BIOPARTNERS IN CARE INC
Form 424B3
December 07, 2012

Filed Pursuant to Rule 424(b)(3)
File Number 333-185035

PROSPECTUS

EXPRESS SCRIPTS HOLDING COMPANY

Offer to exchange $900.0 million aggregate principal amount of 2.750% Senior Notes due 2014 (the old 2014 notes) for $900 million aggregate principal amount of 2.750% Senior Notes due 2014 (the new 2014 notes);

Offer to exchange $1.0 billion aggregate principal amount of 2.100% Senior Notes due 2015 (the old 2015 notes) for $1.0 billion aggregate principal amount of 2.100% Senior Notes due 2015 (the new 2015 notes);

Offer to exchange $1.25 billion aggregate principal amount of 3.500% Senior Notes due 2016 (the old 2016 notes) for $1.25 billion aggregate principal amount of 3.500% Senior Notes due 2016 (the new 2016 notes);

Offer to exchange $1.5 billion aggregate principal amount of 2.650% Senior Notes due 2017 (the old 2017 notes) for $1.5 billion aggregate principal amount of 2.650% Senior Notes due 2017 (the new 2017 notes);

Offer to exchange $1.25 billion aggregate principal amount of 4.750% Senior Notes due 2021 (the old 2021 notes) for $1.25 billion aggregate principal amount of 4.750% Senior Notes due 2021 (the new 2021 notes);

Offer to exchange $1.0 billion aggregate principal amount of 3.900% Senior Notes due 2022 (the old 2022 notes) for $1.0 billion aggregate principal amount of 3.900% Senior Notes due 2022 (the new 2022 notes); and

Offer to exchange $700.0 million aggregate principal amount of 6.125% Senior Notes due 2041 (the old 2041 notes , and collectively with the old 2014 notes, the old 2015 notes, the old 2016 notes, the old 2017 notes, the old 2021 notes and the old 2022 notes, the old notes) for $700 million aggregate principal amount of 6.125% Senior Notes due 2041 (the new 2041 notes , and collectively with the new 2014 notes, the new 2015 notes, the new 2016 notes, the new 2017 notes, the new 2021 notes and the new 2022 notes, the new notes)

The new notes have been registered under the Securities Act of 1933, as amended (the Securities Act), and are fully and unconditionally guaranteed by the guarantors listed on page ii of this prospectus.

The exchange offer will expire at 5:00 p.m., New York City time, on January 8, 2013 (the expiration date), unless we extend the exchange offer in our sole and absolute discretion.

Terms of the exchange offer:

We will exchange the applicable series of new notes for all outstanding old notes that are validly tendered and not withdrawn prior to the expiration or termination of the exchange offer.

You may withdraw tenders of old notes at any time prior to the expiration or termination of the exchange offer.

The terms of the new notes are substantially identical to those of the outstanding old notes, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old notes do not apply to the new notes.

The exchange of old notes for new notes will not be a taxable transaction for U.S. federal income tax purposes. You should see the discussion under the caption Certain U.S. Federal Income Tax Consequences for more information.

We will not receive any proceeds from the exchange offer.

We issued the old notes in a transaction not requiring registration under the Securities Act, and as a result, their transfer is restricted. We are making the exchange offer to satisfy your registration rights as a holder of the old notes.

There is no established trading market for the new notes.

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The accompanying letter of transmittal relating to the exchange offer states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for old notes where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of up to 180 days after the expiration date, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

See Risk Factors beginning on page 15 of this prospectus, page 17 of Express Scripts, Inc. s Annual Report on Form 10-K for the year ended December 31, 2011, page 21 of Medco Health Solutions, Inc. s Annual Report on Form 10-K for the year ended December 31, 2011, page 39 of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, page 51 of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 and page 66 of our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 for a discussion of risks you should consider prior to tendering your outstanding old notes for exchange.

Neither the Securities and Exchange Commission (the SEC), nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 7, 2012.

TABLE OF CONTENTS

This prospectus incorporates by reference important business and financial information about us that is not included in or delivered with this document. Copies of this information are available without charge to any person to whom this prospectus is delivered, upon written or oral request. Written requests should be sent to:

Express Scripts Holding Company

One Express Way

St. Louis, MO 63121

Attention: Investor Relations

Oral requests should be made by telephoning (314) 810-3115.

In order to obtain timely delivery, you must request the information no later than December 31, 2012, which is five business days before the expiration date of the exchange offer.

Guarantors

EXPRESS SCRIPTS, INC.	CCS INFUSION MANAGEMENT, LLC
AIRPORT HOLDINGS, LLC	CCSI HOLDING 3, LLC
ESI REALTY, LLC	CRITICAL CARE SYSTEMS OF NEW YORK, INC.
BYFIELD DRUG, INC.	CRITICAL CARE SYSTEMS, INC.
CARE CONTINUUM, INC.	DNA DIRECT, INC.
CFI OF NEW JERSEY, INC.	ENVISION PHARMA INC.
CHESAPEAKE INFUSION, INC.	EVIDENCE SCIENTIFIC SOLUTIONS, INC.
ESI HRA, LLC	HIDDEN RIVER, L.L.C.
CURASCRIPT PBM SERVICES, INC.	HOME HEALTHCARE RESOURCES, INC.
DIVERSIFIED PHARMACEUTICAL SERVICES, INC.	INFINITY INFUSION II, LLC
ESI ACQUISITION, INC.	INFINITY INFUSION, LLC
ESI CLAIMS, INC.	INSTITUTE FOR MEDICAL EDUCATION & RESEARCH, INC.
ESI ENTERPRISES, LLC	LIBERTY HEALTHCARE GROUP, INC.
ESI MAIL ORDER PROCESSING, INC.	LIBERTY HEALTHCARE PHARMACY OF NEVADA, LLC
EXPRESS SCRIPTS CANADA HOLDING, CO.	LIBERTY LANE DEVELOPMENT COMPANY, INC.
EXPRESS SCRIPTS CANADA HOLDING, LLC	LIBERTY MARKETPLACE, INC.
EXPRESS SCRIPTS PHARMACEUTICAL PROCUREMENT, LLC	LIBERTY MEDICAL SUPPLY, INC.
EXPRESS SCRIPTS SERVICES COMPANY	MAH PHARMACY, L.L.C.
FRECO, INC.	MAH PROCESSING, INC.
FREEDOM SERVICE COMPANY, LLC	MEDCO AT HOME, L.L.C.
HEALTHBRIDGE, INC.	MEDCO CDUR, L.L.C.
HEALTHBRIDGE REIMBURSEMENT AND PRODUCT SUPPORT, INC.	MEDCO CHP, L.L.C.
iBIOLOGIC, INC.	MEDCO CONTINUATION HEALTH, L.L.C.
IVTX, INC.	MEDCO EUROPE, L.L.C.
LYNNFIELD COMPUNDING CENTER, INC.	MEDCO EUROPE II, L.L.C.
LYNNFIELD DRUG, INC.	MEDCO HEALTH, L.L.C.
MATRIX GPO LLC	MEDCO HEALTH NEW YORK INDEPENDENT PRACTICE ASSOCIATION, L.L.C.
NATIONAL PRESCRIPTION ADMINISTRATORS, INC.	MEDCO HEALTH PUERTO RICO, L.L.C.
PRIORITY HEALTHCARE CORPORATION	MEDCO HEALTH SOLUTIONS OF COLUMBUS NORTH, LTD.

PRIORITY HEALTHCARE CORPORATION WEST	MEDCO HEALTH SOLUTIONS OF COLUMBUS WEST, LTD.
PRIORITY HEALTHCARE DISTRIBUTION, INC.	MEDCO HEALTH SOLUTIONS OF FAIRFIELD, L.L.C.
PRIORITY HEALTHCARE PHARMACY, INC.	MEDCO HEALTH SOLUTIONS OF FRANKLIN LAKES, L.L.C.
PRIORITYHEALTHCARE.COM, INC.	MEDCO HEALTH SOLUTIONS OF HENDERSON, NEVADA, L.L.C.
SINUSPHARMACY, INC.	MEDCO HEALTH SOLUTIONS OF HIDDEN RIVER, L.C.
SPECIALTY INFUSION PHARMACY, INC.	MEDCO HEALTH SOLUTIONS OF ILLINOIS, L.L.C.
SPECTRACARE, INC.	MEDCO HEALTH SOLUTIONS OF INDIANA, L.L.C.
SPECTRACARE HEALTH CARE VENTURES, INC.	MEDCO HEALTH SOLUTIONS OF IRVING, L.L.C.
SPECTRACARE INFUSION PHARMACY, INC.	MEDCO HEALTH SOLUTIONS OF LAS VEGAS, L.L.C.
VALUE HEALTH, INC.	MEDCO HEALTH SOLUTIONS OF NETPARK, L.L.C.
YOURPHARMACY.COM, INC.	MEDCO HEALTH SOLUTIONS OF NORTH VERSAILLES, L.L.C.
MEDCO HEALTH SOLUTIONS, INC.	MEDCO HEALTH SOLUTIONS OF RICHMOND, L.L.C.
ACCREDO HEALTH, INCORPORATED	MEDCO HEALTH SOLUTIONS OF SPOKANE, L.L.C.
ACCREDO HEALTH GROUP, INC.	MEDCO HEALTH SOLUTIONS OF TEXAS, L.L.C.
MEDCO HEALTH SERVICES, INC.	MEDCO HEALTH SOLUTIONS OF WILLINGBORO, L.L.C.
CURASCRIPT, INC.	MEDCOHEALTH.COM, L.L.C.
EXPRESS SCRIPTS UTILIZATION MANAGEMENT CO.	MEDCO OF WILLINGBORO URBAN RENEWAL, L.L.C.
EXPRESS SCRIPTS SENIOR CARE, INC.	MEDCO RESEARCH INSTITUTE, L.L.C.
EXPRESS SCRIPTS SENIOR CARE HOLDINGS, INC.	NATIONAL DIABETIC MEDICAL SUPPLY, L.L.C.
EXPRESS SCRIPTS WC, INC.	NATIONAL RX SERVICES NO. 3, INC. OF OHIO
ESI MAIL PHARMACY SERVICE, INC.	P-STAR ACQUISITION CO., INC.
EXPRESS SCRIPTS SPECIALTY DISTRIBUTION SERVICES, INC.	POLYMEDICA CORPORATION
MOORESVILLE ON-SITE PHARMACY, LLC	SYSTEMED, L.L.C.
ESI-GP HOLDINGS, INC.	THE VACCINE CONSORTIUM, LLC
ESI RESOURCES, INC.	THERAPEASE CUISINE, INC.
ESI PARTNERSHIP	TVC ACQUISITION CO., INC.
SPECTRACARE OF INDIANA	UBC HEALTH CARE ANALYTICS, INC.

ACCREDO CARE NETWORK, INC.
AHG OF NEW YORK, INC.
BIOPARTNERS IN CARE, INC.
BRACKET GLOBAL LLC
INFINITY INFUSION CARE, LTD.
UBC LATE STAGE, INC.
UBC SCIENTIFIC SOLUTIONS, INC.
UNITED BIOSOURCE CORPORATION
UNITED BIOSOURCE PATIENT SOLUTIONS, INC.

SUMMARY

This summary does not contain all of the information that you should consider before investing in the new notes. You should read the entire prospectus and the documents incorporated herein carefully, including the matters discussed in the section entitled Risk Factors .

In this prospectus, except as otherwise indicated, Express Scripts, the Company, we, our, and us refer to Express Scripts Holding Company and its consolidated subsidiaries at all times following the consummation of the Mergers (as defined below), and refer to Express Scripts, Inc. and its consolidated subsidiaries at all times prior to the consummation of the Mergers. References to ESI refer to Express Scripts, Inc. and its consolidated subsidiaries at all times prior to the mergers. References to Medco refer to Medco Health Solutions, Inc. and its consolidated subsidiaries at all times prior to the consummation of the Mergers. All references to the notes refer to both the old notes and the new notes, except as otherwise indicated.

Our Company

We are the largest Pharmacy Benefit Management (PBM) company in North America, offering a full range of services to our clients, which include health maintenance organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers compensation plans and government health programs. We help health benefit providers address access and affordability concerns resulting from rising drug costs while helping to improve healthcare outcomes. We manage the cost of the drug benefit by performing the following functions:

- evaluating drugs for price, value and efficacy in order to assist clients in selecting a cost-effective formulary;
- leveraging purchasing volume to deliver discounts to health benefit providers;
- promoting the use of generics and low-cost brands; and
- offering cost-effective home delivery pharmacy and specialty services which result in drug cost savings for plan sponsors and co-payment savings for members.

We work with clients, manufacturers, pharmacists and physicians to increase efficiency in the drug distribution chain, to manage costs in the pharmacy benefit and to improve members health outcomes and satisfaction. In an effort to deliver a superior clinical offering which targets the reduction of waste and the improvement of health outcomes, we apply a unique behavior-centric approach to changing consumer behavior, which we call Consumerology®.

Plan sponsors who are more aggressive in taking advantage of our effective tools to manage drug spend have seen an actual reduction in their prescription drug trend while preserving healthcare outcomes. Greater use of generic drugs and lower-cost brand drugs has resulted in significant reductions in spending for commercially insured consumers and their employers.

We have organized our operations into two business segments based on products and services offered: PBM and Other Business Operations.

Our PBM segment primarily consists of the following services:

- Domestic and Canadian retail network pharmacy management;
- home delivery pharmacy services;
- benefit design consultation;

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- drug utilization review;
- drug formulary management programs;
- compliance and therapy management programs for our clients;
- a flexible array of Medicare Part D Prescription Drug Program products to support clients benefits;
- specialty pharmacy, including the distribution of fertility pharmaceuticals requiring special handling or packaging; and
- guidance and decision support for genomic medicine to patients, providers, payors and employees and comprehensive clinical programs.

The Other Business Operations segment primarily consists of the following services:

- distribution of pharmaceuticals and medical supplies to providers and clinics;
- other international retail network pharmacy management;
- home delivery pharmacy services in Germany;
- scientific evidence to guide the safe, effective and affordable use of medicines; and
- diabetes prescriptions and testing supplies.

Our revenues are generated primarily from the delivery of prescription drugs through our contracted network of retail pharmacies, home delivery and specialty pharmacy services and Other Business Operations services.

Prescription drugs are dispensed to members of the health plans we serve primarily through networks of retail pharmacies that are under non-exclusive contracts with us and through the home delivery fulfillment pharmacies, specialty drug pharmacies and fertility pharmacies we operated as of September 30, 2012. More than 60,000 retail pharmacies, which represent over 95% of all United States retail pharmacies, participated in one or more of our networks at September 30, 2012. The top ten retail pharmacy chains represent approximately 60% of the total number of stores in our largest network.

We were incorporated in Delaware as Aristotle Holding, Inc. in July 2011. On April 2, 2012, we completed a series of transactions (the Mergers) through which ESI and Medco became our 100% owned subsidiaries. Our principal executive offices are located at One Express Way, Saint Louis, Missouri, 63121. Our telephone number is (314) 996-0900 and our web site is www.express-scripts.com. The information on, or accessible through, our website is not part of this prospectus and should not be relied upon in connection with making any investment decision with respect to the securities offered by this prospectus.

SUMMARY DESCRIPTION OF THE EXCHANGE OFFER

On November 21, 2011, we completed the private placement of $900 million aggregate principal amount of 2.750% Senior Notes due 2014, $1.25 billion aggregate principal amount of 3.500% Senior Notes due 2016, $1.25 billion aggregate principal amount of 4.750% Senior Notes due 2021 and $700 million aggregate principal amount of 6.125% Senior Notes due 2041. On February 9, 2012, we completed the private placement of $1.0 billion aggregate principal amount of 2.100% Senior Notes due 2015, $1.5 billion aggregate principal amount of 2.650% Senior Notes due 2017 and $1.0 billion aggregate principal amount of 3.900% Senior Notes due 2022. As part of each offering, we entered into registration rights agreements with the initial purchasers of each series of the old notes. Pursuant to these registration rights agreements, we agreed, among other things, to deliver this prospectus to you and to use commercially reasonable efforts to complete an exchange offer for the old notes. Below is a summary of the exchange offer.

Old 2014 Notes	2.750% Senior Notes due 2014, which were issued on November 21, 2011
Old 2015 Notes	2.100% Senior Notes due 2015, which were issued on February 9, 2012
Old 2016 Notes	3.500% Senior Notes due 2016, which were issued on November 21, 2011
Old 2017 Notes	2.650% Senior Notes due 2017, which were issued on February 9, 2012
Old 2021 Notes	4.750% Senior Notes due 2021, which were issued on November 21, 2011
Old 2022 Notes	3.900% Senior Notes due 2022, which were issued on February 9, 2012
Old 2041 Notes	6.125% Senior Notes due 2041, which were issued on November 21, 2011
New 2014 Notes	2.750% Senior Notes due 2014, the issuance of which has been registered under the Securities Act. The form and terms of the new 2014 notes are identical in all material respects to those of the old 2014 notes, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old 2014 notes do not apply to the new 2014 notes.
New 2015 Notes	2.100% Senior Notes due 2015, the issuance of which has been registered under the Securities Act. The form and terms of the new 2015 notes are identical in all material respects to those of the old 2015 notes, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old 2015 notes do not apply to the new 2015 notes.
New 2016 Notes	3.500% Senior Notes due 2016, the issuance of which has been registered under the Securities Act. The form and terms of the new 2016 notes are identical in all material respects to those of the old

	2016 notes, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old 2016 notes do not apply to the new 2016 notes.
New 2017 Notes	2.650% Senior Notes due 2017, the issuance of which has been registered under the Securities Act. The form and terms of the new 2017 notes are identical in all material respects to those of the old 2017 notes, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old 2017 notes do not apply to the new 2017 notes.
New 2021 Notes	4.750% Senior Notes due 2021, the issuance of which has been registered under the Securities Act. The form and terms of the new 2021 notes are identical in all material respects to those of the old 2021 notes, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old 2021 notes do not apply to the new 2021 notes.
New 2022 Notes	3.900% Senior Notes due 2022, the issuance of which has been registered under the Securities Act. The form and terms of the new 2022 notes are identical in all material respects to those of the old 2022 notes, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old 2022 notes do not apply to the new 2022 notes.
New 2041 Notes	6.125% Senior Notes due 2041, the issuance of which has been registered under the Securities Act. The form and terms of the new 2041 notes are identical in all material respects to those of the old 2041 notes, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old 2041 notes do not apply to the new 2041 notes.
Exchange Offer for 2014 Notes	We are offering to issue up to $900.0 million aggregate principal amount of new 2014 notes in exchange for a like principal amount of old 2014 notes to satisfy our obligations under the registration rights agreement that was executed when the old 2014 notes were issued in a transaction in reliance upon the exemptions from registration provided by Rule 144A and Regulation S of the Securities Act.
Exchange Offer for 2015 Notes	We are offering to issue up to $1.0 billion aggregate principal amount of new 2015 notes in exchange for a like principal amount of old 2015 notes to satisfy our obligations under the registration rights agreement that was executed when the old 2015 notes were issued in a transaction in reliance upon the exemptions from registration provided by Rule 144A and Regulation S of the Securities Act.
Exchange Offer for 2016 Notes	We are offering to issue up to $1.25 billion aggregate principal amount of new 2016 notes in exchange for a like principal amount of old 2016 notes to satisfy our obligations under the registration rights

agreement that was executed when the old 2016 notes were issued in a transaction in reliance upon the exemptions from registration provided by Rule 144A and Regulation S of the Securities Act.

Exchange Offer for 2017 Notes	We are offering to issue up to $1.5 billion aggregate principal amount of new 2017 notes in exchange for a like principal amount of old 2017 notes to satisfy our obligations under the registration rights agreement that was executed when the old 2017 notes were issued in a transaction in reliance upon the exemptions from registration provided by Rule 144A and Regulation S of the Securities Act.
Exchange Offer for 2021 Notes	We are offering to issue up to $1.25 billion aggregate principal amount of new 2021 notes in exchange for a like principal amount of old 2021 notes to satisfy our obligations under the registration rights agreement that was executed when the old 2021 notes were issued in a transaction in reliance upon the exemptions from registration provided by Rule 144A and Regulation S of the Securities Act.
Exchange Offer for 2022 Notes	We are offering to issue up to $1.0 billion aggregate principal amount of new 2022 notes in exchange for a like principal amount of old 2022 notes to satisfy our obligations under the registration rights agreement that was executed when the old 2022 notes were issued in a transaction in reliance upon the exemptions from registration provided by Rule 144A and Regulation S of the Securities Act.
Exchange Offer for 2041 Notes	We are offering to issue up to $700.0 million aggregate principal amount of new 2041 notes in exchange for a like principal amount of old 2041 notes to satisfy our obligations under the registration rights agreement that was executed when the old 2041 notes were issued in a transaction in reliance upon the exemptions from registration provided by Rule 144A and Regulation S of the Securities Act.
Expiration Date; Tenders	The exchange offer will expire at 5:00 p.m., New York City time, on January 8, 2013, unless extended in our sole and absolute discretion. By tendering your old notes, you represent to us that:

you are not our affiliate, as defined in Rule 405 under the Securities Act;

any new notes you receive in the exchange offer are being acquired by you in the ordinary course of your business;

neither you nor anyone receiving new notes from you has any arrangement or understanding with any person to participate in a distribution, as defined in the Securities Act, of the new notes;

you are not holding old notes that have, or are reasonably likely to have, the status of an unsold allotment in the initial offering; and

if you are a broker-dealer that will receive new notes for your own account in exchange for old notes that were acquired by you as a result of your market-making or other trading activities, you will

deliver a prospectus in connection with any resale of the new notes you receive. For further information regarding resales of the new notes by participating broker-dealers, see the discussion under the caption Plan of Distribution.

Withdrawal; Non-Acceptance

You may withdraw any old notes tendered in the exchange offer at any time prior to 5:00 p.m., New York City time, on January 8, 2013. If we decide for any reason not to accept any old notes tendered for exchange, the old notes will be returned to the registered holder at our expense promptly after the expiration or termination of the exchange offer. In the case of the old notes tendered by book-entry transfer into the exchange agent s account at The Depository Trust Company (DTC) any withdrawn or unaccepted old notes will be credited to the tendering holder s account at DTC. For further information regarding the withdrawal of tendered old notes, see The Exchange Offer Terms of the Exchange Offer; Period for Tendering Old Notes and The Exchange Offer Withdrawal Rights.

Conditions to the Exchange Offer

The exchange offer is subject to customary conditions, which we may waive. See the discussion below under the caption The Exchange Offer Conditions to the Exchange Offer for more information regarding the conditions to the exchange offer.

Procedures for Tendering the Old Notes

You must do one of the following on or prior to the expiration of the exchange offer to participate in the exchange offer:

- tender your old notes by sending the certificates for your old notes, in proper form for transfer, a properly completed and duly executed letter of transmittal, with any required signature guarantees, and all other documents required by the letter of transmittal, to Wells Fargo Bank, National Association, as exchange agent, at one of the addresses listed below under the caption The Exchange Offer Exchange Agent; or

- tender your old notes by using the book-entry transfer procedures described below and transmitting a properly completed and duly executed letter of transmittal, with any required signature guarantees, or an agent s message instead of the letter of transmittal, to the exchange agent. In order for a book-entry transfer to constitute a valid tender of your old notes in the exchange offer, Wells Fargo Bank, National Association, as exchange agent, must receive a confirmation of book-entry transfer of your old notes into the exchange agent s account at DTC prior to the expiration of the exchange offer. For more information regarding the use of book-entry transfer procedures, including a description of the required agent s message, see the discussion below under the caption The Exchange Offer Book-Entry Transfers.

