

CBOE Research Circular #RS12-609

DATE: November 20, 2012 TO: Permit Holders FROM: Scott Speer

RE: Flagstone Reinsurance Holdings, S.A. ("FSR") Proposed Merger

with Validus Holdings, Ltd. ("VR")

Shareholders of Flagstone Reinsurance Holdings, S.A. ("FSR") will vote on Wednesday, November 28, 2012, to approve a proposed Merger between FSR and Validus UPS, Ltd., a wholly owned subsidiary of Validus Holdings, Ltd. ("VR"). Pursuant to the terms of the Merger, each share of FSR Common Stock outstanding immediately prior to the consummation of the Merger will be converted into the right to receive 0.1935 of a share of VR Common Stock, plus \$2.00 cash (less any applicable withholding taxes and without interest). The Merger is expected to become effective in the fourth quarter of 2012.

THE FOREGOING IS AN UNOFFICIAL SUMMARY OF THE TERMS OF THE MERGER, PREPARED BY CBOE FOR THE CONVENIENCE OF ITS PERMIT HOLDERS. CBOE ACCEPTS NO RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE SUMMARY. PERMIT HOLDERS SHOULD REFER TO THE FLAGSTONE REINSURANCE HOLDINGS, S.A. AND VALIDUS HOLDINGS, LTD. JOINT PROXY STATEMENT/PROSPECTUS DATED OCTOBER 23, 2012, FOR THE AUTHORITATIVE DESCRIPTION OF THE MERGER AND ALL OF ITS TERMS AND CONDITIONS.

Contract Adjustments

Pursuant to Article VI, Section 11 and 11A, of OCC's By-Laws, all outstanding FSR options shall be adjusted as follows. On the business day immediately following the Effective Time of the Merger, each adjusted Flagstone Reinsurance Holdings, S.A. contract will require the receipt or delivery of:

(A) 19 shares of VR Common Stock; plus (B) \$200.00 cash (less any applicable withholding taxes and without interest); plus (C) cash in lieu of 0.35 fractional share of VR Common Stock. Premiums for the adjusted Flagstone Reinsurance Holdings, S.A. options will continue to be calculated on the basis of a multiplier of 100, i.e., for premium and strike-price extensions, 1.00 will equal \$100. The Flagstone Reinsurance Holdings, S.A. option symbol will change to VR1.

Adjusted Option Symbols

On the business day immediately following the Effective Time of the Merger, trading in the FSR option series will be on an adjusted basis. At 8:30 A.M., Chicago time, the following symbol adjustments to the options will be effected:

EXISTING SERIES						ADJUSTED SERIES*				
FSR	2.50	2012-12-22	C/P	=>	VR1	2.50	2012-12-22	C/P		
FSR	5.00	2012-12-22	C/P	=>	VR1	5.00	2012-12-22	C/P		
FSR	7.50	2012-12-22	C/P	=>	VR1	7.50	2012-12-22	C/P		
FSR	10.00	2012-12-22	C/P	=>	VR1	10.00	2012-12-22	C/P		
FSR	12.50	2012-12-22	C/P	=>	VR1	12.50	2012-12-22	C/P		

EXISTING SERIES						ADJUSTED SERIES*			
FSR	2.50	2013-01-19	C/P	=>	VR1	2.50	2013-01-19	C/P	
FSR	5.00	2013-01-19	C/P	=>	VR1	5.00	2013-01-19	C/P	
FSR	7.50	2013-01-19	C/P	=>	VR1	7.50	2013-01-19	C/P	
FSR	10.00	2013-01-19	C/P	=>	VR1	10.00	2013-01-19	C/P	
FSR	12.50	2013-01-19	C/P	=>	VR1	12.50	2013-01-19	C/P	
FSR	15.00	2013-01-19	C/P	=>	VR1	15.00	2013-01-19	C/P	
FSR	2.50	2013-03-16	C/P	=>	VR1	2.50	2013-03-16	C/P	
FSR	5.00	2013-03-16	C/P	=>	VR1	5.00	2013-03-16	C/P	
FSR	7.50	2013-03-16	C/P	=>	VR1	7.50	2013-03-16	C/P	
FSR	10.00	2013-03-16	C/P	=>	VR1	10.00	2013-03-16	C/P	
FSR	12.50	2013-03-16	C/P	=>	VR1	12.50	2013-03-16	C/P	
FSR	2.50	2013-06-22	C/P	=>	VR1	2.50	2013-06-22	C/P	
FSR	5.00	2013-06-22	C/P	=>	VR1	5.00	2013-06-22	C/P	
FSR	7.50	2013-06-22	C/P	=>	VR1	7.50	2013-06-22	C/P	
FSR	10.00	2013-06-22	C/P	=>	VR1	10.00	2013-06-22	C/P	
FSR	12.50	2013-06-22	C/P	=>	VR1	12.50	2013-06-22	C/P	
FSR	15.00	2013-06-22	C/P	=>	VR1	15.00	2013-06-22	C/P	
FSR	17.50	2013-06-22	C/P	=>	VR1	17.50	2013-06-22	C/P	

* Any additional FSR series that are added prior to the effective time of the merger will also be adjusted in the manner described above.

Settlement

The OCC will delay settlement of VR1 exercise and assignment activity until the end of "when issued" trading in VR, if any, and until the determination of the cash-in-lieu amount for the 0.35 fractional share of VR Common Stock.

Hypothetical Pricing Example

Based on a 0.1935 Exchange Ratio, the Flagstone Reinsurance Holdings, S.A. adjusted contract deliverable is: (A) 19 shares of VR Common Stock; plus (B) \$200.00 cash; plus (C) cash-in-lieu of 0.35 share of VR Common Stock. Assume a hypothetical cash-in-lieu amount of \$11.95. Under these circumstances a hypothetical adjusted VR1 underlying "price" may be determined as follows:

VR1 = 0.19(VR) + \$2.00 + \$11.95/100, rounded to the nearest $1/100^{th}$. example, if VR closes at \$34.25, the underlying "per-share price" of VR1 would be:

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0.19(\$34.25) + \$2.00 + \$11.95/100
= $6.5075 + $2.00 + $0.1195
= $8.627
= $8.63 (rounded to the nearest 1/100<sup>th</sup>)
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In this hypothetical example, a VR1 7.50 Call contract would be \$113.00 in the money (difference of strike amount of \$7.50 x 100 = \$750.00 and the underlying deliverable "value" of $$863.00 = 8.63×100).

GTC Order Conversion

On the Effective Date of the Merger, immediately after the CBOE close, the system will convert or cancel all resting orders in the FSR order book. If your firm has requested, all booked orders (phone, wire, and electronic) and all ORS orders residing outside the book (booth or crowd routed) will be converted reflecting the adjustments. If your firm has requested, all booked orders and ORS orders residing outside of the book will be canceled. If your firm receives CXL drops, the CXL confirms will print at your booth at 3:15 p.m. ORS CXLs will also be transmitted electronically to your branches.

A report will be available at the Help Desk listing the orders that are converted or canceled. If converted, this list will also show how the new orders will be adjusted. This report will be available on request anytime during the day prior to the night of the adjustment.

Questions regarding this memo can be addressed to Options Industry Services at 1-888-OPTIONS (1-888-678-4667). CBOE contract adjustment memos can also be accessed from CBOE.com at the following web address:

http://www.cboe.com/ContractAdjustments