

TRANSATLANTIC HOLDINGS INC
Form PRRN14A
August 01, 2011

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

TRANSATLANTIC HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

**VALIDUS HOLDINGS, LTD.
TV HOLDINGS, LLC
TV MERGER SUB, LLC**

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:

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- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
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 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
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PRELIMINARY COPY SUBJECT TO COMPLETION, DATED AUGUST 1, 2011

SPECIAL MEETING OF STOCKHOLDERS

OF

TRANSATLANTIC HOLDINGS, INC.

TO BE HELD ON , 2011

PROXY STATEMENT

OF

VALIDUS HOLDINGS, LTD.

TV HOLDINGS, LLC

TV MERGER SUB, LLC

**SOLICITATION OF PROXIES IN OPPOSITION TO
THE PROPOSED ACQUISITION OF TRANSATLANTIC HOLDINGS, INC.
BY ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG**

This preliminary Proxy Statement (this "Proxy Statement") and the enclosed **BLUE** proxy card are furnished by Validus Holdings, Ltd., a Bermuda exempted company ("Validus," "we" or "us"), TV Holdings, LLC, a Delaware limited liability company and a wholly-owned subsidiary of Validus ("TV Holdings") and TV Merger Sub, LLC, a Delaware limited liability company and a wholly-owned subsidiary of TV Holdings ("TV Merger Sub") (for convenience purposes, throughout this Proxy Statement, we sometimes refer to Validus as the party soliciting proxies in connection herewith), in connection with Validus' solicitation of proxies to be used at the special meeting (the "Special Meeting") of stockholders of Transatlantic Holdings, Inc., a Delaware corporation ("Transatlantic"), to be held on , 2011, at at , and at any adjournments or postponements thereof.

This Proxy Statement and the enclosed **BLUE** proxy card are first being mailed to Transatlantic stockholders on or about , 2011.

Pursuant to this Proxy Statement, Validus is soliciting proxies from holders of common stock, par value \$1.00 per share (the "Transatlantic Shares"), of Transatlantic, to vote "AGAINST" the proposal to adopt the Agreement and Plan of Merger, dated as of June 12, 2011 (as the same may be amended, the "Allied World Acquisition Agreement"), by and among Allied World Assurance Company Holdings, AG ("Allied World"), Transatlantic and GO Sub, LLC, a Delaware limited liability company and a wholly-owned subsidiary of Allied World ("Acquisition Sub"). The Allied World Acquisition Agreement contemplates the merger of Acquisition Sub with and into Transatlantic, with Transatlantic continuing as the surviving corporation in the merger as a wholly-owned subsidiary of Allied World (the "Proposed Allied World Acquisition").

The specific proposals we are soliciting proxies to vote "AGAINST" are (i) the proposal to adopt the Allied World Acquisition Agreement (the "Allied World Acquisition Agreement Proposal"), (ii) the proposal to adjourn the Special Meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve the adoption of the Allied World Acquisition Agreement (the "Adjournment Proposal") and (iii) the proposal, on an advisory (non-binding) basis, to approve the compensation that may be paid or become payable to Transatlantic's named executive officers in connection with the acquisition, and the agreements and understandings pursuant to which such compensation may be paid or become payable (the "Payout Proposal"), each as described in the preliminary joint proxy statement/prospectus included in the registration statement on Form S-4 filed by Allied World (the "Allied World/Transatlantic S-4") with the United States Securities and Exchange Commission (the "SEC") on July 7, 2011. Transatlantic has set July 22, 2011 as the record date for determining those stockholders who will be entitled to vote at the Special Meeting (the "Record Date"). The principal executive offices of Transatlantic are located at 80 Pine Street, New York, New York 10005, United States.

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WE ARE SOLICITING PROXIES FROM TRANSATLANTIC STOCKHOLDERS TO VOTE "AGAINST" THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL, THE ADJOURNMENT PROPOSAL AND THE PAYOUT PROPOSAL. WE BELIEVE THE PROPOSED ALLIED WORLD ACQUISITION DOES NOT PROVIDE ADEQUATE CONSIDERATION TO TRANSATLANTIC STOCKHOLDERS, AND WE BELIEVE THE VALIDUS TRANSACTION PROPOSAL (AS DEFINED BELOW) IS A SUPERIOR ALTERNATIVE FOR THE TRANSATLANTIC STOCKHOLDERS BECAUSE IT PROVIDES SIGNIFICANTLY GREATER FINANCIAL VALUE TO TRANSATLANTIC STOCKHOLDERS THAN THE PROPOSED ALLIED WORLD ACQUISITION.

On July 12, 2011, Validus publicly announced that it had delivered a written proposal to the Board of Directors of Transatlantic to combine the businesses of Validus and Transatlantic through a merger transaction in which Validus would acquire all of the outstanding Transatlantic Shares (the "Validus Merger Offer"). Pursuant to the Validus Merger Offer, Transatlantic stockholders would receive 1.5564 Validus voting common shares, par value \$0.175 per share (the "Validus Shares") in the merger and \$8.00 per share in cash pursuant to a one-time special dividend from Transatlantic immediately prior to closing of the merger for each Transatlantic Share they own.

Unlike the Proposed Allied World Acquisition, the Validus Merger Offer is structured to be tax-free to Transatlantic stockholders with respect to the Validus Shares they receive in the merger; however, any cash dividend received by Transatlantic stockholders generally will be taxable at applicable dividend tax rates (or, for non-U.S. Transatlantic stockholders, may be subject to applicable withholding taxes). As part of the Validus Merger Offer, and through a submission to Transatlantic of a proposed merger agreement, Validus has indicated it would be prepared to enter into a merger agreement with Transatlantic that includes substantially similar non-price terms and conditions as the Allied World Acquisition Agreement.

Transatlantic announced on July 19, 2011 that the Transatlantic board of directors (the "Transatlantic Board") had determined that the Validus Merger Offer does not constitute a "superior proposal" under the terms of the Allied World Acquisition Agreement and reaffirmed its support of the Proposed Allied World Acquisition. However, Transatlantic also announced that the Transatlantic Board had determined that the Validus Merger Offer is reasonably likely to lead to a "superior proposal" and that the failure to enter into discussions regarding the Validus Merger Offer would result in a breach of the Transatlantic Board's fiduciary duties under applicable law.

On July 23, 2011, Transatlantic delivered a form of confidentiality agreement for Validus' execution as a precondition to the commencement of discussions and exchange of confidential information. However, the form of confidentiality agreement included standstill provisions that would have prevented Validus from making the Validus Exchange Offer (as defined below) directly to Transatlantic stockholders. Transatlantic would not agree to the removal of such restrictive provisions. Later that evening, Validus delivered a form of confidentiality agreement to Transatlantic that it would be prepared to execute, but had not received any response from Transatlantic as of the date of this Proxy Statement. While Validus continues to hope that it is possible to reach a consensual transaction with Transatlantic, Validus does not believe that it is in Transatlantic stockholders' best interests to give the Transatlantic board of directors unilateral control over whether the Validus Exchange Offer is made available to Transatlantic stockholders.

Because Transatlantic refused to agree to confidentiality agreement terms that would be acceptable to Validus, Validus commenced on July 25, 2011 an exchange offer for all of the outstanding Transatlantic Shares (the "Validus Exchange Offer") pursuant to which Transatlantic stockholders will receive 1.5564 Validus Shares and \$8.00 per share in cash (less applicable withholding taxes and without interest) in exchange for each Transatlantic Share they own. The consideration received by Transatlantic stockholders in the Validus Exchange Offer (including the value of Validus Shares received by Transatlantic stockholders in the Validus Exchange Offer) generally will be taxable to Transatlantic stockholders. The terms and conditions of the Validus Exchange Offer are set forth in the prospectus/offer to exchange that forms a part of a Registration Statement on Form S-4 that was filed by Validus with the SEC on July 25, 2011 (the "Validus S-4") and are summarized in the section of this Proxy

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Statement titled "Certain Information Regarding the Validus Transaction Proposal The Validus Exchange Offer." We refer to the transactions contemplated by the Validus Merger Offer and the Validus Exchange Offer herein collectively as the "Validus Transaction Proposal."

The Validus Merger Offer and the Validus Exchange Offer are alternative methods for Validus to acquire all of the issued and outstanding Transatlantic Shares. Ultimately, only one of these transaction structures can be pursued to completion. Validus intends to seek to acquire Transatlantic by whichever method Validus determines is most likely to be completed. See the sections of this Proxy Statement titled "The Validus Transaction Proposal The Validus Merger Offer" and "The Validus Transaction Proposal The Validus Exchange Offer" for more information regarding the terms and conditions of the Validus Merger Offer and the Validus Exchange Offer. In addition, please see the section of this Proxy Statement titled "Forward Looking Statements," which describes certain risks and uncertainties which may be applicable to the Validus Transaction Proposal.

Based upon closing prices as of _____, 2011, the last practicable date prior to the filing of this Proxy Statement, the Validus Transaction Proposal had a value of \$ _____ per Transatlantic Share, which represented _____ % premium to the consideration to be received by Transatlantic stockholders in the Proposed Allied World Acquisition. The premium represented by the Validus Transaction Proposal to the Proposed Allied World Acquisition may be larger or smaller depending on the market price of each of the Validus Shares and shares of Allied World on any given date and will fluctuate between the date of this Proxy Statement and the date of the Special Meeting or the date of consummation of any transaction.

WE ARE NOT ASKING YOU TO VOTE ON OR APPROVE THE VALIDUS MERGER OFFER AT THIS TIME. HOWEVER, WE BELIEVE THAT A VOTE "AGAINST" THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL WILL SEND A MESSAGE TO THE TRANSATLANTIC BOARD THAT TRANSATLANTIC STOCKHOLDERS REJECT THE PROPOSED ALLIED WORLD ACQUISITION AND THAT THE TRANSATLANTIC BOARD SHOULD TERMINATE THE ALLIED WORLD ACQUISITION AGREEMENT AND GIVE CONSIDERATION TO OTHER OFFERS THAT IT RECEIVES, INCLUDING THE VALIDUS MERGER OFFER. IN ADDITION, A VOTE AGAINST THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL WILL NOT OBLIGATE YOU TO VOTE FOR THE VALIDUS MERGER OFFER OR TENDER YOUR TRANSATLANTIC SHARES IN THE VALIDUS EXCHANGE OFFER. HOWEVER, YOU MUST TENDER YOUR TRANSATLANTIC SHARES PURSUANT TO THE VALIDUS EXCHANGE OFFER IF YOU WISH TO PARTICIPATE IN THE VALIDUS EXCHANGE OFFER.

EVEN IF YOU HAVE ALREADY SENT A PROXY CARD TO TRANSATLANTIC, YOU HAVE EVERY RIGHT TO CHANGE YOUR VOTE. ONLY YOUR LATEST-DATED PROXY COUNTS. VOTE "AGAINST" THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL, THE ADJOURNMENT PROPOSAL AND THE PAYOUT PROPOSAL, BY INTERNET OR TELEPHONE OR BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED. NO POSTAGE IS NECESSARY IF YOUR PROXY CARD IS MAILED IN THE UNITED STATES. WE URGE YOU VOTE BY INTERNET OR TELEPHONE OR BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD.

IF YOUR TRANSATLANTIC SHARES ARE HELD IN "STREET-NAME," DELIVER THE ENCLOSED **BLUE** VOTING INSTRUCTION FORM TO YOUR BROKER OR BANK OR CONTACT THE PERSON RESPONSIBLE FOR YOUR ACCOUNT TO VOTE ON YOUR BEHALF AND TO ENSURE THAT A **BLUE** PROXY CARD IS SUBMITTED ON YOUR BEHALF. IF YOUR BROKER OR BANK OR CONTACT PERSON RESPONSIBLE FOR YOUR ACCOUNT PROVIDES FOR VOTING INSTRUCTIONS TO BE DELIVERED TO THEM BY INTERNET OR TELEPHONE, INSTRUCTIONS WILL BE INCLUDED ON THE ENCLOSED **BLUE** VOTING INSTRUCTION FORM.

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**REASONS TO VOTE "AGAINST"
THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL**

Validus is soliciting proxies from Transatlantic stockholders in opposition to the Proposed Allied World Acquisition and specifically "AGAINST" the Allied World Acquisition Agreement Proposal. Validus urges all Transatlantic stockholders to vote "AGAINST" the Allied World Acquisition Agreement Proposal for the following reasons:

A vote "AGAINST" the Allied World Acquisition Agreement Proposal preserves your opportunity to receive the consideration contemplated by the Validus Transaction Proposal which, if consummated, provide greater market value to Transatlantic stockholders as compared to the Proposed Allied World Acquisition.

We believe that the Validus Transaction Proposal, if consummated, would be superior to the Proposed Allied World Acquisition because it would provide Transatlantic stockholders an opportunity to receive cash and stock with a combined market value per Transatlantic Share that is greater than the market value of the Allied World shares issuable under the Proposed Allied World Acquisition based upon the recent trading prices of the common shares of each of Validus and Allied World. In addition, in comparison to the fully-taxable proposed Allied World Acquisition, the Validus Merger Offer is expected to be tax-advantageous to Transatlantic stockholders who have a tax basis in their Transatlantic Shares such that the amount of tax due with respect to the capital gain recognized under the Proposed Allied World Acquisition exceeds the amount of tax due with respect to the \$8.00 dividend offered in the Validus Merger Offer. The dividend offered under the Validus Merger Offer may be subject to withholding taxes for non-U.S. stockholders of Transatlantic, although many such non-U.S. stockholders may be eligible for a reduced rate of withholding tax, or an elimination of withholding tax. In addition to being fully taxable, the Proposed Allied World Acquisition does not contain a cash component with which Transatlantic stockholders may pay their taxes. Because individual circumstances may differ, Validus urges Transatlantic stockholders to consult with their own tax advisors as to the specific tax consequences of the Validus Merger Offer and the Validus Exchange Offer, including the applicability of U.S. federal, state, local, non-U.S. and other tax laws.

Based upon closing prices as of _____, 2011, the last practicable date prior to the filing of this Proxy Statement, the Validus Transaction Proposal had a value of \$ _____ per Transatlantic Share, which represented _____ % premium to the consideration to be received by Transatlantic stockholders in the Proposed Allied World Acquisition. The premium represented by the Validus Transaction Proposal to the Proposed Allied World Acquisition may be larger or smaller depending on the market price of each of the Validus Shares and shares of Allied World on any given date and will fluctuate between the date of this Proxy Statement and the date of the Special Meeting or the date of consummation of any transaction.

Information with respect to the range of closing prices for the Transatlantic Shares, which are traded on the New York Stock Exchange ("NYSE"), for certain dates and periods is set forth in the Allied World/Transatlantic S-4. Validus urges Transatlantic stockholders to obtain a current market quotation for the Transatlantic Shares.

A vote "AGAINST" the Allied World Acquisition Agreement Proposal stops the Transatlantic Board's attempt to sell Transatlantic in what Validus believes is an inferior transaction.

Transatlantic has entered into an agreement providing for an all-stock acquisition by Allied World in which Validus believes Transatlantic stockholders will receive Allied World Shares having a value not reflecting the value of their Transatlantic Shares.

The Proposed Allied World Acquisition does not contemplate any cash to be provided to Transatlantic stockholders (notwithstanding the taxable nature of the transaction) and, accordingly Transatlantic stockholders will need to sell shares or otherwise fund payments to the extent of the tax due with respect to the gain recognized on the transaction.

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In addition, Validus believes that the benefit, if any, to be received by Transatlantic stockholders from the sale of Transatlantic to Allied World will be based solely on the future performance of a combination of Transatlantic with Allied World. However, Transatlantic stockholders should be aware that the value of equity consideration payable in any acquisition transaction, including the Validus Transaction Proposal, will be based on the future performance of the combined entity.

A vote "AGAINST" the Allied World Acquisition Agreement Proposal allows the Transatlantic Board to consider other, potentially more valuable, alternatives for Transatlantic.

