ Marc R. Bryant
Signature

Marc R. Bryant
Duly authorized under Power of Attorney effective as of September 23, 2015, by and on behalf of FMR LLC and its direct and indirect subsidiaries*

* This power of attorney is incorporated herein by reference to Exhibit 24 to the Schedule 13G filed by FMR LLC on June 10, 2016, accession number: 0000315066-16-005935

Exhibit A

Pursuant to the instructions in Item 7 of Schedule 13G, the following table lists the identity and Item 3 classification, if applicable, of each relevant entity that beneficially owns shares of the security class being reported on this Schedule 13G.

Entity	ITEM 3 Classification
FIAM LLC	IA
Fidelity Institutional Asset Management Trust Company	BK
FIDELITY MANAGEMENT & RESEARCH COMPANY	IA
FMR CO., INC *	IA
STRATEGIC ADVISERS LLC	IA

* Entity beneficially owns 5% or greater of the outstanding shares of the security class being reported on this Schedule 13G.

Abigail P. Johnson is a Director, the Chairman and the Chief Executive Officer of FMR LLC.

Members of the Johnson family, including Abigail P.

Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC.

Neither FMR LLC nor Abigail P. Johnson has the sole power to vote or direct the voting of the shares owned directly by the various investment companies registered under the Investment Company Act ("Fidelity Funds") advised by Fidelity Management & Research Company ("FMR Co"), a wholly owned subsidiary of FMR LLC, which power resides with the Fidelity Funds' Boards of Trustees. Fidelity Management & Research Company carries out the voting of the shares under written guidelines established by the Fidelity Funds' Boards of Trustees.

This filing reflects the securities beneficially owned, or that may be deemed to be beneficially owned, by FMR LLC, certain of its subsidiaries and affiliates, and other companies (collectively, the "FMR Reporters"). This filing does not reflect securities, if any, beneficially owned by certain other companies whose beneficial ownership of securities is disaggregated from that of the FMR Reporters in accordance with Securities and Exchange Commission Release No. 34-39538 (January 12, 1998).

RULE 13d-1(k)(1) AGREEMENT

The undersigned persons, on June 8, 2018, agree and consent to the joint filing on their behalf of this Schedule 13G in connection with their beneficial ownership of the COMMON STOCK of SPIRIT RLTY CAP INC at May 31, 2018.

FMR LLC

By /s/ Marc R. Bryant
Marc R. Bryant
Duly authorized under Power of Attorney effective as of September 23, 2015, by and on behalf of FMR LLC and its direct and indirect subsidiaries*

Abigail P. Johnson

By /s/ Marc R. Bryant
Marc R. Bryant
Duly authorized under Power of Attorney effective as of December 16, 2015, by and on behalf of Abigail P. Johnson*

* This power of attorney is incorporated herein by reference to Exhibit 24 to the Schedule 13G filed by FMR LLC on June 10, 2016, accession number:

0000315066-16-005935

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Property catastrophe	$ 233,096	68.3 %	$ 372,256	60.4 %
Property	66,666	19.5 %	119,023	19.3 %
Short-tail specialty and casualty	41,616	12.2 %	125,524	20.3 %
Total	$ 341,378	100.0 %	$ 616,803	

100.0 %

	For the three months ended June 30,			
	2012		2011	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total
Geographic area of risk insured (1)				
Caribbean	$ 7,484	4.4 %	$ 1,623	0.6 %
Europe	18,744	11.0 %	13,187	5.0 %
Japan and Australasia	21,965	12.8 %	27,805	10.5 %
North America	108,139	63.2 %	177,557	67.2 %
Worldwide risks (2)	13,491	7.9 %	32,706	12.4 %
Other	1,327	0.7 %	11,250	4.3 %
Total	$ 171,150	100.0 %	$ 264,128	100.0 %

	For the six months ended June 30,			
	2012		2011	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total
Geographic area of risk insured (1)				
Caribbean	$ 8,984	2.6 %	$ 3,416	0.6 %
Europe	68,003	19.9 %	89,702	14.5 %
Japan and Australasia	33,062	9.7 %	70,304	11.4 %
North America	179,558	52.6 %	301,576	48.9 %
Worldwide risks (2)	43,101	12.6 %	125,333	20.3 %
Other	8,670	2.6 %	26,472	4.3 %
Total	$ 341,378	100.0 %	$ 616,803	100.0 %

(1)Except as otherwise noted, each of these categories includes contracts that cover risks located primarily in the designated geographic area.
(2)Includes contracts that cover risks in two or more geographic zones.

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Premiums Ceded

In the normal course of our business, we purchase reinsurance in order to manage our exposures. The amount and type of reinsurance that we enter into is dependent on a variety of factors, including the cost of a particular reinsurance cover, our appetite and capacity to write certain risks and the nature of our gross premiums written during a particular period.

The majority of these contracts are excess-of-loss contracts covering one or more lines of business or quota share reinsurance with respect to specific lines of business. We also purchase protection through catastrophe bond structures, Montana Re, and industry loss warranty (“ILW”) policies which provide coverage for certain losses provided they are triggered by events exceeding a specified industry loss size. Reinsurance purchases to date have represented prospective cover; that is, ceded reinsurance purchased to protect against the risk of future losses as opposed to covering losses that have already been incurred but have not been paid.

Various factors will continue to affect our appetite and capacity to write and retain risk. These include the impact of changes in frequency and severity assumptions used in our models and the corresponding pricing required to meet our return targets, capital levels, evolving industry-wide capital requirements, increased competition, and other considerations.

Below is a summary of our underwriting results and ratios for the three months ended June 30, 2012 and 2011:

	For the three months ended June 30,			
	2012	2011	$ Change	% Change
Property catastrophe reinsurance	$ 126,755	$ 170,394	$ (43,639)	(25.6)%
Property reinsurance	28,781	53,224	(24,443)	(45.9)%
Short tail specialty and casualty reinsurance	15,614	40,510	(24,896)	(61.5)%
Gross premiums written	171,150	264,128	(92,978)	(35.2)%
Premiums ceded	(6,285)	(44,409)	38,124	(85.8)%
Net premiums written	164,865	219,719	(54,854)	(25.0)%
Net premiums earned	102,499	118,620	(16,121)	(13.6)%
Other related income	909	731	178	24.4 %
Loss and loss adjustment expenses	(55,483)	(96,490)	41,007	(42.5)%
Acquisition costs	(22,113)	(25,613)	3,500	(13.7)%
General and administrative expenses	(18,822)	(19,744)	922	(4.7)%
Underwriting income (loss)	$ 6,990	$ (22,496)	$ 29,486	131.1 %
Loss ratio	54.1 %	81.3 %		
Acquisition cost ratio	21.6 %	21.6 %		
General and administrative expense ratio	18.4 %	16.6 %		
Combined ratio	94.1 %	119.5 %		

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The increase in net underwriting results is the result of the lack of significant loss events during the second quarter of 2012 compared to the same period in 2011 (New Zealand earthquake of June 2011 and U.S. tornadoes), offset by a significant reduction in gross premiums written and net premiums earned, which is in line with our current underwriting strategy.

- The decrease in gross premiums written for all lines of business is a result of an overall decrease in our risk appetite and in our shareholder's equity following the significant worldwide losses we sustained in 2011. During the three months ended June 30, 2012, we recorded $3.9 million of gross reinstatement premiums compared to $5.8 million recorded for the same period in 2011.