Special Procedures for Beneficial Owners	If you are a beneficial owner whose old notes are registered in the name of the broker, dealer, commercial bank, trust company or other nominee and you wish to tender your old notes in the exchange offer, you should promptly contact the person in whose name the old notes are registered and instruct that person to tender on your behalf. If you wish to tender in the exchange offer on your own behalf, prior to completing and executing the letter of transmittal and delivering your old notes, you must either make appropriate arrangements to register ownership of the old notes in your name or obtain a properly completed bond power from the person in whose name the old notes are registered.
Certain U.S. Federal Income Tax Consequences	The exchange of the old notes for new notes in the exchange offer will not be a taxable transaction for United States federal income tax purposes. See the discussion under the caption Certain U.S. Federal Income Tax Consequences for more information regarding the tax consequences to you of the exchange offer.
Use of Proceeds	We will not receive any proceeds from the exchange offer.
Exchange Agent	Wells Fargo Bank, National Association is the exchange agent for the exchange offer. You can find the address and telephone number of the exchange agent below under the caption The Exchange Offer Exchange Agent.
Resales	Based on interpretations by the staff of the SEC, as set forth in no-action letters issued to the third parties, we believe that the new notes you receive in the exchange offer may be offered for resale, resold or otherwise transferred without compliance with the registration and prospectus delivery provisions of the Securities Act. However, you will not be able to freely transfer the new notes if:
	you are our affiliate, as defined in Rule 405 under the Securities Act;
	you are not acquiring the new notes in the exchange offer in the ordinary course of your business;
	you are engaged in or intend to engage in or have an arrangement or understanding with any person to participate in the distribution, as defined in the Securities Act, of the new notes you will receive in the exchange offer; or
	you are holding old notes that have or are reasonably likely to have the status of an unsold allotment in the initial offering.

If you are an affiliate of ours, are engaged in or intend to engage in or have any arrangement or understanding with any person to participate in the distribution of the new notes:

- you cannot rely on the applicable interpretations of the staff of the SEC; and
- you must comply with the registration requirements of the Securities Act in connection with any resale transaction.

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The accompanying letter of transmittal relating to the exchange offer states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for old notes where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of up to 180 days after the expiration date, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution for more information.

As a condition to participation in the exchange offer, each holder will be required to represent that it is not our affiliate or a broker-dealer that acquired the old notes directly from us.

Registration Rights Agreements

When the old notes were issued, we entered into registration rights agreements with the initial purchasers of each series of the old notes. Under the terms of these registration rights agreements, we agreed to use our commercially reasonable efforts to file with the SEC and cause to become effective, a registration statement relating to an offer to exchange the old notes for the new notes.

If the registration statement, of which this prospectus forms a part, does not become effective by November 15, 2012 or we do not complete the exchange offer for a series of old notes within 60 days of the date of effectiveness of the registration statement, the interest rate borne by such series of old notes will be increased by 0.25% per annum for the first 90-day period immediately following such default and will increase by an additional 0.25% per annum on the 91st day following such default to a total of an additional 0.50% per annum, until all registration defaults are cured with respect to such series of old notes or until such old notes are freely transferable under Rule 144 under the Securities Act.

Under some circumstances set forth in the registration rights agreements, holders of old notes, including holders whose old notes are or were ineligible to be exchanged in the exchange offer, may require us to file and cause to become effective a shelf registration statement covering resales of the old notes by these holders.

A copy of each of the registration rights agreements is filed as an exhibit to the registration statement of which this prospectus is a part. See Description of the New Notes Registration Rights.

CONSEQUENCES OF NOT EXCHANGING OLD NOTES

If you do not exchange your old notes in the exchange offer, your old notes will continue to be subject to the restrictions on transfer described in the legend on the certificate for your old notes. In general, you may offer or sell your old notes only:

- if they are registered under the Securities Act and applicable state securities laws;
- if they are offered or sold under an exemption from registration under the Securities Act and applicable state securities laws; or
- if they are offered or sold in a transaction not subject to the Securities Act and applicable state securities laws.

We do not currently intend to register the old notes under the Securities Act. Under some circumstances, however, holders of the old notes, including holders whose old notes are or were ineligible to be exchanged in the exchange offer, may require us to file and cause to become effective, a shelf registration statement covering resales of old notes by these holders. For more information regarding the consequences of not tendering your old notes and our obligation to file a shelf registration statement, see The Exchange Offer Consequences of Exchanging or Failing to Exchange Old Notes.

SUMMARY DESCRIPTION OF THE NEW NOTES

The terms of the new notes and those of the outstanding old notes are substantially identical, except that the special mandatory redemption provisions, transfer restrictions and registration rights relating to the old notes do not apply to the new notes. For a more complete understanding of the new notes, see Description of the New Notes.

Issuer	Express Scripts Holding Company
Notes offered	Up to $900.0 million aggregate principal amount of 2.750% Senior Notes due 2014
	Up to $1.0 billion aggregate principal amount of 2.100% Senior Notes due 2015
	Up to $1.25 billion aggregate principal amount of 3.500% Senior Notes due 2016
	Up to $1.5 billion aggregate principal amount of 2.650% Senior Notes due 2017
	Up to $1.25 billion aggregate principal amount of 4.750% Senior Notes due 2021
	Up to $1.0 billion aggregate principal amount of 3.900% Senior Notes due 2022
	Up to $700.0 million aggregate principal amount of 6.125% Senior Notes due 2041
Maturity dates	November 21, 2014 for the new 2014 notes.
	February 12, 2015 for the new 2015 notes.
	November 15, 2016 for the new 2016 notes.
	February 15, 2017 for the new 2017 notes.
	November 15, 2021 for the new 2021 notes.
	February 15, 2022 for the new 2022 notes.
	November 15, 2041 for the new 2041 notes.

Interest payment dates	May 21 and November 21 of each year, beginning on November 21, 2012, for the new 2014 notes.
	May 15 and November 15 of each year, beginning on November 15, 2012, for the new 2016 notes, the new 2021 notes and the new 2041 notes.
	February 12 and August 12 of each year, beginning on February 12, 2013, for the new 2015 notes.

	February 15 and August 15 of each year, beginning on February 15, 2013, for the new 2017 notes and the new 2022 notes.
Interest rates	The new 2014 notes will bear interest at 2.750% per year.
	The new 2015 notes will bear interest at 2.100% per year.
	The new 2016 notes will bear interest at 3.500% per year.
	The new 2017 notes will bear interest at 2.650% per year.
	The new 2021 notes will bear interest at 4.750% per year.
	The new 2022 notes will bear interest at 3.900% per year.
	The new 2041 notes will bear interest at 6.125% per year.
Guarantees	All payments with respect to the new notes, including principal and interest, will be jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by certain of our 100% owned domestic subsidiaries, subject to certain customary automatic release provisions. See Description of the New Notes Guarantees.
Ranking	The new notes:
	will be our general unsecured obligations;
	will rank equally in right of payment with all our future senior indebtedness, but will be effectively subordinated to all of our future secured indebtedness to the extent of the value of the collateral that secures such indebtedness;
	will be senior in right of payment to all our future subordinated indebtedness;
	will be fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors; and
	will be structurally subordinated to the obligations (including trade account payables) of our subsidiaries that are not Guarantors.
	The guarantee of each Guarantor:

will be a general unsecured obligation of such Guarantor;

will rank equally in right of payment with all existing and future senior indebtedness of such Guarantor, but will be effectively subordinated to all of such Guarantor s future secured indebtedness to the extent of the value of the collateral that secures such indebtedness; and will be senior in right of payment to all existing and future subordinated indebtedness of such Guarantor.

Other than capital leases, we and the Guarantors do not currently have any secured indebtedness.

Optional redemption

The new notes will be redeemable, at our option, in whole or in part at any time and from time to time, at the make-whole redemption prices described under Description of the New Notes Optional Redemption.

Offer to repurchase upon change of control triggering event

Upon the occurrence of a change of control triggering event with respect to any series of notes, we will be required to offer to repurchase such series of notes for cash at a price of 101% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest.

Covenants

The indenture governing the notes contains covenants that, among other matters, limit:

our ability to consolidate with or merge with or into, or convey, transfer or lease all or substantially all of our properties and assets to, another person;

our ability and the ability of certain of our subsidiaries to create or assume liens; and

our ability and the ability of certain of our subsidiaries to engage in sale and leaseback transactions.

These covenants are subject to important exceptions and qualifications, which are described under the heading Description of the New Notes Covenants.

Use of proceeds

We will not receive any proceeds from the exchange offer. Any old notes that are properly tendered and exchanged pursuant to the exchange offer will be retired and cancelled.

No Prior Market

The new notes generally will be freely transferable but will also be new securities for which there is no established market. Accordingly, a liquid market for the new notes may not develop or be maintained. We have not applied, and do not intend to apply, for the listing of the new notes on any exchange or automated dealer quotation system.

Risk Factors

Tendering your old notes in the exchange offer involves risks. You should carefully consider the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth in the section entitled Risk Factors for an explanation of certain risks of investing in the new notes before tendering any old notes. For a description of risks related to our industry and business, you should also evaluate the specific risk factors set forth in the section entitled

Risk Factors in: (a) our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2012, June 30, 2012 and March 31, 2012; (b) ESI s Annual Report on Form 10-K for the year ended December 31, 2011; (c) Medco s Annual Report on Form 10-K for the year ended December 31, 2011; and (d) other documents that we subsequently file with the SEC.

RISK FACTORS

Participating in the exchange offer is subject to a number of risks. You should carefully consider the risks and uncertainties set forth below and the risks and uncertainties incorporated by reference in this prospectus, including the information included under Risk Factors in: (a) our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2012, June 30, 2012 and March 31, 2012; (b) ESI s Annual Report on Form 10-K for the year ended December 31, 2011; (c) Medco s Annual Report on Form 10-K for the year ended December 31, 2011; and (d) other documents that we subsequently file with the SEC.

Risks Related to the Exchange Offer and Holding the New Notes

Holders who fail to exchange their old notes will continue to be subject to restrictions on transfer.

If you do not exchange your old notes for new notes in the exchange offer, you will continue to be subject to the restrictions on transfer of your old notes described in the legend on the certificates for your old notes. The restrictions on transfer of your old notes arise because we issued the old notes under exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, you may only offer or sell the old notes if they are registered under the Securities Act and applicable state securities laws, or offered and sold under an exemption from these requirements. We do not plan to register the old notes under the Securities Act. For further information regarding the consequences of not tendering your old notes in the exchange offer, see the discussion below under the caption The Exchange Offer Consequences of Exchanging or Failing to Exchange Old Notes.

You must comply with the exchange offer procedures in order to receive freely tradable new notes.

Delivery of new notes in exchange for old notes tendered and accepted for exchange pursuant to the exchange offer will be made only after timely receipt by the exchange agent of the following:

- certificates for old notes or a book-entry confirmation of a book-entry transfer of old notes into the Exchange Agent s account at DTC, New York, New York, as depository;

- a completed and signed letter of transmittal (or facsimile thereof), with any required signature guarantees, or an agent s message (as defined herein) in lieu of the letter of transmittal; and

- any other documents required by the letter of transmittal.

Therefore, holders of old notes who would like to tender old notes in exchange for new notes should be sure to allow enough time for the old notes to be delivered on time. We are not required to notify you of defects or irregularities in tenders of old notes for exchange. Old notes that are not tendered or that are tendered but we do not accept for exchange will, following consummation of the exchange offer, continue to be subject to the existing transfer restrictions under the Securities Act and, upon consummation of the exchange offer, certain registration and other rights under the registration rights agreement will terminate. See The Exchange Offer Exchange Offer Procedures and The Exchange Offer Consequences of Exchanging or Failing to Exchange Old Notes.

Some holders who exchange their old notes may be deemed to be underwriters and these holders will be required to comply with the registration and prospectus delivery requirements in connection with any resale transaction.

If you exchange your old notes in the exchange offer for the purpose of participating in a distribution of the new notes, you may be deemed to have received restricted securities and, if so, will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

As a holding company, we will require cash from our subsidiaries to make payments on the notes.

We are a holding company and, as such our cash flow and our consequent ability to service our indebtedness, including the notes, will be dependent upon the earnings of our subsidiaries and the distribution of those earnings to us or upon the payment of funds to us by those subsidiaries. Moreover, our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes (other than in respect of the guarantees of the notes by the Guarantors) or to make funds available to us. The payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to contractual or statutory restrictions, will be contingent upon the earnings of those subsidiaries and will be subject to various business considerations. As a holding company, if we are unable to obtain cash from our subsidiaries, we may be unable to fund required payments in respect of the notes.

Upon a change of control triggering event with respect to a particular series of notes, we may not be able to repurchase all of such notes, which would result in a default under the notes.

Upon the occurrence of a change of control triggering event in respect of a particular series of notes, we will be required to offer to repurchase the notes of such series at a price of 101% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest. See Description of the New Notes Purchase of Notes Upon a Change of Control Triggering Event. However, we may not have sufficient funds to repurchase such notes. In addition, our repurchase of notes may be limited by law or the terms of other agreements relating to our indebtedness. The failure to make such repurchase would result in a default under the notes. A change of control may also require us to make an offer to repurchase certain of our other indebtedness and may give rise to an event of default under our credit facilities. We may not have sufficient funds to repurchase all of the affected indebtedness and repay the amounts owing under our credit facilities.

The limited covenants in the indenture governing the notes and the terms of the notes will not provide protection against significant events that could adversely impact your investment in the notes.

The indenture governing the notes does not:

- require that we maintain any financial ratios or specific levels of net worth, revenues, income, cash flow or liquidity and, accordingly, does not protect holders of the notes in the event that we experience significant adverse changes in our financial condition or results of operations;

- restrict the ability of our subsidiaries to issue securities or otherwise incur indebtedness that would be senior to our equity interests in such subsidiaries;

- restrict our ability to repurchase or prepay our securities; or

- restrict our ability to make investments or to repurchase or pay dividends or make other payments in respect of our common stock or other securities ranking junior to the notes.

Furthermore, the definition of change of control triggering event in the indenture governing the notes contains only limited protections. We could engage in many types of transactions, such as certain acquisitions, refinancings or recapitalizations, that could substantially affect our capital structure and the value of the notes. The indenture also permits us to incur additional indebtedness, including secured indebtedness, that could effectively rank senior to the notes, and to engage in sale-leaseback arrangements, subject to certain limits.

As a result of the foregoing, when evaluating the terms of the notes, you should be aware that the terms of the indenture and the notes will not restrict our ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances and events that could have an adverse impact on your investment in the notes.

The notes are unsecured.

The notes are unsecured. The indenture governing the notes does not restrict our ability to incur additional indebtedness, including secured indebtedness generally. Holders of any secured indebtedness will have claims that are prior to your claims as holders of the notes, to the extent of the value of the assets securing such indebtedness, in the event of any bankruptcy, liquidation or similar proceeding involving us.

The notes are structurally subordinated to all liabilities of our subsidiaries that do not guarantee the notes.

The notes will not be guaranteed by certain of our current and future subsidiaries, and under certain circumstances subsidiaries guaranteeing the notes may be released from their guarantees. See Description of the New Notes Guarantees. Accordingly, claims of holders of the notes will be structurally subordinated to the claims of creditors of such non-Guarantor subsidiaries, including trade creditors. All obligations of such non-Guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us or a Guarantor of the notes. As of September 30, 2012, our non-Guarantor subsidiaries had an aggregate of approximately $739.1 million of liabilities outstanding.

Federal and state fraudulent transfer laws may permit a court to void the guarantees, and, if that occurs, you may not receive any payments on the new notes or in respect of such guarantees.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the new notes and the incurrence of the guarantees. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the new notes or guarantees could be voided as a fraudulent transfer or conveyance if (1) we or any of the Guarantors, as applicable, issued the new notes or incurred the guarantees with the intent of hindering, delaying or defrauding creditors or (2) we or any of the Guarantors, as applicable, received less than reasonably equivalent value or fair consideration in return for either issuing the new notes or incurring the guarantees and, in the case of (2) only, one of the following is also true at the time thereof:

- we or any of the Guarantors, as applicable, were insolvent or were rendered insolvent by reason of the issuance of the new notes or the incurrence of the guarantees;

- the issuance of the new notes or the incurrence of the guarantees left us or any of the Guarantors, as applicable, with an unreasonably small amount of capital to carry on the business;

- we or any of the Guarantors intended to, or believed that we or it would, incur debts beyond our or its ability to pay as they mature; or

- we or any of the Guarantors were a defendant in an action for money damages, or had a judgment for money damages docketed against us or it if, in either case, after final judgment, the judgment is unsatisfied.

If a court were to find that the issuance of the new notes or the incurrence of a guarantee was a fraudulent transfer or conveyance, the court could void the payment obligations under the new notes or such guarantee or further subordinate the new notes or such guarantee to our or the applicable Guarantors presently existing and future indebtedness, or require the holders of the new notes to repay any amounts received with respect to any such guarantee. If it is found that a fraudulent transfer or conveyance has occurred, you may not receive any repayment on the new notes or in respect of the applicable guarantee. Further, if the new notes are voided, it could result in an event of default with respect to our other debt that could result in acceleration of such debt.

We cannot be certain of the standards that a court would use to determine whether or not we or the Guarantors were solvent at the relevant time or, regardless of the standard that a court uses, that the issuance of the new notes and the guarantees would not be further subordinated to our or the applicable Guarantors other debt. Generally, however, an entity would be considered insolvent if, at the time it incurred indebtedness:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

Although each guarantee will contain a provision that the obligations of the applicable Guarantor under its note guarantee will be limited so as not to constitute a fraudulent conveyance or fraudulent transfer under applicable law, this provision may not be effective to protect the guarantee from being voided under fraudulent transfer law. In a recent Florida bankruptcy case unrelated to us, the enforceability of this provision was called into question.

There is no established trading market for the new notes and there is no guarantee that an active trading market for the new notes will develop. You may not be able to sell the new notes readily or at all.

The new notes are a new issue of securities and there is no established trading market for them. We do not intend to apply for the new notes to be listed on any securities exchange or to arrange for quotation on any automated dealer quotation system. You may not be able to sell your new notes at a particular time or at favorable prices. As a result, we cannot assure you as to the liquidity of any trading market for the new notes. Accordingly, you may be required to bear the financial risk of your investment in the new notes indefinitely. If a trading market were to develop, future trading prices of the new notes may be volatile and will depend on many factors, including:

- our operating performance and financial condition;
- the interest of securities dealers in making a market for the new notes; and
- the market for similar securities.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Information we have included or incorporated by reference in this prospectus contains or may contain forward-looking statements. These forward-looking statements include, among others, statements of our plans, objectives, expectations (financial or otherwise) or intentions. Statements that include the words expect, intend, plan, believe, project, anticipate, will, may, would and similar statements of a f forward-looking nature may be used to identify forward-looking statements.

Our forward-looking statements involve risks and uncertainties. Our actual results may differ significantly from those projected or suggested in any forward-looking statements. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Any number of factors could cause our actual results to differ materially from those contemplated by any forward-looking statements, including, but not limited to the factors listed below:

- our ability to remain profitable in a very competitive marketplace is dependent upon our ability to attract and retain clients while maintaining our margins, to differentiate our products and services from others in the marketplace, and to develop and cross-sell new products and services to our existing clients;

- our failure to anticipate and appropriately adapt to changes in the rapidly changing healthcare industry;

- changes in applicable laws or regulations, or their interpretation or enforcement, or the enactment of new laws or regulations, which apply to our business practices (past, present or future) or require us to spend significant resources in order to comply;

- unfavorable or uncertain economic conditions, including high rates of unemployment, diminished healthcare benefits, lower levels of consumer expenditures on healthcare related expenses, increased client demands with respect to pricing or service levels and disruptions in the credit markets;

- changes to the healthcare industry designed to manage healthcare costs or alter healthcare financing practices;

- the termination, or an unfavorable modification, of our relationship with one or more key pharmacy providers, or significant changes within the pharmacy provider marketplace;

- our failure to execute on, or other issues arising under, certain key client contracts;

- changes relating to our participation in Medicare Part D, the loss of Medicare Part D eligible members, or our failure to otherwise execute on our strategies related to Medicare Part D;

- our failure to effectively execute on strategic transactions, or to integrate or achieve anticipated benefits from any acquired businesses;

- the impact of our debt service obligations on the availability of funds for other business purposes, and the terms and our required compliance with covenants relating to our indebtedness;

a failure in the security or stability of our technology infrastructure, or the infrastructure of one or more of our key vendors, or a significant failure or disruption in service within our operations or the operations of such vendors;

the termination, or an unfavorable modification, of our relationship with one or more key pharmaceutical manufacturers, or the significant reduction in payments made or discounts provided by pharmaceutical manufacturers;

changes in industry pricing benchmarks;

results in pending and future litigation or other proceedings which would subject us to significant monetary damages or penalties and/or require us to change our business practices, or the costs incurred in connection with such proceedings;

- our failure to attract and retain talented employees, or to manage succession and retention for our Chief Executive Officer or other key executives;

- uncertainty around realization of the anticipated benefits of the Mergers, including the expected amount and timing of cost savings and operating synergies and a delay or difficulty in integrating the businesses of ESI and Medco or in retaining clients of the respective companies;

- the impact of transaction and Merger-related costs on our financial results;

- uncertainty as to the long-term value of our common shares; and

- other risks described from time to time in our filings with the SEC.

These and other relevant factors and any other information included or incorporated by reference in this prospectus should be carefully considered when reviewing any forward-looking statement. Investors should understand that it is impossible to predict or identify all such factors or risks. As such, you should not consider either the foregoing list, or the risks identified in this prospectus and our other SEC filings, to be a complete discussion of all potential risks or uncertainties. See Incorporation of Certain Documents by Reference.

USE OF PROCEEDS

We will not receive any proceeds from the exchange offer. Any old notes that are properly tendered and exchanged pursuant to the exchange offer will be retired and cancelled.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the nine months ended September 30, 2012 and the years ended December 31, 2011, 2010, 2009, 2008 and 2007, respectively:

	Nine Months Ended September 30,	Year Ended December 31,				
	2012	2011	2010	2009	2008	2007
		(Dollars in millions)				
Ratio of Earnings to Fixed Charges(1)	3.9	7.5	11.6	7.4	14.8	9.0

(1) For purposes of determining the ratio of earnings to fixed charges, earnings represent income before income taxes and equity earnings from affiliates plus fixed charges. Fixed charges include interest expense and our estimate of the interest component of rent expense.

SELECTED HISTORICAL AND UNAUDITED PRO FORMA CONDENSED COMBINED

FINANCIAL DATA

On July 20, 2011, ESI entered into a definitive merger agreement (the Merger Agreement) with Medco, which was amended by Amendment No. 1 thereto on November 7, 2011, providing for the combination of ESI and Medco under a new holding company, Express Scripts Holding Company. The transactions contemplated by the Merger Agreement were consummated on April 2, 2012. For financial reporting and accounting purposes, ESI was the acquirer of Medco. Our consolidated financial statements reflect the results of operations and financial position of ESI for all prior periods and through April 1, 2012. Accordingly, operating results for the historical periods prior to the Mergers may not be comparable to the historical periods following the Mergers and may not be predictive of future results.