The Section entitled "The Merger Background of the Merger" in the Allied World/Transatlantic S-4 discloses that Transatlantic did not contact other parties prior to entering into the Allied World Acquisition Agreement. Even when approached by Validus to discuss a potential transaction just days prior to the execution of the Allied World Acquisition Agreement, Transatlantic did not seek to have any discussions with Validus about the value that Validus could deliver to Transatlantic stockholders. Validus believes that its interest in a transaction with Transatlantic as reflected in its June 7, 2011 letter (as described in the section of this Proxy Statement titled "Background of the Solicitation"), and its willingness to make the Validus Merger Offer on July 12, 2011 and to commence the Validus Exchange Offer on July 25, 2011 with an aggregate per share consideration that represented, as of their respective dates of announcement and commencement, and represent, as of the date of this Proxy Statement greater market value than proposed by the Proposed Allied World Acquisition demonstrates that the Transatlantic Board could have identified transactions prior to June 12, 2011 that would have provided greater market value to Transatlantic stockholders.

On July 19, 2011, Transatlantic announced that the Transatlantic Board had determined that the Validus Merger Offer does not constitute a "superior proposal" under the terms of the Allied World Acquisition Agreement and reaffirmed its support of the Proposed Allied World Acquisition. However, Transatlantic also announced that the Transatlantic Board had determined that the Validus Merger Offer is reasonably likely to lead to a "superior proposal" and that the failure to enter into discussions regarding the Validus Merger Offer would result in a breach of the Transatlantic Board's fiduciary duties under applicable law.

Based upon closing prices as of _____, 2011, the last practicable date prior to the filing of this Proxy Statement, the Validus Transaction Proposal had a value of \$ _____ per Transatlantic Share, which represented a _____ % premium to the closing price of Transatlantic Shares as of such date, and the Proposed Allied World Acquisition had a value of \$ _____ per Transatlantic Share, which represented a _____ % to the closing price of the Transatlantic Shares as of such date. The premium represented by the Validus Transaction Proposal to the Proposed Allied World Acquisition may be larger or smaller depending on the market price of each of the Validus Shares and shares of Allied World on any given date and will fluctuate between the date of this Proxy Statement and the date of the Special Meeting or the date of consummation of any transaction.

If Transatlantic stockholders do not approve the Allied World Acquisition Proposal, one of the conditions to the Allied World Acquisition Agreement will fail to be satisfied and each of Transatlantic and Allied World will have the right to terminate the Allied World Acquisition Agreement. Following such a termination, unless Allied World shareholders have also failed to approve the Proposed Allied World Acquisition, Transatlantic will be required to pay a termination fee of \$35 million to Allied World and reimburse to Allied World up to \$35 million in transaction expenses. Validus believes that, if the Allied World Acquisition Agreement is terminated, the Transatlantic Board should make the determination that it is in Transatlantic stockholders' best interests to pursue the Validus Merger Offer and enter into the Validus Merger Agreement (pursuant to which Transatlantic stockholders would be entitled to receive 1.5564 Validus Shares in the merger and \$8.00 per share in cash pursuant to a one-time special dividend from Transatlantic immediately prior to closing of the merger for each Transatlantic Share they own). If Transatlantic were to enter into the Validus Merger Agreement within

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one year of termination of the Allied World Acquisition Agreement, Transatlantic would be required to pay a \$115 million termination fee to Allied World (net of any termination fee and expense reimbursement previously paid). Validus intends to pursue the Validus Transaction Proposal even if Transatlantic is required to pay a \$115 million termination fee. However, there can be no assurances that the current Transatlantic Board would seek to enter into the Validus Merger Agreement, or otherwise pursue or facilitate the Validus Transaction Proposal, following a termination of the Allied World Acquisition Agreement. Transatlantic stockholders should take all of these factors into account when determining how to vote their Transatlantic Shares.

USE YOUR **BLUE** PROXY CARD TO VOTE "AGAINST" THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL, THE ADJOURNMENT PROPOSAL AND THE PAYOUT PROPOSAL TODAY BY INTERNET OR TELEPHONE OR BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED. A VOTE AGAINST THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL WILL NOT OBLIGATE YOU TO VOTE FOR THE VALIDUS MERGER OFFER OR TENDER YOUR TRANSATLANTIC SHARES IN THE VALIDUS EXCHANGE OFFER. HOWEVER, YOU MUST TENDER YOUR TRANSATLANTIC SHARES PURSUANT TO THE VALIDUS EXCHANGE OFFER IF YOU WISH TO PARTICIPATE IN THE VALIDUS EXCHANGE OFFER.

IF YOUR TRANSATLANTIC SHARES ARE HELD IN "STREET-NAME," DELIVER THE ENCLOSED **BLUE** VOTING INSTRUCTION FORM TO YOUR BROKER OR BANK OR CONTACT THE PERSON RESPONSIBLE FOR YOUR ACCOUNT TO VOTE ON YOUR BEHALF AND TO ENSURE THAT A **BLUE** PROXY CARD IS SUBMITTED ON YOUR BEHALF. IF YOUR BROKER OR BANK OR CONTACT PERSON RESPONSIBLE FOR YOUR ACCOUNT PROVIDES FOR VOTING INSTRUCTIONS TO BE DELIVERED TO THEM BY INTERNET OR TELEPHONE, INSTRUCTIONS WILL BE INCLUDED ON THE ENCLOSED **BLUE** VOTING INSTRUCTION FORM.

DO NOT RETURN ANY PROXY CARD THAT YOU RECEIVE FROM TRANSATLANTIC EVEN AS A PROTEST VOTE AGAINST THE PROPOSED ALLIED WORLD ACQUISITION. EVEN IF YOU HAVE PREVIOUSLY SUBMITTED A PROXY CARD FURNISHED BY TRANSATLANTIC, IT IS NOT TOO LATE TO CHANGE YOUR VOTE BY INTERNET OR TELEPHONE OR BY SIMPLY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD TODAY.

WE URGE YOU TO SEND THE TRANSATLANTIC BOARD A MESSAGE THAT TRANSATLANTIC STOCKHOLDERS REJECT THE PROPOSED ALLIED WORLD ACQUISITION AND THAT THE TRANSATLANTIC BOARD SHOULD TERMINATE THE ALLIED WORLD ACQUISITION AGREEMENT AND GIVE PROPER CONSIDERATION TO OTHER OFFERS THAT IT RECEIVES, INCLUDING THE VALIDUS MERGER OFFER. **VOTE "AGAINST" THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL, THE ADJOURNMENT PROPOSAL AND THE PAYOUT PROPOSAL TODAY.**

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BACKGROUND OF THE SOLICITATION

Since Validus' formation in 2005, Validus has explored all available avenues for profitable growth, including evaluating opportunities for strategic acquisitions which fit Validus' criteria. In connection with such strategic evaluation, Validus has in the past had preliminary discussions with Transatlantic regarding a potential business combination transaction.

On June 3, 2011, Edward J. Noonan, the Chief Executive Officer and Chairman of the Board of Directors of Validus, spoke by telephone with Robert F. Orlich, President, Chief Executive Officer and a Director of Transatlantic. Mr. Noonan discussed with Mr. Orlich a potential business combination transaction between Validus and Transatlantic.

On June 7, 2011, Validus delivered a letter to Transatlantic reiterating its interest in exploring a business combination transaction with Transatlantic.

On June 12, 2011, Transatlantic and Allied World announced that they had entered into the Allied World Acquisition Agreement.

On July 7, 2011, Allied World filed the Allied World/Transatlantic S-4 with the SEC. The Allied World/Transatlantic S-4 purports to provide a summary of the events leading to Allied World and Transatlantic entering into the Allied World Acquisition Agreement.

In the afternoon of July 12, 2011, Mr. Noonan placed a telephone call to Mr. Orlich. Mr. Noonan spoke to Mr. Orlich and stated that Validus would be making a proposal to acquire Transatlantic in a merger pursuant to which Transatlantic stockholders would receive 1.5564 Validus Shares in the merger and \$8.00 per share in cash pursuant to a one-time special dividend from Transatlantic immediately prior to closing of the merger. Mr. Noonan also noted that while Validus preferred to work cooperatively with Transatlantic to complete a consensual transaction, it was also prepared to take the Validus Transaction Proposal directly to Transatlantic stockholders if necessary.

Following this telephone call, in the evening of July 12, 2011, Validus delivered a proposal letter containing the Validus Merger Offer to the Transatlantic Board in care of Rich S. Press, Chairman of the Transatlantic Board, and Mr. Orlich and issued a press release announcing the Validus Merger Offer. The letter reads as follows:

July 12, 2011

Board of Directors of Transatlantic Holdings, Inc.
c/o Richard S. Press, Chairman
c/o Robert F. Orlich, President and Chief Executive Officer
80 Pine Street
New York, New York 10005

Re:

Superior Proposal by Validus Holdings, Ltd. to Transatlantic Holdings, Inc.

Dear Sirs:

On behalf of Validus, I am pleased to submit this proposal to combine the businesses of Validus and Transatlantic through a merger in which Validus would acquire all of the outstanding stock of Transatlantic. Pursuant to our proposal, Transatlantic stockholders would receive 1.5564 Validus voting common shares in the merger and \$8.00 per share in cash pursuant to a one-time special dividend from Transatlantic immediately prior to closing of the merger for each share of Transatlantic common stock they own. This combination, which is highly compelling from both a strategic and financial perspective, would create superior value for our respective shareholders.

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Based on our closing stock price on July 12, 2011, the proposed transaction provides Transatlantic stockholders with total consideration of \$55.95 per share of Transatlantic common stock based on the Validus closing price on July 12, 2011, which represents a 27.1% premium to Transatlantic's closing price on June 10, 2011, the last trading day prior to the announcement of the proposed acquisition of Transatlantic by Allied World Assurance Company Holdings, AG. Our proposal also represents a 12.1% premium over the value of stock consideration to be paid to Transatlantic stockholders as part of the proposed acquisition of Transatlantic by Allied World based on the closing prices of Allied World and Validus shares on July 12, 2011. Additionally, our proposed transaction is structured to be tax-free to Transatlantic stockholders with respect to the Validus voting common shares they receive in the merger. The Allied World acquisition of Transatlantic is a fully-taxable transaction and does not include a cash component to pay taxes. Based on recent public statements by a number of significant Transatlantic stockholders, we believe that Transatlantic stockholders would welcome and support our proposed tax-free transaction, which provides higher value, both currently and in the long-term, to Transatlantic stockholders than Transatlantic's proposed acquisition by Allied World.

Our Board of Directors and senior management have great respect for Transatlantic and its business. As you know from our previous outreaches to you and past discussions, including our recent conversation on June 3rd and our letter dated June 7th, Validus has been interested in exploring a mutually beneficial business combination with Transatlantic for some time. We continue to believe in the compelling logic of a transaction between Transatlantic and Validus. Each of us has established superb reputations with our respective brokers and ceding companies in the markets we serve. The Flaspöhler 2010 Broker Report rated Transatlantic #3 and Validus #7 for "Best Overall" reinsurer and Validus #4 and Transatlantic #7 for "Best Overall Property Catastrophe." These parallel reputations for excellent service, creativity and underwriting consistency, when combined with the enhanced capital strength and worldwide scope of a combined Validus and Transatlantic, would afford us the opportunity to execute a transaction that would be mutually beneficial to our respective shareholders and customers, and more attractive than the proposed acquisition of Transatlantic by Allied World.

We believe that our proposal clearly constitutes a "Superior Proposal" under the terms of the proposed Allied World merger agreement for the compelling reasons set forth below:

1.

Superior Value. Our proposal of 1.5564 Validus voting common shares in the merger and \$8.00 in cash pursuant to a pre-closing dividend for each share of Transatlantic common stock, which represents total consideration of \$55.95 per share of Transatlantic common stock based on the Validus closing price on July 12, 2011, delivers a significantly higher value to Transatlantic stockholders than does the proposed acquisition of Transatlantic by Allied World. As noted above, as of such date, our proposal represents a 27.1% premium to Transatlantic's closing price on June 10, 2011, the last trading day prior to the announcement of the proposed acquisition of Transatlantic by Allied World, and a 12.1% premium over the value of stock consideration to be paid to Transatlantic stockholders in the proposed acquisition of Transatlantic by Allied World based on the closing prices of Allied World and Transatlantic shares on July 12, 2011. Our proposal also delivers greater certainty of value because it includes a meaningful pre-closing cash dividend payable to Transatlantic stockholders in contrast to the all-stock Allied World offer.

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2. *Tax-Free Treatment.* In addition to the meaningful premium and cash consideration, the proposed transaction with Validus is structured to be tax-free to Transatlantic stockholders with respect to the Validus voting common shares they receive in the merger (unlike the fully-taxable proposed acquisition of Transatlantic by Allied World).
3. *Relative Ownership.* Upon consummation of the proposed transaction, Transatlantic stockholders would own approximately 48% of Validus' outstanding common shares on a fully-diluted basis.⁽¹⁾

(1) Fully diluted shares calculated using treasury stock method.

4. *Superior Currency.* Validus' voting common shares have superior performance and liquidity characteristics compared to Allied World's stock:

	Validus	Allied World
Total Shareholder Return Since Validus IPO ^(a)	+55%	+24%
Market Cap as of 6/10/11	\$ 3.0 billion	\$ 2.2 billion
Average Daily Trading Volume (3 month) ^(b)	\$ 27.6 million	\$ 14.6 million
Average Daily Trading Volume (6 month) ^(c)	\$ 22.4 million	\$ 13.4 million
Price / As-Reported Diluted Book (Unaffected) ^(d)	0.97x	0.78x
Price / As-Reported Diluted Book (Current) ^(d)	0.98x	0.76x
Dividend Yield as of 6/10/11 (Unaffected)	3.3% ^(e)	2.6% ^(f)

(a) Including dividends. Based on the closing prices on June 10, 2011 and July 24, 2007. Source: SNL.

(b) Three months prior to June 12, 2011, date of announcement of proposed Allied World acquisition of Transatlantic. Source: Bloomberg.

(c) Six months prior to June 12, 2011, date of announcement of proposed Allied World acquisition of Transatlantic. Source: Bloomberg.

(d) Based on March 31, 2011 GAAP diluted book value per share. Unaffected price / as-reported diluted book value measured prior to June 12, 2011 announcement of proposed Allied World acquisition of Transatlantic. Current is as of closing prices of Validus and Allied World stock on July 12, 2011.

(e) Based on \$0.25 per share quarterly dividend, as announced May 5, 2011.

(f) Based on \$0.375 per share quarterly dividend, as disclosed in Allied World Form 8-K dated June 15, 2011.

Moreover, Validus has maintained a premium valuation on a diluted book value per share multiple basis relative to its peers over the past two years, including Allied World. Our commitment to transparency and shareholder value creation has allowed us to build a long-term institutional shareholder base, even as our initial investors have reduced their ownership in Validus.

5. *Robust Long-Term Prospects.* We believe that a combined Validus and Transatlantic would be a superior company to Allied World following its acquisition of Transatlantic:

Strategic Fit:

The combination of Validus' strong positions in Bermuda and London and Transatlantic's operations in the United States, continental Europe and Asia would produce a rare example of a complementary business fit with minimal

overlap.

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This combination will produce a well-diversified company that will be a global leader in reinsurance.

This combination will solidify Validus' leadership in property catastrophe, with pro forma managed catastrophe premiums of over \$1 billion,⁽²⁾ while remaining within Validus' historical risk appetite. Validus has significant experience assimilating catastrophe portfolios, most recently its acquisition of IPC Holdings, Ltd. in 2009.

(2) Based on property catastrophe gross premiums written for Validus and net premiums written for Transatlantic in 2010. Pro forma for Validus (\$572 million), Transatlantic (\$431 million) and AlphaCat Re 2011 (\$43 million).

Finally, we believe that there is a natural division of expertise among our key executives in line with our complementary businesses.