- The decrease in ceded premiums is primarily related to higher reinstatement premiums incurred in 2011 on our ceded reinsurance due to loss activity and the increased level of reinsurance purchases after the loss events during the first quarter of 2011.

- The decrease in the loss ratio compared to the same period in 2011 is primarily due to more significant losses from catastrophic events in the prior period, which included the New Zealand earthquake of $18.5 million and U.S. tornadoes of $19.4 million. Losses are net of retrocession but exclude reinstatement premiums.

- Each quarter we revisit our loss estimates for previous catastrophe events. During the quarter ended June 30, 2012, based on updated estimates provided by clients and brokers, we recorded net favorable developments of $1.4 million for prior accident years. During the second quarter of 2011, the net positive developments for prior catastrophe events were $12.8 million.

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- The acquisition cost ratio compared to the same period in 2011 has remained stable.

- The decrease in general and administrative expenses is primarily the result of expense reduction initiatives in accordance with our overall decrease in underwriting activities, partially offset by lower staff compensation accrual in the same period in 2011 as a result of the significant underwriting loss.

Below is a summary of the underwriting results and ratios for the six months ended June 30, 2012 and 2011:

	For the six months ended June 30,			
	2012	2011	$ Change	% Change
Property catastrophe reinsurance	$ 233,096	$ 372,256	$ (139,160)	(37.4)%
Property reinsurance	66,666	119,023	(52,357)	(44.0)%
Short tail specialty and casualty reinsurance	41,616	125,524	(83,908)	(66.8)%
Gross premiums written	341,378	616,803	(275,425)	(44.7)%
Premiums ceded	(91,184)	(163,159)	71,975	(44.1)%
Net premiums written	250,194	453,644	(203,450)	(44.8)%
Net premiums earned	216,244	319,673	(103,429)	(32.4)%
Other related income	2,744	1,003	1,741	173.6 %
Loss and loss adjustment expenses	(121,932)	(399,489)	277,557	(69.5)%
Acquisition costs	(44,766)	(63,684)	18,918	(29.7)%
General and administrative expenses	(40,683)	(35,819)	(4,864)	13.6 %
Underwriting income (loss)	$ 11,607	$ (178,316)	$ 189,923	106.5 %
Loss ratio	56.4 %	125.0 %		
Acquisition cost ratio	20.7 %	19.9 %		
General and administrative expense ratio	18.8 %	11.2 %		
Combined ratio	95.9 %	156.1 %		

- The increase in net underwriting results is the result of the lack of significant loss events in 2012 compared to the same period in 2011 (Australian floods, cyclone Yasi, New Zealand earthquakes of February 2011 and June 2011, Japan earthquake and tsunami, and U.S. tornadoes), offset by a significant reduction in gross premiums written and net premiums earned, which is in line with our current underwriting strategy.

- The decrease in gross written premiums for all lines of business is a result of an overall decrease in our risk appetite and in our shareholder's equity following the significant worldwide losses we sustained in 2011. During the six months ended June 30, 2012, we recorded $11.3 million of gross reinstatement premiums compared to $17.8 million recorded for the same period in 2011. The decrease in reinstatements premiums was due to lower catastrophe losses in the current period.

- The decrease in ceded premiums is primarily related to higher reinstatement premiums incurred in 2011 on our ceded reinsurance due to loss activity and the increased level of reinsurance purchases after the loss events during the first quarter of 2011.

- The decrease in the loss ratio compared to the same period in 2011 is primarily due to more significant losses from catastrophic events in the prior period, including net incurred losses related to the Australian floods ($27.2 million), cyclone Yasi ($29.8 million), New Zealand earthquake of February 2011 ($100.8 million), the Japan earthquake and tsunami ($99.1 million), New Zealand earthquake of June 2011 ($18.5 million) and the U.S. tornadoes ($19.4 million). Losses are net of retrocession but exclude reinstatement premiums.

- Each quarter we revisit our loss estimates for previous catastrophe events. During the six months ended June 30, 2012, based on updated estimates provided by clients and brokers, we recorded net adverse developments of $6.1 million, related to cumulative prior accident years. In addition, we undertook our scheduled first quarter review of actuarial reserving assumptions. As a result of revised development factors for non-cat business based in part on experience, we recorded $7.0 million of negative reserves development.

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- The increase in general and administrative expenses is primarily the result of staff compensation accrual and performance based compensation returning to more typical levels in the current period as compared to levels in the same period in 2011, which were adjusted downward as a result of the significant underwriting loss.

Income from Discontinued Operations

Income from discontinued operations includes the financial results of our former reportable segments, Lloyd's (for all periods presented) and Island Heritage (for all periods presented up to and including March 31, 2012). Included in income from discontinued operations for the six months ended June 30, 2012 is underwriting income of $8.6 million, compared to underwriting losses of $3.6 million for the same period in 2011. The $12.2 million increase in underwriting income is primarily attributable to more significant catastrophic events during 2011 compared to 2012.

In addition, as of June 30, 2012, we had liabilities associated with discontinued operations of $393.8 million, all associated with our Lloyd's former reportable segment. Although we account for the business comprising our former Lloyd's and Island Heritage reportable segments as discontinued operations, we owned the Island Heritage business until completing its sale on April 5, 2012, and we will continue to own the Lloyd's business and be subject to the risks associated with that business until the Lloyd's divestiture is complete.

Investment Results

Our investment portfolio is structured to preserve capital and provide us with a high level of liquidity and is managed to produce a total return. In assessing returns under this approach we include investment income and realized and unrealized gains and losses generated by the investment portfolio.

The total return on our investment portfolio, excluding the noncontrolling interests in the investment portfolio, comprises investment income and realized and unrealized gains and losses on investments.

	For the three months ended June 30,			For the six months ended June 30,		
	2012	2011	% Change	2012	2011	% Change
Investment portfolio return	0.5 %	0.3 %	0.2 %	2.4 %	1.3 %	1.1 %

Net investment income

Net investment income is derived from interest earned on investments, reduced by investment management and custody fees. We allocate expenses directly related to investment activities to investment income.

The following tables set forth net investment income for the three months ended June 30, 2012 and 2011:

	For the three months ended June 30,		
	2012	2011	$ Change
Cash and cash equivalents	$ 214	$ 385	$ (171)
Fixed maturity investments	2,177	12,861	(10,684)
Short term investments	243	222	21
Other investments	2,160	(29)	2,189
Investment expenses	(928)	(1,139)	211

Net investment income	$	3,866	$	12,300	$	(8,434)

- The decrease in net investment income is primarily due to lower invested assets and the change in asset allocation during the quarter.
- The increase in investment income from other investments is primarily due to the positive performance of the investment funds.

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The following table sets forth net investment income for the six months ended June 30, 2012 and 2011:

	For the six months ended June 30, 2012	For the six months ended June 30, 2011	$ Change
Cash and cash equivalents	$ 484	$ 779	$ (295)
Fixed maturity investments	7,944	22,669	(14,725)
Short term investments	365	428	(63)
Other investments	2,148	(88)	2,236
Investment expenses	(2,008)	(2,290)	282
Net investment income	$ 8,933	$ 21,498	$ (12,565)

- The overall decrease in net investment income is primarily due to lower invested assets, the change in asset allocation and lower interest rates during the period.
- The increase in investment income from other investments is primarily due to the positive performance of the investment funds.