The following historical statement of operations data and cash flows data for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 and the historical balance sheet data as at December 31, 2011, 2010, 2009, 2008 and 2007 has been derived from the audited consolidated financial statements of ESI. The following historical statement of operations data and cash flows data for the nine months ended September 30, 2012 and 2011 and the historical balance sheet data as of September 30, 2012 has been derived from the unaudited condensed consolidated financial statements of Express Scripts Holding Company, for periods subsequent to the Mergers, and ESI, for periods prior to the Mergers. In our opinion, the interim financial data provided herein reflects all adjustments (consisting of normal and recurring adjustments) necessary for a fair statement of the data for the periods presented. Interim results are not necessarily indicative of the results to be expected for the entire fiscal year.

On December 1, 2009, ESI acquired the PBM business of WellPoint, Inc. See Note 3 in Notes to Consolidated Financial Statements in the audited consolidated financial statements of ESI for the fiscal year ended December 31, 2011, incorporated by reference in this prospectus. Results for the years ended December 31, 2009, 2008 and 2007 have been adjusted for the discontinued operations of our Phoenix Marketing Group line of business.

The following unaudited pro forma statement of operations data for the year ended December 31, 2011 and the nine months ended September 30, 2012 reflects the Mergers as if they had occurred on the first day of the earliest period presented. The unaudited pro forma condensed combined financial data presented below includes historical consolidated financial information of Medco that has been derived from Medco s historical consolidated financial statements for the fiscal year ended December 31, 2011 and for the period beginning January 1, 2012 through March 31, 2012. As a result, the pro forma condensed combined financial data is based on certain assumptions and adjustments as discussed in the unaudited pro forma condensed combined financial statements and the accompanying notes incorporated by reference into this prospectus, including assumptions relating to the allocation of the consideration paid for the assets acquired and liabilities assumed, based on preliminary estimates of their fair value.

You should read the selected historical and unaudited pro forma condensed combined financial data in conjunction with the consolidated financial statements and related management s discussion and analysis of Express Scripts Holding Company, ESI and Medco incorporated by reference into this prospectus, as well as the unaudited pro forma condensed combined financial statements incorporated by reference into this prospectus. See Documents Incorporated by Reference .

	Pro Forma Nine Months Ended September 30, 2012	Historical Nine Months Ended September 30, 2012	2011
		(in millions)	
Statement of operations data:			
Revenues(1)	$ 82,804.0	$ 66,824.5	$ 34,026.9
Cost of revenues(1)	76,680.1	61,745.1	31,661.5
Gross profit	6,123.9	5,079.4	2,365.4
Selling, general and administrative	4,102.2	3,220.7	628.6
Operating income	2,021.7	1,858.7	1,736.8
Other income (expense):			
Undistributed gain from joint venture	9.4	9.4	
Interest income and other income	7.6	6.0	7.8
Interest expense	(564.3)	(463.1)	(184.3)
Income before income taxes	1,474.4	1,411.0	1,560.3
Provision for income taxes	618.6	602.2	574.9
Net income	$ 855.8	$ 808.8	$ 985.4

	Pro Forma Year Ended December 31, 2011	Historical Year Ended December 31, 2011	2010	2009(2)	2008(3)	2007(4)
			(in millions)			
Statement of operations data:						
Revenues(1)	$ 116,048.1	$ 46,128.3	$ 44,973.2	$ 24,722.3	$ 21,941.2	$ 21,788.9
Cost of revenues(1)	108,047.4	42,918.4	42,015.0	22,298.3	19,910.6	20,039.2
Gross profit	8,000.7	3,209.9	2,958.2	2,424.0	2,030.6	1,749.7
Selling, general and administrative	4,770.9	898.2	887.3	926.5	756.3	693.4
Operating income	3,229.8	2,311.7	2,070.9	1,497.5	1,274.3	1,056.3
Other income (expense):						
Non-operating charges, net					(2.0)	(18.6)
Undistributed loss from joint venture					(0.3)	(1.3)
Interest income and other income	11.1	12.4	4.9	5.3	13.0	12.2
Interest expense	(877.2)	(299.7)	(167.1)	(194.4)	(77.6)	(108.4)
Income before income taxes	2,363.7	2,024.4	1,908.7	1,308.4	1,207.4	940.2
Provision for income taxes	896.4	748.6	704.1	481.8	431.5	342.2
Net income from continuing operations	1,467.3	1,275.8	1,204.6	826.6	775.9	598.0
			(23.4)	1.0	0.2	(30.2)

Net (loss) income from discontinued operations, net of tax												
Net income	$	1,467.3	$	1,275.8	$	1,181.2	$	827.6	$	776.1	$	567.8

	Historical					
	September 30,	December 31,				
	2012	2011	2010	2009(2)	2008(3)	2007(4)
	(in millions)					
Balance sheet data:						
Cash and cash equivalents	$ 1,248.4	$ 5,620.1	$ 523.7	$ 1,070.4	$ 530.7	$ 434.7
Receivables, net	5,720.3	1,915.7	1,720.9	2,516.4	1,155.9	1,184.6
Total current assets	9,432.5	8,058.0	2,941.3	4,143.5	2,043.8	1,967.8
Total assets	57,307.7	15,607.0	10,557.8	11,931.2	5,509.2	5,256.4
Total liabilities	34,562.8	13,133.3	6,951.2	8,379.4	4,431.0	4,560.0
Total stockholders equity	22,744.9	2,473.7	3,606.6	3,551.8	1,078.2	696.4

	Historical						
	Nine Months Ended September 30,		Year Ended December 31,				
	2012	2011	2011	2010	2009(2)	2008(3)	2007(4)
	(in millions)						
Cash flow data:(5)							
Net cash provided by operating activities	$ 2,049.4	$ 1,659.9	$ 2,192.0	$ 2,105.1	$ 1,752.0	$ 1,091.1	$ 841.4
Net cash used in investing activities	(10,374.3)	(89.6)	(123.9)	(145.1)	(4,820.5)	(318.6)	(52.6)
Net cash provided by (used in) financing activities	3,950.7	(1,028.3)	3,030.5	(2,523.0)	3,587.0	(680.4)	(469.7)

	Historical						
	Nine Months Ended September 30,		Year Ended December 31,				
	2012	2011	2011	2010	2009(2)	2008(3)	2007(4)
	(in millions, except ratios, percentages and per claim data)						
Other data:							
Adjusted EBITDA from continuing operations(6)	$ 3,770.5	$ 1,944.6	$ 2,657.6	$ 2,408.2	$ 1,692.8	$ 1,368.4	$ 1,178.1
Adjusted EBITDA from continuing operations per adjusted claim(6)(7)	3.79	3.49	3.54	3.19	3.19	2.70	2.32
Total adjusted claims(7)(8)	996.0	556.6	751.5	753.9	530.6	506.3	507.0
ROIC(9)			18.3%	20.5%	18.9%	27.5%	23.7%

(1) Includes retail pharmacy co-payments.

(2) Includes the acquisition of the PBM business from WellPoint, Inc., effective December 1, 2009.

(3) Includes the acquisition of Medical Services Company, effective July 22, 2008.

(4) Includes the acquisition of ESI HRA, LLC (formerly known as ConnectYourCare), effective October 10, 2007.

(5) Cash flow amounts are from continuing operations.

(6) Adjusted EBITDA from continuing operations is earnings before other income (expense), interest, taxes, depreciation and amortization, or is alternatively calculated as operating income plus depreciation and amortization adjusted for the items set forth below. Adjusted EBITDA from continuing operations is presented because it is a widely accepted indicator of a company s ability to service indebtedness and is frequently used to evaluate a company s performance. We calculate and use Adjusted EBITDA from continuing operations as an indicator of our ability to generate cash from our reported operating results. This measurement is used in concert with net income and cash flows from operations, which measure actual cash generated in the period. In addition, Adjusted EBITDA from continuing operations is a supplemental measurement used by analysts and investors to help evaluate overall operating performance and our ability to incur and service debt and make capital expenditures. We have calculated Adjusted EBITDA from continuing operations excluding certain charges recorded each year, as these charges are not considered an indicator of ongoing company performance. Adjusted EBITDA from continuing operations per adjusted claim is calculated by dividing Adjusted EBITDA

from continuing operations by the adjusted claim volume for the period. This measure is used as an indicator of Adjusted EBITDA from continuing operations performance on a per-unit basis, providing insight into the cash-generating potential of each claim. Adjusted EBITDA from continuing operations, and as a result, Adjusted EBITDA from continuing operations per adjusted claim, are affected by the changes in claim volumes between retail and mail-order, the relative representation of brand-name, generic and specialty pharmacy drugs, as well as the level of efficiency in the business.

Adjusted EBITDA from continuing operations and Adjusted EBITDA from continuing operations per adjusted claim should not be considered as alternatives to net income, as measures of operating performance, as alternatives to cash flow, as measures of liquidity, or as substitutes for any other measure computed in accordance with accounting principles generally accepted in the United States (GAAP). In addition, our definitions and calculations of EBITDA from continuing operations, Adjusted EBITDA from continuing operations and Adjusted EBITDA from continuing operations per adjusted claim may not be comparable to that used by other companies.

The following is a reconciliation of net income from continuing operations to Adjusted EBITDA from continuing operations. We believe net income from continuing operations is the most directly comparable measure calculated under GAAP.

	Historical						
	Nine Months Ended September 30,		Year Ended December 31,				
	2012	2011	2011	2010	2009	2008	2007
	(in millions)						
Net income from continuing operations	$ 808.8	$ 985.4	$ 1,275.8	$ 1,204.6	$ 826.6	$ 775.9	$ 598.0
Income taxes	602.2	574.9	748.6	704.1	481.8	431.5	342.2
Depreciation and amortization	1,292.0	187.5	253.4	244.7	106.7	94.1	94.2
Interest expense, net	457.1	176.5	287.3	162.2	189.1	64.6	96.2
Undistributed (gain) loss from joint venture	(9.4)					0.3	1.3
Non-operating charges, net						2.0	18.6
EBITDA from continuing operations	3,150.7	1,924.3	2,565.1	2,315.6	1,604.2	1,368.4	1,150.5
Adjustments to EBITDA from continuing operations							
Transaction and integration costs	619.8	20.3	62.5	122.6	68.6		
Accrual related to client contractual dispute			30.0				
Benefit related to client contract amendment				(30.0)			
Legal settlement					35.0		6.0
Benefit from insurance recovery					(15.0)		
Bad debt charges in specialty distribution line of business							21.5
Inventory charges in specialty distribution line of business							9.1
Settlement of contractual item with supply chain vendor							(9.0)
Adjusted EBITDA from continuing operations	$ 3,770.5	$ 1,944.6	$ 2,657.6	$ 2,408.2	$ 1,692.8	$ 1,368.4	$ 1,178.1

(7) Total adjusted claims represent network claims plus home delivery claims, which are multiplied by three, as home delivery claims are typically 90-day claims and network claims are generally 30-day claims.

(8) Prior to the Merger, ESI and Medco had historically used slightly different methodologies to report claims; however, we believe the differences between the claims reported by ESI and Medco would not be material had the same methodology applied. We have since combined these two approaches into one methodology that we will use going forward. This change was made prospectively beginning April 2, 2012. We have not restated the number of claims in prior periods, because the differences are not material.

(9) ROIC, or return on invested capital, is after-tax operating income, as adjusted by certain non-recurring items, as a percentage of average invested capital. We present ROIC on an annual basis only. ROIC is presented because we believe it is a widely accepted indicator of a company s historical performance and is frequently used to measure the profitability of a company as a proportion of the total capital invested in the business. ROIC, however, should not be considered as an alternative to net income, as a measure of operating performance, as an alternative to cash flow, as a measure of liquidity or as a substitute for any other measure computed in accordance with GAAP. In addition, our definition and calculation of ROIC may not be comparable to that used by other companies. Our calculation of ROIC is set forth in the following table.

			Historical Year Ended December 31,		
	2011	**2010**	**2009**	**2008**	**2007**
			(in millions)		
Calculation of adjusted after-tax operating income:					
Operating income as reported	$ 2,311.7	$ 2,070.9	$ 1,497.5	$ 1,274.3	$ 1,056.3
Adjustment for non-recurring items(i)	247.2	247.3	132.8	40.4	32.1
Income tax(ii)	(946.8)	(855.4)	(600.0)	(469.3)	(396.6)
Adjusted after-tax operating income	$ 1,612.1	$ 1,462.8	$ 1,030.3	$ 845.4	$ 691.8
Calculation of average invested capital end of period:					
Stockholders equity	$ 2,473.7	$ 3,606.6	$ 3,551.8	$ 1,078.2	$ 696.4
Interest bearing liabilities	8,076.3	2,493.8	3,832.6	1,760.3	2,020.4
Long-term deferred income taxes, net	546.5	448.9	368.8	313.8	278.6
Invested capital	$ 11,096.5	$ 6,549.3	$ 7,753.2	$ 3,152.3	$ 2,995.4
Average invested capital(iii)	$ 8,822.9	$ 7,151.3	$ 5,452.8	$ 3,073.9	$ 2,914.0
ROIC	18.3%	20.5%	18.9%	27.5%	23.7%

(i) Operating income is adjusted for non-recurring items and amortization of intangible assets, as these items are not considered an indicator of ongoing company performance.

(ii) The tax rate applied is the effective tax rate on adjusted operating income, which was 37.0%, 36.9%, 36.8%, 35.7% and 36.4% in fiscal years 2011, 2010, 2009, 2008 and 2007, respectively.

(iii) Average invested capital for each respective period is the average of the invested capital at the end of the period and the invested capital at the beginning of the period. Invested capital at the beginning of the 2007 fiscal year was $2,832.5 and consisted of $1,124.9 of stockholders equity, $1,450.5 of interest bearing liabilities and $257.1 of long-term deferred income taxes, net.

THE EXCHANGE OFFER

Terms of the Exchange Offer; Period for Tendering Old Notes

Subject to terms and conditions detailed in this prospectus, we will accept for exchange old notes which are properly tendered on or prior to the expiration date and not withdrawn as permitted below. As used herein, the term expiration date means 5:00 p.m., New York City time, on January 8, 2013. We may, however, in our sole discretion, extend the period of time during which the exchange offer is open. The term expiration date means the latest time and date to which the exchange offer is extended.

As of the date of this prospectus, $900 million aggregate principal amount of old 2014 notes, $1.0 billion aggregate principal amount of old 2015 notes, $1.25 billion aggregate principal amount of old 2016 notes, $1.5 billion aggregate principal amount of old 2017 notes, $1.25 billion aggregate principal amount of old 2021 notes, $1.0 billion aggregate principal amount of old 2022 notes and $700 million aggregate principal amount of the old 2041 notes are outstanding.

We expressly reserve the right, at any time, to extend the period of time during which the exchange offer is open, and delay acceptance for exchange of any old notes, by giving oral or written notice of such extension to the holders thereof as described below. During any such extension, all old notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us. Any old notes not accepted for exchange for any reason will be returned without expense to the tendering holder as promptly as practicable after the expiration or termination of the exchange offer.

Old notes tendered in the exchange offer must be in denominations of principal amount of $2,000 and integral multiples of $1,000 in excess of $2,000.

We expressly reserve the right to amend or terminate the exchange offer, and not to accept for exchange any old notes, upon the occurrence of any of the events specified under Conditions to the Exchange Offer. We will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the old notes as promptly as practicable. Such notice, in the case of any extension, will be issued by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

Exchange Offer Procedures

The tender to us of old notes by you as set forth below and our acceptance of the old notes will constitute a binding agreement between us and you upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal. Except as set forth below, to tender old notes for exchange pursuant to the exchange offer, you must transmit a properly completed and duly executed letter of transmittal, including all other documents required by such letter of transmittal or, in the case of a book-entry transfer, an agent s message in lieu of such letter of transmittal, to Wells Fargo Bank, National Association, as exchange agent, at the address set forth below under Exchange Agent on or prior to the expiration date. In addition, either:

- certificates for such old notes must be received by the exchange agent along with the letter of transmittal; or

- a timely confirmation of a book-entry transfer, which we refer to as a book-entry confirmation, of such old notes, if such procedure is available, into the exchange agent s account at DTC pursuant to the procedure for book-entry transfer must be received by the exchange agent, prior to the expiration date, with the letter of transmittal or an agent s message in lieu of such letter of transmittal.

The term agent s message means a message, transmitted by DTC to and received by the exchange agent and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgment from the tendering participant stating that such participant has received and agrees to be bound by the letter of transmittal and that we may enforce such letter of transmittal against such participant. The method of delivery of old notes, letters of transmittal and all other required documents is at your election and risk. If such delivery is by mail, it is recommended that you use registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. No letter of transmittal or old notes should be sent to us.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the old notes surrendered for exchange are tendered:

by a holder of the old notes who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal, or

for the account of an eligible institution (as defined below).

In the event that signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, such guarantees must be by a firm which is a member of the Securities Transfer Agent Medallion Program, the Stock Exchanges Medallion Program or the New York Stock Exchange Medallion Program (each such entity being hereinafter referred to as an eligible institution). If old notes are registered in the name of a person other than the signer of the letter of transmittal, the old notes surrendered for exchange must be endorsed by, or be accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as we or the exchange agent determine in our sole discretion, duly executed by the registered holders with the signature thereon guaranteed by an eligible institution.

We or the exchange agent in our or its sole discretion will make a final and binding determination on all questions as to the validity, form, eligibility (including time of receipt) and acceptance of old notes tendered for exchange. We reserve the absolute right to reject any and all tenders of any particular old note not properly tendered or to not accept any particular old note which acceptance might, in our judgment or our counsel s, be unlawful. We also reserve the absolute right to waive any defects or irregularities or conditions of the exchange offer as to any particular old note either before or after the expiration date (including the right to waive the ineligibility of any holder who seeks to tender old notes in the exchange offer). Our or the exchange agent s interpretation of the terms and conditions of the exchange offer as to any particular old note either before or after the expiration date (including the letter of transmittal and the instructions thereto) will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of old notes for exchange must be cured within a reasonable period of time, as we determine. We are not, nor is the exchange agent or any other person, under any duty to notify you of any defect or irregularity with respect to your tender of old notes for exchange, and no one will be liable for failing to provide such notification.

If the letter of transmittal is signed by a person or persons other than the registered holder or holders of old notes, such old notes must be endorsed or accompanied by powers of attorney signed exactly as the name(s) of the registered holder(s) that appear on the old notes and the signatures must be guaranteed by an eligible institution.

If the letter of transmittal or any old notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing. Unless waived by us or the exchange agent, proper evidence satisfactory to us of their authority to so act must be submitted with the letter of transmittal.

By tendering old notes, you represent to us, among other things, that you are not our affiliate, as defined under Rule 405 under the Securities Act, that the new notes acquired pursuant to the exchange offer are being obtained in the ordinary course of business of the person receiving such new notes, whether or not such person is the holder, that neither the holder nor such other person has any arrangement or understanding with any person to participate in the distribution of the new notes, and that you are not holding old notes that have, or are reasonably likely to have, the status of an unsold allotment in the initial offering. In the case of a holder that is not a broker-dealer, that holder, by tendering, will also represent to us that the holder is not engaged in, and does not intend to engage in, a distribution of the new notes. However, any purchaser of old notes who is our affiliate who intends to participate in the exchange offer for the purpose of distributing the new notes or a broker-dealer that acquired old notes in a transaction other than as part of its trading or market-making activities and who has arranged or has an understanding with any person to participate in the distribution of the old notes:

- cannot rely on the applicable interpretations of the staff of the SEC;
- will not be entitled to participate in the exchange offer; and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

Each broker-dealer that receives new notes for its own account in exchange for old notes, where such old notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. See Plan of Distribution. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

Acceptance of Old Notes for Exchange; Delivery of New Notes

Upon satisfaction or waiver of all of the conditions to the exchange offer, we will accept, promptly after the expiration date, all old notes properly tendered and will issue the new notes promptly after acceptance of the old notes. See Conditions to the Exchange Offer. For purposes of the exchange offer, we will be deemed to have accepted properly tendered old notes for exchange if and when we give oral (confirmed in writing) or written notice to the exchange agent.

The holder of each old note accepted for exchange will receive a new note in the amount equal to the surrendered old note. Holders of new notes on the relevant record date for the first interest payment date following the consummation of the exchange offer will receive interest accruing from the most recent date to which interest has been paid on the old notes. Holders of new notes will not receive any payment in respect of accrued interest on old notes otherwise payable on any interest payment date, the record date for which occurs on or prior to the consummation of the exchange offer.

In all cases, issuance of new notes for old notes that are accepted for exchange will be made only after timely receipt by the exchange agent of:

- certificates for such old notes or a timely book-entry confirmation of such old notes into the exchange agent s account at DTC;
- a properly completed and duly executed letter of transmittal or an agent s message in lieu thereof; and
- all other required documents.

If any tendered old notes are not accepted for any reason set forth in the terms and conditions of the exchange offer or if old notes are submitted for a greater principal amount than the holder desires to exchange, such unaccepted or non-exchanged old notes will be returned without expense to the tendering holder (or, in the case of old notes tendered by book entry transfer into the exchange agent s account at DTC pursuant to the book-entry procedures described below, such non-exchanged old notes will be credited to an account maintained with DTC as promptly as practicable after the expiration or termination of the exchange offer).

Book-Entry Transfers

For purposes of the exchange offer, the exchange agent will request that an account be established with respect to the old notes at DTC within two business days after the date of this prospectus, unless the exchange agent has already established an account with DTC suitable for the exchange offer. Any financial institution that is a participant in DTC may make book-entry delivery of old notes by causing DTC to transfer such old notes into the exchange agent s account at DTC in accordance with DTC s procedures for transfer. Although delivery of old notes may be effected through book-entry transfer at DTC, the letter of transmittal or facsimile thereof or an agent s message in lieu thereof, with any required signature guarantees and any other required documents, must, in any case, be transmitted to and received by the exchange agent at one of the addresses set forth under Exchange Agent on or prior to the expiration date.

Withdrawal Rights

You may withdraw your tender of old notes at any time prior to the expiration date. To be effective, a written notice of withdrawal must be received by the exchange agent at one of the addresses set forth under Exchange Agent. This notice must specify:

- the name of the person having tendered the old notes to be withdrawn;
- the old notes to be withdrawn (including the principal amount of such old notes); and
- where certificates for old notes have been transmitted, the name in which such old notes are registered, if different from that of the withdrawing holder.

If certificates for old notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an eligible institution, unless such holder is an eligible institution. If old notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn old notes and otherwise comply with the procedures of DTC.

We or the exchange agent will make a final and binding determination on all questions as to the validity, form and eligibility (including time of receipt) of such notices. Any old notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any old notes tendered for exchange but not exchanged for any reason will be returned to the holder without cost to such holder (or, in the case of old notes tendered by book-entry transfer into the exchange agent s account at DTC pursuant to the book-entry transfer procedures described above, such old notes will be credited to an account maintained with DTC for the old notes as soon as practicable after withdrawal, rejection of tender or termination of the exchange offer). Properly withdrawn old notes may be retendered by following one of the procedures described under Exchange Offer Procedures above at any time on or prior to the expiration date.

Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, we are not required to accept for exchange, or to issue new notes in exchange for, any old notes and may terminate or amend the exchange offer, if any of the following events occur prior to acceptance of such old notes:

(1) the exchange offer violates any applicable law or applicable interpretation of the staff of the SEC;

(2) there is threatened, instituted or pending any action or proceeding before, or any injunction, order or decree has been issued by, any court or governmental agency or other governmental regulatory or administrative agency or commission,

- seeking to restrain or prohibit the making or consummation of the exchange offer or any other transaction contemplated by the exchange offer, or assessing or seeking any damages as a result thereof, or

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resulting in a material delay in our ability to accept for exchange or exchange some or all of the old notes pursuant to the exchange offer;

(3) any statute, rule, regulation, order or injunction has been sought, proposed, introduced, enacted, promulgated or deemed applicable to the exchange offer or any of the transactions contemplated by the exchange offer by any government or governmental authority, domestic or foreign, or any action has been taken, proposed or threatened, by any government, governmental authority, agency or court, domestic or foreign, that in our sole judgment might, directly or indirectly, result in any of the consequences referred to in clauses (1) or (2) above or, in our reasonable judgment, might result in the holders of new notes having obligations with respect to resales and transfers of new notes which are greater than those described in the interpretation of the SEC referred to on the cover page of this prospectus, or would otherwise make it inadvisable to proceed with the exchange offer; or

(4) there has occurred:

any general suspension of or general limitation on prices for, or trading in, our securities on any national securities exchange or in the over-the-counter market,

any limitation by a governmental agency or authority which may adversely affect our ability to complete the transactions contemplated by the exchange offer,

a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or any limitation by any governmental agency or authority which adversely affects the extension of credit, or

a commencement of a war, armed hostilities or other similar international calamity directly or indirectly involving the United States, or, in the case of any of the foregoing existing at the time of the commencement of the exchange offer, a material acceleration or worsening thereof;

which in our reasonable judgment in any case, and regardless of the circumstances (including any action by us) giving rise to any such condition, makes it inadvisable to proceed with the exchange offer and/or with such acceptance for exchange or with such exchange.

The foregoing conditions are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any condition or may be waived by us in whole or in part at any time in our reasonable discretion. Our failure at any time to exercise any of the foregoing rights will not be deemed a waiver of any such right and each such right will be deemed an ongoing right which may be asserted at any time.

In addition, we will not accept for exchange any old notes tendered, and no new notes will be issued in exchange for any such old notes, if at such time any stop order is threatened or in effect with respect to the registration statement, of which this prospectus constitutes a part, or the qualification of the indenture under the Trust Indenture Act.

Exchange Agent

We have appointed Wells Fargo Bank, National Association as the exchange agent for the exchange offer. All executed letters of transmittal should be directed to the exchange agent at the addresses set forth below. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal should be directed to the exchange agent addressed as follows:

Wells Fargo Bank, National Association, Exchange Agent

By Registered or Certified Mail:	*By Regular Mail or Overnight Courier:*
Wells Fargo Bank, National Association Corporate Trust Operations MAC N9303-121 PO Box 1517 Minneapolis, MN 55480	Wells Fargo Bank, National Association Corporate Trust Operations MAC N9303-121 Sixth & Marquette Avenue Minneapolis, MN 55479
By Facsimile:	*In Person by Hand Only:*
(612) 667-6282	Wells Fargo Bank, National Association 12th Floor Northstar East Building Corporate Trust Operations 680 Second Avenue South Minneapolis, MN 55479

For Information or Confirmation by Telephone:

(800) 344-5128

DELIVERY OF THE LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF SUCH LETTER OF TRANSMITTAL VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY OF THE LETTER OF TRANSMITTAL.

Fees and Expenses

The principal solicitation is being made by mail by Wells Fargo Bank, National Association, as exchange agent. We will pay the exchange agent customary fees for its services, reimburse the exchange agent for its reasonable out-of-pocket expenses incurred in connection with the provision of these services and pay other registration expenses, including fees and expenses of the trustee under the indenture relating to the new notes, filing fees, blue sky fees and printing and distribution expenses. We will not make any payment to brokers, dealers or others soliciting acceptances of the exchange offer.

Additional solicitation may be made by telephone, facsimile or in person by our and our affiliates officers and regular employees and by persons so engaged by the exchange agent.

Accounting Treatment

We will record the new notes at the same carrying value as the old notes, as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes. The expenses of the exchange offer will be expensed as incurred.

Transfer Taxes

Holders who tender their old notes for exchange will not be obligated to pay any related transfer taxes, except that holders who instruct us to register new notes in the name of, or request that old notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be responsible for the payment of any applicable transfer taxes.

Consequences of Exchanging or Failing to Exchange Old Notes

If you do not exchange your old notes for new notes in the exchange offer, your old notes will continue to be subject to the provisions of the indenture relating to the old notes regarding transfer and exchange of the old notes and the restrictions on transfer of the old notes described in the legend on your certificates. These transfer restrictions are required because the old notes were issued under an exemption from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the old notes may not be offered or sold unless registered under the Securities Act, except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not plan to register the old notes under the Securities Act. Based on interpretations by the staff of the SEC, as set forth in no-action letters issued to third parties, we believe that the new notes you receive in the exchange offer may be offered for resale, resold or otherwise transferred without compliance with the registration and prospectus delivery provisions of the Securities Act. However, you will not be able to freely transfer the new notes, and, to the extent described below, you will not be entitled to participate in the exchange offer if:

- you are our affiliate, as defined in Rule 405 under the Securities Act;
- you are not acquiring the new notes in the exchange offer in the ordinary course of your business;
- you have an arrangement or understanding with any person to participate in the distribution, as defined in the Securities Act, of the new notes you will receive in the exchange offer; or
- you are holding old notes that have, or are reasonably likely to have, the status of an unsold allotment in the initial offering.

We do not intend to request the SEC to consider, and the SEC has not considered, the exchange offer in the context of a similar no-action letter. As a result, we cannot guarantee that the staff of the SEC would make a similar determination with respect to the exchange offer as in the circumstances described in the no action letters discussed above. Each holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of new notes and has no arrangement or understanding to participate in a distribution of new notes. If you are our affiliate, are engaged in or intend to engage in a distribution of the new notes or have any arrangement or understanding with respect to the distribution of the new notes you will receive in the exchange offer, you may not rely on the applicable interpretations of the staff of the SEC, you will not be entitled to participate in the exchange offer and you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. If you are a participating broker-dealer, you must acknowledge that you will deliver a prospectus in connection with any resale of the new notes. In addition, to comply with state securities laws, you may not offer or sell the new notes in any state unless they have been registered or qualified for sale in that state or an exemption from registration or qualification is available and is complied with. The offer and sale of the new notes to qualified institutional buyers (as defined in Rule 144A of the Securities Act) is generally exempt from registration or qualification under state securities laws. We do not plan to register or qualify the sale of the new notes in any state where an exemption from registration or qualification is required and not available.

DESCRIPTION OF THE NEW NOTES

The 2.750% Senior Notes due 2014 (the new 2014 notes), the 2.100% Senior Notes due 2015 (the new 2015 notes), the 3.500% Senior Notes due 2016 (the new 2016 notes), the 2.650% Senior Notes due 2017 (the new 2017 notes), the 4.750% Senior Notes due 2021 (the new 2021 notes), the 3.900% Senior Notes due 2022 (the new 2022 notes) and the 6.125% Senior Notes due 2041 (the new 2041 notes and, together with the new 2014 notes, the new 2015 notes, the new 2016 notes, the new 2017 notes, the new 2021 notes and the new 2022 notes, the new notes) will be issued under and governed by an indenture, among Express Scripts Holding Company, ESI, certain of our domestic wholly owned subsidiaries and Wells Fargo Bank, National Association, as trustee, dated as of November 21, 2011, and supplemented by supplemental indentures in respect of each series of notes (as so supplemented, the indenture). This is the same indenture under which the old notes were issued. References to the old notes refer to the notes in exchange for which the new notes are being offered. References to the notes refer to the new notes and the old notes, collectively. Any old notes of a series that remain outstanding after the completion of the exchange offer, together with the new notes of such series issued in the exchange offer, will be treated as a single class of securities under the indenture. The following description is subject to, and is qualified in its entirety by reference to, the indenture. Unless otherwise defined herein, capitalized terms used in the following description are defined in the indenture. As used in the following description, the terms we, us, our and Express Scripts refer to Express Scripts Holding Company and not to any of its subsidiaries, unless the context requires otherwise.

We urge you to read the indenture (including definitions of terms used therein) because it, and not this description, defines your rights as a beneficial holder of the new notes. The following description of material terms of the indenture and the new notes is a summary only and does not purport to be complete. This description is subject to, and qualified in its entirety by reference to, the actual provisions of the new notes and the indenture. For information about how to obtain copies of the indenture from us, see Where You Can Find More Information.

General

The new 2014 notes will be initially limited to $900.0 million aggregate principal amount and will mature on November 21, 2014. The new 2015 notes will be initially limited to $1.0 billion aggregate principal amount and will mature on February 12, 2015. The new 2016 notes will be initially limited to $1.25 billion aggregate principal amount and will mature on November 15, 2016. The new 2017 notes will be initially limited to $1.5 billion aggregate principal amount and will mature on February 15, 2017. The new 2021 notes will be initially limited to $1.25 billion aggregate principal amount and will mature on November 15, 2021. The new 2022 notes will be initially limited to $1.0 billion aggregate principal amount and will mature on February 15, 2022. The new 2041 notes will be initially limited to $700.0 million aggregate principal amount and will mature on November 15, 2041. We may, without the consent of the holders of the applicable series of notes, increase such principal amounts in the future, on the same terms and conditions as the notes of the applicable series (except for the issue date, issue price and, in some cases, the first interest payment date). All new notes will be issued only in fully registered form without coupons in minimum denominations of $2,000 and any integral multiple of $1,000.

The new notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior unsecured indebtedness. The new notes will be jointly and severally and fully and unconditionally guaranteed by certain of our domestic wholly owned subsidiaries, including ESI and Medco and certain of their respective domestic wholly owned subsidiaries. Our domestic wholly owned subsidiaries that will guarantee the new notes are collectively referred to herein as the Guarantors.

The new notes will be effectively subordinated to any secured indebtedness that we and the Guarantors may have or incur in the future to the extent of the collateral securing the same and will be structurally subordinated to the obligations (including trade accounts payable) of our subsidiaries that do not guarantee the new notes. At

September 30, 2012, we and our consolidated subsidiaries had approximately $17,124.9 million of senior unsecured indebtedness and no secured indebtedness. At September 30, 2012, our subsidiaries that will not guarantee the new notes had approximately $739.1 million of liabilities.

The indenture will not contain any covenants or provisions that would afford the holders of the new notes protection in the event of a highly leveraged or other transaction that is not in the best interests of noteholders, except to the limited extent described below under Covenants.

Guarantees

The new notes will be jointly and severally and fully and unconditionally guaranteed by our domestic wholly owned subsidiaries that currently guarantee the old notes, subject to certain customary automatic release provisions.

In addition, the new notes will be guaranteed by certain of our subsidiaries under the circumstances described under Covenants Additional Guarantors, including any such subsidiary that becomes a guarantor of obligations under our $4.0 billion unsecured term loan facility (the Term Loan Facility) or our $1.5 billion revolving loan facility (the Revolving Loan Facility and together with the Term Loan Facility, the Facilities). Unless the context otherwise requires, for all purposes of the indenture and this Description of the New Notes, references to the Guarantors include any such additional guarantors.

Each Guarantor s guarantee of the new notes:

- will be a general unsecured obligation of that Guarantor;
- will be pari passu in right of payment with all existing and future senior indebtedness of that Guarantor, but will be effectively subordinated to all of that Guarantor s future secured indebtedness to the extent of the value of the collateral that secures such indebtedness; and
- will be senior in right of payment to all existing and future subordinated indebtedness of that Guarantor.

Not all of our subsidiaries will guarantee the new notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor subsidiaries, the non-guarantor subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us. As of September 30, 2012, our subsidiaries that will not guarantee the new notes had approximately $739.1 million of liabilities and held approximately 1.5% of our assets and those of our consolidated subsidiaries. For the nine months ended September 30, 2012, our subsidiaries that will not guarantee the new notes generated approximately 0.6% of our consolidated total revenues and approximately 5.9% of our consolidated operating income.

The obligations of each Guarantor will be limited as necessary to prevent the guarantees from constituting a fraudulent conveyance under applicable law. If a guarantee is rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the Guarantor, and, depending on the amount of such indebtedness, a Guarantor s liability on its guarantee could be reduced to zero. See Risk Factors Risks Related to the Exchange Offer and Holding the New Notes Federal and state fraudulent transfer laws may permit a court to void the guarantees, and, if that occurs, you may not receive any payments on the new notes or in respect of such guarantees.

The indenture provides for the release of all or some of the guarantees of the Guarantors in certain circumstances, including:

- all or substantially all of the equity interests or assets of such Guarantor are sold, transferred or otherwise disposed of, other than to us, one of our subsidiaries or one of our affiliates;

such Guarantor is not a borrower or guarantor under, and does not grant any lien to secure any obligations pursuant to, (1) either of the Facilities or, in each case, any refinancing or replacement thereof, or (2) any other indebtedness for borrowed money having an aggregate principal amount outstanding in excess of 15% of our consolidated net worth, and is released or discharged from each guarantee and lien granted by such Guarantor with respect to all of such indebtedness other than obligations arising under the indenture and any securities issued under the indenture, except discharges or releases by or as a result of payment under such guarantees; or

under the circumstances described under Covenants Additional Guarantors.

No Guarantor currently is an issuer, borrower or guarantor under, or has incurred or granted any lien to secure, debt of an amount that is in excess of 15% of our consolidated net worth, other than Medco and ESI, in each case, as issuer of its existing senior notes.

Principal and Interest

The new 2014 notes will mature on November 21, 2014, the new 2015 notes will mature on February 12, 2015, the new 2016 notes will mature on November 15, 2016, the new 2017 notes will mature on February 15, 2017, the new 2021 notes will mature on November 15, 2021, the new 2022 notes will mature on February 15, 2022, and the new 2041 notes will mature on November 15, 2041, unless, in each case, we redeem the notes prior to that date, as described below under Optional Redemption. Interest on the new 2014 notes will accrue at the rate of 2.750% per year, interest on the new 2015 notes will accrue at the rate of 2.100% per year, interest on the new 2016 notes will accrue at the rate of 3.500% per year, interest on the new 2017 notes will accrue at the rate of 2.650% per year, interest on the new 2021 notes will accrue at the rate of 4.750% per year, interest on the new 2022 notes will accrue at the rate of 3.900% per year and interest on the new 2041 notes will accrue at the rate of 6.125% per year, and in each case will be paid on the basis of a 360-day year of twelve 30-day months. We will pay interest on the new 2014 notes semi-annually in arrears on May 21 and November 21 of each year, beginning on November 21, 2012, to the holder in whose name each such note is registered on the day that is 15 days prior to the relevant interest payment date, whether or not such day is a business day. We will pay interest on the new 2015 notes semi-annually in arrears on February 12 and August 12 of each year, beginning on February 12, 2013, to the holder in whose name each such note is registered on the day that is 15 days prior to the relevant interest payment date, whether or not such day is a business day. We will pay interest on the new 2016 notes, the new 2021 notes and the new 2041 notes semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2012, to the holder in whose name each such note is registered on the day that is 15 days prior to the relevant interest payment date, whether or not such day is a business day. We will pay interest on the new 2017 notes and the new 2022 notes semi-annually in arrears on February 15 and August 15 of each year, beginning on February 15, 2013, to the holder in whose name each such note is registered on the day that is 15 days prior to the relevant interest payment date, whether or not such day is a business day.

We will make payments in respect of the new notes represented by the global notes (as defined below) (including principal, premium, if any, and interest) by wire transfer of immediately available funds to the accounts specified by the note holder. We will make all payments of principal, interest and premium, if any, with respect to certificated notes (as defined below) by wire transfer of immediately available funds to the accounts specified by the holders of certificated notes or, if no such account is specified, by mailing a check to each such holder s registered address. The new notes represented by the global notes are expected to be eligible to trade in DTC s Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. We expect that secondary trading in any certificated notes will also be settled in immediately available funds. See Book-Entry, Delivery and Form.

Neither we nor the trustee will impose any service charge for any transfer or exchange of a note. However, we may ask you to pay any taxes or other governmental charges in connection with a transfer or exchange of notes.

If any interest payment date, stated maturity date or earlier redemption date falls on a day that is not a business day in the City of New York, we will make the required payment of principal, premium, if any, and/or interest on the next business day as if it were made on the date payment was due, and no interest will accrue on the amount so payable for the period from and after that interest payment date, the stated maturity date or earlier redemption date, as the case may be, to the next business day.

Optional Redemption

We may redeem some or all of the notes prior to maturity at a price equal to the greater of:

- 100% of the aggregate principal amount of any notes being redeemed, plus accrued and unpaid interest on such notes to the redemption date; or

- the sum of the present values of the remaining scheduled payments of principal and interest on any such notes being redeemed, not including unpaid interest accrued to the redemption date, discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate plus 35 basis points with respect to any 2014 notes being redeemed, 30 basis points with respect to any 2015 notes being redeemed, 40 basis points with respect to any 2016 notes being redeemed, 35 basis points with respect to any 2017 notes being redeemed, 40 basis points with respect to any 2022 notes being redeemed, 45 basis points with respect to any 2021 notes being redeemed and 50 basis points with respect to any 2041 notes being redeemed plus, in each case, unpaid interest on such notes being redeemed accrued to the redemption date.

We will, however, pay the interest installment due on any interest payment date that occurs on or before a redemption date to the holders of the affected series of notes as of the close of business on the applicable regular record date.

The term comparable treasury issue means the United States Treasury security or securities selected by an independent investment banker as having an actual or interpolated maturity comparable to the remaining term of the notes of the applicable series being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

The term comparable treasury price means, with respect to any redemption date:

- the average of five reference treasury dealer quotations for the redemption date, after excluding the highest and lowest such reference treasury dealer quotations, or

- if the trustee obtains fewer than five reference treasury dealer quotations, the average of all reference treasury dealer quotations for the redemption date so obtained.

The term independent investment banker means one of the reference treasury dealers appointed by the trustee after consultation with us.

The term reference treasury dealer means each of Citigroup Global Markets Inc. and Credit Suisse Securities (USA) LLC (in each case, or their affiliates) and three other primary U.S. government securities dealers selected by us, and each of their respective successors; *provided* that if any of these reference treasury dealers resigns, then the respective successor will be a primary United States government securities dealer in the City of New York selected by us.

The term reference treasury dealer quotations means, with respect to each reference treasury dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the comparable treasury issue, expressed in each case as a percentage of its principal amount, quoted in writing to the trustee by such reference treasury dealer at approximately 3:30 p.m., New York City time, on the third business day preceding such redemption date.

The term treasury rate means, with respect to any redemption date, the rate per year equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the comparable treasury issue, assuming a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

We will give written notice of any redemption of any series of notes to holders of that series of notes to be redeemed at their addresses, as shown in the security register for the affected notes, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the aggregate principal amount of the series of the notes to be redeemed, the redemption date and the redemption price.

If we choose to redeem less than all of any series of the notes, then we will notify the trustee at least 45 days before giving notice of redemption, or such shorter period as is satisfactory to the trustee, of the aggregate principal amount of that series of the notes to be redeemed and the redemption date. The trustee will select, in the manner it deems fair and appropriate, the notes of that series to be redeemed in part. See also Book-Entry, Delivery and Form below.

If we have given notice as provided in the indenture and made funds irrevocably available for the redemption of any series of the notes called for redemption on the redemption date referred to in that notice, then those notes will cease to bear interest on that redemption date and the only remaining right of the holders of those notes will be to receive payment of the redemption price.

The new notes will not be subject to, or have the benefit of, a sinking fund.

Purchase of Notes Upon a Change of Control Triggering Event

If a change of control triggering event occurs with respect to a particular series of the notes, holders of notes of such series will have the right to require us to repurchase all or any part (equal to $2,000 or an integral multiple of $1,000 in excess thereof) of their notes of such series pursuant to the offer described below (the change of control offer) on the terms set forth in the notes. In the change of control offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest, if any, on the notes repurchased, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date) (the change of control payment). Within 30 days following any change of control triggering event with respect to a particular series of the notes, or at our option, prior to any change of control but after the public announcement of the pending change of control, we will be required to mail a notice to holders of notes of the applicable series, with a copy to the trustee, describing the transaction or transactions that constitute the change of control triggering event and offering to repurchase the notes of such series on the date specified in the notice, which date shall be a business day no earlier than 30 days and no later than 60 days from the date such notice is mailed (the change of control payment date), pursuant to the procedures required by the notes and described in such notice. The notice will, if mailed prior to the date of the consummation of the change of control, state that the change of control offer is conditioned on the change of control triggering event occurring on or prior to the change of control payment date. We must comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a change of control triggering event. To the extent that the provisions of any securities laws or regulations conflict with the change of control provisions of the notes, we will be required to comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the change of control provisions of the notes by virtue of such conflicts.

On the change of control payment date, we will be required, to the extent lawful, to:

- accept for payment all notes or portions of notes properly tendered pursuant to the change of control offer;

- deposit with the paying agent an amount equal to the change of control payment in respect of all notes or portions of notes properly tendered; and

- deliver or cause to be delivered to the trustee the notes properly accepted, together with an officers certificate stating the aggregate principal amount of notes or portions of notes being purchased and that all conditions precedent provided for in the indenture to the change of control offer and to the repurchase by us of notes pursuant to the change of control offer have been complied with.

The paying agent will promptly mail to each holder of notes properly tendered the purchase price for the notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a note equal in principal amount to any unpurchased portion of any notes surrendered; provided that each note will be in a principal amount of $2,000 or an integral multiple of $1,000.

We will not be required to make an offer to repurchase the notes upon a change of control triggering event if (i) a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us, and such third party purchases all notes properly tendered and not withdrawn under its offer, or (ii) we have given written notice of a redemption of the notes as provided under Optional Redemption above, unless we have failed to pay the redemption price on the redemption date. The provisions relating to a change in control triggering event may not be waived or modified for each series of the notes without the written consent of holders of at least a majority in principal amount of that series of the notes outstanding. For purposes of the foregoing discussion of a repurchase at the option of holders, the following definitions are applicable:

The term below investment grade rating event means the notes of the applicable series are not rated, or are rated below an investment grade rating by each of the rating agencies (as defined below) on any date during the period commencing 60 days prior to the public notice of an arrangement that could result in a change of control until the end of the 60-day period following public notice of the occurrence of the change of control (which 60-day period shall be extended so long as the rating of the notes of the applicable series is under publicly announced consideration for possible downgrade by either of the rating agencies), provided that a below investment grade rating event otherwise arising by virtue of a particular reduction in, or termination of, any rating shall not be deemed to have occurred in respect of a particular change of control (and thus shall not be deemed a below investment grade rating event for purposes of the definition of change of control triggering event hereunder) if the rating agency or rating agencies ceasing to rate the notes of the applicable series or making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the trustee in writing at its request that the termination or reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable change of control (whether or not the applicable change of control shall have occurred at the time of the below investment grade rating event).

The term change of control means the occurrence of any of the following: (a) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our properties and assets and those of our subsidiaries taken as a whole to any person or group of related persons for purposes of Section 13(d) of the Exchange Act (a group) other than us or one of our subsidiaries; (b) the approval by the holders of our common stock of any plan or proposal for our liquidation or dissolution (whether or not otherwise in compliance with the provisions of the indenture); (c) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person or group (other than one of our subsidiaries) becomes the beneficial owner (as defined in Rule 13(d) under the Exchange Act), directly or indirectly, of more than 50% of the then outstanding number of shares of our voting stock; (d) we consolidate with or merge with or into any person, or any person consolidates with, or merges with or into, us, pursuant to a transaction in which any of our outstanding voting stock or any of the outstanding voting stock of such other person is converted into or exchanged for cash, securities or other property (except when our voting stock is converted into, or exchanged for, at least a majority of the voting stock of the surviving person immediately after giving effect to the transaction); or (e) the first day on which a majority of the members of our board of directors are not continuing directors.