Size and Market Position: This combination would create a geographically diversified company with a top six reinsurance industry position on a pro forma basis,⁽³⁾ and makes the combined company meaningfully larger than many of the companies considered to be in our mutual peer group. Our merged companies would have gross premiums written over the last twelve months of approximately \$6.1 billion as of March 31, 2011.

(3) Ranked by 2009 net premiums written and excluding the Lloyd's market per Standard & Poor's Global Reinsurance Highlights 2010.

As the level of capital required to support risk will continue to rise globally, we believe that size will become an even more important competitive advantage in the reinsurance market. The recent renewals at June 1 and July 1, 2011 reinforced this belief as Validus was able to significantly outperform market rate levels which we believe was a result of our size, superior analytics and our ability to structure private transactions at better than market terms, while not increasing our overall risk levels.

Significant Structural Flexibility: Given jurisdiction, size and market position benefits, a combined Validus and Transatlantic would have significant structural flexibility, including its ability to optimally deploy capital globally in different jurisdictions, e.g., through targeted growth initiatives and/or capital management.

Global, Committed Leader in Reinsurance: Validus has a superior business plan for the combined company that will drive earnings by capturing the best priced segments of the reinsurance market. A combined Validus / Transatlantic would derive a majority of its premiums from short-tail lines and 17% of premiums written from property catastrophe (compared to 10% for Allied World / Transatlantic).⁽⁴⁾ Validus believes this business mix allows for optimal cycle management as the attractive pricing in short tail reinsurance will allow the combined company to better position itself for the eventual upturn in long tail lines. Validus also intends to fortify Transatlantic's reserve position through a planned \$500 million pre-tax reserve strengthening.

(4) Based on gross premiums written for Validus and net premiums written for Transatlantic in 2010.

We have reviewed the Allied World merger agreement and would be prepared to enter into a merger agreement with Transatlantic that includes substantially similar non-price terms and conditions as the Allied World merger agreement. We are also open to discussing an increase to the size of Validus' Board of Directors to add representation from the Transatlantic Board of Directors. In order to facilitate your review of our proposal, we have delivered to you a draft merger agreement.

Additionally, we expect that the proposed transaction with Validus would be subject to customary closing conditions, including the receipt of domestic and foreign antitrust and

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insurance regulatory approvals and consents in the United States and other relevant jurisdictions. Based upon discussions with our advisors, we anticipate that all necessary approvals and consents can be completed in a timely manner and will involve no undue delay in comparison to Transatlantic's proposed acquisition by Allied World.

Validus expects that the pre-closing special dividend would be financed entirely by new indebtedness incurred by Transatlantic. As such, Validus has received a highly confident letter from J.P. Morgan Securities LLC in connection with the arrangement of the full amount of financing required for the Transatlantic pre-closing special dividend.

Validus has completed two large acquisitions since 2007, and has a proven track record of assimilating and enhancing the performance of businesses that it acquires to create additional value for shareholders. As such, we are confident that we will be able to successfully integrate Transatlantic's and Validus' businesses in a manner that will quickly maximize the benefits of the transaction for our respective shareholders.

Given the importance of our proposal to our respective shareholders, we feel it appropriate to make this letter public. We believe that our proposal presents a compelling opportunity for both our companies and our respective shareholders, and look forward to the Transatlantic Board of Directors' response by July 19, 2011. We are confident that, after the Transatlantic Board of Directors has considered our proposal, it will agree that our terms are considerably more attractive to Transatlantic stockholders than the proposed acquisition of Transatlantic by Allied World and that our proposal constitutes, or is reasonably likely to lead to, a "Superior Proposal" under the terms of Transatlantic's merger agreement with Allied World.

We understand that, after the Transatlantic Board of Directors has made this determination and provided the appropriate notice to Allied World under the merger agreement, it can authorize Transatlantic's management to enter into discussions with us and provide information to us. We are prepared to immediately enter into a mutually acceptable confidentiality agreement, and we would be pleased to provide Transatlantic with a proposed confidentiality agreement.

We understand that the terms of Transatlantic's merger agreement with Allied World do not currently permit Transatlantic to terminate the merger agreement in order to accept a "Superior Proposal," but rather Transatlantic has committed to bring the proposed acquisition of Transatlantic by Allied World to a stockholder vote. We are prepared to communicate the benefits of our proposal as compared to Allied World's proposed acquisition of Transatlantic directly to Transatlantic stockholders. In addition, while we would prefer to work cooperatively with the Transatlantic Board of Directors to complete a consensual transaction, we are prepared to take our proposal directly to Transatlantic stockholders if necessary.

We have already reviewed Transatlantic's publicly available information and would welcome the opportunity to review the due diligence information that Transatlantic previously provided to Allied World. We are also prepared to give Transatlantic and its representatives access to Validus' non-public information for purposes of the Transatlantic Board of Director's due diligence review of us.

Our Board of Directors has unanimously approved the submission of this proposal. Of course, any definitive transaction between Validus and Transatlantic would be subject to the final approval of our Board of Directors, and the issuance of Validus voting common shares contemplated by our proposal will require the approval of our shareholders. We do not anticipate any difficulty in obtaining the required approvals and are prepared to move forward promptly at an appropriate time to seek these approvals.

This letter does not create or constitute any legally binding obligation by Validus regarding the proposed transaction, and, other than any confidentiality agreement to be entered into with

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Transatlantic, there will be no legally binding agreement between us regarding the proposed transaction unless and until a definitive merger agreement is executed by Transatlantic and Validus.

We believe that time is of the essence, and we, our financial advisors, Greenhill & Co., LLC and J.P. Morgan Securities LLC, and our legal advisor, Skadden, Arps, Slate Meagher & Flom LLP, are prepared to move forward expeditiously with our proposal to pursue this transaction. We believe that our proposal presents a compelling opportunity for both companies and our respective shareholders, and we look forward to receiving your response by July 19, 2011.

Sincerely,

/s/ EDWARD J. NOONAN

Edward J. Noonan
Chairman and Chief Executive Officer

Enclosure

On the morning of July 13, 2011, Transatlantic issued a press release acknowledging receipt of the letter from Validus containing the Validus Merger Offer and a separate press release announcing the record date for the Special Meeting as of the close of business on July 22, 2011.

Also on the morning of July 13, 2011, Allied World issued a press release announcing the record date for its extraordinary general meeting of its shareholders relating to the Proposed Allied World Acquisition as of the close of business on July 22, 2011 and the early termination of the antitrust waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), in connection with the Proposed Allied World Acquisition, satisfying a condition to the Proposed Allied World Acquisition.

On the afternoon of July 17, 2011, Validus delivered supplemental materials relating to the superior economics and other benefits of the Validus Merger Offer to the Transatlantic Board and, in the evening of July 17, 2011, Validus issued a press release describing the supplemental materials.

On July 18, 2011, Validus filed a Notification and Report Form with the federal antitrust authorities under the HSR Act relating to the Validus Transaction Proposal. The applicable waiting period under the HSR Act will expire at 11:59 p.m., Eastern time, on August 17, 2011, the thirtieth day after Validus filed the required Notification and Report Form.

On July 19, 2011, Transatlantic issued a press release announcing that the Transatlantic Board determined that the Validus Merger Offer does not constitute a "superior proposal" under the terms of the Allied World Acquisition Agreement and reaffirmed its support of the Proposed Allied World Acquisition. However, Transatlantic also announced that the Transatlantic Board had determined that the Validus Merger Offer is reasonably likely to lead to a "superior proposal" and that the failure to enter into discussions regarding the Validus Merger Offer would result in a breach of the Transatlantic Board's fiduciary duties under applicable law.

On July 20, 2011, Validus filed this Proxy Statement with the SEC with respect to soliciting votes against the Allied World Acquisition Agreement Proposal, the Adjournment Proposal and the Payout Proposal.

On the morning of July 23, 2011, following the expiration of a three business days' notice period under the Allied World Acquisition Agreement, Transatlantic delivered a form of confidentiality agreement for Validus' execution as a precondition to the commencement of discussions and exchange of confidential information. The form of confidentiality agreement included standstill provisions that

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would have prevented Validus from making the Validus Exchange Offer directly to Transatlantic stockholders.

On the evening of July 23, 2011, in-house and outside counsel from Transatlantic and Validus spoke via telephone to discuss the form of confidentiality agreement delivered by Transatlantic earlier that day. On this call, Transatlantic and Validus were unable to come to agreement regarding the removal of the restrictive standstill provisions. Later that evening, Validus delivered a form of confidentiality agreement to Transatlantic that it would be prepared to execute.

On the morning of July 25, 2011, Validus sent a letter to the Transatlantic Board regarding Transatlantic's refusal to enter into a confidentiality agreement that would not foreclose Validus from pursuing its proposal for Transatlantic and informed the Transatlantic board that Validus was commencing the Validus Exchange Offer that morning.

On July 25, 2011, Validus commenced the Validus Exchange Offer and issued a press release announcing the commencement of the Exchange Offer and repeating the text of the letter that it sent to the Transatlantic Board earlier that morning.

On the morning of July 28, 2011, Transatlantic filed a Schedule 14d-9 announcing, among other things, that the Transatlantic Board reaffirmed its support of the Proposed Allied World Acquisition and recommended that Transatlantic stockholders reject the Validus Exchange Offer and not tender their Transatlantic Shares pursuant to the Validus Exchange Offer.

Also on the morning of July 28, 2011, Transatlantic filed a Form 8-K with the SEC announcing that it had adopted a stockholder rights plan, which has a term of one year and a 10% beneficial ownership threshold.

Additionally, on the morning of July 28, 2011, Transatlantic announced that it had filed a complaint against Validus in the United States District Court for the District of Delaware, alleging that Validus violated the securities laws by making false and misleading statements to Transatlantic stockholders in connection with the Validus Exchange Offer and its opposition to the Proposed Allied World Acquisition. Validus believes that this action is meritless.

On the afternoon of July 28, 2011, Validus issued a press release reiterating that the Validus Exchange Offer is superior to the Proposed Allied World Acquisition and challenging misleading statements that had been made by Transatlantic earlier that day.

On August 1, 2011, Validus filed Amendment No. 1 to this Proxy Statement with the SEC.

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**CERTAIN INFORMATION REGARDING
THE VALIDUS TRANSACTION PROPOSAL**

The Validus Merger Offer

On July 12, 2011, Validus publicly announced that it had delivered the Validus Merger Proposal to the Transatlantic Board to combine the businesses of Validus and Transatlantic through a merger transaction in which Validus would acquire all of the issued and outstanding Transatlantic Shares. The proposal contemplates that Transatlantic stockholders would receive 1.5564 Validus Shares in the merger and \$8.00 per share in cash pursuant to a one-time special dividend from Transatlantic immediately prior to closing of the merger for each Transatlantic Share they own.

Validus expects that the pre-closing special dividend would be financed entirely by new indebtedness incurred by Transatlantic. As noted in its July 12, 2011 to the Transatlantic Board, Validus has received a highly confident letter from J.P. Morgan Securities LLC in connection with the arrangement of the full amount of financing required for the Transatlantic pre-closing special dividend. Validus has not engaged in substantive discussions with Transatlantic regarding the Validus Merger Offer, including with respect to the indebtedness to be incurred to finance the \$8.00 per share cash dividend to be paid by Transatlantic. Although Validus believes that such indebtedness will not materially impact the operations of Transatlantic or the combined company, such indebtedness will require that certain future cash flows of Transatlantic be used to make interest and debt service payments and to that extent will have an impact on the future performance of Validus' wholly-owned subsidiary Transatlantic.

In comparison to the fully-taxable proposed Allied World Acquisition, the Validus Merger Offer is expected to be tax-advantageous to Transatlantic stockholders who have a tax basis in their Transatlantic Shares such that the amount of tax due with respect to the capital gain recognized under the Proposed Allied World Acquisition exceeds the amount of tax due with respect to the \$8.00 dividend offered in the Validus Merger Offer. The dividend offered under the Validus Merger Offer may be subject to withholding taxes for non-U.S. stockholders of Transatlantic, although many such non-U.S. stockholders may be eligible for a reduced rate of withholding tax, or an elimination of withholding tax. In addition to being fully taxable, the Proposed Allied World Acquisition does not contain a cash component with which Transatlantic stockholders may pay their taxes. Because individual circumstances may differ, Validus urges Transatlantic stockholders to consult with their own tax advisors as to the specific tax consequences of the Validus Merger Offer and the Validus Exchange Offer, including the applicability of U.S. federal, state, local, non-U.S. and other tax laws.

As part of the Validus Merger Offer, and through a submission to Transatlantic of a proposed merger agreement, Validus has indicated it would be prepared to enter into a merger agreement with Transatlantic that includes substantially similar non-price terms and conditions as the Allied World Acquisition Agreement.

Transatlantic announced on July 19, 2011 that the Transatlantic Board had determined that the Validus Merger Offer is reasonably likely to lead to a "superior proposal" under the terms of the Allied World Acquisition Agreement and that the failure to enter into discussions regarding the Validus Merger Offer would result in a breach of the Transatlantic board of directors' fiduciary duties under applicable law.

On July 23, 2011, Transatlantic delivered a form of confidentiality agreement for Validus' execution as a precondition to the commencement of discussions and exchange of information. However, the form of confidentiality agreement included standstill provisions that would have prevented Validus from making its proposal for Transatlantic without the consent of the Transatlantic Board. Transatlantic would not agree to the removal of such restrictive standstill provisions. Later that same evening, Validus delivered a form of confidentiality agreement to Transatlantic that it would be prepared to

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execute, but had not received any response from Transatlantic as of the date of this Proxy Statement. While Validus continues to hope that it is possible to reach a consensual transaction with Transatlantic, Validus does not believe that it is in Transatlantic stockholders' best interests to give the Transatlantic board of directors unilateral control over whether the Validus Exchange Offer is made available to Transatlantic stockholders.

The Validus Exchange Offer

On July 25, 2011, Validus commenced the Validus Exchange Offer to acquire all of the issued and outstanding Transatlantic Shares pursuant to which Transatlantic stockholders would receive 1.5564 Validus Shares and \$8.00 (less applicable withholding taxes and without interest) per Transatlantic Share they own. Validus intends to, promptly after completion of the Validus Exchange Offer, consummate the Second-Step Merger of Transatlantic with a wholly-owned subsidiary of Validus pursuant to which each Transatlantic Share not owned by Validus following the Validus Exchange Offer (other than Transatlantic Shares held in treasury by Transatlantic and Transatlantic Shares held by Transatlantic stockholders who properly exercise applicable dissenter's rights under Delaware law) will be converted into the right to receive the same number of Validus Shares and the same amount of cash as are received by Transatlantic stockholders pursuant to the Validus Exchange Offer.

The consideration received by Transatlantic stockholders in the Validus Exchange Offer (including the value of Validus Shares received by Transatlantic stockholders in the Validus Exchange Offer) will be taxable to Transatlantic Stockholders.

The expiration time of the Validus Exchange Offer, unless extended by Validus, is 5:00 p.m., Eastern time, on Friday, September 30, 2011.

The Validus Exchange Offer is subject to conditions, including that:

Transatlantic stockholders shall have validly tendered and not withdrawn prior to the expiration time of the Validus Exchange Offer at least that number of Transatlantic Shares that, when added to the Transatlantic Shares then owned by Validus or any of its subsidiaries, shall constitute a majority of the then-outstanding number of Transatlantic Shares on a fully-diluted basis.

The Allied World Acquisition Agreement shall have been validly terminated, and Validus shall reasonably believe that Transatlantic has no liability, and Allied World shall not have asserted any claim of liability or breach against Transatlantic in connection with the Allied World Acquisition Agreement, other than with respect to the possible payment of a maximum of \$115 million in the aggregate in termination fees and reimbursement of permitted Allied World expenses thereunder.

The Validus S-4 shall have become effective under the Securities Act of 1933, as amended, no stop order suspending the effectiveness of the Validus S-4 shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC, and Validus shall have received all necessary state securities law or "blue sky" authorizations.