Net realized and unrealized gains and losses – investments

Net realized and unrealized gains and losses – investments comprises fixed maturities, equities, other investments, and investment portfolio derivatives. We enter into investment portfolio derivatives including global equity futures, global bond futures, commodity futures and TBAs. We enter into index futures contracts to gain or reduce our exposure to an underlying asset or index. We also purchase TBAs as part of our investing activities. We enter into interest rate futures in order to manage portfolio duration and interest rate risk. Exposure to these instruments is managed based on guidelines established by management and is approved by the Board.

The following table is a breakdown of net realized and unrealized (losses) gains – investments for the three months ended June 30, 2012 and 2011:

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	$ Change
Net realized gains on fixed maturity investments	$ 14,589	$ 22,615	$ (8,026)
Net unrealized (losses) gains on fixed maturity investments	(27,417)	3,328	(30,745)
Net realized losses on equity investments	-	(845)	845
Net unrealized (losses) gains on equity investments	(15)	781	(796)
Net realized and unrealized gains (losses) on derivative instruments - investments (see table below)	15,510	(34,096)	49,606
Net realized and unrealized gains on other investments	2,698	312	2,386
	$ 5,365	$ (7,905)	$ 13,270

Net realized and unrealized gains (losses) - investments

	For the three months ended June 30, 2012	2011	$ Change
Futures contracts	$ (74)	$ (16,554)	$ 16,480
Foreign currency forward contracts	15,584	(17,542)	33,126
Net realized and unrealized gains (losses) on derivative instruments - investments	$ 15,510	$ (34,096)	$ 49,606

- The change in net realized and unrealized on fixed maturity investments is primarily due to the change in asset allocation and to foreign currency impact on the portfolio.

- The change in net realized and unrealized on other investments is primarily due to the positive performance on investment funds.

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- The change in net realized and unrealized on futures contracts is primarily due to less exposure to risky assets during 2012.

- The change in net realized and unrealized on foreign currency forward contracts is related to the currency hedges on non-U.S. dollar bonds and is offset by net realized and unrealized losses on the fixed maturity investments.

The following table is a breakdown of the net realized and unrealized gains - investments for the six months ended June 30, 2012 and 2011:

	For the six months ended June 30,		
	2012	2011	$ Change
Net realized gains on fixed maturity investments	$ 23,186	$ 36,708	$ (13,522)
Net unrealized (losses) gains on fixed maturity investments	(11,487)	22,470	(33,957)
Net realized losses on equity investments	-	(845)	845
Net unrealized (losses) gains on equity investments	(18)	750	(768)
Net realized and unrealized gains (losses) on derivatives instruments - investments (see table below)	3,205	(60,506)	63,711
Net realized and unrealized gains on other investments	8,582	4,289	4,293
Net realized and unrealized gains - investments	$ 23,468	$ 2,866	$ 20,602

	For the six months ended June 30,		
	2012	2011	$ Change
Futures contracts	$ 179	$ (8,986)	$ 9,165
Foreign currency forward contracts	3,026	(51,518)	54,544
Mortgage-backed securities TBA	-	(2)	2
Net realized and unrealized gains (losses) on derivatives instruments - investments	$ 3,205	$ (60,506)	$ 63,711

- The change in net realized and unrealized on fixed maturity investments is primarily due to the tightening of credit spreads, to the change in asset allocation and to higher foreign currency impact on the portfolio.

- The change in net realized and unrealized on other investments is primarily due to the positive performance on investment funds.

- The change in net unrealized and unrealized on futures contracts is primarily due to less exposure to risky assets during 2012.

- The change in net realized and unrealized on foreign currency forward contracts is related to the currency hedges on non-U.S. dollar bonds and is offset by net realized and unrealized gains on the fixed maturity investments.

Treasury Hedging and Other

Net realized and unrealized gains and losses – other

Our policy is to hedge the majority of our currency exposure with derivative instruments such as currency swaps and foreign currency forward contracts.

Currency swaps and foreign currency forward contracts are used to hedge the economic currency exposure of our investment in foreign subsidiaries and to hedge operational balances such as premiums receivable, loss reserves and the portion of our long term debt issued in Euros.

Reinsurance derivatives relate to ILWs that are structured as derivative transactions. The amounts shown in the tables below are premiums earned on ILWs.

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The following tables are a breakdown of net realized and unrealized (losses) gains – other for the three and six months ended June 30, 2012 and 2011:

	For the three months ended June 30, 2012	2011	$ Change
Currency swaps	$ (937)	$ 467	$ (1,404)
Foreign currency forward contracts	(4,053)	13,519	(17,572)
Net realized and unrealized (losses) gains - other	$ (4,990)	$ 13,986	$ (18,976)

- The net realized and unrealized losses associated with the currency swaps are due to currency fluctuations, which are partially offset by net gains recorded through the balance sheet currency revaluations on the foreign currency long term debt.

- The net realized and unrealized losses associated with foreign currency forward contracts are due to currency fluctuations, which are partially offset by net gains recorded through the balance sheet currency revaluations on reinsurance balances.

	For the six months ended June 30, 2012	2011	$ Change
Currency swaps	$ (509)	$ 1,547	$ (2,056)
Foreign currency forward contracts	1,902	11,508	(9,606)
Reinsurance derivatives	-	241	(241)
Net realized and unrealized gains - other	$ 1,393	$ 13,296	$ (11,903)

- The net realized and unrealized losses associated with the currency swaps are due to currency fluctuations, which are partially offset by net gains recorded through balance sheet currency revaluations on the foreign currency long term debt.

- The net realized and unrealized losses associated with foreign currency forward contracts are due to currency fluctuations, which are partially offset by net losses recorded through balance sheet currency revaluations on reinsurance balances.

  - The last reinsurance derivative expired in 2011and we have not written any further derivatives.

Interest Expense

Interest expense consists of interest due on outstanding debt securities and the amortization of debt offering expenses. Interest expense was $3.0 million and $5.9 million, respectively, for the three and six months ended June 30, 2012, compared to $2.9 million and $5.7 million, respectively, for the three and six months ended June 30, 2011.

Foreign Exchange

For the three and six months ended June 30, 2012, we experienced net foreign exchange gains of $3.4 million and net foreign exchange losses of $0.9 million, respectively, compared to net foreign exchange losses of $27.4 million and $37.0 million, respectively, for the three and six months ended June 30, 2011. This net change is primarily due to the impact of the strengthening U.S. dollar on our net liabilities. Net realized and unrealized gains and losses on derivatives used to hedge those balances are included in "Net realized and unrealized gains (losses) – other" in the unaudited condensed consolidated statements of operations.

We designated foreign currency forwards with notional contractual value of $51.9 million and $51.6 million as hedging instruments, which had a fair value of $(1.1) million and $(0.5) million at June 30, 2012 and December 31, 2011, respectively. During the three and six months ended June 30, 2012 and 2011, we recorded $3.1 million and $1.0 million, respectively, of realized and unrealized gains, directly into comprehensive income as part of the cumulative translation adjustment for the effective portion of the hedge.