Holders may not be entitled to require us to purchase their notes in certain circumstances involving a significant change in the composition of our board of directors, including in connection with a proxy contest, where our board of directors initially publicly opposes the election of a dissident slate of directors, but subsequently approves such directors as continuing directors for purposes of the indenture. This may result in a change in the composition of our board of directors that, but for such subsequent approval, would have otherwise constituted a change of control requiring a repurchase offer under the terms of the indenture.

The definition of change of control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of our properties and assets and those of our subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require us to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of our properties and assets and those of our subsidiaries taken as a whole to another person or group may be uncertain.

The term change of control triggering event means the occurrence of both a change of control and a below investment grade rating event.

The term continuing directors means, as of any date of determination, any member of our board of directors who (1) was a member of our board of directors on the date of the consummation of the Mergers; or (2) was nominated for election or elected to our board of directors with the approval of at least a majority of the continuing directors who were members of our board of directors at the time of such nomination or election (either by a specific vote or by approval of a proxy statement in which such member was named as a nominee for election as a director, without objection to such nomination).

Under a Delaware Chancery Court interpretation of the foregoing definition of continuing directors, a board of directors may approve for purposes of such definition a slate of shareholder-nominated directors without endorsing them, while simultaneously recommending and endorsing its own slate. This interpretation permits our board to approve a slate of directors that includes a majority of dissident directors nominated pursuant to a proxy contest and the ultimate election of such dissident slate would not constitute a Change of Control that would trigger your right to require us to repurchase your notes as described above.

The term investment grade rating means a rating of Baa3 (or better) by Moody s (or its equivalent under any successor rating category of Moody s) and a rating of BBB-(or better) by S&P (or its equivalent under any successor rating category of S&P), respectively, and the equivalent investment grade credit rating from any replacement rating agency or rating agencies selected by us under the circumstances permitting us to select a replacement agency and in the manner for selecting a replacement agency, in each case as set forth in the definition of rating agency.

The term Moody s means Moody s Investors Service, Inc., a subsidiary of Moody s Corporation, and its successors.

The term person includes any individual, corporation, partnership, limited partnership, general partnership, limited liability company, limited liability partnership, business trust, association, joint stock company, joint venture, trust, trust company, bank, association, land trusts, business trusts or other organizations, whether or not legal entities, incorporated or unincorporated organization or government or any agency or political subdivision thereof.

The term rating agency or rating agencies means each of Moody s and S&P; provided that if any of Moody s or S&P ceases to provide rating services to issuers or investors, we may appoint another nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act as a replacement for such rating agency that is reasonably acceptable to the trustee.

The term S&P means Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

The term voting stock of any specified person as of any date means the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

Covenants

Merger, Consolidation and Sale of Assets

We have agreed, with respect to each series of notes, not to consolidate with or merge with or into any other person, permit any other person to consolidate with or merge with and into us or convey, transfer or lease all or substantially all of our properties and assets to any other person, unless:

we are the surviving entity or our successor is an entity organized and existing under the laws of the United States of America, any state or the District of Columbia;

our successor will expressly assume, by a supplemental indenture, the due and punctual payment of the principal of and any premium and interest on the outstanding notes and the performance and observance of every covenant in the indenture that we would otherwise have to perform or observe;

immediately after giving effect to such transaction and treating any indebtedness that becomes an obligation of ours or any of our subsidiaries as a result of such transaction as having been incurred by us or any of our subsidiaries at the time of such transaction, there will not be any event of default or event which, after notice or lapse of time or both, would become an event of default;

if, as a result of any such transaction, our property or assets would become subject to a lien which would not be permitted under Limitations on Liens, we or our successor shall take those steps that are necessary to secure all outstanding notes equally and ratably with the indebtedness secured by that lien; and

we will have delivered to the trustee an officers certificate and an opinion of counsel, each stating that such consolidation or transfer and supplemental indenture, if applicable, comply with the indenture and that all conditions precedent to the consummation of the particular transaction under the indenture have been complied with.

Upon any consolidation or merger with or into any other person or any conveyance, transfer or lease of all or substantially all of our properties and assets to any other person, the successor person will succeed to, and be substituted for, us under the indenture, and we, except in the case of a lease, will be relieved of all obligations and covenants under the notes and the indenture to the extent we were the predecessor person.

For purposes of this covenant, the conveyance, transfer or lease of all or substantially all of the properties and assets of one or more our subsidiaries, which properties and assets, if held by us instead of such subsidiaries, would constitute all or substantially all of our properties and assets on a consolidated basis, shall be deemed to be the transfer of all or substantially all of our properties and assets.

Limitations on Liens

Neither we nor any restricted subsidiary may create or assume, except in our favor or in favor of one or more of our wholly owned subsidiaries, any mortgage, pledge, lien or encumbrance (as used in this paragraph, liens) on any property now owned or hereafter acquired by us or any such subsidiary, or permit any such subsidiary to do so, unless the outstanding notes of each series are secured equally and ratably with (or prior to) the obligations so secured by such lien, except that the foregoing restrictions do not apply to the following types of liens:

(1) liens in connection with workers compensation, unemployment insurance or other social security obligations (which phrase shall not be construed to refer to ERISA or the minimum funding obligations under Section 412 of the Internal Revenue Code of 1986, as amended (the code));

(2) liens to secure the performance of bids, tenders, letters of credit, contracts (other than contracts for the payment of indebtedness), leases, statutory obligations, surety, customs, appeal, performance and payment bonds and other obligations of like nature, in each such case arising in the ordinary course of business;

(3) mechanics , workmen s, carriers , warehousemen s, materialmen s, landlords , or other like liens arising in the ordinary course of business with respect to obligations that are not due or which are being contested in good faith and by appropriate action;

(4) liens for taxes, assessments, fees or governmental charges or levies that are not delinquent or which are payable without penalty, or which are being contested in good faith and by appropriate action, and in respect of which adequate reserves shall have been established in accordance with GAAP on our books or the books of any of our subsidiaries;

(5) liens consisting of attachments, judgments or awards against us or any of our subsidiaries, in each case with respect to which an appeal or proceeding for review shall be pending or a stay of execution shall have been obtained, or which are otherwise being contested in good faith and by appropriate action, and in respect of which adequate reserves shall have been established in accordance with GAAP on our books or the books of any of our subsidiaries;

(6) easements, rights of way, restrictions, leases of property to others, easements for installations of public utilities, title imperfections and restrictions, zoning ordinances and other similar encumbrances affecting property which in the aggregate do not materially adversely affect the value of such property or materially impair its use for the operations of our business or the business of any of our subsidiaries;

(7) liens existing on the date of the indenture and securing indebtedness or other obligations of ESI or any of its subsidiaries;

(8) statutory liens in favor of lessors arising in connection with property leased to us or any of our subsidiaries;

(9) liens on margin stock to the extent that a prohibition on such liens pursuant to this provision would violate Regulation U of the United States Federal Reserve Board, as amended;

(10) purchase money liens on property hereafter acquired by us or any of our subsidiaries created within 180 days of such acquisition (or in the case of real property, completion of construction including any improvements or the commencement of operation of the property, whichever occurs later) to secure or provide for the payment or financing of all or any part of the purchase price thereof, provided that the lien secured thereby shall attach only to the property so acquired and related assets (except that individual financings by one person (or an affiliate thereof) may be cross-collateralized to other financings provided by such person and its affiliates that are independently permitted by this clause (10));

(11) liens in respect of permitted sale-leaseback transactions;

(12) liens on the property of a person that becomes our subsidiary; provided that (i) such liens existed at the time such person becomes a subsidiary and were not created in anticipation thereof, (ii) any such lien does not by its terms cover any property after the time such person becomes a subsidiary that was not covered immediately prior thereto and (iii) any such lien does not by its terms secure any indebtedness other than indebtedness existing immediately prior to the time such person becomes a subsidiary; provided that such indebtedness was not incurred in anticipation of such person becoming a subsidiary;

(13) liens on property and proceeds thereof existing at the time of acquisition thereof and not created in contemplation thereof;

(14) liens (i) of a collection bank arising under Section 4-208 of the Uniform Commercial Code on the items in the course of collection, and (ii) in favor of a banking institution arising as a matter of law encumbering deposits (including the right of set off) and which are within the general parameters customary in the banking industry;

(15) liens granted in connection with asset securitization transactions in an aggregate principal amount not in excess of $1.5 billion at any one time outstanding upon the granting of such liens;

(16) liens imposed in respect of environmental laws;

(17) licenses of patents, trademarks and other intellectual property rights granted by us or any of our subsidiaries in the ordinary course of business and not interfering in any material respect with the ordinary conduct of our business of Express Scripts or the business of such subsidiary, as applicable;

(18) liens securing obligations (other than obligations representing indebtedness for borrowed money) under operating, reciprocal easement or similar agreements entered into by us or any of our subsidiaries in the ordinary course of business;

(19) any extension, renewal, refinancing, substitution or replacement (or successive extensions, renewals, refinancings, substitutions or replacements), as a whole or in part, of any of the liens referred to in paragraphs (7), (10), (12) and (13) of this covenant, provided that such extension, renewal, refinancing substitution or replacement lien shall be limited to all or any part of substantially the same property or assets that secured the lien extended, renewed, refinanced, substituted or replaced (plus improvements on such property) and the liability secured by such lien at such time is not increased;

(20) liens on proceeds of any of the assets permitted to be the subject of any lien or assignment permitted by this covenant; and

(21) other liens; provided that, without duplication, the aggregate sum of all obligations and Indebtedness secured by liens permitted under this clause (21), together with all property subject to the restriction on sale and leaseback transactions described below, would not exceed 15% of our consolidated net worth, measured upon granting of such liens based on the balance sheet for the end of the then most recent quarter for which financial statements are available.

Limitations on Sale and Leaseback Transactions

Neither we nor any restricted subsidiary may engage in sale and leaseback transactions except for permitted sale-leaseback transactions.

Our real property, improvements and fixtures and the real properties, improvements and fixtures of us and our subsidiaries are not subject to the limitations on sale and leaseback transactions described above or the limitations on liens described under Limitations on Liens. As of September 30, 2012, our and our subsidiaries real property, improvements and fixtures had a book value of approximately $1,710.2 million, none of which were subject to capital leases.

	-
Residential mortgage-backed securities	
	221,793
	-
	221,793

-

Asset-backed securities

90,608

-

90,608

-

1,473,862

176,831

1,297,031

-

Short term investments

U.S. government and agency securities

2,998

2,998

-

-

Corporates

11,253

-

11,253

-

14,251

2,998

11,253

-

Equity investments

Financial services

283

283

-

-

283

283

-

-

Other investments

Investment funds

39,993

-

-

39,993

Catastrophe bonds

76,691

-

76,691

-

116,684

-

76,691

39,993

Totals

$

1,605,080

$	180,112
$	1,384,975
$	39,993

Other investments do not include an investment accounted for under the equity method in which the Company has significant influence and accordingly, is not accounted for at fair value under the FASB ASC guidance for financial instruments. This investment was recorded at $2.6 million and $3.1 million at June 30, 2011 and December 31, 2010, respectively.

The reconciliation of the fair value for the Level 3 investments for the period ended June 30, 2011, including purchases and sales and change in realized and unrealized gains (losses) in earnings, is set out below:

	For the six months ended June 30, 2011	
Fair value, December 31, 2010	$	39,993
Total realized losses included in earnings		-
Total unrealized gains included in earnings		3,018
Purchases		3,476
Sales		(156)
Fair value, March 31, 2011	$	46,331
Total realized losses included in earnings		-
Total unrealized losses included in earnings		(535)
Purchases		14,431
Sales		(89)
Fair value, June 30, 2011	$	60,138

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

For the Level 3 items still held as of June 30, 2011, the total change in fair value for the three and six months ended June 30, 2011 was $(0.5) million and $2.5 million. 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 three and six months ended June 30, 2011.

Other investments

The Catastrophe bonds pay a variable and fixed interest coupon and generate investment return, and their performance is contingent upon climatological and geological events.

The Company's investment funds consist of investments in private equity, distressed debt and mortgage-backed investment funds. As at June 30, 2011 and December 31, 2010, the Company had total outstanding investment commitments of $15.9 million and $13.7 million, respectively. Redemptions from these investments occur at the discretion of the general partner, board of directors or, in other cases, subject to a majority vote by the investors. The Company is not able to redeem a significant portion of these investments prior to 2017.

The following table presents the fair value of the Company's investment funds as at June 30, 2011 and December 31, 2010:

	As at			
		June 30, 2011		December 31, 2010
Distressed debt funds	$	10,619	$	-
Private equity funds		9,788		8,143
Mortgage-backed investment fund		39,731		31,850
Total	$	60,138	$	39,993

Pledged assets

The Company holds cash and cash equivalents and fixed maturity investments that were deposited or pledged in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions, Lloyd's of London requirements and insurance laws.

The total amount of such deposited or pledged cash and cash equivalents and fixed maturity investments as at June 30, 2011 and December 31, 2010 are as follows:

	As at			
		June 30, 2011		December 31, 2010
Cash and cash equivalents	$	54,736	$	43,413
Fixed maturity investments		538,569		539,738
Total	$	593,305	$	583,151

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.

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The Company enters into index futures contracts and total return swaps to gain 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 in accordance with guidelines established by management and approved by the Company's Board of Directors (the "Board").

The Company has entered into certain foreign currency forward contracts for the purpose of hedging its net investments in foreign subsidiaries, and has designated these as hedging instruments. These foreign currency forward contracts are carried at fair value and the realized and unrealized gains and losses 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.

The details of the derivatives held by the Company as at June 30, 2011 and December 31, 2010 are as follows:

	As at June 30, 2011			
	Asset derivatives record in other assets	Liability derivatives recorded in other liabilities	Total derivatives	
	Fair value	Fair value	Net notional exposure	Fair value
Derivatives designated as hedging instruments				
Foreign currency forward contracts (1)	$ -	$ 580	$ 46,431	$ (580)
	-	580		(580)
Derivatives not designated as hedging instruments				
Purpose - risk management				
Currency swaps	$ 467	$ -	$ 18,862	$ 467
Foreign currency forward contracts	20,211	26,973	877,921	(6,762)
Futures contracts	105	1,871	777,086	(1,766)
	20,783	28,844		(8,061)
Purpose - exposure				
Futures contracts	$ 852	$ 657	$ 57,837	$ 195
	852	657		195
	21,635	29,501		(7,866)
Total derivatives	$ 21,635	$ 30,081		$ (8,446)

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	As at December 31, 2010			
	Asset derivatives recorded in other assets	Liability derivatives recorded in other liabilities	Total derivatives	
	Fair value	Fair value	Net notional exposure	Fair value
Derivatives designated as hedging instruments				
Foreign currency forward contracts(1)	$ -	$ 534	$ 43,201	$ (534)
	-	534		(534)
Derivatives not designated as hedging instruments				
Purpose - risk management				
Currency swaps	$ -	$ 1,020	$ 17,375	$ (1,020)
Foreign currency forward contracts	14,701	19,396	820,114	(4,695)
Futures contracts	1,822	4,125	1,100,498	(2,303)
	16,523	24,541		(8,018)
Purpose - exposure				
Futures contracts	$ 4,866	$ 223	$ 170,105	$ 4,643
Mortgage-backed securities TBA	4	17	4,275	(13)
Other reinsurance derivatives	-	241	-	(241)
	4,870	481		4,389
	21,393	25,022		(3,629)
Total derivatives	$ 21,393	$ 25,556		$ (4,163)

Designated

	Amount of Gain or (Loss) on Derivatives Recognized in				
	Comprehensive income (loss) (Effective portion)			Net income (loss) (Ineffective portion)	
Derivatives designated as hedging instruments	For the three months ended June 30,			For the three months ended June 30,	
	2011	2010	Location	2011	2010

Foreign currency forward contracts(1)	$	(831)	$	3,877	Net realized and unrealized (losses) - other	$	(124)	$	(247)
	$	(831)	$	3,877		$	(124)	$	(247)

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, 2011		2010		Location	Net income (loss) (Ineffective portion) For the six months ended June 30, 2011		2010	
Foreign currency forward contracts(1)	$	(2,040)	$	4,471	Net realized and unrealized (losses) - other	$	(349)	$	(272)
	$	(2,040)	$	4,471		$	(349)	$	(272)

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

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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, 2011	2010
Futures contracts	Net realized and unrealized losses - investments	$ (16,516)	$ (20,749)
Total return swaps	Net realized and unrealized losses - investments	-	(139)
Currency swaps	Net realized and unrealized gains (losses) - other	467	(1,679)
Foreign currency forward contracts	Net realized and unrealized (losses) gains - investments	(17,107)	30,954
Foreign currency forward contracts	Net realized and unrealized gains (losses) - other	13,643	(604)
Mortgage-backed securities TBA	Net realized and unrealized gains - investments	12	234
Other reinsurance derivatives	Net realized and unrealized gains - other	-	564
		$ (19,501)	$ 8,581

Derivatives not designated as hedging instruments	Location	Gain or (Loss) on Derivatives Recognized in Net Income — For the six months ended June 30, 2011	2010
Futures contracts	Net realized and unrealized losses - investments	$ (8,774)	$ (20,353)
Total return swaps	Net realized and unrealized gains - investments	-	1,105
Currency swaps	Net realized and unrealized gains (losses) - other	1,547	(2,766)
Foreign currency forward contracts	Net realized and unrealized (losses) gains - investments	(51,083)	48,416
Foreign currency forward contracts	Net realized and unrealized gains - other	11,857	5,611
Mortgage-backed securities TBA	Net realized and unrealized gains - investments	17	888
Other reinsurance derivatives	Net realized and unrealized gains - other	241	1,119
		$ (46,195)	$ 34,020

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 recorded as designated hedges. All other foreign currency forward contracts are not designated as hedges and are entered into for the purpose hedging our foreign currency fixed maturity investments and our net foreign currency operational assets and liabilities.

Futures contracts

The Company uses futures contracts to gain exposure to U.S. equity, global equity, emerging market equity and commodities. The Company uses interest rate futures contracts to manage the duration of the fixed maturity investments.

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.

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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 at June 30, 2011 and December 31, 2010 is allocated between levels as follows:

		Fair Value Measurement at June 30, 2011, 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	$ (1,571)	$ (1,571)	$ -	$ -
Swaps	467	-	467	-
Foreign currency forward contracts	(7,342)	-	(7,342)	-
Total derivatives	$ (8,446)	$ (1,571)	$ (6,875)	$ -

For the Level 3 items still held as of June 30, 2011, the total change in fair value for the three and six months ended June 30, 2011, recorded in net realized and unrealized gains (losses) – other, was $nil.

		Fair Value Measurement at December 31, 2010, 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	$ 2,340	$ 2,340	$ -	$ -
Swaps	(1,020)	-	(1,020)	-
Foreign currency forward contracts	(5,229)	-	(5,229)	-
Mortgage-backed securities TBA	(13)	-	(13)	-
Other reinsurance derivatives	(241)	-	-	(241)
Total derivatives	$ (4,163)	$ 2,340	$ (6,262)	$ (241)

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

		For the six months ended June 30, 2011
Other reinsurance derivatives		
Fair value, December 31, 2010	$	(241)
Total realized gains (losses) included in earning		-
Total unrealized gains included in earnings		241
Purchases		-
Sales		-
Fair value, March 31, 2011	$	-
Total realized gains (losses) included in earning		-
Total unrealized gains included in earnings		-
Purchases		-
Sales		-
Fair value, June 30, 2011	$	-

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 three and six months ended June 30, 2011.

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6. GOODWILL AND INTANGIBLES

The following tables detail goodwill and intangible assets as at June 30, 2011 and December 31, 2010:

Goodwill relates to the following reportable segments:	Reinsurance	Lloyd's	Island Heritage	Total
Balance as at December 31, 2010	$ 3,108	$ 3,223	$ 10,050	$ 16,381
Impact of foreign exchange	-	95	-	95
Balance as at June 30, 2011	$ 3,108	$ 3,318	$ 10,050	$ 16,476

	Carrying value at December 31, 2010	Accumulated amortization (1)	Impact of foreign exchange	Carrying value at June 30, 2011
Finite life intangibles				
Software	$ 3,368	$ (242)	$ 124	$ 3,250
Distribution network	2,928	(168)	106	2,866
	$ 6,296	$ (410)	$ 230	$ 6,116
Indefinite life intangibles				
Lloyd's syndicate capacity	$ 24,478	$ -	$ 720	$ 25,198
Licenses	775	-	-	775
	$ 25,253	$ -	$ 720	$ 25,973
Total intangible assets	$ 31,549	$ (410)	$ 950	$ 32,089

Aggregate amortization expenses (1)	
For the six months ended June 30, 2011	$ 369

Estimated amortization expense	For the years ending December 31,	Amount
	2011	$ 724
	2012	696
	2013	670
	2014	648
	2015	627

(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.

7. ASSETS HELD FOR SALE

During the year ended December 31, 2010, the Company decided to dispose of certain corporate aircraft that it leased and owned. As a result, the Company terminated all operational lease agreements at the casualty value stipulated under the lease agreements. As at December 31, 2010, the Company had disposed of two aircraft and had reflected one as an asset held for sale on the consolidated balance sheet as at December 31, 2010. On June 1, 2011, the Company disposed of the aircraft reflected in assets held for sale, resulting in a gain on disposal of less than $0.1 million.

8. MONT FORT RE LIMITED

On March 25, 2011, Mont Fort Re Limited (“Mont Fort”) repurchased 28.1 million preferred shares relating to its third cell, Mont Fort High Layer, for $46.5 million. As a result of this preferred share repurchase there is no longer a noncontrolling interest in Mont Fort.

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9. DEBT AND FINANCING ARRANGEMENTS

Long term debt

Interest expense includes interest payable, amortization of debt offering expenses and finance charges on our letter of credit facilities. 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, 2011, the Company incurred interest expense of $2.6 million and $5.2 million, respectively, on the Deferrable Interest Debentures compared to $2.3 million and $4.5 million, respectively, for the same periods in 2010. The Company had $0.8 million of interest payable included in other liabilities at both June 30, 2011 and December 31, 2010.

The Company does not carry its long term debt at fair value on its consolidated balance sheets. At June 30, 2011, the Company estimated the fair value of its long term debt to be approximately $234.4 million compared to $220.5 million at December 31, 2010.

Letter of credit facilities

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”). On March 5, 2011, the Barclays Facility was amended to extend the maturity date to August 31, 2011 to allow for the renegotiation of the agreement. The Barclays Facility is used to support the reinsurance obligations of the Company. As at June 30, 2011, $30.3 million had been drawn under the Barclays Facility, and the drawn amount was secured by $33.6 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 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, 2011, $428.2 million had been drawn under the Citi Facility, and the drawn amount of the facility was secured by $503.9 million of fixed maturity securities 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.

10. 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 Performance Share Unit Plan (“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, PSUs may be granted to executive officers and certain other key employees. The number of units that will be exercised at the end vesting period is contingent upon the Company meeting certain diluted return-on-equity (“DROE”) goals.