The Transatlantic Board shall have approved the acquisition of Transatlantic Shares pursuant to the Validus Exchange Offer and a second-step merger under Section 203 of the General Corporation Law of the State of Delaware, as amended (the "DGCL"), or Validus shall be satisfied that Section 203 of the DGCL does not apply to or otherwise restrict the such acquisition.

The shareholders of Validus shall have approved the issuance of the Validus Shares pursuant to the Validus Exchange Offer and the second-step merger as required under the rules of the NYSE.

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The Validus Shares to be issued to Transatlantic stockholders as a portion of the Validus Exchange Offer consideration in exchange for Transatlantic Shares in the Validus Exchange Offer and the second-step merger shall have been authorized for listing on the NYSE, subject to official notice of issuance.

There shall be no threatened or pending litigation, suit, claim, action, proceeding or investigation by or before any governmental authority that, in the judgment of Validus, is reasonably expected to, directly or indirectly, restrain or prohibit (or which alleges a violation of law in connection with) the Validus Exchange Offer or is reasonably expected to prohibit or limit the full rights of ownership of Transatlantic Shares by Validus or any of its affiliates.

Since December 31, 2010, there shall not have been any change, state of facts, circumstance or event that has had, or would reasonably be expected to have, a material adverse effect on the financial condition, properties, assets, liabilities, obligations (whether accrued, absolute, contingent or otherwise), businesses or results of operations of Transatlantic and its subsidiaries, taken as a whole, subject to certain exceptions and limitations.

Each of Transatlantic and its subsidiaries shall have carried on their respective businesses in the ordinary course consistent with past practice at all times on or after July 25, 2011 and prior to the expiration time of the Validus Exchange Offer.

All amendments or waivers under Validus' and its subsidiaries' credit facilities as determined by Validus to be necessary to consummate the Validus Exchange Offer, the second-step merger and the other transactions contemplated by the prospectus/offer to exchange shall have been obtained and be in full force and effect.

The New York State Insurance Department shall have approved Validus' application for acquisition of control of Transatlantic Reinsurance Company and Putnam Reinsurance Company, New York domiciled insurance companies and wholly-owned subsidiaries of Transatlantic, pursuant to Section 1506 of the New York Insurance Code and such approval shall be in full force and effect.

Any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and, if applicable, any agreement with the Federal Trade Commission or Antitrust Division of the U.S. Department of Justice not to accept Transatlantic Shares for exchange in the Validus Exchange Offer, shall have expired or shall have been terminated prior to the expiration of the Validus Exchange Offer.

Any clearance, approval, permit, authorization, waiver, determination, favorable review or consent of any governmental authority, other than in connection with the matters set forth in the two foregoing bullet points, shall have been obtained and such approvals shall be in full force and effect, or any applicable waiting periods for such clearances or approvals shall have expired.

The Validus Exchange Offer is subject to additional conditions. A full description of the terms and conditions of the Validus Exchange Offer are contained in the prospectus/offer to exchange that forms a part of the Validus S-4, and which is being mailed to Transatlantic stockholders beginning on or about August 1, 2011.

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**CERTAIN INFORMATION REGARDING THE PROPOSED
ALLIED WORLD TRANSACTION**

At the Special Meeting, Transatlantic stockholders of record at the close of business on the Record Date will be voting on, among other things, whether to adopt the Allied World Acquisition Agreement. According to the Allied World/Transatlantic S-4, under the terms of the Allied World Acquisition Agreement, each outstanding Transatlantic Share, other than Transatlantic Shares held by Transatlantic, Allied World, Acquisition Sub or their respective subsidiaries, will be cancelled and converted into the right to receive 0.88 ordinary shares, par value CHF 15.00 per share (as may be adjusted in connection with the payment of dividends by virtue of a par value reduction, as approved by Allied World's shareholders at its 2011 annual general meeting), of Allied World. Allied World shareholders would continue to retain their shares after the Proposed Allied World Acquisition. According to the Allied World/Transatlantic S-4, as a result of the Proposed Allied World Acquisition, Transatlantic stockholders would own approximately 58% of the combined company on a fully diluted basis.

According to the Allied World/Transatlantic S-4, the conditions to the consummation of the Proposed Allied World Acquisition include the following:

adoption of the Allied World Acquisition Agreement by Transatlantic stockholders;

approval by Allied World's stockholders of:

the issuance of Allied World shares to stockholders of Transatlantic on the terms and conditions set out in the Allied World Acquisition Agreement,

certain amendments to Allied World's Articles of Association, and

the election to the Allied World board of directors (the "Allied World Board") of (1) Mr. Richard S. Press, Mr. Michael C. Sapnar and Mr. Scott A. Carmilani, (2) four independent directors from the Transatlantic Board and (3) four independent directors from the Allied World Board;

the waiting period (and any extension thereof) applicable to the Proposed Allied World Acquisition under the HSR Act having expired or earlier terminated;

receipt of any necessary approvals of the applicable insurance regulatory authorities in New York, Bermuda and Switzerland;

receipt of all other regulatory approvals, consents and waivers;

absence of any order or legal restraint preventing the Proposed Allied World Acquisition;

effectiveness of the registration statement registering Allied World shares to be issued in the Proposed Allied World Acquisition;

authorization of the listing on the NYSE of Allied World shares to be issued in the Proposed Allied World Acquisition;

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the adoption by the Allied World Board of a written consent:

electing, following the effectiveness of the Proposed Allied World Acquisition, (1) Mr. Richard S. Press as non-executive Chairman of Allied World for one-year, (2) Mr. Scott A. Carmilani as President and Chief Executive Officer of Allied World and (3) Mr. Michael C. Sapnar as President and Chief Executive Officer of Global Reinsurance of Allied World,

approving certain officer appointments,

proposing an increase of the size of the Allied World Board by one director,

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formulating certain committees of the Allied World Board and appointing certain directors to such committees, and

adopting other organizational changes;

obtaining a ruling from the Commercial Register of the Canton of Zug confirming that the Commercial Register will register a capital increase of Allied World;

the purchase of 45,000 Transatlantic Shares by Allied World;

the truth and correctness of the representations and warranties of Transatlantic and Allied World set forth in the Allied World Acquisition Agreement in all material respects or to the extent they have not or would not reasonably be expected to have a material adverse effect, as the case may be;

performance, in all material respects, by Transatlantic and Allied World of their respective material obligations under the Allied World Acquisition Agreement; and

receipt of a certificate executed by each party's chief executive officer or chief financial officer as to the satisfaction of the conditions described in the preceding two bullet points.

The Allied World Acquisition Agreement also provides for the termination of the Allied World Acquisition Agreement by either party under certain circumstances specified in the Allied World Acquisition Agreement, including the termination by:

Allied World if the Transatlantic Board withdraws or adversely modifies its approval or recommendation to its stockholders of the Proposed Allied World Acquisition or if Transatlantic stockholders or Allied World's shareholders fail to deliver the requisite votes in connection with the Proposed Allied World Acquisition; and

Transatlantic if the Allied World Board withdraws or adversely modifies its approval or recommendation to its shareholders of the Proposed Allied World Acquisition or if Allied World's shareholders or Transatlantic stockholders fail to deliver the requisite votes in connection with the Proposed Allied World Acquisition.

Transatlantic has no right to terminate the Allied World Acquisition Agreement as a result of the Validus Merger Offer until after the vote of the Transatlantic stockholders at the Special Meeting, even if the Transatlantic Board changes its recommendation and recommends a vote "FOR" the Validus Merger Offer.

The Allied World Acquisition Agreement provides for the payment by Transatlantic to Allied World of expense reimbursements and termination fees as follows:

a termination fee equal to \$115 million (minus the amount of the \$35 million alternative termination fee and up to \$35 million expense reimbursement paid to Allied World, if any) if the Allied World Acquisition Agreement is terminated in the following circumstances:

by Allied World if the Transatlantic Board withdraws, modifies or qualifies its recommendation of the Proposed Allied World Acquisition (or resolves, agrees or publicly proposes to take any such action), or adopts, approves, endorses or recommends a third party acquisition proposal;

by Allied World or Transatlantic if (1) Transatlantic stockholders do not adopt the Allied World Acquisition Agreement, (2) a third party acquisition proposal for Transatlantic has been made or otherwise becomes publicly known or any person has publicly announced an intention to make such an acquisition proposal prior to the date of the Special Meeting and (3) within 12 months after termination of the Allied World Acquisition Agreement, Transatlantic or any of its subsidiaries enters into a contract or agreement

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with respect to, recommends or submits to its stockholders for approval, or consummates, a third party acquisition proposal;

by Allied World or Transatlantic if (1) the Proposed Allied World Acquisition is not consummated prior to January 31, 2012, (2) a third party acquisition proposal for Transatlantic has been made or otherwise becomes publicly known or any person has publicly announced an intention to make such an acquisition proposal prior to January 31, 2012, (3) the Special Meeting did not occur prior to January 24, 2012 and (4) within 12 months after termination of the Allied World Acquisition Agreement, Transatlantic or any of its subsidiaries enters into a contract or agreement with respect to, recommends or submits to its stockholders for approval, or consummates, a third party acquisition proposal; or

by Allied World (1) if Transatlantic has breached any of its covenants or agreements in the Allied World Acquisition Agreement or any of Transatlantic's representations and warranties are inaccurate such that a condition to closing would not be satisfied if such breaches or inaccuracies were occurring or continuing on the closing date, (2) a third party acquisition proposal for Transatlantic has been made or otherwise becomes publicly known or any person has publicly announced an intention to make such an acquisition proposal prior to the date of termination and (3) within 12 months after termination of the Allied World Acquisition Agreement, Transatlantic or any of its subsidiaries enters into a contract or agreement with respect to, recommends or submits to its stockholders for approval, or consummates, a third party acquisition proposal;

an "alternate termination fee" of \$35 million if the Allied World Acquisition Agreement is terminated in the following circumstances:

by Allied World following a breach of (i) Transatlantic's agreement not to solicit third party acquisition proposals or (ii) Transatlantic's obligation to call, give notice of, convene and hold the Special Meeting; or

if the Transatlantic stockholders do not adopt the Allied World Acquisition Agreement unless Allied World's shareholders fail to deliver the requisite votes in connection with the matters submitted to them relating to the Allied World Acquisition Agreement Proposal; and

the reimbursement of expenses up to a maximum amount of \$35 million if the Allied World Acquisition Agreement is terminated in the following circumstances:

by Allied World if Transatlantic has breached any of its covenants or agreements in the Allied World Acquisition Agreement or any of Transatlantic's representations and warranties are inaccurate such that a condition to closing would not be satisfied if such breaches or inaccuracies were occurring or continuing on the closing date (other than in respect of Transatlantic's agreement not to solicit third party acquisition proposals and Transatlantic's obligation to call, give notice of, convene and hold the Special Meeting); or

by Transatlantic or Allied World if Transatlantic stockholders do not adopt the Allied World Acquisition Agreement unless Allied World's shareholders fail to deliver the requisite votes in connection with the matters submitted to them relating to the Proposed Allied World Acquisition.

Allied World is obligated to pay a termination fee or alternative termination fee to Transatlantic, and to reimburse expenses to Transatlantic, under similar circumstances relating to Allied World and Allied World's shareholders.

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Except as set forth above, Transatlantic and Allied World will pay their own fees and expenses incurred in connection with the Proposed Allied World Acquisition, except that Transatlantic and Allied World will share equally all fees and expenses in relation to the printing, filing and distribution of the Allied World/Transatlantic S-4 and any filing fees in connection with the Proposed Allied World Acquisition pursuant to any antitrust or competition law except, in each case, attorneys' and accountants' fees and expenses.

WE ARE SOLICITING PROXIES FROM TRANSATLANTIC STOCKHOLDERS TO VOTE "AGAINST" THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL, THE ADJOURNMENT PROPOSAL AND THE PAYOUT PROPOSAL. WE BELIEVE THE PROPOSED ALLIED WORLD ACQUISITION DOES NOT PROVIDE ADEQUATE CONSIDERATION TO TRANSATLANTIC STOCKHOLDERS, AND WE BELIEVE THE VALIDUS TRANSACTION PROPOSAL IS A SUPERIOR ALTERNATIVE FOR THE TRANSATLANTIC STOCKHOLDERS BECAUSE IT PROVIDES SIGNIFICANTLY GREATER FINANCIAL VALUE TO TRANSATLANTIC STOCKHOLDERS THAN THE PROPOSED ALLIED WORLD ACQUISITION.

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CERTAIN INFORMATION REGARDING VALIDUS, TV HOLDINGS AND TV MERGER SUB

Validus is a Bermuda exempted company, with its principal executive offices located at 29 Richmond Road, Pembroke, Bermuda HM 08. The telephone number of Validus is (441) 278-9000. Validus is a provider of reinsurance and insurance, conducting its operations worldwide through two wholly owned subsidiaries, Validus Reinsurance, Ltd. ("Validus Re") and Talbot Holdings Ltd. ("Talbot"). Validus Re is a Bermuda-based reinsurer primarily focused on short-tail lines of reinsurance. Talbot is the Bermuda parent of the specialty insurance group primarily operating within the Lloyd's insurance market through Syndicate 1183. Validus Shares are traded on the NYSE under the symbol "VR" and, as of the last practicable date prior to the filing of this Proxy Statement, Validus had a market capitalization of approximately \$ billion. Validus has approximately 460 employees.

TV Holdings is a Delaware limited liability company organized in connection with the acquisition of Transatlantic Shares and the Validus Transaction Proposal and has not carried on any activities other than in connection therewith. The principal offices of TV Holdings are located at 29 Richmond Road, Pembroke, Bermuda HM 08. The telephone number of TV Holdings is (441) 278-9000. TV Holdings is a wholly-owned subsidiary of Validus.

TV Merger Sub is Delaware limited liability company organized in connection with the acquisition of Transatlantic Shares and the Validus Transaction Proposal and has not carried on any activities other than in connection therewith. The principal offices of TV Merger Sub are located at 29 Richmond Road, Pembroke, Bermuda HM 08. The telephone number of TV Merger Sub is (441) 278-9000. TV Merger Sub is a wholly-owned subsidiary of TV Holdings.

It is not anticipated that TV Holdings or TV Merger Sub will have any significant assets or liabilities or engage in activities other than those incidental to its formation and capitalization and those necessary to consummate the Validus Transaction Proposal.

The names of the directors and officers of Validus who are considered to be participants in this proxy solicitation and certain other information are set forth in Schedule I hereto. Other than as set forth herein, none of Validus, TV Holdings, TV Merger Sub or any of the participants set forth on Schedule I hereto has any substantial interest, direct or indirect, by security holdings or otherwise, in the Proposed Allied World Acquisition.

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OTHER PROPOSALS TO BE PRESENTED AT THE SPECIAL MEETING

In addition to soliciting proxies for the Allied World Acquisition Agreement Proposal, the Transatlantic Board is also soliciting proxies for the Special Meeting for the Adjournment Proposal and the Payout Proposal.

Because the Adjournment Proposal and Payout Proposal are designed to facilitate the approval of the Proposed Allied World Acquisition and the adoption of the Allied World Acquisition Agreement, Validus recommends voting "AGAINST" the Adjournment Proposal and the Payout Proposal.

YOU CAN CAST YOUR VOTE WITH RESPECT TO ALL PROPOSALS TO BE CONSIDERED AT THE SPECIAL MEETING ON OUR *BLUE* PROXY CARD. WE URGE YOU NOT TO RETURN ANY PROXY CARD THAT YOU RECEIVE FROM TRANSATLANTIC.

Other than as set forth above, Validus is not currently aware of any other proposals to be brought before the Special Meeting. Should other proposals be brought before the Special Meeting, the persons named on the *BLUE* proxy card will abstain from voting on such proposals unless such proposals adversely affect the interests of Validus as determined by Validus in its sole discretion, in which event such persons will vote on such proposals in their discretion.

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VOTING PROCEDURES

According to the Allied World/Transatlantic S-4, as of the Record Date, there were _____ Transatlantic Shares entitled to vote at the Special Meeting.