Income Tax Expense

We have subsidiaries that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The significant jurisdictions in which our subsidiaries are subject to tax are South Africa, Canada, India, Switzerland, United Kingdom, and the U.S. However, since the majority of our income to date has been earned in Bermuda where we are exempt from income tax, the impact of income taxes to date has been minimal.

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During the three and six months ended June 30, 2012, income tax expense was $0.2 million and $0.3 million, respectively, compared to income tax recovery of $0.8 million and $1.1 million, respectively, for the three and six months ended June 30, 2011.

Noncontrolling Interest

The following table is the breakdown of income attributable to noncontrolling interest in the unaudited condensed consolidated statements of operations into its various components:

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Income attributable to Island Heritage	$ -	$ 1,197	$ 1,135	$ 1,465
Income attributable to Mont Fort	-	-	-	556
Income attributable to noncontrolling interest	$ -	$ 1,197	$ 1,135	$ 2,021

The portions of Mont Fort's net income and shareholders' equity attributable to the preferred shareholders and Island Heritage's net income and shareholders' equity attributable to minority shareholders are recorded as noncontrolling interest in accordance with the FASB ASC Topic on Consolidation. Effective March 25, 2011, upon the final redemption of Mont Fort preferred shares, there is no longer a noncontrolling interest in Mont Fort. Effective April 5, 2012, upon final disposal of the former Island Heritage reportable segment, there is no longer a noncontrolling interest in Island Heritage.

Comprehensive Income (Loss)

The following table is the breakdown of comprehensive income (loss) in the unaudited condensed consolidated statements of operations into its various components:

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net income (loss)	$ 13,490	$ (19,013)	$ 53,810	$ (179,409)
Change in currency translation adjustment	(4,669)	873	(132)	3,750
Change in defined benefit pension plan obligation	136	(158)	(72)	(158)
Comprehensive income (loss)	8,957	(18,298)	53,606	(175,817)
Less: Comprehensive loss attributable to noncontrolling interest	-	(1,197)	(1,135)	(2,021)
Comprehensive income (loss) attributable to Flagstone	$ 8,957	$ (19,495)	$ 52,471	$ (177,838)

The currency translation adjustment is a result of the translation of our foreign subsidiaries into U.S. dollars, net of transactions designated as hedges of net foreign investments. We have entered into certain foreign currency forward

contracts that we have designated as hedges in order to hedge our net investment in foreign subsidiaries. To the extent that the contracts are effective as a hedge, both the realized and unrealized gains and losses associated with the designated hedge instruments are recorded in other comprehensive income as part of the cumulative translation adjustment. For further information, on foreign currency forward contracts, please refer to the Foreign Exchange section noted above.

Financial Condition, Liquidity, and Capital Resources

Financial Condition

Our investment portfolio on a risk basis, at June 30, 2012, comprised 93.9% fixed maturities, short-term investments and cash and cash equivalents with the balance in other investments. We believe our investments can be liquidated and converted into cash within a very short period of time. However, our investment funds, which represent 5.0% of our total investments and cash and cash equivalents at June 30, 2012, do not trade in active markets and are subject to redemption provisions that prevent us from converting them into cash immediately. During the quarter, we made changes to our investment portfolio allocations due to continued economic uncertainty in the global markets. Our investment portfolio was repositioned to have shorter duration and higher credit quality. We continuously monitor the economic environment and global markets and will consider appropriate changes to the investment portfolio allocations if and when warranted.

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At June 30, 2012 and December 31, 2011, all of the fixed maturity investments in our investment portfolio were rated investment-grade (BBB- or higher) by Standard & Poor's (or an equivalent rating by another rating agency) with an average rating of AAA and AA, respectively.

The average duration of our investment portfolio was 0.3 years at June 30, 2012 and 1.8 years at December 31, 2011.

Other investments as at June 30, 2012, amounted to $142.4 million compared to $125.5 million at December 31, 2011. At June 30, 2012, the other investments comprised $71.8 million in catastrophe bonds and $68.2 million in investment funds, which are recorded at fair value and our equity method investment of $2.4 million. The increase in other investments during the first six months of 2012 is principally related to additional investments in investment funds and catastrophe bonds along with positive performance on investment funds partially offset by negative performance in the catastrophe bonds.

	As at	
	June 30, 2012	December 31, 2011
Investment funds	$ 68,235	$ 59,278
Catastrophe bonds	71,762	64,016
Equity method investment	2,446	2,158
Total	$ 142,443	$ 125,452

The net payable for investments purchased at June 30, 2012, was $0.1 million, compared to a net payable for investments purchased of $6.2 million at December 31, 2011. Net receivables and payables for investments are a result of timing differences only, as investments are accounted for on a trade date basis.

See Note 5 "Investments" to the unaudited condensed consolidated financial statements for further details on amortized cost, gross unrealized gains and losses, and rating and maturity distributions.

Liquidity

Cash flows from operations for the six months ended June 30, 2012 used $181.0 million, as compared to providing $95.2 million during the same period in 2011. This decrease in cash flows from operations was primarily related to decreased loss and loss adjustment expense reserves resulting from the volume of claims paid on the 2011 loss events, partially offset by higher net income in the current period due to the absence of significant loss events during the six months ended June 30, 2012. Because a large portion of the coverages we provide can produce losses of high severity and low frequency, it is not possible to accurately predict our future cash flows from operating activities. As a consequence, cash flows from operating activities may fluctuate, perhaps significantly, between individual quarters and years.

Cash flows relating to financing activities include the payment of distributions to shareholders, share related transactions and the issuance or repayment of debt. During the six months ended June 30, 2012, net cash of $7.0 million was used in financing activities, compared to $52.3 million for the same period in 2011. For the six months ended June 30, 2012, the net cash used in financing activities related principally to the payment of distributions. For the six months ended June 30, 2011, the net cash used in financing activities related principally to the redemption of preferred shares in Mont Fort High Layer.

We may incur additional indebtedness in the future if we determine that it would improve the efficiency of our capital structure.

Generally, positive cash flows from our operating and financing activities are invested in our investment portfolio.

To date, we have had sufficient cash flows from operations to meet our liquidity requirements. We expect that our operational needs for liquidity for at least the next twelve months will be met by our balance of cash, funds generated from underwriting activities, investment income and the proceeds from sales and maturities of our investment portfolio. The divestiture of Island Heritage did not have a significant impact on our operation's needs for liquidity. In addition, with reference to "Recent Developments" above, as of the date of this Quarterly Report, we do not anticipate the divestiture of Lloyd's to have a significant impact on our operation's needs for liquidity.