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A summary of the activity under the PSU Plan as at June 30, 2011, and changes during the three and six months ended June 30, 2011, is as follows:

	For the three months ended June 30, 2011			For the six months ended June 30, 2011		
	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	1,965,091	$ 10.77	1.4	3,998,558	$ 10.25	0.9
Granted	-	-		777,500	12.59	
Forfeited	(29,384)	10.95		(56,733)	11.01	
Performance factor changes	(173,265)	9.98		(1,584,374)	10.84	
Exercised	-	-		(1,372,509)	10.12	
Outstanding at end of period	1,762,442	10.84	1.2	1,762,442	10.84	1.2

The Company reviews its assumptions in relation to the PSUs on a quarterly basis. The issuance of shares with respect to the PSUs is contingent upon the attainment of certain levels of average DROE over a three year period. For the three and six months ended June 30, 2011, $0.1 million and $(4.1) million, respectively, of compensation expense related to the PSU Plan has been recorded in general and administrative expenses compared to $3.8 million and $7.9 million for the same period in 2010. As at June 30, 2011 and December 31, 2010, there was a total of $8.3 million and $12.2 million, respectively, of unrecognized compensation cost related to non−vested PSUs; that cost is expected to be recognized over periods of approximately 1.8 years and 1.5 years, respectively.

Since the inception of the PSU Plan, 1,432,509 PSUs have vested and 2,368,658 PSUs have been cancelled.

Restricted Share Units

The purpose of the Company’s 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 and RSUs granted to directors vest on the grant date.

A summary of the activity under the RSU Plan as at June 30, 2011, and changes during the three and six months ended June 30, 2011, is as follows:

	For the three months ended June 30, 2011			For the six months ended June 30, 2011		
	Number	Weighted average	Weighted average	Number	Weighted average	Weighted average

	expected to vest		grant date fair value	remaining contractual term	expected to vest		grant date fair value	remaining contractual term
Outstanding at beginning of period	614,927	$	11.81	0.5	577,213	$	11.08	0.3
Granted	-		-		207,614		12.60	
Forfeited	(18,800)		11.81		(29,300)		11.68	
Exercised	(3,293)		12.60		(162,693)		10.26	
Outstanding at end of period	592,834		11.81	0.5	592,834		11.81	0.5

Unrecognized compensation cost related to non-vested RSUs was $1.7 million and $0.9 million at June 30, 2011 and December 31, 2010, respectively, and is expected to be recognized over a period of approximately 1.2 years and 1.0 year, respectively. Compensation expenses related to the RSU Plan of $0.3 million and $1.6 million were recorded in general and administrative expenses for the three and six months ended June 30, 2011 compared to $0.4 million and $1.5 million for the same periods in 2010.

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Since the inception of the RSU Plan in July 2006, 544,492 RSUs granted to employees have vested and no RSUs granted to employees have been cancelled. During the three and six months ended June 30, 2011, nil and 63,964 RSUs, respectively, were granted to the directors, compared to nil and 64,896 RSUs, respectively, during the same periods in 2010. During both the three and six months ended June 30, 2011, 3,293 RSUs granted to directors were converted into common shares of the Company as elected by the directors, compared to 8,040 RSUs during both the same periods in 2010.

The Company uses a nil forfeiture assumption for its PSUs and RSUs. The intrinsic value of both PSUs and RSUs outstanding as at June 30, 2011 was $14.9 million and $5.0 million, respectively.

11. EARNINGS (LOSS) PER COMMON SHARE

The computation of basic and diluted earnings (loss) per common share for the three and six months ended June 30, 2011 and 2010 is as follows:

	For the three months ended June 30, 2011	2010	For the six months ended June 30, 2011	2010
Basic earnings per common share				
Net (loss) income attributable to Flagstone	$ (20,210)	$ 13,269	$ (181,430)	$ 44,773
Weighted average common shares outstanding	70,056,431	79,213,487	69,544,000	80,742,707
Weighted average vested restricted share units	324,421	266,431	325,195	268,232
Weighted average common shares outstanding—Basic	70,380,852	79,479,918	69,869,195	81,010,939
Basic (loss) earnings per common share	$ (0.29)	$ 0.17	$ (2.60)	$ 0.55
Diluted earnings per common share				
Net (loss) income attributable to Flagstone	$ (20,210)	$ 13,269	$ (181,430)	$ 44,773
Weighted average common shares outstanding	70,056,431	79,213,487	69,544,000	80,742,707
Weighted average vested restricted share units outstanding	324,421	266,431	325,195	268,232
	70,380,852	79,479,918	69,869,195	81,010,939
Share equivalents:				
Weighted average unvested restricted share units	-	133,213	-	194,905
Weighted average common shares outstanding—Diluted	70,380,852	79,613,131	69,869,195	81,205,844

Diluted (loss) earnings per common share	$	(0.29)	$	0.17	$	(2.60)	$	0.55

Dilutive share equivalents have been excluded in the weighted average common shares used for the calculation of earnings per share in periods of net loss because the effect of such securities would be anti-dilutive. The number of anti-dilutive share equivalents that were excluded in the computation of diluted earnings per share for the three and six months ended June 30, 2011 was 749,424 and 956,246, respectively. Because the number of shares above a minimum threshold are contingently issuable under the PSU Plan depends on the average DROE over a two or three year period, those contingently issuable 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. Only the minimum number of PSUs that will vest under each grant are included in the calculation of diluted earnings in a period of net income. As at June 30, 2011 and 2010, there were 1,762,442 and 4,095,175 PSUs expected to vest, respectively. The maximum number of common shares that could be issued under the PSU Plan at June 30, 2011 and 2010 was 4,889,492 and 5,404,548, respectively. Also, at June 30, 2011 and 2010, there was a warrant outstanding which would result in the issuance of 630,194 and 8,585,747 common shares that were excluded from the computation of diluted earnings per common share because the effect would be anti-dilutive.

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12. SHAREHOLDERS' EQUITY

Common shares

At June 30, 2011, 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, 2010 – 300,000,000).

The following table is a summary of the common shares issued and outstanding for the periods ending June 30, 2011 and December 31, 2010:

	For the periods ended	
	June 30, 2011	December 31, 2010
Common voting shares:		
Balance at beginning of period	68,585,588	82,985,219
Conversion of performance share units (1)	1,339,379	-
Conversion of restricted share units (1)	133,201	10,499
Shares repurchased and cancelled	-	(520,960)
Shares repurchased and held in treasury	-	(13,889,170)
Balance at end of period	70,058,168	68,585,588

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

13. LEGAL PROCEEDINGS

In the normal course of business, the Company may become involved in various claims litigation and legal proceedings. Such proceedings often involve reinsurance contract disputes which are typical for the insurance and reinsurance industry. As at June 30, 2011, the Company was not a party to any material litigation or arbitration proceedings.

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14. SEGMENT REPORTING

The Company reports its results to the chief operating decision maker based on three reportable segments: Reinsurance, Lloyd's and Island Heritage. 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, 2011 and 2010:

	For the three months ended June 30, 2011				
	Reinsurance	Lloyd's	Island Heritage	Inter-segment Eliminations (1)	Total
Gross premiums written	$ 274,264	$ 51,873	$ 30,491	$ (10,135)	$ 346,493
Premiums ceded	(44,410)	(2,526)	(45,555)	10,135	(82,356)
Net premiums written	229,854	49,347	(15,064)	-	264,137
Net premiums earned	$ 129,392	$ 35,931	$ 5,954	$ -	$ 171,277
Other related income	897	696	4,767	(4,187)	2,173
Loss and loss adjustment expenses	(89,379)	(25,497)	(319)	-	(115,195)
Acquisition costs	(29,601)	(8,386)	(5,257)	4,187	(39,057)
General and administrative expenses	(21,443)	(5,367)	(2,375)	-	(29,185)
Underwriting (loss) income	$ (10,134)	$ (2,623)	$ 2,770	$ -	$ (9,987)
Loss ratio (2)	69.1 %	71.0 %	3.0 %		67.3 %
Acquisition cost ratio (2)	22.9 %	23.3 %	49.0 %		22.8 %
General and administrative expense ratio (2)	16.6 %	14.9 %	22.1 %		17.0 %
Combined ratio (2)	108.6 %	109.2 %	74.1 %		107.1 %
Total assets	$ 2,773,575	$ 336,421	$ 133,600		$ 3,243,596
Reconciliation:					
Underwriting loss					$ (9,987)
Net investment income					13,075

Net realized and unrealized losses - investments		(7,761)
Net realized and unrealized gains - other		13,986
Other income		347
Interest expense		(2,994)
Net foreign exchange losses		(27,041)
Loss before income taxes and interest in earnings of equity investments	$	(20,375)

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

	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					$ (2,260)
Net investment income					8,219
Net realized and unrealized losses - investments					(12,671)
Net realized and unrealized losses - other					(1,966)
Other income					701
Interest expense					(2,545)
Net foreign exchange gains					7,856
Loss before income taxes and interest in earnings of equity investments					$ (2,666)

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

	For the six months ended June 30, 2011				
	Reinsurance	Lloyd's	Island Heritage	Inter-segment Eliminations (1)	Total
Gross premiums written	$ 640,966	$ 100,403	$ 51,437	$ (24,162)	$ 768,644
Premiums ceded	(163,171)	(23,052)	(60,286)	24,162	(222,347)
Net premiums written	477,795	77,351	(8,849)	-	546,297
Net premiums earned	$ 341,684	$ 73,758	$ 6,324	$ -	$ 421,766
Other related income	1,366	1,644	12,070	(8,691)	6,389
Loss and loss adjustment expenses	(400,278)	(63,911)	(755)	-	(464,944)
Acquisition costs	(71,948)	(17,772)	(9,784)	8,691	(90,813)
General and administrative expenses	(38,613)	(11,082)	(4,583)	-	(54,278)
Underwriting (loss) income	$ (167,789)	$ (17,363)	$ 3,272	$ -	$ (181,880)
Loss ratio (2)	117.1 %	86.6 %	4.1 %		110.2 %
Acquisition cost ratio (2)	21.1 %	24.1 %	53.2 %		21.5 %
General and administrative expense ratio (2)	11.3 %	15.0 %	24.9 %		12.9 %
Combined ratio (2)	149.5 %	125.7 %	82.2 %		144.6 %
Total assets	$ 2,773,575	$ 336,421	$ 133,600		$ 3,243,596
Reconciliation:					
Underwriting loss					$ (181,880)
Net investment income					22,507
Net realized and unrealized gains - investments					3,143
Net realized and unrealized gains - other					13,296
Other income					742
Interest expense					(5,940)
Net foreign exchange losses					(36,986)
Loss before income taxes and interest in earnings of equity investments					$ (185,118)

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

	For the six months ended June 30, 2010				
	Reinsurance	Lloyd's	Island Heritage	Inter-segment Eliminations (1)	Total
Gross premiums written	$ 638,394	$ 112,962	$ 41,078	$ (22,621)	$ 769,813
Premiums ceded	(106,830)	(19,089)	(48,892)	22,621	(152,190)
Net premiums written	531,564	93,873	(7,814)	-	617,623
Net premiums earned	$ 370,625	$ 73,298	$ 4,971	$ -	$ 448,894
Other related income	2,965	10,131	11,145	(7,575)	16,666
Loss and loss adjustment expenses	(209,993)	(68,607)	(642)	-	(279,242)
Acquisition costs	(70,227)	(17,388)	(8,381)	7,575	(88,421)
General and administrative expenses	(68,105)	(11,557)	(4,235)	-	(83,897)
Underwriting income (loss)	$ 25,265	$ (14,123)	$ 2,858	$ -	$ 14,000
Loss ratio (2)	56.7 %	93.6 %	4.0 %		62.2 %
Acquisition cost ratio (2)	18.9 %	23.7 %	52.0 %		19.7 %
General and administrative expense ratio (2)	18.4 %	15.8 %	26.3 %		18.7 %
Combined ratio (2)	94.0 %	133.1 %	82.3 %		100.6 %
Total assets	$ 2,554,314	$ 251,245	$ 97,239		$ 2,902,798
Reconciliation:					
Underwriting income					$ 14,000
Net investment income					15,504
Net realized and unrealized losses - investments					(2,860)
Net realized and unrealized gains - other					3,692
Other income					906
Interest expense					(5,059)
Net foreign exchange gains					11,812
Income before income taxes and interest in earnings of equity investments					$ 37,995

(1) Inter−segment eliminations relate to Flagstone Suisse quota share arrangements with Island Heritage and Lloyd's.

(2) For Island Heritage segment all ratios calculated using expenses divided by net premiums earned plus other related income.

15. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were available to be issued and has determined that there were no subsequent events that require disclosure.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our financial condition as at June 30, 2011 and December 31, 2010, and our results of operations for the three and six months ended June 30, 2011 and 2010. This discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part 1, Item 1 of this Quarterly Report on Form 10-Q (this "Quarterly Report") and with "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the audited consolidated financial statements and notes thereto, presented under Item 7 and Item 8, respectively, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (our "2010 Annual Report"), filed with the SEC on March 2, 2011. Some of the information contained in this discussion and analysis is included elsewhere in this document, including information with respect to our plans and strategy for our business, and includes forward-looking statements that involve risks and uncertainties. Please see the "Cautionary Statement Regarding Forward-Looking Statements" for more information. You should review Item 1A, "Risk Factors" contained in the 2010 Annual Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements.

References in this Quarterly Report to the "Company", "Flagstone", "we", "us", and "our" refer to Flagstone Reinsurar Holdings, S.A. and/or its subsidiaries, including Flagstone Réassurance Suisse SA, its wholly-owned Switzerland reinsurance company, Flagstone Syndicate Management Limited, its United Kingdom Lloyd's of London managing agency, Island Heritage Holdings Ltd., its Cayman Islands based insurance holding company, Flagstone Reinsurance Africa Limited, its South African reinsurance company, Mont Fort Re Ltd., its wholly-owned Bermuda reinsurance company, and any other direct or indirect wholly-owned subsidiary, unless the context suggests otherwise. References to "Flagstone Suisse" refer to Flagstone Réassurance Suisse SA, its wholly-owned subsidiaries and its Bermuda branch. References to "FSML" refer to Flagstone Syndicate Management Limited, its wholly-owned subsidiaries and Syndicate 1861. References to "Island Heritage" refer to Island Heritage Holdings Ltd. and its subsidiaries. References to "Flagstone Africa" refer to Flagstone Reinsurance Africa Limited. References to "Mont Fort" refer to Mont Fort Re Ltd. References in this Quarterly Report to "dollars" or "$" are to the lawful currency of the United States of America (the "U.S."), 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, percentages or unless otherwise stated. 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 U.S. or whose primary transactions are in foreign currency.

Executive Overview

We are a global reinsurance and insurance company. Our management views us as being organized into three business segments: Reinsurance, Lloyd's and Island Heritage. Through our Reinsurance segment, we write primarily property, property catastrophe and short-tail specialty and casualty insurance and reinsurance. Through our Lloyd's segment, we write primarily property and short-tail specialty and casualty insurance and reinsurance focused on the energy, hull, cargo, marine liability, engineering, and aviation business sectors. Island Heritage primarily writes property insurance for homes, condominiums, office buildings and automobiles in the Caribbean region.

Our financial statements are prepared in accordance with accounting principles generally accepted in the U.S ("U.S. GAAP") and our fiscal year ends on December 31. Because a substantial portion of the reinsurance we write provides protection from damages relating to natural and man-made catastrophes, our results depend to a large extent on the frequency and severity of such catastrophic events, and the specific coverages we offer to clients affected by these events. This has resulted and may continue to result in volatility in our results of operations, cash flows and financial condition. In addition, the amount of premiums written with respect to any particular line of business may vary from quarter to quarter and year to year as a result of available capital and retrocessional support and market and other conditions.

We measure our financial success through long term growth in diluted book value per share plus accumulated distributions measured over intervals of three years. We believe this is the most appropriate measure of our performance, a measure that focuses on the return provided to our common shareholders. Diluted book value per share is obtained by dividing Flagstone shareholders' equity by the number of common shares and common share equivalents outstanding including all potentially dilutive securities such as a warrant, Performance Share Units ("PSUs") and Restricted Share Units ("RSUs").

We derive our revenues primarily from net premiums earned on the reinsurance and insurance policies we write, net of any retrocessional or reinsurance coverage purchased, income from our investment portfolio, and fees for services provided. Premiums are generally a function of the number and type of contracts we write, as well as prevailing market prices. Premiums are normally due in installments and earned over the contract term, which ordinarily is 12 or 24 months.

Income from our investment portfolio primarily comprises interest on fixed maturity, short term investments and cash and cash equivalents and net realized and unrealized gains (losses) on our investment portfolio including our derivative positions, net of investment expenses.

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Our expenses consist primarily of the following: loss and loss adjustment expenses ("LAE") incurred on the policies of reinsurance and insurance that we sell; acquisition costs which typically represent a percentage of the premiums that we write; general and administrative expenses which primarily consist of salaries, benefits and related costs, including costs associated with awards under our Performance Share Unit Plan ("PSU Plan") and Restricted Share Unit Plan ("RSU Plan"), and other general operating expenses; interest expense related to our debt obligations; and noncontrolling interest, which represents the interest of external parties with respect to the net income of Mont Fort, Island Heritage, and Flagstone Africa. We are also subject to taxes in certain jurisdictions in which we operate; however, since the majority of our income to date has been earned in Bermuda, a non-taxable jurisdiction, the tax impact on our operations has historically been minimal. The Company is now a Luxembourg tax resident entity due to its change of jurisdiction of incorporation from Bermuda to Luxembourg effective May 17, 2010 (the "Redomestication"); therefore, it will be subject to Luxembourg corporate income tax, municipal business tax, withholding tax, and net wealth tax. The Company minimizes the income tax impact on the Company through effective tax planning.

The first half of 2011 has been the industry's costliest period on record for economic losses resulting from catastrophic events. The record industry losses from the first quarter carried through the second quarter with the occurrence of a third earthquake in New Zealand and severe weather events in the United States. Some of the markets in which we are active are benefiting from significant rate increases and we continue to believe our operational platform can access the markets we find attractive. We expect these positive rate movements, coupled with our expense initiatives, to positively impact our net results moving forward. In addition to these trends, in 2011 we chose to increase our spending on retrocessional coverage, which although resulting in increased ceded premiums this quarter, has also assisted in protecting our balance sheet from the potential impact of future large events should they occur this year. For the second quarter, Flagstone produced a loss ratio of 67.3 % and a combined ratio of 107.1 %. This resulted in a decrease in diluted book value of 1.7 % during the second quarter. Flagstone's strategy to regionally diversify in North America resulted in positive results despite the severe weather activity in the U.S. Offsetting this was a limited amount of upwards revisions from catastrophes occurring in the first quarter as well as a third earthquake in New Zealand in June.

Entering the key renewal season at mid-year, we received support from key clients and brokers and continued to enhance our portfolio while also improving certain existing relationships and adding several new key clients. As a result, we were able to carefully position our portfolio to take advantage of an increase in rates in attractive areas and consequently our overall North American portfolio improved on a risk adjusted basis, even as we implemented our strategy to lower operating leverage. As a result, Flagstone's gross premiums written decreased 6.3 percent during the second quarter. In addition, as a result of program shifts to move upwards to improved pricing, our aggregate exposure to our North American portfolio was down 23 percent while premium written decreased by approximately $14.0 million. In particular, our pricing indicated that Florida rates were up approximately 10 to 15 percent on upper layers, and 8 to 10 percent on lower layers, although our book of business saw an overall rate increase of 9 percent due to our optimizations.

Critical Accounting Policies

Our critical accounting policies are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of the 2010 Annual Report. Our critical accounting policies at June 30, 2011 have not changed compared to December 31, 2010.

It is important to understand our accounting policies in order to understand our financial position and results of operations. Our unaudited condensed consolidated financial statements contain certain amounts that are inherently subjective in nature and have required our management to make assumptions and best estimates to determine the reported values. If events or other factors, including those described in Item 1A, "Risk Factors," of the 2010 Annual Report, cause actual events or results to differ materially from management's underlying assumptions or estimates, there could be a material adverse effect on our results of operations, financial condition and liquidity.

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Results of Operations - For the Three and Six Months Ended June 30, 2011 and 2010

Our reporting currency is the U.S. dollar. Our subsidiaries have one of the following functional currencies: U.S. dollar, Swiss franc, Euro, British pound sterling, Canadian dollar, Indian rupee, and South African rand. As a significant portion of our operations are transacted in foreign currencies, fluctuations in foreign exchange rates may affect period-to-period comparisons. To the extent that fluctuations in foreign currency exchange rates affect comparisons, their impact has been quantified, when possible, and discussed in each of the relevant sections. See Note 2 “Significant Accounting Policies” to the consolidated financial statements in Item 8, “Financial Statements and Supplementary Data”, in the Annual Report for a discussion on translation of foreign currencies.

U.S. dollar (weakened) strengthened against:	For the three months ended June 30, 2011		For the six months ended June 30, 2011	
Canadian dollar	(0.5)	%	(3.1)	%
Swiss franc	(9.2)	%	(11.2)	%
Euro	(2.3)	%	(8.5)	%
British pound sterling	-	%	(2.9)	%
Indian rupee	0.2	%	-	%
South African rand	-	%	2.6	%

Summary Overview

The following table sets forth selected key financial information for the three months ending June 30, 2011 and 2010:

	For the three months ended June 30, 2011	2010	$ Change	% Change
Underwriting loss	$ (9,987)	$ (2,260)	$ (7,727)	341.9 %
Net investment income	$ 13,075	$ 8,219	$ 4,856	59.1 %
Net realized and unrealized losses - investments	$ (7,761)	$ (12,671)	$ 4,910	(38.7)%
Net realized and unrealized gains (losses) - other	$ 13,986	$ (1,966)	$ 15,952	(811.4)%
Net (loss) income attributable to Flagstone	$ (20,210)	$ 13,269	$ (33,479)	NM (3)
Net (loss) income attributable to Flagstone per common share - Basic	$ (0.29)	$ 0.17	$ (0.46)	
Net (loss) income attributable to Flagstone per common share - Diluted(1)	$ (0.29)	$ 0.17	$ (0.46)	
Loss ratio	67.3 %	65.4 %		
Expense ratio	39.8 %	38.0 %		
Combined ratio	107.1 %	103.4 %		

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The following table sets forth selected key financial information for the six months ended June 30, 2011 and 2010:

	For the six months ended June 30,			
	2011	2010	$ Change	% Change
Underwriting (loss) income	$ (181,880)	$ 14,000	$ (195,880)	NM (3)
Net investment income	$ 22,507	$ 15,504	$ 7,003	45.2 %
Net realized and unrealized gains (losses) - investments	$ 3,143	$ (2,860)	$ 6,003	(209.9)%
Net realized and unrealized gains - other	$ 13,296	$ 3,692	$ 9,604	260.1 %
Net (loss) income attributable to Flagstone	$ (181,430)	$ 44,773	$ (226,203)	NM (3)
Net (loss) income attributable to Flagstone per common share - Basic	$ (2.60)	$ 0.55	$ (3.15)	
Net (loss) income attributable to Flagstone per common share - Diluted(1)	$ (2.60)	$ 0.55	$ (3.15)	
Loss ratio	110.2 %	62.2 %		
Expense ratio	34.4 %	38.4 %		
Combined ratio	144.6 %	100.6 %		

The following table sets forth selected key non-GAAP financial measures as at June 30, 2011 and December 31, 2010:

	As at			
	June 30, 2011	December 31, 2010	$ Change	% Change
Basic book value per common share	$ 13.45	$ 16.48	$ (3.03)	(18.4)%
Diluted book value per common share	$ 13.08	$ 15.51	$ (2.43)	(15.7)%
Diluted book value per common share plus accumulated distributions(2)	$ 13.72	$ 16.07	$ (2.35)	(14.6)%

(1)Net (loss) income attributable to Flagstone per common share - Diluted for the three and six months ended June 30, 2011 does not contain the effect of:
a. a warrant conversion as this would be anti-dilutive for U.S. GAAP purposes
b. the PSU conversion until the end of the performance period, when the number of shares issuable under the PSU Plan will be known. There were 1,762,442 PSU's expected to vest under the PSU plan as at June 30, 2011.
(2)Distributions paid per common share are in the form of a non-dividend return of capital. Prior to the Redomestication, such distributions were in the form of dividends.
(3)NM - not meaningful.