Under Transatlantic's bylaws, the presence, in person or by proxy, of the holders of a majority of the Transatlantic Shares outstanding as of the Record Date and entitled to vote at the Special Meeting is necessary to constitute a quorum at the Special Meeting. Once a Transatlantic Share is represented at the Special Meeting, it will be counted for the purpose of determining a quorum at the Special Meeting and any adjournment of the Special Meeting. However, if a new Record Date is set for the adjourned Special Meeting, then a new quorum will have to be established. In the event that a quorum is not present at the Special Meeting, it is expected that the Special Meeting will be adjourned.

In accordance with NYSE rules, brokers and nominees who hold Transatlantic Shares in street-name for customers may not exercise their voting discretion with respect to the Allied World Acquisition Agreement Proposal or the Adjournment Proposal related thereto. Thus, absent specific instructions from the beneficial owner of such Transatlantic Shares, these Transatlantic Shares will not be counted for purposes of determining whether a quorum is present.

The Allied World Acquisition Agreement Proposal requires the approval of a majority of the total outstanding Transatlantic Shares. Therefore, abstentions and broker non-votes will have the same effect as a vote "AGAINST" the Allied World Acquisition Agreement Proposal.

Approval of the Adjournment Proposal requires the affirmative vote of the holders of a majority of the Transatlantic Shares present in person or represented by proxy and entitled to vote on the matter at the Special Meeting, whether or not a quorum is present. Transatlantic stockholders may adjourn the Special Meeting to another time or place without further notice unless the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned meeting, in which case a notice of the adjourned meeting shall be given to each Transatlantic stockholder of record entitled to vote at the meeting. Abstentions will have the same effect as a vote "AGAINST" approval of the proposal to adjourn the Special Meeting. Broker non-votes, if any, are not counted for purposes of the Adjournment Proposal.

Approval of the Payout Proposal requires the affirmative vote of the holders of a majority of the Transatlantic Shares present in person or represented by proxy and entitled to vote thereon, assuming a quorum is present. Abstentions will have the effect of a vote "AGAINST" approval of the Payout Proposal. Failures to vote and broker non-votes, if any, will not be voted, but this will not have an effect on the Payout Proposal, assuming a quorum is present. Approval of the Payout Proposal is not a condition to completion of the proposed Allied World Acquisition, and the vote with respect to this proposal is advisory only. Accordingly, the vote will not be binding on Transatlantic or Allied World, or the board of directors or the compensation committee of Transatlantic or Allied World.

If a Transatlantic stockholder does not instruct its bank, brokerage firm or other nominee on how to vote its Transatlantic Shares, such stockholder's bank, brokerage firm or other nominee, as applicable, may not vote such Transatlantic Shares on any of the proposals to be considered and voted upon at the Special Meeting as all such matters are deemed "non-routine" matters pursuant to applicable NYSE rules.

Transatlantic stockholders may abstain from voting on any or all of the proposals or may vote for or against any or all of the proposals by internet or telephone or by marking the proper box on the **BLUE** proxy card and signing, dating and returning it promptly in the enclosed postage-paid envelope. If a Transatlantic stockholder returns a **BLUE** proxy card that is signed, dated and not marked with respect to a proposal, that stockholder will be deemed to have voted "AGAINST" the Allied World Acquisition Agreement Proposal, the Adjournment Proposal and the Payout Proposal as these proposals relate to the Proposed Allied World Acquisition which we oppose.

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If a Transatlantic stockholder returns a **BLUE** proxy card that is signed and dated but not marked with respect to any proposal unrelated to the Proposed Allied World Acquisition, we will vote to "ABSTAIN" unless such proposal adversely affect the interests of Validus as determined by Validus in its sole discretion, in which event such persons will vote on such proposals in their discretion.

Only Transatlantic stockholders (or their duly appointed proxies) of record on the Record Date are eligible to vote in person or submit a proxy.

YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO ITS EXERCISE BY ATTENDING THE SPECIAL MEETING AND VOTING IN PERSON, BY SUBMITTING A DULY EXECUTED, LATER DATED PROXY BY INTERNET OR TELEPHONE OR BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD OR BY SUBMITTING A WRITTEN NOTICE OF REVOCATION TO EITHER (A) VALIDUS, CARE OF INNISFREE M&A INCORPORATED, 501 MADISON AVENUE, 20TH FLOOR, NEW YORK, NEW YORK 10022, OR (B) THE PRINCIPAL EXECUTIVE OFFICES OF TRANSATLANTIC AT 80 PINE STREET, NEW YORK, NEW YORK 10005. A REVOCATION MAY BE IN ANY WRITTEN FORM VALIDLY SIGNED BY THE RECORD HOLDER AS LONG AS IT CLEARLY STATES THAT THE PROXY PREVIOUSLY GIVEN IS NO LONGER EFFECTIVE. STOCKHOLDERS WHO HOLD THEIR TRANSATLANTIC SHARES IN A BANK OR BROKERAGE ACCOUNT WILL NEED TO NOTIFY THE PERSON RESPONSIBLE FOR THEIR ACCOUNT TO REVOKE OR WITHDRAW PREVIOUSLY GIVEN INSTRUCTIONS. **WE REQUEST THAT A COPY OF ANY REVOCATION SENT TO TRANSATLANTIC OR ANY REVOCATION NOTIFICATION SENT TO THE PERSON RESPONSIBLE FOR A BANK OR BROKERAGE ACCOUNT ALSO BE SENT TO VALIDUS, CARE OF INNISFREE M&A INCORPORATED, AT THE ADDRESS BELOW SO THAT VALIDUS MAY DETERMINE IF AND WHEN PROXIES HAVE BEEN RECEIVED FROM THE HOLDERS OF RECORD ON THE RECORD DATE OF A MAJORITY OF TRANSATLANTIC SHARES THEN OUTSTANDING.** UNLESS REVOKED IN THE MANNER SET FORTH ABOVE, SUBJECT TO THE FOREGOING, DULY EXECUTED PROXIES IN THE FORM ENCLOSED WILL BE VOTED AT THE SPECIAL MEETING AS SET FORTH ABOVE.

BY EXECUTING THE **BLUE** PROXY CARD YOU ARE AUTHORIZING THE PERSONS NAMED AS PROXIES TO REVOKE ALL PRIOR PROXIES ON YOUR BEHALF.

If you have any questions or require any assistance in voting your Transatlantic Shares, please contact:

501 Madison Avenue, 20th Floor
New York, New York 10022
Stockholders May Call Toll Free: (877) 717-3929
Banks and Brokers May Call Collect: (212) 750-5833

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SOLICITATION OF PROXIES

Except as set forth below, Validus will not pay any fees or commissions to any broker, dealer, commercial bank, trust company or other nominee for the solicitation of proxies in connection with this solicitation.

Proxies will be solicited by mail, telephone, facsimile, telegraph, the internet, e-mail, newspapers and other publications of general distribution and in person. Directors and officers of Validus listed on Schedule I hereto may assist in the solicitation of proxies without any additional remuneration (except as otherwise set forth in this Proxy Statement).

Validus has retained Innisfree M&A Incorporated ("Innisfree") for solicitation and advisory services in connection with solicitations relating to the Special Meeting, for which Innisfree may receive a fee of up to \$600,000 in connection with the solicitation of proxies for the Special Meeting. Up to approximately 60 people may be employed by Innisfree in connection with the solicitation of proxies for the Special Meeting. Validus has also agreed to reimburse Innisfree for out-of-pocket expenses and to indemnify Innisfree against certain liabilities and expenses, including reasonable legal fees and related charges. Innisfree will solicit proxies for the Special Meeting from individuals, brokers, banks, bank nominees and other institutional holders. The entire expense of soliciting proxies for the Special Meeting by or on behalf of Validus is being borne by Validus.

If you have any questions concerning this Proxy Statement or the procedures to be followed to execute and deliver a proxy, please contact Innisfree at the address or phone number specified above.

FORWARD-LOOKING STATEMENTS

This Proxy Statement may include forward-looking statements, both with respect to Validus and its industry, that reflect Validus' current views with respect to future events and financial performance. Statements that include the words "expect," "intend," "plan," "believe," "project," "anticipate," "will," "may," "would" and similar statements of a future or forward-looking nature are often used to identify forward-looking statements. All forward-looking statements address matters that involve risks and uncertainties, many of which are beyond Validus' control. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements and, therefore, you should not place undue reliance on any such statements. Validus believes that these factors include, but are not limited to, the following: 1) uncertainty as to whether Validus will be able to enter into or consummate the proposed transaction on the terms set forth in the Validus Transaction Proposal; 2) uncertainty as to the actual premium that will be realized by Transatlantic stockholders in connection with the proposed transaction; 3) failure to realize the anticipated benefits (including combination synergies) of the Validus Transaction Proposal, including as a result of delay in completing the transaction or integrating the businesses of Validus and Transatlantic; 4) uncertainty as to the long-term value of Validus Shares; 5) unpredictability and severity of catastrophic events; 6) rating agency actions; 7) adequacy of Validus' or Transatlantic's risk management and loss limitation methods; 8) cyclicalities of demand and pricing in the insurance and reinsurance markets; 9) Validus' ability to implement its business strategy during "soft" as well as "hard" markets; 10) adequacy of Validus' or Transatlantic's loss reserves; 11) continued availability of capital and financing; 12) retention of key personnel; 13) competition in the insurance and reinsurance markets; 14) potential loss of business from one or more major reinsurance or insurance brokers; 15) the credit risk Validus assumes through its dealings with its reinsurance and insurance brokers; 16) Validus' or Transatlantic's ability to implement, successfully and on a timely basis, complex infrastructure, distribution capabilities, systems, procedures and internal controls, and to develop accurate actuarial data to support the business and regulatory and reporting requirements; 17) general economic and market conditions (including inflation, volatility in the credit and capital markets, interest rates and foreign currency exchange rates); 18) the integration of businesses Validus may acquire or new business ventures Validus may start;

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19) the legal, regulatory and tax regimes under which Validus operates; 20) the effect on Validus' or Transatlantic's investment portfolios of changing financial market conditions, including inflation, interest rates, liquidity and other factors; 21) acts of terrorism or outbreak of war or hostilities; 22) availability of reinsurance and retrocessional coverage; and 23) the outcome of transaction related litigation, as well as management's response to any of the aforementioned factors.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein and elsewhere, including the Risk Factors included in Validus' and Transatlantic's most recent reports on Form 10-K and Form 10-Q and other documents of Validus and Transatlantic on file with the SEC. Any forward-looking statements made in this Proxy Statement are qualified in their entirety by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by Validus will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, Validus or its business, operations or financial condition. Except to the extent required by applicable law, Validus undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

OTHER INFORMATION

The information concerning Transatlantic and the Proposed Allied World Acquisition contained herein (including Schedule II) has been taken from, or is based upon, publicly available documents on file with the SEC and other publicly available information. Although Validus has no knowledge that would indicate that statements relating to Transatlantic or the Allied World Acquisition Agreement contained in this Proxy Statement, in reliance upon publicly available information, are inaccurate or incomplete, to date it has not had access to the books and records of Transatlantic, was not involved in the preparation of such information and statements and is not in a position to verify any such information or statements. See Schedule II for information regarding persons who beneficially own more than 5% of the Transatlantic Shares and the ownership of the Transatlantic Shares by the directors and officers of Transatlantic.

Pursuant to Rule 14a-5 promulgated under the Securities Exchange Act of 1934, as amended, reference is made to the preliminary joint proxy statement/prospectus included in the Allied World/Transatlantic S-4 for information concerning the Allied World Acquisition Agreement, the Proposed Allied World Acquisition, financial information regarding Allied World, Transatlantic and the proposed combination of Allied World and Transatlantic, the proposals to be voted upon at the Special Meeting, the Transatlantic Shares, other information concerning Transatlantic's management, the procedures for submitting proposals for consideration at the next annual meeting of stockholders of Transatlantic and certain other matters regarding Transatlantic and the Special Meeting.

The Validus Transaction Proposal is subject to a number of conditions, including the termination of the Allied World Acquisition Agreement, receipt of all regulatory approvals, consents and waivers, the approval of the issuance of the necessary Validus Shares by Validus' shareholders and, in the case of the Validus Merger Offer, approval of the Validus Merger Offer by the Transatlantic Board and stockholders. There are no assurances that all of the conditions to the Validus Transaction Proposal will be satisfied or that the Validus Transaction Proposal will be consummated if Transatlantic stockholders reject the Proposed Allied World Acquisition. Consequently, following a rejection of the Proposed Allied World Acquisition, Transatlantic may remain independent of both Validus and Allied World. Transatlantic stockholders should take all of these factors into account when determining how to vote their Transatlantic Shares.

Although Validus believes that the Validus Transaction Proposal would provide Transatlantic stockholders with a premium for their Transatlantic Shares, because both the Validus Merger Offer and the Validus Exchange Offer provide for stock consideration with fixed exchange ratios, the respective

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values of the stock portion of the Validus Merger Offer and the Validus Exchange Offer to Transatlantic stockholders will vary over time based on relative changes in the market prices of each company's common shares, which could result in a smaller premium or no premium.

THIS PROXY STATEMENT RELATES SOLELY TO THE SOLICITATION OF PROXIES WITH RESPECT TO THE PROPOSED ALLIED WORLD ACQUISITION AND IS NOT A SOLICITATION OF PROXIES WITH RESPECT TO THE VALIDUS MERGER OFFER, A REQUEST FOR THE TENDER OF TRANSATLANTIC SHARES IN THE VALIDUS EXCHANGE OFFER OR AN OFFER TO SELL VALIDUS SHARES. THE VALIDUS EXCHANGE OFFER WILL BE MADE ONLY BY MEANS OF A PROSPECTUS/OFFER TO EXCHANGE WHICH WILL BE SEPARATELY MAILED TO TRANSATLANTIC STOCKHOLDERS.

WE URGE YOU NOT TO RETURN ANY PROXY CARD YOU RECEIVE FROM TRANSATLANTIC EVEN AS A PROTEST VOTE AGAINST THE PROPOSED ALLIED WORLD ACQUISITION. EVEN IF YOU PREVIOUSLY HAVE SUBMITTED A PROXY CARD FURNISHED BY TRANSATLANTIC, IT IS NOT TOO LATE TO CHANGE YOUR VOTE BY INTERNET OR TELEPHONE OR SIMPLY BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD. WE URGE YOU VOTE BY INTERNET OR TELEPHONE OR BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD TO US TODAY.

WHETHER OR NOT YOU INTEND TO ATTEND THE SPECIAL MEETING, YOUR PROMPT ACTION IS IMPORTANT. MAKE YOUR VIEWS CLEAR TO THE TRANSATLANTIC BOARD BY VOTING "AGAINST" THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL, THE ADJOURNMENT PROPOSAL AND THE PAYOUT PROPOSAL BY INTERNET OR TELEPHONE OR BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD TODAY. A VOTE AGAINST THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL WILL NOT OBLIGATE YOU TO VOTE FOR THE VALIDUS MERGER OFFER OR TENDER YOUR TRANSATLANTIC SHARES IN THE VALIDUS EXCHANGE OFFER. HOWEVER, YOU MUST TENDER YOUR TRANSATLANTIC SHARES PURSUANT TO THE VALIDUS EXCHANGE OFFER IF YOU WISH TO PARTICIPATE IN THE VALIDUS EXCHANGE OFFER.

IF A TRANSATLANTIC STOCKHOLDER RETURNS A **BLUE** PROXY CARD THAT IS SIGNED, DATED AND NOT MARKED WITH RESPECT TO A PROPOSAL, THAT STOCKHOLDER WILL BE DEEMED TO HAVE VOTED "AGAINST" THE ALLIED WORLD ACQUISITION AGREEMENT PROPOSAL, THE ADJOURNMENT PROPOSAL AND THE PAYOUT PROPOSAL BECAUSE THESE PROPOSALS RELATE TO THE PROPOSED ALLIED WORLD ACQUISITION WHICH WE OPPOSE.