In the current financial environment, it may be difficult for the insurance industry generally, and us in particular, to raise additional capital when required, on acceptable terms or at all. Cash and cash equivalents were $186.3 million at June 30, 2012. On October 24, 2011, A.M. Best Co. commented that the Company's recent restructuring announcement has not changed the issuer credit ratings ("ICRs") of "a-" of Flagstone Reassurance Suisse S.A. (Martigny, Switzerland), Island Heritage Insurance Company Ltd. (Cayman Islands) and Flagstone Alliance Insurance and Reinsurance PLC (Limassol, Cyprus) as well as the ICR of "bbb-" of Flagstone

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Reinsurance Holdings S.A. (Luxembourg), nor has the announcement changed the indicative debt ratings of “bb” on preferred stock, “bb+” on subordinated debt and “bbb-” on senior debt for securities available under the Company’s shelf registration statement. A.M. Best Co. noted that the outlook for all ratings, with the exception of Island Heritage Insurance Company Ltd., remains negative. On April 4, 2012, after the Company announced that it had entered into definitive agreements for the sale of its Lloyd’s business and Island Heritage, A.M. Best Co. commented these ICRs remain unchanged and that the outlook for all ratings remains negative. On May 18, 2012, A.M. Best Co. again commented that these ICRs remain unchanged and that the outlook for all ratings remains negative. The Company’s ICRs, including those of its wholly owned subsidiaries, are important to maintaining the Company’s liquidity. A reduction in these credit ratings, the continued negative outlook or a failure to resolve the negative outlook could reduce the Company’s access to debt markets or materially increase the cost of issuing debt, trigger additional collateral or funding requirements, and decrease the number of counterparties willing or permitted, contractually or otherwise, to do business with or lend to the Company, thereby curtailing the Company’s business operations and reducing its profitability.

Capital Resources

Our total capital resources at June 30, 2012 and December 31, 2011 were as follows:

	As at			
		June 30, 2012		December 31, 2011
Long term debt	$	250,202	$	250,575
Common shares		845		845
Common shares held in treasury		(150,202)		(160,448)
Additional paid-in capital		857,714		872,819
Accumulated other comprehensive loss		(12,788)		(12,584)
Retained earnings		141,091		88,416
Total capital	$	1,086,862	$	1,039,623

The movement in both common shares held in treasury and additional paid-in capital during the six months ended June 30, 2012, arises from the use of treasury shares to settle vested stock based compensation grants.

For the six months ended June 30, 2012, accumulated other comprehensive loss arose from the changes in currency translation adjustment of $(0.1) million and the defined benefit pension plan obligation of $(0.1) million.

Letter of credit facilities

On August 31, 2011, Flagstone Suisse and Flagstone Capital Management Luxembourg SICAF – FIS (“FCML”) entered into a $200.0 million secured committed letter of credit facility with Barclays Bank Plc (the “Barclays Facility”). The Barclays Facility is for letters of credit with a maximum tenor of 15 months and is used to support the reinsurance obligations of the Company. As of June 30, 2012, $46.0 million had been drawn under the Barclays Facility, and the drawn amount was secured by $48.4 million of fixed maturity investments from the Company’s investment portfolio. The Barclays Facility replaced a $200.0 million credit facility with Barclays Bank Plc which commenced on March 5, 2009.

On April 28, 2010, Flagstone Suisse and FCML entered into a secured $450.0 million standby letter of credit facility with Citibank Europe Plc (the “Citi Facility”). The Citi Facility comprised 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 a $225.0

million facility for letters of credit drawn in respect of Funds at Lloyd's with a maximum tenor of 60 months. On December 21, 2010, the Citi Facility was amended to increase the amount available under the facility by $100.0 million to $550.0 million, with all the terms and conditions remaining unchanged. The Citi Facility now comprises a $275.0 million facility for letters of credit with a maximum tenor of 15 months, to be used to support reinsurance obligations of the Company, and a $275.0 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, 2012, $507.5 million had been drawn under the Citi Facility, and the drawn amount of the facility was secured by $554.7 million of fixed maturity investments from the Company's investment portfolio. The Citi Facility replaced 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 for Funds at Lloyd's, and they are fully collateralized by the Company, to the extent of the letters of credit outstanding at any given time.

The divestiture of Island Heritage did not have a significant impact on our capital resources. In addition, we do not anticipate any significant impact on our capital resources as a result of the divestiture of Lloyd's discussed in "Recent Developments" above. However, the Lloyd's divestiture will result in a reduction in the utilization of our letter of credit facilities.

Restrictions and Specific Requirements

Luxembourg

We do not conduct the business of an insurer or reinsurer in Luxembourg and therefore are not required to be registered with the Commissairiat aux Assurances, which is the authority in Luxembourg that regulates insurers and reinsurers.

Under Luxembourg Law, our shareholders may declare dividends at a general meeting of shareholders through the passage of an ordinary resolution, but, in accordance with our Articles, the dividend may not exceed the amount recommended by our Board. Dividends may only be declared from our distributable reserves. In accordance with Luxembourg Law, no distributions to shareholders may be made when, on the closing date of the relevant financial year, the net assets as set out in the annual accounts are, or would be following such a distribution, lower than the subscribed capital plus the reserves that may not be distributed under Luxembourg Law or in accordance with our Articles. The amount of a distribution to shareholders may not exceed the amount of profits at the end of the last financial year plus any profits carried forward and any amounts drawn from reserves which are available for that purpose, less any losses carried forward and sums to be placed to reserve in accordance with the Luxembourg Law or in accordance with the Articles.

Subject to Luxembourg Company Law, our Board may declare interim dividends. The declaration of interim dividends is subject to the approval of shareholders at the next general meeting. Where the payments made on account of interim dividends exceed the amount of dividends subsequently approved by shareholders at the general meeting, they shall, to the extent of the overpayment, be deemed to have been paid on account of the next dividend. Our Articles allow for the declaration of interim dividends, but any payment of interim dividends is subject to the conditions that: (i) interim accounts are drawn up showing that the funds available for distribution are sufficient; (ii) the amount to be distributed may not exceed total profits made since the end of the last financial year for which the accounts have been approved, plus any profits carried forward and sums drawn down from reserves available for this purpose, less losses carried forward any sums to be placed to reserve pursuant to the requirements of the law or our Articles; (iii) the decision of our Board to distribute an interim dividend may not be taken more than two months after the date at which the interim accounts have been made up; (iv) in their report, our Board of Directors and the statutory auditor shall verify whether the above conditions have been satisfied.

Certain of our investment management activities are based in Luxembourg and managed through Flagstone Capital Management Luxembourg SICAF – FIS (“FCML”). FCML is a closed-end investment fund and is regulated by the Luxembourg Commission de Surveillance du Secteur Financier. In accordance with the various documents governing the operation of FCML, a general meeting determines how the profits (including net realized capital gains) of FCML are disposed of and may from time to time declare, or authorize the Board of Directors of FCML to declare dividends, provided however that the capital of FCML including issue premiums does not fall below €1,250,000 or the equivalent thereof in any currency in which shares in FCML are issued. Dividends may also be paid out of net unrealized capital gains after deduction of realized losses. The Board of Directors of FCML is further authorized to pay interim dividends subject to the relevant provisions of Luxembourg law.

Switzerland

Flagstone Suisse is licensed to operate as a reinsurer in Switzerland and is also licensed in Bermuda through the Flagstone Suisse branch office and is not licensed in any other jurisdictions. Because many jurisdictions do not permit insurance companies to take credit for reinsurance obtained from unlicensed or non-admitted insurers on their statutory financial statements unless appropriate security mechanisms are in place, we anticipate that our reinsurance clients will typically require Flagstone Suisse to post a letter of credit or other collateral.

Swiss law permits dividends to be declared only after profits have been allocated to the reserves required by law and to any reserves required by the articles of incorporation. The articles of incorporation of Flagstone Suisse do not require any specific reserves. Therefore, Flagstone Suisse must allocate any profits first to the reserve required by Swiss law generally, and may pay as dividends only the balance of the profits remaining after that allocation. In the case of Flagstone Suisse, Swiss law requires that 20% of the company's profits be allocated to a "general reserve" until the reserve reaches 50% of its paid-in share capital.