The decrease in underwriting income in the three and six months ended June 30, 2011, is primarily due to significant catastrophe losses (net of reinsurance and reinstatements) in the period compared to the same period last year. The main events in the six months ended June 30, 2011, are:

Occurred during the first quarter

- Australian floods ($31.2 million; Reinsurance segment - $27.2 million, Lloyd's segment - $4.0 million);
- Cyclone Yasi ($29.8 million; Reinsurance segment - $29.8 million, Lloyd's segment - $ nil);
- New Zealand earthquake in February ($118.3 million; Reinsurance segment - $114.8 million, Lloyd's segment - $3.5 million): and
- Japan earthquake and tsunami ($106.1 million; Reinsurance segment - $93.9 million, Lloyd's segment - $12.2 million).

Occurred during the second quarter

- U.S. tornadoes ($16.6 million; Reinsurance segment - $14.1 million, Lloyd's segment - $2.5 million);
- New Zealand earthquake in June ($18.5 million; Reinsurance segment - $18.5 million, Lloyd's segment - $nil).

The increase in the net realized and unrealized gains and losses – other, for the six months ended June 30, 2011, is primarily due to net gains associated with the currency swaps and foreign currency forward contracts used for hedging, as a result of currency fluctuation, which are partially offset by losses recorded through balance sheet currency revaluations and on operational hedges on reinsurance balances.

These items are discussed in more detail in the following sections.

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Non-GAAP Reconciliation

In addition to the U.S. GAAP financial measures set forth in this Quarterly Report, we have presented “basic book value per common share” and “diluted book value per common share”, which are non-GAAP financial measures. Our management uses growth in diluted book value per common share as a prime measure of the value we are generating for our common shareholders, as we believe that growth in our diluted book value per common share ultimately translates into growth in our stock price.

Basic book value per common share is defined as total Flagstone shareholders’ equity divided by the number of common shares outstanding at the end of the period plus vested RSUs, giving no effect to dilutive securities. Diluted book value per common share is defined as total Flagstone shareholders’ equity divided by the number of common shares and common share equivalents outstanding at the end of the period including all potentially dilutive securities such as a warrant, PSUs and RSUs. When the effect of securities would be anti-dilutive, these securities are excluded from the calculation of diluted book value per common share. The warrant was anti-dilutive and was excluded from the calculation of diluted book value per common share as at June 30, 2011 and December 31, 2010.

While we believe that these non-GAAP financial measures provide useful supplemental information to investors, there are limitations associated with the use of these non-GAAP financial measures. Basic book value per common share does not reflect the number of common shares that may be issued upon vesting or exercise of dilutive securities. On the other hand, by giving effect to dilutive securities, diluted book value per common share takes into account common share equivalents and not just the number of common shares actually outstanding. These non-GAAP financial measures are not prepared in accordance with GAAP, are not based on any comprehensive set of accounting rules or principles, are not reported by all of our competitors and may not be directly comparable to similarly titled measures of our competitors due to potential differences in the exact method of calculation. In light of these limitations, we use these non-GAAP financial measures only as supplements to GAAP financial measures and provide a reconciliation of the non-GAAP financial measures to their most comparable GAAP financial measures.

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	As at June 30, 2011		As at December 31, 2010	
Flagstone shareholders' equity	$	946,904	$	1,134,733
Potential net proceeds from assumed:				
Exercise of PSU (1)		-		-
Exercise of RSU (1)		-		-
Conversion of warrant (2)		-		-
Diluted Flagstone shareholders' equity	$	946,904	$	1,134,733
Cumulative distributions paid per outstanding common share (3)	$	0.64	$	0.56
Common shares outstanding - end of period		70,058,168		68,585,588
Vested RSUs		322,684		262,013
Total common shares outstanding - end of period		70,380,852		68,847,601
Potential shares to be issued:				
PSUs expected to vest		1,762,442		3,998,558
RSUs outstanding		270,150		315,200
Conversion of warrant (2)		-		-
Common shares outstanding - diluted		72,413,444		73,161,359
Basic book value per common share	$	13.45	$	16.48
Diluted book value per common share	$	13.08	$	15.51
Basic book value per common share plus accumulated distributions	$	14.09	$	17.04
Diluted book value per common share plus accumulated distributions	$	13.72	$	16.07
Distributions per common share paid during the period (3)	$	0.08	$	0.16

(1)No proceeds due when exercised
(2)Below strike price - not dilutive

(3)Distributions paid per common share are in the form of a non-dividend return of capital. Prior to the Redomestication, such distributions were in the form of dividends.

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Outlook and Trends

On March 20, 2011, Moody's Investors Service placed the financial strength rating of the Company and its principal subsidiary, Flagstone Suisse, under review. On July 29, 2011, Moody's Investor Services indicated that they have decided to extend their review for possible downgrade in order to continue to evaluate the steps taken by the Company to reduce risk and the extent of further planned changes. On March 31, 2011, Fitch Ratings re-affirmed the A- insurer financial strength of Flagstone Suisse and revised its outlook to negative. On April 12, 2011, A.M. Best Co. re-affirmed the A- financial strength rating of Flagstone Suisse and revised its outlook to negative. Currently, the majority of Flagstone Suisse reinsurance contracts permit cancellation if our financial strength rating is downgraded below A- by A.M. Best Co. We anticipate that A.M. Best Co.'s next planned review of our financial strength rating will take place after the North American hurricane season, although they could take action at any time. Resolution of the negative outlook is dependent on our ability to generate a reasonable and sustainable level of profitability, reduce our dependence on retrocessional support, bring our risk appetite in line with our available capital, continuation of our expense reduction initiatives and, most importantly, improving our overall financial flexibility. We are working to successfully address each of these items. A downgrade or sustained negative outlook by any rating organization could result in a significant reduction in the number of reinsurance contracts we write and in a substantial loss of business as our customers, and brokers that place such business, move to other competitors with higher financial strength ratings, as well as resulting in negative consequences for our results of operations, cash flows, competitive position and business prospects. Although we regularly provide financial and other information to rating agencies to both maintain and enhance existing financial strength ratings, we cannot assure that our financial strength ratings will not remain on negative outlook or be downgraded in the future by any of these agencies.

We seek to maintain a prudent amount of capital for our business and maintain our overall financial flexibility. When assessing our financial position and potential capital needs, we consider, among other things, the low investment returns environment, our recent and potential net exposure to losses associated with catastrophic events, underwriting opportunities and market conditions. We may decide to raise additional capital in the future to continue and/or invest in our existing businesses or write new business, although any such decision will be dependent on then-existing market and other conditions.

North America

During the second quarter, and in particular the mid-year renewal period, North American catastrophe pricing experienced positive trends generally moving up by 8 – 15 percent. Florida, which dominates the mid-year renewals, saw pricing move up 8 – 10 percent on lower layers and 10 – 15 percent on upper layers. These rate increases were likely the result of continued large international loss activity in the first half of the year as well as an active second quarter in the United States where losses from severe weather events became material. Furthermore, recent catastrophe model increases for United States wind exposure have also served to increase demand and pricing for these risks. Reinsurance capacity for North American wind risks decreased during the second quarter as evidenced by programs just reaching full subscription whereas similar programs in the previous period were significantly oversubscribed. We believe the future rate environment will be dependent to a large degree upon loss activity arising from the current hurricane season in North America. However, we expect a similar level of rate increase as at mid-year to continue into the January 1, 2012 renewals and a more dramatic level of rate increase in the event of any material (U.S.) catastrophe loss activity during the second half of 2011.

Specialty Lines

As in the previous quarter, the treaty and direct and facultative specialty lines remain mixed. We continue to see increasing opportunities in the construction and engineering segment and the marine and energy segments continue to improve following the impact of Deepwater Horizon and a series of large attritional losses in the first quarter. We are generally seeing improved terms and conditions and are able to take advantage of a better trading environment. Marine hull rates continue to soften, albeit modestly. Aviation, with the exception of treaty excess of loss, remains very challenging with significant over capacity in all aviation segments. Property facultative rates in many regions have turned following the numerous international cat losses and we are seeing encouraging signs in many regions.

International

The midyear renewals proceeded as expected with significant rate increases in loss affected territories, namely Japan, Australia and New Zealand. Japan wind rates increased 5% whilst earthquake rates increased roughly 50% in most cases. The Australian and New Zealand renewals experienced rate increases of between 30% and 130%. We successfully renewed all our core programs in these regions at enhanced rates, however, we did take the opportunity to reduce our exposures in line with our stated plan to de risk areas of the portfolio. Outside of loss affected areas, rates were generally flat which provides hope that the softening cycle has ended. This was clearly seen in Latin America and Europe where renewals were generally flat and completed in an orderly fashion, which is not always the case in Latin America.

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Underwriting Results by Segment

Our management views us as being organized into three reportable segments: Reinsurance, Lloyd's and Island Heritage. We regularly review our financial results and assess our performance on the basis of these three reportable segments in accordance with the Segment Reporting Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Those segments are more fully described as follows:

Reinsurance

Our Reinsurance segment has three main units:

(1) Property Catastrophe Reinsurance. Property catastrophe reinsurance contracts are typically "all risk" in nature, meaning that they protect against losses from earthquakes and hurricanes, as well as other natural and man-made catastrophes such as tornados, wind, fires, winter storms, and floods (where the contract specifically provides for coverage). Losses on these contracts typically stem from direct property damage and business interruption. To date, property catastrophe reinsurance has been our most important product. We write property catastrophe reinsurance primarily on an excess of loss basis. In the event of a loss, most contracts of this type require us to cover a subsequent event and generally provide for a premium to reinstate the coverage under the contract, which is referred to as a "reinstatement premium". These contracts typically cover only specific regions or geographical areas, but may be on a worldwide basis. We also provide industry loss warranty covers, which are triggered by loss and loss adjustment expenses incurred by the cedent and some pre-determined absolute level of industry-wide losses resulting from an insured event or by specific parameters of a defined event (such as a magnitude 8 earthquake or a category 4 hurricane).

(2) Property Reinsurance. We also provide reinsurance on a pro rata share basis and per risk excess of loss basis. Per risk reinsurance protects insurance companies on their primary insurance risks on a single risk basis, for example, covering a single large building. Generally, our property per risk and pro rata business is written with loss limitation provisions, such as per occurrence or per event caps, which serve to limit exposure to catastrophic events.

(3) Short-tail Specialty and Casualty Reinsurance. We also provide short-tail specialty and casualty reinsurance for risks such as aviation, energy, personal accident and health, satellite, marine and workers' compensation catastrophe. Generally, our short-tail specialty and casualty reinsurance is written with loss limitation provisions.

Lloyd's

Our Lloyd's segment includes the business generated through the Lloyd's Syndicate 1861 and FSML. Syndicate 1861 primarily provides property and short-tail specialty and casualty insurance and reinsurance for risks such as energy, hull and cargo, marine liability, engineering and aviation. FSML generates fee income from the provision of services to syndicates and third parties.

Island Heritage

Island Heritage is a property and casualty insurer based in the Cayman Islands which is primarily in the business of insuring homes, condominiums, office buildings and automobiles in the Caribbean region.

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Gross Premiums Written

Details of the consolidated gross premiums written by line of business and geographic area of risk insured are provided below:

	For the three months ended June 30,					
	2011			2010		
	Gross premiums written		Percentage of total	Gross premiums written		Percentage of total
Line of business						
Reinsurance and Lloyd's (1)						
Property catastrophe	$	170,292	49.1 %	$	191,739	51.9 %
Property		80,427	23.2 %		86,980	23.5 %
Short-tail specialty and casualty		65,283	18.9 %		67,576	18.3 %
Island Heritage						
Insurance		30,491	8.8 %		23,316	6.3 %
Total	$	346,493	100.0 %	$	369,611	100.0 %

	For the six months ended June 30,					
	2011			2010		
	Gross premiums written		Percentage of total	Gross premiums written		Percentage of total
Line of business						
Reinsurance and Lloyd's (1)						
Property catastrophe	$	372,154	48.4 %	$	399,995	52.0 %
Property		163,743	21.3 %		158,570	20.6 %
Short-tail specialty and casualty		181,310	23.6 %		170,170	22.1 %
Island Heritage						
Insurance		51,437	6.7 %		41,078	5.3 %
Total	$	768,644	100.0 %	$	769,813	100.0 %

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	For the three months ended June 30,			
	2011		2010	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total
Geographic area of risk insured (2)				
Caribbean(3)	$ 35,313	10.2 %	$ 27,662	7.5 %
Europe	18,765	5.4 %	21,613	5.9 %
Japan and Australasia	29,773	8.6 %	25,494	6.9 %
North America	188,905	54.5 %	214,433	58.0 %
Worldwide risks (4)	52,178	15.1 %	60,299	16.3 %
Other	21,559	6.2 %	20,110	5.4 %
Total	$ 346,493	100.0 %	$ 369,611	100.0 %

	For the six months ended June 30,			
	2011		2010	
	Gross premiums written	Percentage of total	Gross premiums written	Percentage of total
Geographic area of risk insured (2)				
Caribbean(3)	$ 58,912	7.7 %	$ 49,773	6.5 %
Europe	100,584	13.1 %	98,695	12.8 %
Japan and Australasia	73,625	9.6 %	45,501	5.9 %
North America	314,559	40.9 %	353,520	45.9 %
Worldwide risks (4)	174,857	22.7 %	179,320	23.3 %
Other	46,107	6.0 %	43,004	5.6 %
Total	$ 768,644	100.0 %	$ 769,813	100.0 %

(1)Gross premiums written relating to Lloyd's segment are primarily included in property and short-tail specialty and casualty.
(2)Except as otherwise noted, each of these categories includes contracts that cover risks located primarily in the designated geographic area.
(3)Includes gross premiums written related to Island Heritage segment.
(4)Includes contracts that cover risks in two or more geographic zones.

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 and the nature of our gross premiums written during a particular period.

The majority of our contracts are excess-of-loss contracts covering one or more lines of business. To a lesser extent we have also purchased quota share reinsurance with respect to specific lines of business. We also purchase protection through catastrophe bond structures, Valais Re and Montana Re, and industry loss warranty policies ("ILWs") 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, our available capital, evolving industry-wide capital requirements, increased competition, and other considerations.

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Reinsurance Segment

Below is a summary of the underwriting results and ratios for our Reinsurance segment for the three months ended June 30, 2011 and 2010:

	For the three months ended June 30,			
	2011	2010	$ Change	% Change
Property catastrophe reinsurance	$ 180,063	$ 201,106	$ (21,043)	(10.5)%
Property reinsurance	53,223	56,148	(2,925)	(5.2)%
Short tail specialty and casualty reinsurance	40,978	38,448	2,530	6.6 %
Gross premiums written	274,264	295,702	(21,439)	(7.3)%
Premiums ceded	(44,410)	(39,975)	(4,435)	11.1 %
Net premiums written	229,854	255,727	(25,874)	(10.1)%
Net premiums earned	129,392	191,654	(62,262)	(32.5)%
Other related income	897	2,495	(1,598)	(64.0)%
Loss and loss adjustment expenses	(89,379)	(112,435)	23,056	(20.5)%
Acquisition costs	(29,601)	(36,492)	6,891	(18.9)%
General and administrative expenses	(21,443)	(34,048)	12,605	(37.0)%
Underwriting (loss) income	$ (10,134)	$ 11,174	$ (21,308)	NM (1)
Loss ratio	69.1 %	58.7 %		
Acquisition cost ratio	22.9 %	19.0 %		
General and administrative expense ratio	16.6 %	17.8 %		
Combined ratio	108.6 %	95.5 %		

(1)Not meaningful.

- The decrease in net underwriting results is primarily related to lower net premiums earned during the three months ended June 30, 2011 as compared to the same period in 2010. The decrease in net premiums earned is primarily related to the purchase of additional reinsurance protection to reduce our net exposure to catastrophic events and reinstatement premiums incurred on our ceded reinsurance due to the loss activity in 2011.

- The decrease in gross property catastrophe reinsurance premiums is due to reduction in exposure for the Japan and North America renewals, partially offset by rate level increases on our property catastrophe treaties renewed in the quarter. The increase in short tail specialty and casualty reinsurance premiums written is primarily due to increased business with existing clients and the addition of new clients. During the three months ended June 30, 2011, we recorded $5.8 million of gross reinstatement premiums compared to $4.5 million recorded for the same period in 2010.

- Premiums ceded were 16.2% of gross reinsurance premiums written compared to 13.5% for the same period in 2010 reflecting the increased level of reinsurance purchases after the loss events during the first quarter of 2011.

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Losses incurred for the current quarter primarily related to the U.S. tornadoes of $19.4 million, the June New Zealand earthquake of $18.5 million and net adverse developments on first quarter 2011 events of $26.6 million, compared to the Deepwater Horizon oil rig loss of $27.5 million during the same period in 2010.

- Each quarter we revisit our loss estimates for previous catastrophe events. During the quarter ended June 30, 2011, based on updated estimates provided by clients and brokers, we recorded net positive developments of $12.8 million for prior accident years. During the second quarter of 2010, the net favorable developments for prior catastrophe events were $3.5 million.

- The decrease in general and administrative expenses is primarily the result of our focus on lowering and rationalizing costs and expenses, implemented during 2010. In addition, as a result of the net loss incurred in the three months ended June 30, 2011, staff compensation accruals and performance based compensation expectations have been adjusted downward.

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Below is a summary of the underwriting results and ratios for our Reinsurance segment for the six months ended June 30, 2011 and 2010:

	For the six months ended June 30, 2011	2010	$ Change	% Change
Property catastrophe reinsurance	$ 389,808	$ 416,498	$ (26,690)	(6.4)%
Property reinsurance	119,022	108,274	10,748	9.9 %
Short tail specialty and casualty reinsurance	132,136	113,622	18,514	16.3 %
Gross premiums written	640,966	638,394	2,572	0.4 %
Premiums ceded	(163,171)	(106,830)	(56,341)	52.7 %
Net premiums written	477,795	531,564	(53,769)	(10.1)%
Net premiums earned	341,684	370,625	(28,941)	(7.8)%
Other related income	1,366	2,965	(1,599)	(53.9)%
Loss and loss adjustment expenses	(400,278)	(209,993)	(190,285)	90.6 %
Acquisition costs	(71,948)	(70,227)	(1,721)	2.5 %
General and administrative expenses	(38,613)	(68,105)	29,492	(43.3)%
Underwriting (loss) income	$ (167,789)	$ 25,265	$ (193,054)	NM (1)
Loss ratio	117.1 %	56.7 %		
Acquisition cost ratio	21.1 %	18.9 %		
General and administrative expense ratio	11.3 %	18.4 %		
Combined ratio	149.5 %	94.0 %		

(1)NM - not meaningful.

- The decrease in net underwriting results is primarily related to incurred losses on more significant catastrophic events in 2011 (Australian floods, cyclone Yasi, New Zealand earthquakes (February and June), Japan earthquake and tsunami and the second quarter 2011 U..S. tornado activity), as compared to the same period in 2010 (Chile earthquake and Deepwater Horizon oil rig) and to lower net premiums earned due to increase in premiums ceded.

- The decrease in gross property catastrophe reinsurance premiums is due to reduction in exposure for the January 1 and June 1 renewals, partially offset by the increase in reinstatement premiums due to higher catastrophe losses in the first six months of 2011. The increase in gross property and short tail specialty and casualty reinsurance premiums written is primarily due to increased business with existing clients and the addition of new clients. During the six months ended June 30, 2011, we recorded $17.8 million of gross reinstatement premiums compared to $8.3 million recorded for the same period in 2010. The increase was due to higher catastrophe losses in the current period.

- Premiums ceded were 25.5% of gross reinsurance premiums written compared to 16.7% for the same period in 2010. The increase is primarily related to the purchase of additional reinsurance protection to reduce our net exposure to catastrophic events and reinstatement premiums incurred on our ceded reinsurance due to the loss activity in 2011.

- The increase in the loss ratio compared to the same period of 2010 is primarily due to more significant losses from catastrophic events in the current 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) compared to the same period in 2010, which included losses related to the Chile earthquake ($52.7 million) and the Deepwater Horizon oil rig ($27.5 million).

- The decrease in general and administrative expenses is primarily the result of our focus, implemented during 2010, on lowering and rationalizing costs and expenses, including the disposal of corporate aircraft. In addition, as a result of the net loss incurred in the six months ended June 30, 2011, staff compensation accrual and performance based compensation expectations have been adjusted downward.

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Lloyd’s Segment

Below is a summary of the underwriting results and ratios for our Lloyd's segment for the three months ended June 30, 2011 and 2010:

	For the three months ended June 30,			
	2011	2010	$ Change	% Change
Property reinsurance	$ 27,204	$ 30,831	$ (3,627)	(11.8)%
Short tail specialty and casualty reinsurance	24,669	29,942	(5,273)	(17.6)%
Gross premiums written	51,873	60,773	(8,900)	(14.6)%
Premiums ceded	(2,526)	(7,484)	4,958	(66.2)%
Net premiums written	49,347	53,289	(3,942)	(7.4)%
Net premiums earned	35,931	37,610	(1,679)	(4.5)%
Other related income	696	1,487	(791)	(53.2)%
Loss and loss adjustment expenses	(25,497)	(39,179)	13,682	(34.9)%
Acquisition costs	(8,386)	(8,394)	8	(0.1)%
General and administrative expenses	(5,367)	(6,615)	1,248	(18.9)%
Underwriting loss	$ (2,623)	$ (15,091)	$ 12,468	(82.6)%
Loss ratio	71.0 %	104.2 %		
Acquisition cost ratio	23.3 %	22.3 %		
General and administrative expense ratio	14.9 %	17.6 %		
Combined ratio	109.2 %	144.1 %		

- The decrease in the gross premiums written is primarily attributable to our decision to decline the renewal of certain business due to unfavorable pricing terms.

- Premiums ceded were 4.9% of gross premiums written compared to 12.3% of gross premiums written for the same period in 2010. The reduction is a function of lower gross written premiums during the quarter and the timing of certain reinsurance contracts.

- Premiums ceded to Flagstone Suisse under our intercompany reinsurance programs were $0.4 million compared to $0.8 million for the same period in 2010. This amount is eliminated upon consolidation.

- The decrease in the loss ratio compared to the second quarter of 2010 is primarily due to less significant losses from catastrophic events in the current quarter, which include the U.S. tornadoes ($2.5 million), compared to the same period of 2010, which included losses related to the Deepwater Horizon oil rig; ($14.0 million).

- Other related income, derived from services provided to syndicates and third parties, decreased primarily as a result of a reduction of certain services being provided to third parties.