YOUR VOTE IS IMPORTANT, NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN.

VALIDUS HOLDINGS, LTD.
TV HOLDINGS, LLC
TV MERGER SUB, LLC
, 2011

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IMPORTANT VOTING INFORMATION

1. If your Transatlantic Shares are held in your own name, please submit your proxy to us TODAY by following the instructions on the enclosed **BLUE** proxy card by Internet or telephone, or by signing, dating and returning the enclosed **BLUE** proxy card to Validus Holdings, Ltd., care of Innisfree M&A Incorporated, in the postage-paid envelope provided.

2. If your Transatlantic Shares are held in "street-name," only your broker or bank can vote your Transatlantic Shares and only upon receipt of your specific instructions. If your Transatlantic Shares are held in "street-name," deliver the enclosed **BLUE** voting instruction form to your broker or bank or contact the person responsible for your account to vote on your behalf and to ensure that a **BLUE** proxy card is submitted on your behalf. If your broker or bank or contact person responsible for your account provides for voting instructions to be delivered to them by Internet or telephone, instructions will be included on the enclosed **BLUE** voting instruction form. We urge you to confirm in writing your instructions to the person responsible for your account and to provide a copy of those instructions to Validus Holdings, Ltd., care of Innisfree M&A Incorporated, 501 Madison Avenue, 20th Floor, New York, New York 10022, so that Validus will be aware of all instructions given and can attempt to ensure that such instructions are followed.

3. Do not sign or return any proxy card you may receive from Transatlantic. If you have already submitted a proxy card, you have every right to change your vote use the **BLUE** proxy card to vote by Internet or telephone or simply sign, date and return the **BLUE** proxy card. Only your latest dated proxy will be counted.

4. Only Transatlantic stockholders of record on July 22, 2011 are entitled to vote at the Special Meeting. We urge each stockholder to ensure that the holder of record of his, her or its Transatlantic Share(s) signs, dates, and returns the enclosed **BLUE** proxy card as soon as possible.

If you have any questions or require any assistance in voting your Transatlantic Shares, please contact:

501 Madison Avenue, 20th Floor
New York, New York 10022
Stockholders May Call Toll Free: (877) 717-3929
Banks and Brokers May Call Collect: (212) 750-5833

THE VALIDUS EXCHANGE OFFER WILL BE THE SUBJECT OF A REGISTRATION STATEMENT ON FORM S-4 (WHICH WILL CONTAIN A PROSPECTUS/OFFER TO EXCHANGE) THAT MAY BE FILED BY VALIDUS WITH THE SEC. ADDITIONALLY, THE VALIDUS MERGER OFFER DESCRIBED IN THIS PROXY STATEMENT MAY BECOME THE SUBJECT OF A SEPARATE REGISTRATION STATEMENT ON FORM S-4 FILED WITH THE SEC. THIS PROXY STATEMENT IS NOT A SUBSTITUTE FOR ANY REGISTRATION STATEMENT THAT VALIDUS HAS FILED OR MAY FILE WITH THE SEC OR ANY OTHER DOCUMENTS WHICH VALIDUS MAY SEND TO ITS OR TRANSATLANTIC'S STOCKHOLDERS IN CONNECTION WITH THE VALIDUS TRANSACTION PROPOSAL. INVESTORS AND SECURITY HOLDERS ARE URGED TO READ EACH REGISTRATION STATEMENT AND ALL OTHER RELEVANT DOCUMENTS IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE VALIDUS TRANSACTION PROPOSAL. INVESTORS AND SECURITY HOLDERS MAY OBTAIN A FREE COPY OF ANY DOCUMENTS FILED BY VALIDUS WITH THE SEC AT THE SEC'S WEBSITE (www.sec.gov) OR BY DIRECTING A REQUEST TO INNISFREE M&A INCORPORATED, 501 MADISON AVENUE, 20TH FLOOR, NEW YORK, NEW YORK 10022, AT (877) 717-3929 (BANKS AND BROKERS MAY CALL COLLECT AT (212) 750-5833).

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SCHEDULE I
INFORMATION CONCERNING DIRECTORS AND OFFICERS OF VALIDUS
WHO ARE PARTICIPANTS AND INTERESTS OF PARTICIPANTS

Directors and Officers of Validus Who are Participants

The following table sets forth the name of each director and officer of Validus that is a participant in the solicitation. Unless otherwise indicated, the current business address of each person is 29 Richmond Road, Pembroke, Bermuda HM 08 and the current business telephone number is (441) 278-9000.

DIRECTORS	PARTICIPANT OFFICERS
Edward J. Noonan	Edward J. Noonan
Matthew J. Grayson	Joseph E. (Jeff) Consolino
Jeffrey W. Greenberg	Robert F. Kuzloski
John J. Hendrickson	
Sander M. Levy	
Jean-Marie Nessi	
Mandakini Puri	
Alok Singh	
Christopher E. Watson	

TV Holdings and TV Merger Sub are both member managed limited liability companies without directors or officers.

INTERESTS OF PARTICIPANTS

Validus is the beneficial owner of 200 Transatlantic Shares.

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SCHEDULE II
SECURITY OWNERSHIP OF TRANSATLANTIC PRINCIPAL
STOCKHOLDERS AND MANAGEMENT

THE FOLLOWING TABLES ARE REPRINTED FROM TRANSATLANTIC'S
DEFINITIVE PROXY STATEMENT FILED WITH THE SECURITIES AND
EXCHANGE COMMISSION ON MAY 26, 2011

The following table lists the beneficial ownership of Transatlantic Shares as of March 28, 2011, by each person or group who, to Transatlantic's knowledge, beneficially owned more than five percent of the outstanding Transatlantic Shares.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock
BlackRock, Inc. 40 East 52 nd Street New York, New York 10022	4,007,864 ⁽¹⁾	6.41
Davis Selected Advisers, LP 2949 East Elvira Road, Suite 101 Tucson, Arizona 85706	14,159,872 ⁽²⁾	22.67
JPMorgan Chase & Co. 270 Park Avenue New York, New York 10017	3,284,202 ⁽³⁾	5.26

- (1) BlackRock, Inc. filed a Schedule 13G, dated February 9, 2011, with respect to the Transatlantic Shares held by it, which stated that it has sole voting authority with respect to 4,007,864 shares and sole dispositive authority with respect to 4,007,864 shares. BlackRock, Inc. provides investment management, risk analytics and investment accounting services to Transatlantic. During 2010, Transatlantic incurred \$6.2 million in fees relating to these services.
- (2) Davis Selected Advisers, L.P. filed a Schedule 13G/A, dated February 14, 2011, with respect to the Transatlantic Shares held by it, which stated that it has sole voting authority with respect to 13,208,762 shares and sole dispositive authority with respect to 14,159,872 shares. On June 8, 2009, Davis Selected Advisers, L.P. entered into a voting agreement with Transatlantic, pursuant to which it (i) agreed to vote the number of Transatlantic Shares beneficially owned by it in excess of 9.9% of the outstanding Transatlantic Shares in a manner proportionate to the vote of the holders of the Transatlantic Shares (other than Transatlantic Shares held by related persons) voting on such matter and (ii) appointed Transatlantic as its proxy and power of attorney to vote such Transatlantic Shares in excess of 9.9% of the outstanding Transatlantic Shares.
- (3) JPMorgan Chase & Co. filed a Schedule 13G, dated February 3, 2011, with respect to the shares of Transatlantic Shares held by it, which stated that it has sole voting authority with respect to 2,896,964 shares, shared voting authority with respect to 273,281 shares, sole dispositive authority with respect to 3,095,201 shares and shared dispositive authority with respect to 189,001 shares.

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The following table summarizes the beneficial ownership of equity securities of Transatlantic, by each of the nominees for director, each executive officer named in the Transatlantic summary compensation table and by the current directors and current executive officers as a group.

Name	Equity Securities Owned Beneficially as of January 31, 2011 ⁽¹⁾ TRH Common Stock	
	Amount and Nature of Beneficial Ownership ⁽²⁾	Percent of Class
Stephen P. Bradley	0	
Paul A. Bonny	231,686	.37
Ian H. Chippendale	2,667	(3)
John G. Foos	7,167	(3)
John L. McCarthy	2,667	(3)
Robert F. Orlich	567,049	.91
Richard S. Press	7,667	(3)
Michael C. Sapnar	131,139	.21
Steven S. Skalicky	232,775	.37
Thomas R. Tizzio	99,686	.16
Javier E. Vijil	219,078	.35
All Directors and Executive Officers of TRH as a Group (14 individuals)	1,591,934	2.55

(1) Unless otherwise indicated, the beneficial owners listed have sole voting and investment power over the shares listed.

(2) Amounts of equity securities shown include Transatlantic Shares subject to options which may be exercised within 60 days of January 31, 2011 and RSUs which may vest within 60 days of January 31, 2011 as follows: Bonny 201,838 shares, Chippendale 1,000 shares, Foos 2,000 shares, McCarthy 0 shares, Orlich 475,858 shares, Press 2,000 shares, Sapnar 118,901 shares, Skalicky 201,698 shares, Tizzio 48,800 shares, Vijil 201,455 shares, all directors and executive officers of Transatlantic as a group 1,331,471 shares.

Amounts of equity securities shown include shares as to which the individual shares voting and investment power as follows: Foos 3,500 shares with his wife, Orlich 91,191 shares with his wife, Skalicky 5,131 shares with his wife, Tizzio 46,880 shares with his wife, Vijil 9,548 shares with his wife, all directors and executive officers of Transatlantic as a group 156,250 shares. Amounts of equity securities exclude the following securities owned by members of the named individual's immediate family as to which securities such individual has disclaimed beneficial ownership: Foos 300 shares, Press 2,000 shares, all directors and executive officers as a group 2,300 shares.

(3) Less than .01 percent.

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IMPORTANT

If your Transatlantic Shares are held in your own name, please use the **BLUE** proxy card to vote by Internet or telephone or sign, date and return the enclosed **BLUE** proxy card today. If your Transatlantic Shares are held in "street-name," only your broker or bank can vote your shares and only upon receipt of your specific instructions. Please return the enclosed **BLUE** voting instruction form to your broker or bank and contact the person responsible for your account to ensure that a **BLUE** proxy card is voted on your behalf. If your broker or bank provides for voting instructions to be delivered to them by Internet or telephone, instructions will be included on the enclosed **BLUE** voting instruction form.

We urge you not to sign any proxy card you may receive from Transatlantic, even as a protest vote against the Proposed Allied World Acquisition.

If you have any questions or require any assistance in voting your Transatlantic Shares, please contact:

501 Madison Avenue, 20th Floor
New York, New York 10022
Stockholders May Call Toll Free: (877) 717-3929
Banks and Brokers May Call Collect: (212) 750-5833

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\$
1,921,217

Pursuant to the terms of the sales of HDC, LLC and HL, LLC, on the closing date of the sale, a portion of the purchase price was deposited in escrow to settle post-closing adjustments under the purchase and sale agreement. The Company's proportionate interest in the escrow deposit totaled \$7,069,810, and was recorded as escrow receivable.

During the nine months ended September 30, 2014, the Company collected \$1,586,039 of the escrow receivable.

NOTE 3 – OIL AND GAS PROPERTIES

During the nine months ended September 30, 2014, the Company invested \$2,620,342 for the development of oil and gas properties, consisting of (1) preparation and evaluation costs in Colombia of \$42,973, and (2) costs on U.S. properties of \$2,577,369. Of the amount invested, the Company capitalized \$688,484 to oil and gas properties subject to amortization, and \$1,931,858 to oil and gas properties not subject to amortization, attributable to preparation and evaluation cost in Colombia of \$42,973, leasehold cost in the U.S. of \$1,251,450 and drilling cost in the U.S. of \$1,325,919.

Sale of Oil and Gas Properties

During 2012, the Company sold all of its interest in HupecolCuerva, LLC ("HC, LLC"), which holds interests in the La Cuerva block and, pending approval of the Colombian authorities, the LLA 62 block, together covering approximately 90,000 acres in the Llanos Basin in Colombia.

HC, LLC sold for \$75 million, adjusted for working capital. 13.3% of the sales price of HC, LLC will be held in escrow to fund potential claims arising from the sale. Pursuant to its 1.6% ownership interest in HC, LLC, the Company received 1.6% in the net sale proceeds after deduction of commissions, overriding royalty interest, and transaction expenses; subject to the escrow holdback and a further contingency holdback by Hupecol of 1.3% of the sales price. Following completion of the sale of HC, LLC, the Company had no continuing interest in the La Cuerva and LLA 62 blocks.

During the nine months ended September 30, 2013, the Company received \$86,025 in cash proceeds from HC, LLC as a result of post-closing adjustments related to the sale of its interest and recorded it as a gain on sale of oil and gas properties.

Geographical Information

The Company currently has operations in two geographical areas, the United States and Colombia. Revenues for the nine months ended September 30, 2014 and Long Lived Assets (net of depletion, amortization, and impairments) as of September 30, 2014 attributable to each geographical area are presented below:

Nine As of
Months

	Ended September 30, 2014	September 30, 2014
	Revenues	Long Lived Assets, Net
United States	\$ 230,278	\$4,523,959
Colombia	—	1,832,510
Total	\$ 230,278	\$6,356,469

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NOTE 4 – COMPENSATION PLANS

Production-Based Compensation

In August 2013, the Company's compensation committee adopted a Production Incentive Compensation Plan. The purpose of the plan is to encourage employees and consultants participating in the plan to identify and secure for the Company participation in attractive oil and gas opportunities.

Under that plan, the committee may establish one or more pools and designate employees and consultants to participate in those pools and designate prospects and wells, and a defined percentage of the Company's revenues from those wells, to fund those pools. Only prospects acquired on or after establishment of the plan, and excluding all prospects in Colombia, may be designated to fund a pool. The maximum percentage of the Company's share of revenues from a well that may be designated to fund a pool is 2% (the "Pool Cap"); provided, however, that with respect to wells with a net revenue interest to the 8/8th of less than 73%, the Pool Cap with respect to such wells shall be reduced on a 1-for-1 basis such that no portion of the Company's revenues from a well may be designated to fund a pool if the NRI is 71% or less.

Designated participants in a pool will be assigned a specific percentage out of the Company's revenues assigned to the pool and will be paid that percentage of such revenues from all wells designated to such pool and spud during that participant's employment or services with the Company. In no event may the percentage assigned to the Company's chief executive officer relative to any well within a pool exceed one-half of the applicable Pool Cap for that well. Payouts of revenues funded into pools shall be made to participants not later than 60 days following year end, subject to the committee's right to make partial interim payouts. Participants will continue to receive their percentage share of revenues from wells included in a pool and spud during the term of their employment or service so long as revenues continue to be derived by the Company from those wells even after termination of employment or services of the participant; provided, however, that a participant's interest in all pools shall terminate on the date of termination of employment or services where such termination is for cause. The committee may, at its sole discretion, cause the Company to assign to some or all of the participants overriding royalty interests in individual wells in settlement of some or all of the obligations of the Company to make payments from any one or more pools.

During the nine months ended September 30, 2014, the Company made grants under the plan in 13 pools relating to 13 prospects. All of such grants were made to the Company's principal officer with grants ranging from ½% to 1% of revenues associated with the prospects included in such pools.

The Company records amounts payable under the plan as a reduction to revenue as revenues are recognized from prospects included in pools covered by the plan based on the participants' interest in such prospect revenues and records the same as accounts payable until such time as such amounts are paid out. The obligation associated with the plan totaled \$207 and \$369, respectively, for the three and nine months ended September 30, 2014 and is recorded in accounts payable at September 30, 2014.

Stock-Based Compensation

The Company periodically grants options to employees, directors and consultants under the Company's 2005 Stock Option Plan and the Company's 2008 Equity Incentive Plan (together, the "Plans"). The Company is required to make estimates of the fair value of the related instruments and recognize expense over the period benefited, usually the vesting period.

