

Flagstone Reinsurance Holdings Ltd  
 Form 4  
 December 10, 2008

**FORM 4**

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**O'SHAUGHNESSY JAMES**

2. Issuer Name and Ticker or Trading Symbol  
**Flagstone Reinsurance Holdings Ltd [FSR]**

5. Relationship of Reporting Person(s) to Issuer  
 (Check all applicable)

(Last) (First) (Middle)

**FLAGSTONE REINSURANCE HOLDINGS LTD., CRAWFORD HOUSE, 23 CHURCH STREET**

(Street)

3. Date of Earliest Transaction (Month/Day/Year)  
**12/08/2008**

\_\_\_\_ Director \_\_\_\_\_ 10% Owner  
 Officer (give title below) \_\_\_\_\_ Other (specify below)  
**Chief Financial Officer (ex)**

**HAMILTON, D0 HM11**

(City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 \_\_\_\_ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
				Code	V	Amount	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)
Performance Share Units	\$ 0 <u>(1)</u> <u>(2)</u>	12/08/2008		J <u>(2)</u>	117,000	<u>(3)</u> <u>(4)</u>	Common Shares 117,700 <u>(5)</u>

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
O'SHAUGHNESSY JAMES FLAGSTONE REINSURANCE HOLDINGS LTD. CRAWFORD HOUSE, 23 CHURCH STREET HAMILTON, D0 HM11			Chief Financial Officer (ex)	

## Signatures

/s/ James O'Shaughnessy 12/10/2008  
 \*\*Signature of Reporting Person Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Vesting of Performance Share Units ("PSUs") is contingent upon the reporting person's continued employment with Flagstone Reinsurance Holdings Limited (the "Company") and the Company meeting certain fully diluted return-on-equity ("FDROE") goals. Upon vesting, the PSU holder is entitled to receive a number of common shares of the Company (or the cash equivalent, at the election of the

(1) Company) equal to the product of the number of PSUs granted multiplied by a factor based on the Company's FDROE during the vesting period. The factor with respect to the PSUs to be cancelled (see note (2) below) ranged between zero and two, depending on the FDROE achieved during the vesting period. The factor with respect to the current PSUs granted (see note (5) below) will range between 0.5 and 1.5, depending on the FDROE achieved during the vesting period.

The Compensation Committee of the Board of Directors of the Company reviews its assumptions in relation to the PSUs on a quarterly basis. At a meeting of the Compensation Committee of the Board of Directors on November 13, 2008, the members of the Compensation

(2) Committee voted to cancel the PSUs previously granted to Mr. O'Shaughnessy in light of the Company's current FDROE estimates, subject to receiving Mr. O'Shaughnessy's consent. On December 8, 2008, Mr. O'Shaughnessy consented to this cancellation and the PSUs previously granted were cancelled.

The total PSUs held by Mr. O'Shaughnessy were granted under different series, with different vesting contingencies described in note 1 above. Subject to the contingency described in note 1 above and the other terms and conditions of the issuer's PSU Plan, 40,000 of these shares would have vested on December 31, 2008; 45,000 of these shares would have vested on December 31, 2009 and 32,000 of these shares would have vested on December 31, 2010.

(3) Assuming the issuer would settle these PSUs within three months of the vesting date, 40,000 of these shares would have expired on March 31, 2009; 45,000 of these shares would have expired on March 31, 2010 and 32,000 of these shares would have expired on March 31, 2011.

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(5) Represents the mid-point of the vesting range described in note 1 above for these PSUs.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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