In addition, a Swiss reinsurance company may pay a dividend only if, after payment of the dividend, it will continue to comply with regulatory requirements regarding minimum capital, special reserves and solvency.

Bermuda

Flagstone Suisse is licensed as a Class 4 insurer in Bermuda through its branch office. The Bermuda Insurance Act requires Flagstone Suisse to maintain a minimum solvency margin (being the minimum amount that the statutory assets must exceed the statutory liabilities as required by the Bermuda Insurance Act) equal to the greatest of (i) $100 million, (ii) 50% of net premiums written or (iii) 15% of the reserve for losses and loss adjustment expenses.

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The Company established a Luxembourg SICAF fund, FCML, on September 8, 2008 to manage the group's investments in Luxembourg. FCML is a wholly owned subsidiary of Flagstone Suisse. This structure offers the group many advantages such as the benefits of centralized investment management, tax and regulatory efficiencies. For purposes of the Swiss Solvency Test, the investment in FCML is consolidated in Flagstone Suisse's accounts, as approved by FINMA since 2008.

In preparing the stand alone Bermuda statutory financial statements of Flagstone Suisse, FCML is recorded as an investment in affiliate on the balance sheet and as such does not automatically qualify as a relevant asset for the purposes of the liquidity ratio.

The Company applied to the Bermuda Monetary Authority (the "BMA") for FCML to qualify as a relevant asset for the purposes of meeting the 2011 liquidity ratio requirements and on March 13, 2012 the application was approved by the BMA, followed by the receipt of official documentation on May 1, 2012. Flagstone Suisse is required to file statutory financial statements annually with the BMA by April 30.

In addition, each Class 4 insurer must maintain its capital at a level equal to its enhanced capital requirement ("ECR") which is established by reference to the Bermuda Solvency Capital Requirement ("BSCR") model which came into force in 2008 to assist the BMA to better assess the adequacy of a Class 4 insurer's capital.

Alternatively, under the Insurance Act, insurers may, subject to the terms of the Insurance Act and to the BMA's oversight, elect to utilize an approved internal capital model to determine regulatory capital. The BMA believes that use of an internal model to substantiate the required regulatory capital requirement may in many circumstances better reflect a specific insurer's particular business profile than a market-wide regulatory model. An insurer's internal model must satisfy certain criteria to be approved for the determination of regulatory capital. In either case, the ECR shall at all times equal or exceed the Class 4 insurer's Minimum Solvency Margin and may be adjusted in circumstances where the BMA concludes that the insurer's risk profile deviates significantly from the assumptions underlying its ECR or the insurer's assessment of its risk management policies and practices used to calculate the ECR applicable to it.

In 2009, the BMA launched its Bermuda Insurance Solvency Framework, which is designed to enable Bermuda to achieve "equivalence" with Solvency II. As of the date of this Quarterly Report, the impact of this initiative is currently being monitored by the Company.

Bermuda law limits the maximum amount of annual dividends or distributions payable by Flagstone Suisse to the Company and in certain cases requires the prior notification to, or the approval of, the BMA. As a Bermuda Class 4 reinsurer, Flagstone Suisse may not pay dividends in any financial year which would exceed 25% of its total statutory capital and surplus unless at least seven days before payment of those dividends it files an affidavit with the BMA signed by at least two directors and Flagstone Suisse's principal representative, which states that in their opinion, declaration of those dividends will not cause Flagstone Suisse to fail to meet its prescribed solvency margin and liquidity ratio. Further, Flagstone Suisse may not reduce by 15% or more its total statutory capital as set out in its previous year's statements, without the prior approval of the BMA. Flagstone Suisse must also maintain, as a Class 4 Bermuda reinsurer, paid-up share capital of $1 million.

South Africa
Flagstone Africa is regulated by the Financial Services Board ("FSB") and is licensed to operate as a reinsurer in South Africa subject to statutory minimum capital requirements under applicable legislation. In addition, a South African reinsurance company may pay a dividend only if, after payment of the dividend, it will continue to comply with regulatory requirements regarding minimum capital, special reserves and solvency requirements.

United Kingdom

Our discontinued operations FSML and Syndicate 1861 are regulated by the Financial Services Authority ("FSA") in the U.K. The FSA is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. Although accountable to treasury ministers and through them to Parliament, it is funded entirely by the firms it regulates. The FSA has wide ranging powers in relation to rule-making, investigation and enforcement to enable it to meet its four statutory objectives, which are summarized as one overall aim: "to promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal".

In relation to insurance business, the FSA regulates insurers, insurance intermediaries and Lloyd's itself. The FSA and Lloyd's have common objectives in ensuring that Lloyd's market is appropriately regulated and, to minimize duplication, the FSA has agreed arrangements with Lloyd's for cooperation on supervision and enforcement.

FSML's underwriting activities are therefore regulated by the FSA as well as being subject to the Lloyd's "franchise". Both FSA and Lloyd's have powers to remove their respective authorization to manage Lloyd's syndicates. Lloyd's approves annually Syndicate 1861's business plan and any subsequent material changes, and the amount of capital required to support that plan. Lloyd's may require changes to any business plan presented to it or additional capital to be provided to support the underwriting (known as Funds at Lloyd's).

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Solvency II

The European Parliament passed the Solvency II directive in April 2009, to establish a revised set of European Union (EU) wide capital requirements and risk management standards. All (re)insurers, including Lloyd's and its managing agents, within the EU need to be compliant with Solvency II by January 1, 2014.

Flagstone's existing risk management framework and mechanisms closely mirror the requirements for Solvency II. Since its inception, Flagstone has invested in its internal model that generates the Group's risk profile and this model is also used to calculate the internal capital requirements for Lloyd's. Flagstone is working closely with Lloyd's to ensure full compliance with the regulations. Flagstone believes that Solvency II will have a positive impact on its operations and risk management framework.

Off Balance Sheet Arrangements

Montana Re is a special purpose reinsurer established in the Cayman Islands and was formed as a program structure enabling further issuance of additional series of notes in the future. During 2009, we entered into a reinsurance agreement with Montana Re that provides us with $175.0 million of protection for certain losses from global catastrophe events. During 2010, we entered into an additional reinsurance agreement with Montana Re, which incepted on January 1, 2011, that provides us with $210.0 million of protection for certain losses from global catastrophe events. These bonds have recently been downgraded by the relevant rating agencies to reflect the increased likelihood of attachments due to recent industry model changes.

We have determined that Montana Re has the characteristics of a variable interest entity that are addressed by the Consolidation Topic of the FASB ASC. In accordance with the Consolidation Topic, Montana Re is not consolidated because we are not the primary beneficiary.

We are not party to any transaction, agreement or other contractual arrangement to which a Flagstone affiliated unconsolidated entity is a party, other than those noted above with Montana Re, that management believes is reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

For details relating to our letter of credit facilities see above "Financial Condition, Liquidity and Capital Resources - Letter of Credit Facilities".

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We measure and manage market risks and other risks as part of an enterprise-wide risk management process. The market risks described in this section relate to financial instruments, primarily in our investment portfolio, that are sensitive to changes in interest rates, credit risk premiums or spreads, foreign exchange rates and equity prices.