Stock Option Activity

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A summary of stock option activity and related information for the nine months ended September 30, 2014 is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2014	2,592,832	\$ 4.07	
Granted	800,000	0.42	
Exercised	—	—	
Forfeited	—	—	
Outstanding at September 30, 2014	3,392,832	\$ 3.21	\$ 1,750
Exercisable at September 30, 2014	2,532,832	\$ 4.17	\$ 1,750

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In June 2014, options to purchase an aggregate of 200,000 shares were granted to non-employee directors and options to purchase an aggregate of 600,000 shares were granted to an employee.

The 200,000 options granted to non-employee directors vested 20% on the grant date and vest as to the remaining 80% nine months from the grant date, have a ten-year life and have an exercise price of \$0.415 per share. The option grants to non-employee directors were valued on the date of grant at \$46,191 using the Black-Scholes option-pricing model with the following parameters: (1) risk-free interest rate of 1.57%, (2) expected life in years of 4.65, (3) expected stock volatility of 103.6%, and (4) expected dividend yield of 0%. The Company determined the options qualify as 'plain vanilla' under the provisions of SAB 107 and the simplified method was used to estimate the expected option life.

The 600,000 options granted to an employee vest 1/3 on each of the first three anniversaries of the grant date, subject to acceleration of vesting in the event of certain changes in control or the realization of revenues from oil and gas production on the Serrania prospect or receipt of proceeds from the sale of the Serrania prospect, have a ten year life and have an exercise price of \$0.415 per share. The option grants to the employee were valued on the date of grant at \$126,360 using the Black-Scholes option-pricing model with the following parameters: (1) risk-free interest rate of 1.57%, (2) expected life in years of 4.65, (3) expected stock volatility of 103.6%, and (4) expected dividend yield of 0%. The Company determined the options qualify as 'plain vanilla' under the provisions of SAB 107 and the simplified method was used to estimate the expected option life.

During the three and nine months ended September 30, 2014, the Company recognized \$21,499 and \$396,955, respectively, of stock compensation expense attributable to the amortization of unrecognized stock-based compensation.

As of September 30, 2014, total unrecognized stock-based compensation expense related to non-vested stock options was \$131,602. The unrecognized expense is expected to be recognized over a weighted average period of 2.39 years and the weighted average remaining contractual term of the outstanding options and exercisable options at September 30, 2014 is 7.04 years and 6.26 years, respectively.

Shares available for issuance under the Plans as of September 30, 2014 totaled 2,607,168 shares.

Restricted Stock Activity

During 2011, the Company granted to officers an aggregate of 45,000 shares of restricted stock, which shares vest over a period of three years. The fair value of \$743,400 was determined based on the fair market value of the shares on the date of grant. This value was amortized over the vesting period and, during the three and nine months ended September 30, 2014, \$-0- and \$36,821 was amortized to expense. 10,000 of the shares were forfeited and cancelled during 2013 as a result of the termination of two officers. As of September 30, 2014, the compensation cost related to restricted stock had been fully recognized.

Share-Based Compensation Expense

The following table reflects share-based compensation recorded by the Company for the three months ended September 30, 2014 and 2013:

	Three Months Ended September 30, 2014	2013
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Share-based compensation expense included in general and administrative expense	\$21,499	\$262,705
Earnings per share effect of share-based compensation expense – basic and diluted	\$(0.004)	\$(0.005)

The following table reflects share-based compensation recorded by the Company for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
	2014	2013
Share-based compensation expense included in general and administrative expense	\$433,776	\$1,277,239
Earnings per share effect of share-based compensation expense – basic and diluted	\$(0.008)	\$(0.024)

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NOTE 5 - COMMITMENTS AND CONTINGENCIES

Lease Commitment

The Company leases office facilities under an operating lease agreement that expires on May 31, 2017. As of September 30, 2014, the lease agreement requires future payments as follows:

Year	Amount
2014	\$22,858
2015	93,793
2016	96,162
2017	40,479
Total	\$253,292

For the three and nine months ended September 30, 2014, the total base rental expense was \$20,405 and \$67,575, respectively. The Company does not have any capital leases or other operating lease commitments.

Legal Contingencies

The Company is subject to legal proceedings, claims and liabilities that arise in the ordinary course of its business. The Company accrues for losses associated with legal claims when such losses are probable and can be reasonably estimated. These accruals are adjusted as further information develops or circumstances change.

SEC Administrative Proceeding

The Company has been the subject of a formal investigation being conducted by the Securities and Exchange Commission (the "SEC"). Pursuant to the investigation, the Company received subpoenas issued by the SEC. The subpoenas called for the testimony of certain of the Company's officers and the delivery of certain documents. The subpoenas were issued pursuant to a nonpublic formal order of private investigation issued by the SEC on March 1, 2011, which followed a nonpublic informal inquiry commenced by the SEC in October 2010. The Company received a copy of the nonpublic formal order of private investigation on February 10, 2012 in connection with a subpoena issued by the SEC. The SEC investigation focused on matters relating to disclosures in the late 2009 and early 2010 time period regarding resource potential for the Company's CPO 4 prospect in Colombia. The Company presented information supporting its disclosure relative to resource potential on the CPO 4 prospect.

On August 29, 2013, the Company and John Terwilliger received a "Wells" notice advising them that the staff of the SEC had made a preliminary recommendation to initiate an enforcement action and providing them an opportunity to provide reasons of law, policy or fact why the proposed enforcement action should not be filed.

On August 4, 2014, the SEC instituted administrative cease-and-desist proceedings pursuant to Section 8A of the Securities Act of 1933 and 21C of the Securities Exchange Act of 1934, styled In the Matter of Houston American Energy Corp., John F. Terwilliger, Jr., Undiscovered Equities, Inc. and Kevin T. McKnight. The administrative proceeding alleges that Mr. Terwilliger and, in turn, Houston American Energy, made false and misleading statements with respect to the CPO 4 prospect and promoted those statements through Undiscovered Equities and its principal, Kevin McKnight. The SEC is seeking a determination from an administrative law judge as to whether (i) the allegations of the SEC are true; (ii) Houston American Energy and Mr. Terwilliger should be ordered to (A) cease-and-desist from committing or causing violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, (B) pay a civil penalty pursuant to Section 8A(g) of the Securities Act and Section 21B(a) of the Exchange Act, and (C) pay disgorgement pursuant to Section 8A(e) of the Securities Act and Sections 21B(e) and 21C(e) of the Exchange Act; and (iii) Mr. Terwilliger should be prohibited from acting as an officer and director of a public

company pursuant to Section 8A(f) of the Securities Act and Section 21C(f) of the Exchange Act. The Company and Mr. Terwilliger believe the allegations set forth in the order instituting the administrative proceeding are without merit and intend to contest the allegations in the order. The proceeding has been scheduled for trial before the administrative law judge in January 2015. It is not possible at this time to predict the timing or outcome of the pending administrative proceeding, when these matters may be resolved or what, if any, penalties or other remedies may be imposed, and whether any such penalties or remedies would have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

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Shareholder Class Action Suit

On April 27, 2012, a purported class action lawsuit was filed in the U.S. District Court for the Southern District of Texas against the Company and certain of its executive officers: Steve Silverman v. Houston American Energy Corp. et al., Case No. 4:12-CV-1332. The complaint generally alleges that, between March 29, 2010 and April 18, 2012, all of the defendants violated Sections 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 and the individual defendants violated Section 20(a) of the Exchange Act in making materially false and misleading statements including certain statements related to the status and viability of the Tamandua #1 well on the Company's CPO 4 prospect. Two additional class action lawsuits were filed against us in May 2012. The complaints seek unspecified damages, interest, attorneys' fees, and other costs. On September 20, 2012, the court consolidated the class action lawsuits and appointed a lead plaintiff and on November 15, 2012 the lead plaintiffs filed an amended complaint. The amended complaint, among other things, expanded the putative class period to November 9, 2009 to April 18, 2012 and added allegations challenging a November 2009 estimate concerning the CPO 4 prospect. On January 14, 2013, the Company filed a motion to dismiss and, on August 22, 2013, the court granted the motion and dismissed the complaint. The plaintiffs subsequently filed a Notice of Appeal of the dismissal of the complaint. On July 15, 2014, the U.S. Court of Appeals for the Fifth Circuit reversed the dismissal of the case. The appellate court ruling focused on the sufficiency of the pleadings in the case, made no determination regarding the merits of the factual allegations, and remanded the case to the District Court for further proceedings. In October 2014, the parties reached an agreement in principle to settle the consolidated lawsuit. The settlement, which provides for a \$7,000,000 payment, is expected to be fully funded by the Company's insurance and is subject to preliminary and final approval of the court. Some discovery will continue prior to preliminary and final court approval. The Company believes it is probable that the court will approve the settlement and related \$7,000,000 payment. As a result, the Company has recorded a litigation settlement payable as of September 30, 2014 of \$7,000,000. Though the Company believes the likelihood of approval of the settlement is probable, we cannot predict with certainty the outcome of the litigation, and if the settlement is not finally approved by the Court, we believe that we have meritorious defenses to the claims in the amended complaint.

Based on the agreement in principal to settle the case and the Company's anticipated receipt of insurance proceeds to fully fund the settlement, the Company recorded on its balance sheet a contingent liability in the amount of \$7,000,000 and an offsetting contingent asset of \$7,000,000 to reflect the anticipated receipt of insurance proceeds to cover the settlement. For statement of operations purposes, the contingent loss and contingent gain were netted resulting in no gain or loss.

NOTE 6 – TAXES

The Company has estimated that its effective tax rate for U.S. purposes will be zero for 2014, and consequently, recorded no U.S. income tax liability and tax.

During the three and nine months ended September 30, 2014, significant temporary differences between financial statement net loss and estimated taxable income related primarily to the stock compensation expense recognized for book purposes during the period.

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ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This Form 10-Q quarterly report of Houston American Energy Corp. (the "Company") for the nine months ended September 30, 2014, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The actual results or events may differ materially from those anticipated and as reflected in forward-looking statements included herein. Factors that may cause actual results or events to differ from those anticipated in the forward-looking statements included herein include the Risk Factors described in Item 1A herein and in our Form 10-K for the year ended December 31, 2013.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. We believe the information contained in this Form 10-Q to be accurate as of the date hereof. Changes may occur after that date, and we will not update that information except as required by law in the normal course of our public disclosure practices.

Additionally, the following discussion regarding our financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the Risk Factors in Item 1A and the financial statements in Item 7 of Part II of our Form 10-K for the fiscal year ended December 31, 2013.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. A description of our critical accounting policies is set forth in our Form 10-K for the year ended December 31, 2013. As of, and for the nine months ended, September 30, 2014, there have been no material changes or updates to our critical accounting policies.

Unevaluated Oil and Gas Properties

Unevaluated oil and gas properties not subject to amortization include the following at September 30, 2014:

	September 30, 2014
Acquisition costs	\$2,231,237
Development and evaluation costs	3,502,664
Total	\$5,733,901

Of the carrying value of unevaluated oil and gas prospects above, \$1,832,510 was attributable to properties in the South American country of Colombia and \$3,901,391 was attributable to properties in the United States. We are

maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

Recent Developments

Drilling and Related Activity

During the nine months ended September 30, 2014, we drilled nine wells including a re-entry on a well, all located in the United States, two of which were successfully completed by September 30, 2014, three of which were drilled and awaiting completion at September 30, 2014 and four of which were dry holes, as follows:

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a 7,000 foot test well was successfully drilled and completed in Jefferson Davis Parish, Louisiana and commenced production late in the second quarter; we hold a 10.9% working interest before payout and 9.375% working interest after payout in the well;

an 11,000 foot test well was successfully drilled, tested and completed in East Baton Rouge Parish, Louisiana and commenced production in the third quarter; we hold a 5% working interest in the well;

an 11,950 foot test well was successfully drilled in Jasper County, Texas and, at quarter end, was awaiting testing and completion; we hold a 10% working interest in the well;

a 15,200 foot test well was successfully drilled in Assumption Parish, Louisiana and, at quarter end, was awaiting testing and completion; we hold a 5% working interest before payout and 4% after payout in the well;

a 15,000 foot test of the Discorbis 1, 2, 3, 4 and 5 sands was successfully drilled in Vermilion Parish, Louisiana and, at quarter end, was awaiting completion; we hold a 1.5% working interest in the well;

re-entry operations on a well, in Logan County, Oklahoma, to 5,362 feet were determined to be non-commercial and the well was set up for a water disposal well;

a 4,900 foot dry hole was drilled in Columbia County, Arkansas;

a 4,000 foot dry hole was drilled in South Texas; and

a 5,700 foot dry hole was drilled in South Texas.

In addition, during the nine months ended September 30, 2014, we hooked up and commenced production on a well in Iberville Parish, Louisiana that was originally drilled during 2013, in which we hold a 3% working interest.

During the nine months ended September 30, 2014, field operations on our domestic prospects, including drilling, completion, testing and well hookup, were affected by rainy weather in South Louisiana, delays in procuring equipment and scheduling and land issues. As a result, the pace of drilling and bringing wells onto production during the period lagged behind our internal targets.

Also, during the nine months ended September 30, 2014, (i) the Crown Mineral well, in which we hold a royalty interest, underwent a re-work, was shut-in for two months, and has produced at a reduced rate since the re-work, and (ii) we agreed to participate in a workover to test up to three zones of an existing well bore on our Jefferson Davis Parish, Louisiana prospect. Workover operations on our Jefferson Davis Parish prospect commenced during the third quarter of 2014 and our share of costs for the workover are estimated at \$22,000.

At September 30, 2014, drilling operations were ongoing on one well, a 3,500 foot test well on the Hockley and Pettus formations in Live Oak County, Texas; we hold a 33.33% working interest before the casing point and a 25% working interest after the casing point in the well.

Domestic Leasing Developments

During the nine months ended September 30, 2014, we acquired interests in eight additional domestic drilling prospects, as follows:

a 13.33% working interest before the casing point in a test well and a 10% working interest after the casing point, and in future wells, on a 320 acre prospect in Jasper County, Texas; as noted above, an 11,950 foot test of the Wilcox 3

and 4 Sands was drilled during the first half of 2014; and, our share of acquisition and dry hole costs for the test well were approximately \$450,000;

a 4% working interest before the casing point in a test well and a 3% working interest after the casing point, and in future wells, on a 1,129 acre prospect in Iberville Parish, Louisiana; a 12,700 foot test of the BolMex Sand is planned during the fourth quarter of 2014; and our share of acquisition and dry hole costs for the test well are estimated at \$230,000.

a 30% working interest before payout and a 25.5% working interest after payout in a 160 acre prospect in Columbia County, Arkansas, as well as an 840 acre area of mutual interest; as noted above, a 4,900 foot test of the Pettet formation was drilled as a dry hole during the third quarter of 2014; and, our share of acquisition and dry hole costs for the test well are estimated at \$118,500;

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a 5% working interest before payout and 4% working interest after payout in a 238 acre prospect in Assumption Parish, Louisiana; as noted above, a 15,200 foot test of the Rob L formation was drilled during the second quarter of 2014 and the well is awaiting hookup; and, our share of acquisition and dry hole costs for the test well were approximately \$400,000;

a 3.375% working interest after the casing point in the initial and subsequent wells on a 289 acre prospect in LaFourche and Jefferson Parishes, Louisiana; a 15,000 foot test of the Cris I-2 formation is planned during 2014; and, our share of acquisition and dry hole costs for the test well are estimated at \$330,000;

an 8.755% working interest before payout and 7% working interest after payout in a 614 acre prospect in Calcasieu Parish, Louisiana; a 12,000 foot test of the Marg Tex-1 sand is planned during 2014; and our share of acquisition and dry hole costs for the test well are estimated at \$335,000;

a 33.33% working interest before the casing point and 25% working interest after the casing point in a 146 acre prospect in Live Oak County, Texas; as noted above, a 3,500 foot test of the Hockley and Pettus formations was drilling at September 30, 2014; and, our share of acquisition and dry hole costs for the test well are estimated at \$186,500; and

a 10.67% working interest before the casing point and 8% working interest after the casing point in a 102 acre prospect in Iberville Parish, Louisiana; a 12,000 foot test of the Marv Vag sand is planned during 2014; and our share of acquisition and dry hole costs for the test well are estimated at \$265,000.