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Below is a summary of the underwriting results and ratios for our Lloyd's segment for the six months ended June 30, 2011 and 2010:

	For the six months ended June 30, 2011	2010	$ Change	% Change
Property reinsurance	$ 44,721	$ 50,290	$ (5,569)	(11.1)%
Short tail specialty and casualty reinsurance	55,682	62,672	(6,990)	(11.2)%
Gross premiums written	100,403	112,962	(12,559)	(11.1)%
Premiums ceded	(23,052)	(19,089)	(3,963)	20.8 %
Net premiums written	77,351	93,873	(16,522)	(17.6)%
Net premiums earned	73,758	73,298	460	0.6 %
Other related income	1,644	10,131	(8,487)	(83.8)%
Loss and loss adjustment expenses	(63,911)	(68,607)	4,696	(6.8)%
Acquisition costs	(17,772)	(17,388)	(384)	2.2 %
General and administrative expenses	(11,082)	(11,557)	475	(4.1)%
Underwriting loss	$ (17,363)	$ (14,123)	$ (3,240)	22.9 %
Loss ratio	86.6 %	93.6 %		
Acquisition cost ratio	24.1 %	23.7 %		
General and administrative expense ratio	15.0 %	15.8 %		
Combined ratio	125.7 %	133.1 %		

(1)NM - not meaningful.

- The decrease in the gross premiums written is primarily attributable to our decision to decline the renewal of certain business due to unfavorable pricing terms.

- Premiums ceded were 23.0% of gross premiums written compared to 16.9% of gross premiums written for the same period in 2010. The increase in the premiums ceded ratio is primarily due to changes in the timing of certain reinsurance contracts, which now incept at January 1, together with the purchase of additional reinsurance coverage in 2011.

- Premiums ceded to Flagstone Suisse under our intercompany reinsurance programs were $6.5 million compared to $6.1 million for the same period in 2010. This amount is eliminated upon consolidation.

- Other related income, derived from services provided to syndicates and third parties, decreased primarily as a result of the recognition of profit commission from Syndicate 1861's 2007 year of account, recorded in the first quarter of 2010, in the amount of $7.0 million.

- The significant losses from catastrophic events in the current period, include net incurred losses related to the Australian floods ($4.0 million), New Zealand earthquake ($3.5 million), the Japan earthquake and tsunami ($12.2 million) and the U.S. tornadoes ($2.5 million), compared to the same period in 2010, which included losses related to the Chile earthquake ($7.3 million) and the Deepwater horizon oil rig ($14.0 million).

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Island Heritage Segment

Below is a summary of the underwriting results and ratios for our Island Heritage segment for the three months ended June 30, 2011 and 2010:

	For the three months ended June 30,			
	2011	2010	$ Change	% Change
Gross premiums written	$ 30,491	$ 23,316	$ 7,175	30.8 %
Premiums ceded	(45,555)	(38,490)	(7,065)	18.4 %
Net premiums written	(15,064)	(15,174)	110	(0.7)%
Net premiums earned	5,954	2,815	3,139	111.5 %
Other related income	4,767	5,539	(771)	(13.9)%
Loss and loss adjustment expenses	(319)	(249)	(70)	28.1 %
Acquisition costs	(5,257)	(4,389)	(868)	19.8 %
General and administrative expenses	(2,375)	(2,059)	(316)	15.3 %
Underwriting income	$ 2,770	$ 1,657	$ 1,113	67.2 %
Loss ratio (1)	3.0 %	3.0 %		
Acquisition cost ratio (1)	49.0 %	52.5 %		
General and administrative expense ratio (1)	22.2 %	24.6 %		
Combined ratio (1)	74.2 %	80.1 %		

(1)For Island Heritage segment all ratios calculated using expenses divided by net premiums earned plus other related income.

- The increase in gross premiums written is primarily related to continued growth in the Bahamas and the Cayman Islands. Contracts are written on a per risk basis and consist primarily of property lines.

- Premiums ceded were 149.4% of gross premiums written compared to 165.1% of gross premiums written for the same period in 2010. The second quarter is the period in which the Company renews the critical components of its catastrophe reinsurance program and as such the ceded premiums tend to be significant relative to the written premiums.

- Premiums ceded to Flagstone Suisse under our intercompany reinsurance programs were $9.8 million compared to $9.4 million for the same period in 2010. This amount is eliminated upon consolidation.

- Other related income consists primarily of quota share reinsurance ceding commissions. The other related income includes $4.0 million related to the quota share arrangement between Island Heritage and Flagstone Suisse compared to $3.7 million during the same period in 2010. This amount is eliminated upon consolidation.

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Below is a summary of the underwriting results and ratios for our Island Heritage segment for the six months ended June 30, 2011 and 2010:

	For the six months ended June 30,			
	2011	2010	$ Change	% Change
Gross premiums written	$ 51,437	$ 41,078	$ 10,359	25.2 %
Premiums ceded	(60,286)	(48,892)	(11,394)	23.3 %
Net premiums written	(8,849)	(7,814)	(1,035)	13.2 %
Net premiums earned	6,324	4,971	1,353	27.2 %
Other related income	12,070	11,145	926	8.3 %
Loss and loss adjustment expenses	(755)	(642)	(113)	17.5 %
Acquisition costs	(9,784)	(8,381)	(1,403)	16.7 %
General and administrative expenses	(4,583)	(4,235)	(348)	8.2 %
Underwriting income	$ 3,272	$ 2,858	$ 414	14.5 %
Loss ratio (1)	4.1 %	4.0 %		
Acquisition cost ratio (1)	53.2 %	52.0 %		
General and administrative expense ratio (1)	24.9 %	26.3 %		
Combined ratio (1)	82.2 %	82.3 %		

(1)For Island Heritage segment all ratios calculated using expenses divided by net premiums earned plus other related income.

- The increase in gross premiums written is primarily related to continued growth in the Bahamas and the Cayman Islands. Contracts are written on a per risk basis and consist primarily of property lines.

- Premiums ceded were 117.2% of gross premiums written compared to 119.0% of gross premiums written for the same period in 2010.

- Premiums ceded to Flagstone Suisse under our intercompany reinsurance programs were $17.7 million compared to $16.5 million for the same period in 2010. This amount is eliminated on consolidation.

- Other related income consists primarily of quota share reinsurance ceding commissions. The other related income includes $8.3 million related to the quota share arrangement between Island Heritage and Flagstone Suisse compared to $7.5 million for the same period in 2010. This amount is eliminated upon consolidation.

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,		
	2011	2010	% Change	2011	2010	% Change
Investment portfolio return	0.4 %	(0.1)%	0.5 %	1.4 %	0.8 %	0.6 %

- The change in the return on invested assets during the three and six months ended June 30, 2011, compared to the same periods in 2010 is primarily due to the positive impact of rising inflation indices on our inflation protected fixed income securities and better performance of commodity and equity markets.

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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 investments to investment income.

The following tables set forth net investment income for the three and six months ended June 30, 2011 and 2010:

	For the three months ended June 30,		
	2011	2010	$ Change
Cash and cash equivalents	$ 557	$ 353	$ 204
Fixed maturity investments	13,472	8,575	4,897
Short term investments	223	287	(64)
Other investments	(29)	395	(424)
Investment expenses	(1,148)	(1,391)	243
Net investment income	$ 13,075	$ 8,219	$ 4,856

	For the six months ended June 30,		
	2011	2010	$ Change
Cash and cash equivalents	$ 1,096	$ 404	$ 692
Fixed maturity investments	23,374	16,034	7,340
Short term investments	430	664	(234)
Other investments	(88)	745	(833)
Investment expenses	(2,305)	(2,343)	38
Net investment income	$ 22,507	$ 15,504	$ 7,003

- The increase is principally due to a higher amortization income on the Treasury Inflation Protected Securities ("TIPS") caused by the impact of the rise in inflation index. On the TIPS, the positive amortization is offset by losses reported in net realized and unrealized gains (losses) – investments. The Company allocates all investment related expenses to investment income, including salaries and overhead expenses, considered to be directly related to and supporting the investment income.

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, global bond, commodity futures, TBAs and total return swaps. We enter into index futures contracts and total return swaps 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 gains – investments for the three months ended June 30, 2011 and 2010:

	For the three months ended June 30,		
	2011	2010	$ Change

Net realized gains on fixed maturities	$ 22,762	$ 13,288	$ 9,474
Net unrealized gains (losses) on fixed maturities	2,840	(35,168)	38,008
Net realized losses on equities	(845)	-	(845)
Net unrealized gains (losses) on equities	781	(10)	791
Net realized and unrealized (losses) gains on derivative instruments - investments (see table below)	(33,611)	10,300	(43,911)
Net realized and unrealized gains (losses) on other investments	312	(1,081)	1,393
Net realized and unrealized losses - investments	$ (7,761)	$ (12,671)	$ 4,910

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	For the three months ended June 30, 2011	2010	$ Change
Futures contracts	$ (16,516)	$ (20,749)	$ 4,233
Total return swaps	-	(139)	139
Foreign currency forward contracts	(17,107)	30,954	(48,061)
Mortgage-backed securities TBA	12	234	(222)
Net realized and unrealized (losses) gains on derivatives - investments	$ (33,611)	$ 10,300	$ (43,911)

- The change in net realized and unrealized gains on the fixed maturities was primarily due to foreign exchange on non-U.S. dollar bonds, and partially offset by a lower decrease in interest rates during the current quarter. Foreign exchange gains were largely offset by losses on derivatives used for foreign exchange hedging.

- The change in net realized and unrealized losses on futures contracts are primarily due to negative performance of our duration hedge along with negative performance of equity and commodities markets.

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

The following table is a breakdown of the net realized and unrealized gains (losses) - investments for the six months ended June 30, 2011 and 2010:

	For the six months ended June 30, 2011	2010	$ Change
Net realized gains on fixed maturities	$ 36,885	$ 15,875	$ 21,010
Net unrealized gains (losses) on fixed maturities	21,904	(48,416)	70,320
Net realized losses on equities	(845)	-	(845)
Net unrealized gains (losses) on equities	750	(73)	823
Net realized and unrealized (losses) gains on derivative instruments - investments (see table below)	(59,840)	30,056	(89,896)
Net realized and unrealized gains (losses) on other investments	4,289	(302)	4,591
Net realized and unrealized gains (losses) - investments	$ 3,143	$ (2,860)	$ 6,003

	For the six months ended June 30, 2011	2010	$ Change
Futures contracts	$ (8,774)	$ (20,353)	$ 11,579
Total return swaps	-	1,105	(1,105)
Foreign currency forward contracts	(51,083)	48,416	(99,499)
Mortgage-backed securities TBA	17	888	(871)
Net realized and unrealized (losses) gains on derivatives - investments	$ (59,840)	$ 30,056	$ (89,896)

- The change in net realized and unrealized gains on the fixed maturities was largely offset by the negative change in net realized and unrealized losses on foreign exchange forward contracts which are used for foreign exchange hedging of the non-U.S. dollar bonds.

- The change in net realized and unrealized gains on other investments is primarily due to net realized and unrealized gains on catastrophe bonds and investment funds.

- The change in net realized and unrealized gains on futures contracts is primarily due to better performance of equity and commodities markets and due to the impact of our duration hedge.

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

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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.

The following tables are a breakdown of net realized and unrealized gains (losses) – other for the three and six months ended June 30, 2011 and 2010:

	For the three months ended June 30, 2011	2010	$ Change
Currency swaps	$ 467	$ (1,679)	$ 2,146
Foreign currency forward contracts	13,519	(851)	14,370
Reinsurance derivatives	-	564	(564)
Net realized and unrealized gains (losses) - other	$ 13,986	$ (1,966)	$ 15,952

	For the six months ended June 30, 2011	2010	$ Change
Currency swaps	$ 1,547	$ (2,766)	$ 4,313
Foreign currency forward contracts	11,508	5,339	6,169
Reinsurance derivatives	241	1,119	(878)
Net realized and unrealized gains - other	$ 13,296	$ 3,692	$ 9,604

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

- The decrease in net realized and unrealized gains on reinsurance derivatives was due to the decreased number of ILWs determined to be derivatives written during 2011.

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 for the three and six months ended June 30, 2011, compared to $2.5 million and $5.1 million for the three and six months ended June 30, 2010.

Foreign Exchange

For the three and six months ended June 30, 2011, we experienced net foreign exchange losses of $27.0 million and $37.0 million compared to net foreign exchange gains of $7.9 million and $11.8 million for the three and six months ended June 30, 2010. This decrease is primarily due to impact of the weakening U.S. dollar on our net liabilities, especially due to the weakening of the U.S dollar against the New Zealand and Australian dollar in which the Company incurred significant catastrophe losses during the period. Net realized and unrealized gains and losses on derivatives used to hedge those balances are included in “Net realized and unrealized gains and losses – other” in the unaudited condensed consolidated statements of operations and comprehensive (loss) income.

Income Tax Expense

We have subsidiaries that operate in various other jurisdictions around the world that are subject to tax. The significant jurisdictions in which our subsidiaries are subject to tax are South Africa, Canada, India, Switzerland, U.S. Virgin Islands (“USVI”), United Kingdom, and the U.S. However because 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, 2011, income tax recovery was $1.5 million and $6.2 million compared to income tax expense of $0.4 million and $3.3 million for the three and six months ended June 30, 2010. The change is primarily attributable to the recognition of a deferred tax asset on tax loss carryforward in the U.K and to lower taxable income in taxable jurisdictions.

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, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
(Loss) income attributable to Mont Fort	$ -	$ (17,236)	$ 556	$ (11,719)
Income attributable to Island Heritage	1,197	603	1,465	1,176
Other	-	(23)	-	(67)
Income (loss) attributable to noncontrolling interest	$ 1,197	$ (16,656)	$ 2,021	$ (10,610)

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.

Comprehensive (Loss) Income

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

	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Net (loss) income	$ (19,013)	$ (3,387)	$ (179,409)	$ 34,163
Change in currency translation adjustment	873	(1,184)	3,750	(4,881)
Change in defined benefit pension plan obligation	(158)	(397)	(158)	103
Comprehensive (loss) income	(18,298)	(4,968)	(175,817)	29,385
Less: Comprehensive (loss) income attributable to noncontrolling interest	(1,197)	16,656	(2,021)	10,610
Comprehensive (loss) income attributable to Flagstone	$ (19,495)	$ 11,688	$ (177,838)	$ 39,995

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. We designated $46.4 million and $43.2 million of foreign currency forwards contractual value as hedge instruments, which had fair a value of $(0.6) million and $(0.5) million, at June 30, 2011 and December 31, 2010, respectively. We recorded $0.8 million and $2.0 million of realized and unrealized foreign exchange losses during the three and six months ended June 30, 2011 and $3.9 million and $4.5 million of realized and unrealized foreign exchange gains during the three and six months ended June 30, 2010.

Financial Condition, Liquidity, and Capital Resources

Financial Condition

Our investment portfolio on a risk basis, at June 30, 2011, comprised 92.8% fixed maturities, short-term investments and cash and cash equivalents, 2.5% equities and the balance in other investments. We believe that substantially all of our investments can be liquidated and converted into cash within a very short period of time. However, our investment funds, which represent 3.3% of our total investments and cash and cash equivalents at June 30, 2011, do not trade in active markets and are subject to redemption provisions that prevent us from converting them into cash immediately.

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At June 30, 2011 and December 31, 2010, all of the fixed maturity securities 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 AA+.

The average duration of our investment portfolio was 1.6 years at June 30, 2011 and 2.0 years at December 31, 2010.

Other investments as at June 30, 2011, amounted to $127.2 million compared to $119.8 million at December 31, 2010. At June 30, 2011, the other investments comprised $64.4 million in catastrophe bonds and $60.1 million in investment funds, which are recorded at fair value and our equity method investment of $2.6 million. The increase in other investments during the first six months of 2011 is principally related to additional investments in investment funds.

The net receivable for investments sold at June 30, 2011, was $26.5 million, compared to a net payable for investments purchased of $1.3 million at December 31, 2010. Net payables and receivables for investments are a result of timing differences only, as investments are accounted for on a trade date basis.

See Note 4 "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, 2011 used $95.2 million during the six months ended June 30, 2011, as compared to providing $111.5 million during the same period in 2010. This decrease in cash flows from operations was primarily related to lower net income and increased premium balances receivable and reinsurance recoverable, partially offset by increased loss and loss adjustment expense reserves. 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, 2011, net cash of $52.3 million was used in financing activities, compared to $95.6 million for the same period in 2010. 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. For the six months ended June 30, 2010, the net cash used in financing activities related principally to the repurchase of common shares held in treasury and also included the redemption of preferred share in Mont Fort ILW2.

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. 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 $276.0 million at June 30, 2011.

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Capital Resources

Our total capital resources at June 30, 2011 and December 31, 2010 were as follows:

	As at	
	June 30, 2011	December 31, 2010
Long term debt	$ 252,602	$ 251,122
Common shares	845	845
Common shares held in treasury	(161,701)	(178,718)
Additional paid-in capital	877,227	904,235
Accumulated other comprehensive loss	(2,586)	(6,178)
Retained earnings	233,119	414,549
Total capital	$ 1,199,506	$ 1,385,855

The movement in both common shares held in treasury and additional paid-in capital during the six months ended June 30, 2011, arises from the use of treasury shares to settle vested stock based compensation grants.

For the six months ended June 30, 2011, accumulated other comprehensive loss arose from the changes in currency translation adjustment of $3.8 million and the defined benefit pension plan obligation of $(0.2) million.

Letter of credit facilities

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”). On March 5, 2011, the Barclays Facility was amended to extend the maturity date to August 31, 2011 to allow for the renegotiation of the agreement. The Barclays Facility is used to support the reinsurance obligations of the Company. As at June 30, 2011, $30.3 million had been drawn under the Barclays Facility, and the drawn amount was secured by $33.6 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 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, 2011, $428.2 million had been drawn under the Citi Facility, and the drawn amount of the facility was secured by $503.9 million of fixed maturity securities 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.

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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 Flagstone Suisse is also licensed in Bermuda with a branch office. Flagstone Suisse 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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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 Bermuda Monetary Authority (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. 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.

Cayman Islands
Island Heritage is domiciled in the Cayman Islands and maintains a Class A Domestic Insurance License issued under the Insurance Law (as revised) of the Cayman Islands. It is thereby subject to regulation by the Cayman Islands Monetary Authority ("CIMA"), which enforces the applicable provisions of the Insurance Law and also the Monetary Authority Law.

A Class "A" Insurer's license permits an insurer to carry on insurance business generally in or from within the islands. The Insurance Law mandates that changes to the information provided upon application for a license be approved or notified to CIMA, including director and ownership changes and the nature of the business. A relatively low capital requirement is currently prescribed in the Insurance Law, in order to accommodate the large captive insurance market in the Cayman Islands, but CIMA is able to attach conditions to licenses and thereby prescribe an appropriate capital and solvency requirement. A new law was passed in 2010 and is due to come into effect in 2011 pending the finalization of subsidiary legislation. It is expected that the 2010 Law will prescribe a risk based capital requirement comprising a minimum and a prescribed amount, which failure to meet will lead to enforcement and remedial action respectively.

South Africa
Flagstone Africa is licensed to operate as a reinsurer in South Africa and is 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

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, 2013.

Flagstone's existing risk management framework and mechanisms, including its compliance with the Swiss Solvency Test, 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 is currently 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

Valais Re is a special purpose, exempted company licensed as a restricted Class B reinsurer in the Cayman Islands and formed solely for the purpose of entering into certain reinsurance agreements and other risk transfer agreements with subsidiaries of Flagstone Suisse. During 2008, we entered into a reinsurance agreement with Valais Re that provides us with $104.0 million of aggregate indemnity protection for certain losses from global catastrophe events.

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 Valais Re and Montana Re have the characteristics of a variable interest entity that are addressed by the Consolidation Topic of the FASB ASC. In accordance with the Consolidation Topic, Valais Re and Montana Re are 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 Valais Re and 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 are: 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 and 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, 2011, the impact on our fixed maturity securities 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 1.6%, or approximately $24.5 million. As at June 30, 2011, the impact on our fixed maturity securities, 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 1.5%, or approximately $23.1 million.

We use interest rate futures to manage the duration of our investment portfolio. As at June 30, 2011, the total exposure of the interest rate futures contracts held was $0.8 billion and these positions had a fair value of $(1.8) million. 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, 2011, the impact of these futures on our fixed maturity securities and cash and cash equivalents was a reduction of duration by 0.5 years. The impact from an immediate 100 basis point increase in market interest rates would have resulted in an estimated increase in market value of the interest rate futures contracts by approximately $7.7 million. The impact from an immediate 100 basis point decrease in market interest rates would have resulted in an estimated decrease in market value of the interest rate futures contracts by approximately $7.1 million.

As at June 30, 2011, we held $318.6 million, or 23.1% of our fixed maturity portfolio in asset-backed and mortgage-backed securities. We did not hold any sub-prime securities at June 30, 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 and index-linked futures. The total of such exposure as at June 30, 2011 was $58.1 million. The fair value of these positions as at June 30, 2011 amounted to $0.4 million and was recorded in equity investments, other assets and other liabilities. For the three and six months ended June 30, 2011, we recorded net realized and unrealized losses of $5.7 million and net realized and unrealized gains of $0.7 million, respectively, in net realized and unrealized gains – investments. The total exposure of the index-linked futures was $57.8 million as at June 30, 2011.

Credit Risk

We have exposure to credit risk primarily as a holder of fixed maturity securities. 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, 2011, our fixed maturity investments consisted of investment grade securities with an average rating of AA+. 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, total return 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, 2011 and December 31, 2010, were $534.2 million and $318.5 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 $3.0 million in bad debt expenses related to our insurance and reinsurance premium balances receivable.

We purchase retrocessional reinsurance and 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, 2011 and December 31, 2010, were $924.4 million and $854.2 million, respectively, and these contracts had a fair value of $(7.3) million and $(5.2) million, respectively. The change results from an increased allocation to our non-U.S. dollar strategy, which we hedge back to U.S. dollars. For the three and six months ended June 30, 2011, we recorded net realized and unrealized losses of $3.6 million and $39.6 million, respectively, on foreign currency forward contracts and for the three and six months ended June 30, 2010, we recorded net realized and unrealized gains of $30.1 million and $53.8 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 large 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 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, 2011 and December 31, 2010 was $46.4 million and $43.2 million, respectively, and the contracts had a fair value of $(0.6) million and $(0.5) million, respectively. During the three and six months ended June 30, 2011, we recorded 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. During the three and six months ended June 30, 2010, we recorded net realized and unrealized gains of $3.9 million and $4.5 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 $18.4 million, and will receive Euribor plus 354 basis points and pay LIBOR plus 367 basis points. The swap expires on September 15, 2011 and had a fair value of less than $0.5 million as at June 30, 2011.

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, 2011 and 2010, approximately 38.2% and 30.1%, respectively, was written in currencies other than the U.S. dollar. For the six months ended June 30, 2011, we had net foreign exchange losses of $37.0 million compared to gains of $11.8 million for the same period in 2010.

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-looking statemen

Important events and uncertainties that could cause the actual results to differ include, but are not necessarily limited to: market conditions affecting our common share price; 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; 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 the agencies’ ongoing review of our financial strength ratings and the consequences to our business of this review and 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 dynamics in our markets relating to growing capital levels in the insurance and reinsurance industries; declining demand due to increased retentions by cedents and other factors; our ability to continue to implement our expense reduction initiatives; the impact of 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 ratings 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. We undertake 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 2011 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. (Removed and Reserved)

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.

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 2, 2011

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)

EXHIBIT INDEX
Pursuant to Item 601 of Regulation S-K

Exhibit No.	Description of Exhibit
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, 2011.
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, 2011.
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, 2011.
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, 2011.