We are exposed principally to four types of market risk: interest rate risk, equity price risk, credit risk and foreign currency risk.

Interest Rate Risk

Our primary market risk exposure is to changes in interest rates. Fluctuations in interest rates have a direct impact on the market valuation of our fixed maturity portfolio. As interest rates rise, the market value of our fixed maturity portfolio falls there is a risk that cash outflows will have to be funded by selling assets, which will be trading at depreciated values. As interest rates decline, the market value of our fixed maturity portfolio increases and we have reinvestment risk since funds reinvested may earn less than is necessary to match anticipated liabilities. We expect to manage interest rate risk by selecting investments with characteristics such as duration, yield, currency and liquidity which can be tailored to the anticipated cash outflow characteristics of our reinsurance liabilities. In addition, from time-to-time, we may enter into interest rate swap contracts as protection against unexpected shifts in interest rates, which would affect the fair value of the fixed maturity portfolio. By using swaps in the portfolio, the overall duration or interest rate sensitivity of the portfolio can be altered.

As at June 30, 2012, the impact on our fixed maturity investments and cash and cash equivalents, from an immediate 100 basis point increase in market interest rates would have resulted in an estimated decrease in market value of 0.3%, or approximately $3.4 million. As at June 30, 2012, the impact on our fixed maturity investments, cash and cash equivalents, from an immediate 100 basis point decrease in market interest rates would have resulted in an estimated increase in market value of 0.1%, or approximately $1.7 million. As at December 31, 2011, the impact on our fixed maturity investments and cash and cash equivalents, from an immediate 100 basis point increase in market interest rates would have resulted in an estimated decrease in market value of 1.7%, or approximately $22.9 million. As at December 31, 2011, the impact on our fixed maturity investments and cash and cash equivalents, from an immediate 100 basis point decrease in market interest rates would have resulted in an estimated increase in market value of 1.6%, or approximately $21.7 million.

We use interest rate futures to manage the duration and the interest rate risk of our investment portfolio. As at June 30, 2012, we did not hold any interest rate futures contracts, as the positions were closed as part of changes made to our investment portfolio. The interest rate futures contracts held were for three month exposure to U.S. and Euro interest rates, and we held short positions which reduced the duration of our portfolio.

As at June 30, 2012, we held $312.3 million, or 30.3% of our fixed maturity portfolio in asset-backed and mortgage-backed securities. As at December 31, 2011, we held $232.8 million, or 20.3%, of our fixed maturity portfolio in asset-backed and mortgage-backed securities. We did not hold any sub-prime securities at June 30, 2012 and December 31, 2011. These assets are exposed to prepayment risk, which occurs when holders of underlying loans increase the frequency with which they prepay the outstanding principal before the maturity date and refinance at a lower interest rate cost. The adverse impact of prepayment is more evident in a declining interest rate environment. As a result, we would also be exposed to reinvestment risk, as cash flows received by us could be accelerated and would be reinvested at the prevailing interest rates.

Equity Price Risk

We gain exposure to the equity, commodities and real estate markets through the use of various equity securities and index-linked futures. The total of such exposure as at June 30, 2012 and December 31, 2011 was $0.1 million and $7.8 million, respectively. The fair value of these positions as at June 30, 2012 and December 31, 2011 amounted to $0.1 million and $(0.1) million, respectively, and was recorded in equity investments and other assets and other liabilities. For the three and six months ended June 30, 2012, we recorded net realized and unrealized gains of $nil and $0.9 million, respectively, in net realized and unrealized gains – investments as compared to losses of $5.8 million and $0.9 million, respectively, for the three and six months ended June 30, 2011.

Credit Risk

We have exposure to credit risk primarily as a holder of fixed maturity investments. Our risk management strategy and investment guidelines have been defined to ensure we invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories and any one issuer. As at June 30, 2012, our fixed maturity investments consisted of investment grade securities with an average rating of AAA. We believe this high-quality portfolio reduces our exposure to credit risk on fixed income investments to an acceptable level. We have included credit rating information with respect to our investment portfolio because it enhances the reader's understanding of its composition and consistency with our investment philosophy.

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To a lesser extent, we also have credit risk exposure as a party to over-the-counter derivative instruments. These derivative instruments include foreign currency forward contracts, currency swaps and reinsurance derivatives. To mitigate this risk, we monitor our exposure by counterparty and ensure that counterparties to these contracts are high-credit quality international banks or counterparties.

In addition, we have exposure to credit risk as it relates to our insurance and reinsurance balances receivable. Premium balances receivable from our clients at June 30, 2012 and December 31, 2011, were $273.7 million and $236.4 million, respectively, including balances both currently due and accrued. We believe that credit risk exposure related to these balances is mitigated by several factors, including but not limited to credit checks performed as part of the underwriting process, monitoring of aged receivable balances, our right to cancel the cover for non-payment of premiums, and our right to offset premiums yet to be paid against losses due to the cedent. Since our inception in October 2005, we have recorded $4.2 million in bad debt expenses related to our insurance and reinsurance balances receivable.

We purchase retrocessional reinsurance and we require our reinsurers to have adequate financial strength or collateralize their exposures. We evaluate the financial condition of our reinsurers and monitor our concentration of credit risk on an ongoing basis.

In addition, consistent with industry practice, we assume a degree of credit risk associated with reinsurance and insurance brokers. We frequently pay amounts owed on claims under our policies to reinsurance brokers, and these brokers, in turn, pay these amounts to the ceding insurers that have reinsured a portion of their liabilities with us. In some jurisdictions, if a broker fails to make such a payment, we may remain liable to the ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the ceding insurer pays premiums to reinsurance brokers for payment to us, these premiums are considered to have been paid and the ceding insurer will no longer be liable to us for those amounts, regardless of whether we have received the premiums.

For risk management purposes, we use catastrophe bonds to manage our reinsurance risk and treat the catastrophe risks related to Catastrophe bonds as part of our underwriting risks. Catastrophe bonds are selected by our reinsurance underwriters however they are held in our investment portfolio as floating rate bonds for performance purposes.

Foreign Currency Risk

We use foreign currency forward contracts and currency swaps to manage currency exposure. The net notional exposure of foreign currency forward contracts in U.S. dollars as at June 30, 2012 and December 31, 2011, were $468.4 million and $705.1 million, respectively, and these contracts had a fair value of $(4.0) million and $7.0 million, respectively. For the three and six months ended June 30, 2012, we recorded net realized and unrealized gains of $11.5 million and $4.9 million, respectively, on foreign currency forward contracts and for the three and six months ended June 30, 2011, we recorded net realized and unrealized losses of $4.0 million and $40.0 million, respectively, on foreign currency forward contracts.

Premiums, Reserves, and Claims

The U.S. dollar is our principal reporting currency and the functional currencies of our operating subsidiaries are generally their national currencies, except for our Bermuda, Cayman Islands, Luxembourg, Gibraltar, FSML subsidiaries and Flagstone Suisse, each of whose functional currency is the U.S. dollar. We enter into reinsurance contracts where the premiums receivable and losses payable are denominated in currencies other than the U.S. dollar. When we incur a loss in a non-U.S. dollar currency, we carry the liability on our books in the original currency. As a result, we have an exposure to foreign currency risk resulting from fluctuations in exchange rates

between the time premiums are collected and the time claims are paid.