The timing, depth and costs of planned domestic drilling operations are subject to many uncertainties and may vary from that indicated above.

Colombian Developments – Serrania, Los Picachos and Macaya

During the nine months ended September 30, 2014, our capital investment expenditures in Colombia related to the preparation and evaluation of our three concessions in Colombia, which amount totaled \$42,973.

We anticipate drilling two test wells on the Serrania concession by the beginning of the rainy season in May 2015, and have budgeted approximately \$2.0 million as our share of capital costs in connection with these activities. In addition, over the next twelve months we anticipate shooting approximately 83.6 kilometers of 2-D seismic on the Los Picachos concession and approximately 201.9 kilometers of 2-D seismic on the Macaya Concession. In connection with these seismic acquisitions, we have budgeted approximately \$250,000 as our share of costs in connection with the initial field work for the planned seismic shoots.

Planned operations in Colombia during 2014, and the budget for all three blocks, is contingent on conditions in the areas allowing operations.

Escrow Settlements

During the nine months ended September 30, 2014, we received \$1,586,039 in partial settlement of our escrow receivable relating to our prior sale of HDC LLC and HL LLC.

Legal Proceedings; Contingent Liability; Contingent Asset

On July 15, 2014, the U.S. Court of Appeals for the Fifth Circuit reversed the dismissal of the class action lawsuit filed on April 27, 2013 against Houston American Energy and certain of its executive officers; Steve Silverman v. Houston American Energy Corp. et. al., Case No. 4:12-CV-1332. The complaint generally alleges that, between

March 29, 2010 and April 18, 2012, all of the defendants violated Sections 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 and the individual defendants violated Section 20(a) of the Exchange Act in making materially false and misleading statements including certain statements related to the status and viability of the Tamandua #1 well on the Company's CPO 4 prospect. Two additional class action lawsuits were filed against us in May 2012. The complaints seek unspecified damages, interest, attorneys' fees, and other costs. On September 20, 2012, the court consolidated the class action lawsuits and appointed a lead plaintiff and on November 15, 2012 the lead plaintiffs filed an amended complaint. The amended complaint, among other things, expanded the putative class period to November 9, 2009 and April 18, 2012 and added allegations challenging a November 9, 2009 estimate concerning the CPO 4 prospect. On January 14, 2013, the Company filed a motion to dismiss and, on August 22, 2013, the court granted the motion and dismissed the complaint. The plaintiffs subsequently filed a Notice of Appeal of the dismissal of the complaint.

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The appellate court ruling, in reversing the dismissal, focused on the sufficiency of the pleadings in the case, made no determination regarding the merits of the factual allegations, and remanded the case to the District Court for further proceedings. In October 2014, the parties reached an agreement in principle to settle the consolidated lawsuit. The settlement, which provides for a \$7,000,000 payment, is expected to be fully funded by our insurance and is subject to preliminary and final approval of the court. Some discovery will continue prior to preliminary and final court approval. We cannot predict with certainty the outcome of the litigation and, if the settlement is not finally approved by the court, we believe that we have meritorious defenses to the claims in the amended complaint.

Based on the agreement in principal to settle the case and our anticipated receipt of insurance proceeds to fully fund the settlement, the Company recorded on its balance sheet a contingent liability in the amount of \$7,000,000 and an offsetting contingent asset of \$7,000,000 to reflect the anticipated receipt of insurance proceeds to cover the settlement. For statement of operations purposes, the contingent loss and contingent gain were netted resulting in no gain or loss.

On August 4, 2014, the SEC instituted administrative cease-and-desist proceedings pursuant to Section 8A of the Securities Act of 1933 and 21C of the Securities Exchange Act of 1934, styled In the Matter of Houston American Energy Corp., John F. Terwilliger, Jr., Undiscovered Equities, Inc. and Kevin T. McKnight. The administrative proceeding, commenced following an investigation commenced in October 2010, alleges that Mr. Terwilliger and, in turn, Houston American Energy, made false and misleading statements with respect to the CPO 4 prospect and promoted those statements through Undiscovered Equities and its principal, Kevin McKnight. The SEC is seeking a determination from an administrative law judge as to whether (i) the allegations of the SEC are true; (ii) Houston American Energy and Mr. Terwilliger should be ordered to (A) cease-and-desist from committing or causing violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, (B) pay a civil penalty pursuant to Section 8A(g) of the Securities Act and Section 21B(a) of the Exchange Act, and (C) pay disgorgement pursuant to Section 8A(e) of the Securities Act and Sections 21B(e) and 21C(e) of the Exchange Act; and (iii) Mr. Terwilliger should be prohibited from acting as an officer and director of a public company pursuant to Section 8A(f) of the Securities Act and Section 21C(f) of the Exchange Act. The Company and Mr. Terwilliger believe the allegations set forth in the order instituting the administrative proceeding are without merit and intend to contest the allegations in the order. The proceeding has been scheduled for trial before the administrative law judge in January 2015. It is not possible at this time to predict the timing or outcome of the pending administrative proceeding, when these matters may be resolved or what, if any, penalties or other remedies may be imposed, and whether any such penalties or remedies would have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Results of Operations

Oil and Gas Revenues. Total oil and gas revenues decreased 67% to \$56,805 in the three months ended September 30, 2014 compared to \$170,311 in the three months ended September 30, 2013. The decrease was due to lower production on the Crown Minerals well following a re-work of the well in the second quarter, partially offset by production from three new wells brought onto production during 2014. For the nine-month period, oil and gas revenues increased 13% to \$230,278 in the nine months ended September 30, 2014, compared to \$204,566 in the nine months ended September 30, 2013. The increase in revenue was due to the recompletion of the Crown Minerals well during 2013 which resulted in increased production during the first quarter of 2014 and commencement of production from three new wells brought on line during 2014.

The following table sets forth the gross and net producing wells, net oil and gas production volumes and average hydrocarbon sales prices for the quarter and nine months ended September 30, 2014 and 2013:

Three Months Ended September 30,	Nine Months Ended September 30,
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	2014	2013	2014	2013
Gross producing wells	9	6	9	6
Net producing wells	0.37	0.19	0.37	0.19
Net oil production (bbl)	437	1,469	1,925	1,738
Net gas production (mcf)	2,437	4,429	8,268	6,178
Average sales price – oil (per barrel)	\$103.40	\$102.61	\$98.07	\$102.78
Average sales price – natural gas (per mcf)	\$4.75	\$4.42	\$5.02	\$4.20

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The change in well count and production reflects wells in Jefferson Davis, Iberville and East Baton Rouge Parishes coming on line during 2014. As noted, the Crown Mineral well was shut-in while undergoing a re-work for two months during the nine months ended September 30, 2014 and has produced at lower rates since the re-work.

The change in average sales prices realized reflects fluctuations in global commodity prices. Following quarter end, global energy prices have declined. As a result of such decline and our unhedged position, we expect to realize lower average sales prices during the balance of 2014 and for the foreseeable future.

Oil and gas sales revenues by region were as follows:

	Colombia	U.S.	Total
2014 First Nine Months			
Oil sales	\$ —	\$ 188,800	\$ 188,800
Gas sales	\$ —	\$ 41,478	\$ 41,478
2013 First Nine Months			
Oil sales	\$ —	\$ 178,598	\$ 178,598
Gas sales	\$ —	\$ 25,968	\$ 25,968

Lease Operating Expenses and Severance Taxes. Lease operating expenses and severance taxes decreased 24% to \$24,528 in the quarter ended September 30, 2014 from \$32,398 in the quarter ended September 30, 2013. The decline in LOE and severance taxes for the quarter was attributable to lower production from the Crown Minerals well. For the nine months ended September 30, 2014, lease operating expenses and severance taxes increased 42% to \$73,859 from \$52,030 in the 2013 period. The increase in LOE and severance taxes for the nine-month period was attributable to the increase in severance tax and compressor fees on the Crown Minerals well during the first quarter of 2014 and to commencement of production from three wells during 2014.

Following is a summary comparison of lease operating expenses and severance taxes, by region, for the periods.

	Colombia	U.S.	Total
Three Months - 2014	\$ —	\$ 24,528	\$ 24,528
- 2013	\$ —	\$ 32,398	\$ 32,398
Nine Months - 2014	\$ —	\$ 73,859	\$ 73,859
- 2013	\$ —	\$ 52,030	\$ 52,030

Consistent with our business model and operating history, we experience steep declines in lease operating expenses following strategic divestitures and anticipate lease operating expenses to ramp up to levels consistent with regional costs as new wells are brought on line. With additional domestic prospects expected to come on production during 2014, lease operating expenses in the U.S., and overall, are expected to increase in 2014 and 2015.

Depreciation and Depletion Expense. Depreciation and depletion expense was \$71,254 and \$7,688 for the quarters ended September 30, 2014 and 2013, respectively, and \$126,677 and \$15,890 for the nine months ended September 30, 2014 and 2013, respectively. The increase in depreciation and depletion for the nine-month period was due to increased production from the Crown Minerals well in the first quarter and commencement of production from three wells during 2014.

General and Administrative Expenses. General and administrative expense decreased by 28% to \$473,942 during the 2014 quarter from \$656,473 during the 2013 quarter, and by 38% to \$1,763,494 during the 2014 nine-month period from \$2,830,338 during the 2013 nine-month period. The decrease in general and administrative expense was primarily attributable to (1) reduced headcount resulting in a reduction in cash compensation of \$1,209 and \$258,232,

respectively, during the quarter and nine-month periods, and a reduction in stock compensation of \$241,206 and \$843,462, respectively, during the quarter and nine-month periods, and (2) other cost control measures implemented during the second half of 2013.

Gain on sale of oil and gas property. During the nine months ended September 30, 2013, post-closing adjustments related to the 2012 sale of our indirect interests in HupecolCuerva, LLC resulted in a gain of \$86,025.

Other Income (Expense). Other income (expense) consists of interest earned on cash balances, net of other bank fees. Other income (expense), net totaled \$1,723 and \$4,897 net other income during the three and nine-month periods ended September 30, 2014, respectively, as compared to \$1,486 of net other income and \$4,872 of net other expense during the three-month and nine-month periods ending September 30, 2013, respectively. The change was attributable to expiration of Letters of Credit during 2013 and an accompanying reduction in fees.

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Income Tax Expense/Benefit. We reported income tax expense of \$457 during the 2014 quarter compared to an income tax expense of \$1,702 during the 2013 quarter. For the nine months ended September 30, 2014, we reported income tax expense of \$1,810 as compared to income tax benefit of \$13,633 during the 2013 nine-month period.

Financial Condition

Liquidity and Capital Resources. At September 30, 2014, we had a cash balance of \$5,064,694 and working capital of \$5,526,346, compared to a cash balance of \$7,578,730 and working capital of \$9,316,486 at December 31, 2013. The change in working capital during the period was primarily attributable to investments in our drilling program as well as the operating loss for the first nine months of 2014.

Operating activities used cash of \$1,479,733 during the 2014 nine-month period as compared to \$39,543 of cash provided during the 2013 nine-month period. The change in operating cash flow was primarily attributable to the receipt, during 2013, of a tax refund totaling \$3.3 million partially offset by a decreased operating loss during 2014 and changes in operating assets and liabilities.

Investing activities used cash of \$1,034,303 during the 2014 nine-month period compared to \$2,779,131 provided during the 2013 nine-month period. The funds used by investing activities during the 2014 nine-month period reflect the investments in oil and gas properties, totaling \$2,620,342, partially offset by the release of \$1,586,039 of funds held in escrow from the prior sale of our interests in HDC LLC and HL, LLC. The funds provided by investing activities during the 2013 period reflects the release, following termination of our interest in the CPO 4 block, of restricted cash in the amount of \$3,056,250 securing a standby letter of credit obligation to secure performance relative to the CPO 4 block, together with proceeds from the sale of assets and releases of funds held in escrow, partially offset by investments in oil and gas properties.

We had no financing activities during the nine months ended September 30, 2014 and 2013.

Long-Term Liabilities. At September 30, 2014, we had long-term liabilities of \$8,838 as compared to \$8,424 at December 31, 2013. Long-term liabilities at September 30, 2014 and December 31, 2013 consisted of a reserve for plugging costs.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to ongoing efforts to acquire, drill and complete prospects. We expect that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations of wells being brought on line during 2014.

During the nine months ended September 30, 2014, we invested \$2,620,342 for the development of oil and gas properties, consisting of (1) preparation and evaluation costs in Colombia of \$42,973, and (2) costs on U.S. properties of \$2,577,369. Of the amount invested, we capitalized \$688,484 to oil and gas properties subject to amortization, and \$1,931,858 to oil and gas properties not subject to amortization, primarily attributable to preparation and evaluation cost in Colombia of \$42,973 and leasehold cost in the U.S. of \$1,251,450 and drilling cost in the U.S. of \$1,325,919.

Our estimated capital expenditure budget for the next twelve months, ending September 30, 2015, is approximately \$3.5 million and relates to (1) the planned drilling and/or completion of nine wells in the U.S. and (2) the anticipated drilling of two test wells on the Serrania concession and seismic shoots on the Los Picachos and Macaya concessions. Our drilling and seismic plans and budget may change based on field conditions and other factors beyond our control or the control of Hupecol, and as such there can be no assurance as to the timing of these operations, including whether or not those operations occur during the next twelve months, and our ultimate capital expenditures with respect to such operations.

We anticipate that our cash on hand will be adequate to fully fund our operations during the next twelve months, including our capital expenditure budget. If, for any reason, we are unable to fully fund our drilling budget and fail to satisfy commitments reflected therein, we may be subject to penalties or to the possible loss of some of our rights and interests in prospects with respect to which we fail to satisfy funding commitments. We have no commitments to provide any additional financing should we require and seek such financing and there is no guarantee that we will be able to secure additional financing on acceptable terms, or at all, to fully fund our drilling budget and to support future acquisitions and development activities.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at September 30, 2014.

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Inflation

We believe that inflation has not had a significant impact on operations since inception.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

The price we receive for our oil and gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Crude oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and gas have been volatile, and these markets will likely continue to be volatile in the future. The prices we receive for production depends on numerous factors beyond our control.

We have not historically entered into any hedges or other transactions designed to manage, or limit, exposure to oil and gas price volatility.

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation as of September 30, 2014 of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were not effective as of September 30, 2014. Such conclusion reflects the 2013 departure of our chief financial officer and assumption of duties of principal financial officer by our chief executive officer and the resulting lack of accounting expertise of our now principal financial officer and a lack of segregation of duties. Until we are able to remedy these material weaknesses, we are relying on third party consultants and our accounting firm to assist with financial reporting.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1 LEGAL PROCEEDINGS

Silverman v. Houston American Energy Corp., et al., Case No. 4:12-CV-1332, in the U.S. District Court for the Southern District of Texas

In October 2014, the parties in the suit styled Steve Silverman v. Houston American Energy Corp., et al., reached an agreement in principle to settle the consolidated lawsuit. The settlement, which provides for a \$7 million payment, is expected to be fully funded by insurance and is subject to preliminary and final approval of the court. Some discovery will continue prior to preliminary and final court approval. We cannot predict with certainty the outcome of the litigation and, if the settlement is not finally approved by the court, we believe that we have meritorious defenses to the claims in the amended complaint.

If, for any reason, including failure of the Company's insurance carriers to fully fund the settlement, the proposed settlement is not consummated, the Company intends to vigorously defend against these claims.

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ITEM 6 EXHIBITS

Exhibit

Number Description

- | | |
|-------------|---|
| <u>31.1</u> | Certification of CEO and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| <u>32.1</u> | Certification of CEO and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

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

HOUSTON AMERICAN ENERGY CORP.

Date: November 14, 2014

By: /s/ John F. Terwilliger
John Terwilliger
CEO and President (Principal executive officer and
Principal financial officer)