With respect to loss reserves denominated in non-U.S. dollar currencies, our policy is to hedge the majority of our non-U.S. dollar foreign currency exposure with derivative instruments such as currency swaps and foreign currency forward contracts.

Investments

A significant portion of the securities held in our investment portfolios are measured in U.S. dollars. Within our fixed maturity portfolio, a portion is invested in non-U.S. dollar currencies, which are hedged to U.S. dollars. At the time of purchase, each investment is identified as either a hedged investment, to be maintained with an appropriate currency hedge to U.S. dollars or an unhedged investment, one not to be maintained with a hedge. Generally, fixed income investments will be hedged, listed equity investments may or may not be hedged, and other investments such as investment funds which may or may not be hedged.

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Financing

Certain subsidiaries of ours have a functional currency other than the U.S. dollar. Our practice is to hedge the net investment in those subsidiaries and designate foreign currency forward contracts as hedging instruments. The contractual amount of these contracts as at June 30, 2012 and December 31, 2011 was $51.9 million and $51.6 million, respectively, and the contracts had a fair value of $(1.1) million and $(0.5) million, respectively. During the three and six months ended June 30, 2012 and 2011, we recorded net realized and unrealized gains of $3.1 million and $1.0 million, respectively, and net realized and unrealized losses of $0.8 million and $2.0 million, respectively, directly into comprehensive income as part of the cumulative translation adjustment for the effective portion of the hedge.

We entered into a currency swap agreement to hedge the Euro-denominated deferrable interest debentures recorded as long term debt. Under the terms of the foreign currency swap, we exchanged €13.0 million for $17.8 million, and will receive Euribor plus 354 basis points and pay LIBOR plus 419 basis points. The swap expires on September 15, 2013 and had a fair value of $(1.5) million as at June 30, 2012.

Foreign currency exchange contracts will not eliminate fluctuations in the value of our assets and liabilities denominated in foreign currencies but rather allow us to establish a rate of exchange for a future point in time. Of our business written in the six months ended June 30, 2012 and 2011, approximately 41.3% and 39.1%, respectively, was written in currencies other than the U.S. dollar. For the six months ended June 30, 2012, we had net foreign exchange losses of $0.9 million compared to $37.0 million for the same period in 2011.

We do not hedge currencies for which our asset or liability exposures are not material or where we are unable or it is impractical to do so. In such cases, we are exposed to foreign currency risk. However, we do not believe that the foreign currency risks corresponding to these unhedged positions are material.

Effects of Inflation

We do not believe that inflation has had a material effect on our consolidated results of operations, except insofar as (a) inflation may affect interest rates, and (b) losses and loss expenses may be affected by inflation.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report, including the documents we incorporate by reference, contains, and the Company may from time to time make, written or oral " forward-looking statements " within the meaning of the U.S. Federal securities laws, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of uncertainties and other factors, many of which are outside the Company's control that could cause actual results to differ materially from such statements. In particular, statements using words such as " may ", " should ", "estimate ", " expect ", " anticipate ", " intend ", " believe ", " predict ", " potential ", or words of similar import generally involve forward-look statements.

Important events and uncertainties that could cause the actual results to differ include, but are not necessarily limited to: the ongoing impact on our business of our net loss in 2011 and our inability to continue our return to profitability in a timely manner, if at all; the failure to consummate the divestiture of our former Lloyd's reportable segment described above in the "Recent Developments" section of Part I, Item 2 of this Quarterly Report, and the timing of the Lloyd's divestiture; the amount of costs, fees, expenses, indemnification obligations, purchase price adjustments and charges related to the divestitures and realignment initiatives described in this Quarterly Report on acceptable terms; the possibility that the benefits anticipated from the divestitures and realignment initiatives described in this Quarterly Report will not be fully realized, or the timing thereof; the failure to successfully implement the Company's business strategy despite the completion of the divestitures and realignment initiatives described in this Quarterly Report; cancellation of our reinsurance contracts by cedents, market conditions affecting our common share price; the possibility that pricing changes in our industry may make it difficult or impossible for us to effectively compete or produce attractive returns; the possibility of severe or unanticipated losses from natural or man-made catastrophes; the effectiveness of our loss limitation methods; our dependence on principal employees; the cyclical nature of the insurance and reinsurance business; the levels of new and renewal business achieved and the premium environment; opportunities to increase writings in our core property and specialty reinsurance and insurance lines of business and in specific areas of the casualty reinsurance market; the sensitivity of our business to financial strength ratings established by independent rating agencies; the impact of our financial strength ratings and the consequences to our business of our sustained negative outlook or any downgrade; our ability to raise capital on favorable terms, or at all; the estimates reported by cedents and brokers on pro-rata contracts and certain excess of loss contracts in which the deposit premium is not specified; the inherent uncertainties of establishing reserves for loss and loss adjustment expenses, and our reliance on industry loss estimates and those generated by modeling techniques; unanticipated adjustments to premium estimates; changes in the availability, cost or quality of reinsurance or retrocessional coverage; our exposure to many different counterparties in the financial service industry, and the related credit risk of counterparty default; changes in general economic conditions; changes in governmental regulation or tax laws in the jurisdictions where we conduct business; our need for financial flexibility to maintain our current level of business; the amount and timing of reinsurance recoverables and reimbursements we actually receive from our reinsurers; the overall level of competition, and the related demand and supply and premium dynamics in our markets relating to growing capital levels in the insurance and reinsurance industries; the investment environment, declining demand due to increased retentions by cedents and other factors; our ability to continue to implement our expense reduction initiatives; the impact of Eurozone instability and terrorist activities on the economy; and rating agency policies and practices particularly related to the duration a company may remain on negative outlook without further rating action.

These and other events that could cause actual results to differ are discussed in more detail from time to time in our filings with the SEC. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by U.S. Federal securities laws. Readers are cautioned not to place undue reliance on these forward-looking statements, which are subject to significant uncertainties and speak only as of the date on which they are made.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, our management has performed an evaluation pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”), with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, the Company’s disclosure controls and procedures were effective.

Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our second fiscal quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

NONE

Item 1A. Risk Factors

There have been no material changes to the risk factors previously described in Part I, Item 1A of our Annual Report.

Item 1B. Unresolved Staff Comments

NONE

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities

NONE

Item 3. Defaults upon Senior Securities

NONE

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

NONE

Item 6. Exhibits

The exhibits listed on the accompanying Exhibit Index, and such Exhibit Index, are filed or incorporated by reference as a part of this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 7, 2012

FLAGSTONE REINSURANCE HOLDINGS, S.A.

By:	/s/ David A. Brown
Name:	David A. Brown
Title:	Chief Executive Officer (Authorized Officer)

By:	/s/ Patrick Boisvert
Name:	Patrick Boisvert
Title:	Chief Financial Officer (Principal Financial Officer)

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EXHIBIT INDEX
Pursuant to Item 601 of Regulation S-K

Exhibit No.	Description of Exhibit
10.1	Share Purchase Agreement, dated as of April 3, 2012, between Flagstone (Gibraltar) Limited and ANV Risk BV.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
*101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Shareholders' Equity; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to Condensed Consolidated Financial Statements, tagged as a block of text and in detail.

* As provided in Rule 406T of Regulation S-T, this information is "furnished" herewith and not "filed" for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 unless the Company specifically incorporates it by reference.